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The impact of financial institutions on the growth of small and medium scale enterprises in the Nigerian manufacturing sector.

Abstract

Small and Medium Enterprises (SMEs) are key to economic development. Interventions to improve SME's financing and growth constitute a major component of developmental approach of several governments and donor organisations. Increasingly institutional considerations such as formal and informal ones have been put on the agenda by researchers and policymakers that have been informed by the empirical studies and evidence from everyday country development events.

Most studies on SMEs are consistently in agreement that access to finance is important for SMEs' growth. But so far, a study that explores the implications of how access to finance was attained on SMEs' growth in the manufacturing sector within a developing economy context has eluded empirical scrutiny. Using a developing African country like Nigeria as a case study will provide a perfect theatre through which the effects of institutions on expected economic results may be comprehended. Therefore, the main aim of the research is to investigate how financing institutions (formal or informal) impact growth of SMEs in the manufacturing sector. This is done by evaluating the impact of formal and informal financial institution's loan preconditions on the growth of SMEs in the manufacturing sector.

The qualitative approach which uses the semi-structured interview as an instrument of data collection was adopted for this study. Sixteen SME entrepreneurs who have obtained loans from each of the sources of financing i.e. the formal, and informal financial institutions were targeted, out of which eleven was successfully interviewed. And eight officials of financial institutions (both formal and informal) were also interviewed.

This study sheds light on how and extent to which financial institutions impact growth of SMEs in the manufacturing sector. It also made suggestions to policymakers on how financing constraints can be amended to suit SMEs in the manufacturing sector.

Introduction and Background

This section identifies the background, aims and objectives of the study and presents the research questions, literature review and rationale for the research focus.

It is clear that access to finance is essential for SMEs' growth. However, to obtain loans businesses are typically expected to meet several preconditions. These preconditions are created to regulate how access is attained. Preconditions of loans are analogous to constraints which when imposed may have uncertain outcomes reflecting both the imperfect understanding of the environment and equally, the imperfect nature of the formal rules and the informal mechanisms that are used to enforce and manage those constraints (North, 2005: 2).

Constraints, regulations, and rules that regulate economic actors' relationships with one another were defined by North (1990:3) as institutions. Governments all over the world through their agencies regulate how economic actors interact through the formal institutional means while societal

social underpinnings impose informal mechanisms that are embedded in norms, culture, and codes of conduct (Williamson, 2009:372; Seyoum, 2011:918). This uncertainty could be in the form of changes in performance, which can represent growth or decline for economic actors (Beck and Laeven, 2006:161). The government may use institutions in the form of preconditions to serve as incentives and punishments to encourage economic actors to choose those economic activities that are most beneficial to society such as tax payment, business registration, amongst others (Mathias et al., 2015:253). If these activities are chosen, the incentive might be translated to access to finance, while the likely punishment will be denial of access to finance if the preconditions are not met.

Most studies on SMEs in both developing and developed economies are consistently in agreement that access to finance is important for SMEs' growth (Demirguc-Kunt et al. 2006, Beck, et al 2008:467) but so far no study has explore the implications of preconditions of the source where access to finance was obtained on SMEs' growth in the Nigerian manufacturing sector.

The aim of this research is to investigate the impact of formal and informal financial institutions on the growth of SMEs in the Nigerian manufacturing sector.

In achieving this aim, the researcher has identified two objectives that will be addressed. These include; assessing the extent to which formal and informal institutions may impact the growth of SMEs; and explore the interplay between formal and informal financial institutions and its impact on SMEs.

The following research questions have been developed to address the research objectives. These are:

i. To what extent do formal and informal financial institutions impact growth of SMEs?
ii. What is the nature of the interplay between formal and informal financial institutions and its impact on SME growth?

The expected contribution of this study is to shed light on the impact of meeting financing preconditions on the growth of SMEs within the Nigerian context. The outcome will help reveal to policymakers the implications of different financial institutional outcomes on SMEs.

LITERATURE REVIEW

Definition of SMEs

As revealed by the review of literature on SMEs, definitions differ considerably from country to country (Eniola and Entebang, 2015:335). Since this study is conducted in Nigeria, it will be important to restrict to definations emanating from Nigerian regulators and literature. The National Economic Reconstruction Fund (NERFUND) defines SMEs as one whose total assets are less than N10 million, but makes no reference either to its annual turnover or the number of employees. Section 37(2) of the Companies and Allied Matters decree of 1990, defined a 'small company' as one with annual turnover of not more than N2 million, and net assets value of not more than Nl million (Ekpenyong, 1997). Section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004 alludes to companies with a turnover of N1 million and below operating in the manufacturing, agricultural production, solid mineral mining, and export trade sectors as SMEs; While subsection 8 states that as from 1988 all companies engaged in trade or business with a turnover of N500,000.00 and below qualify as small and medium enterprises. (Iwuji, n.d). There are numerous definitions that have been put forward. In order for this study to have a direction and purposeful outcome it chose to view SMEs from all the different interpretations that has been developed, therefore any busniesses that fit into the five definitions here qualifies as SME. That is, any SMEs that have asset that is less than N10,000,000, or turnover of N2,000,000, N1,000,000 or N500,000 per annum.

Meaning of institution

Institutions represent every code of conduct and beliefs collectively instituted by the society (North 1990). Prior to North, there were other prominent scholars whose contribution laid solid foundations to the new institutional perspective, for example, Durkheim (1982) and Hayek (Hayek 1944: 72–87; 1960:162–75) amongst others. For Hayek (1944, 1960), in his perspective, likened institutions to rule of law, "which limits political and bureaucratic actors and leaves private individuals free to act within its constraints". According to Durkheim (1982:2), "these types of conduct or thought are not only external to the individual but are, moreover, endowed with coercive power by virtue of which they impose themselves upon him independent of his individual will".

North (1990) "distinguished organisations from institutions; he explained that they are groups of entities bound together by some shared purpose to accomplish certain objectives, and include legislatures, firms, trade unions, churches, clubs, schools", etc. (Shirley et al., 2017:612). There is criticism of the definitions, however, with (Hodgson, 2006:1) arguing there is "no way any empirical or theoretical analysis of how institutions or organizations work will be understood without having some suitable understanding of what an institution or an organization is and how they function". The meaning of institutions should also extends to organisations, as Hodgson noted organisations create rules that oversee their operations and determine how employees and staff relate with one another to achieve the organisational goal. Therefore, organisations themselves are analogous to institutions. Therefore, to clarify any confusion occasioned by his earlier definition, North redefined institutions as the rule limit that determines the level of instability by providing a structure to every operation (North, 2009). In effect, they are structure incentives to human exchange, whether political, social, or economic(North, 2005:2). Succinctly, formal institutions represent government-defined and enforced constraints while informal institutions capture private constraints embedded in culture, norms, code of conduct, amongst others (Williamson 2009:371).

In this study, institutions will be viewed as both formal and informal. The formal institutions are represented as the loan preconditions created by the banks and other financial organisations. Informal institutions represent shared expectations created and enforced by local groups, members of the community that came together as a cooperative society, "ajo and esusu", money lenders, friends and family whose influence is outside the official sanctioned channels;their activities are embedded in norms, and cultures (Williamson 1991, Seyoum,2011:918).

It is essential to determine what the role of institutions is. Specifically, each institution type has a twin role, one is to encourage activities that are socially desirable and the other is to discourage activities that are socially undesirable by economic actors (Baumol 1990; Eggertson 1990; North 1990 in Mathias et al., 2015:253). And, institutions can either constrain or enable which may lead to certain outcomes (Beck, et al., 2005: Mathias et al., 2015). Institutions exist within the environment in which all economic actors domicile and provide the structure that guides their interactions. They also offer the incentive that encourages the kinds of behaviours, skills, outcomes, and knowledge expected to have great benefit to economic actors (North 2005:22). In this case, adhering to certain loan preconditions may lead to access. Having explained the role of institutions, it is important to expand on how the outcomes from adhering to preconditions of loans may affect SMEs. Veblen (1909:186) asserted that any behaviour that guarantees certain benefits could bring about an evolution of new ways of doing things, which is in part influenced by the selection pressure, that may consequently lead to beneficial outcomes. This brings us to the concepts of habits and routines.

From an evolutionary point of view, habits are aspect of the biological phenotype; they are representation of genetic instructions in interaction with the environment(Hodgson & Knudsen,2010:20). In effect, Veblen(1909:186) agrees that continuous repetition of the behaviour that guarantees beneficial outcome is analogous to acquiring new habits/behaviours, and these new habits or behaviours are occasioned by institutional dictation. Campbell (1974:180) states that every

single process that can be found at the lower levels of the hierarchy are curtailed and shaped in a manner harmonious with the laws of higher levels. Michael Cohen et al. (1996: 683 in Hodgson & Knudsen, 2010:19) view "routine as a disposition, and also as an executable capability for repeated performance in some context that has been learned by an organisation that when responding to selective pressures it will bring about the expected reward".

Therefore, organisations' behaviour is a product of what has been fostered by the institutional structure. This is what is referred to has downward causation. Sperry (1991:230 -1) affirms this by acknowledging that a stronger notion of downward causation must be the one that reconstructs and changes a lower level behaviour of population and organisation. Kim (1992) criticised the downward causation theory, suggesting that in some situations the lower level players, for example, organisations, and individuals, can influence higher level authority. Similarly, Hodgson (2004) supports Kim's view, by stating that downward causation theory is weak and reduces higher level influence to individual behaviours alone.

These disagreements do not nullify the downward impact of institutions on organisations and individuals, but, it is emphasizing the fact that individuals and organisations do have the influence to impact higher level constraints with variations through social actions, parliaments, and protests amongst others. Accordingly, rules and structures imposed from the higher level will certainly influence lower levels of behaviours. In effect, the continued adherence to those higher level rules may likely lead to the acquisition of new routines(Nelson, 1982:11). In essence, institutions may end up playing a big role in framing the habits of participants/actors. This view was referred to as reconstitutive downward causation by Sperry (1964, 1969, 1976, and 1991).

If financial institutions can play the role of the higher level, where they dictate terms for loan access to SMEs, they can possibily make SMEs abide by the preconditions before they grant access to them. When SMEs adhered to these preconditions, access to finance is highly likely to be granted. The outcome of this practice may lead SMEs to start behaving in a certain way that mirrors formality. By acting formally it means certain routines or practices that makes their operations to conform with government regulations and similar to what is obtainable in large organiations but which are not practised before, are now being practised. These may include business registration that leads to corporate identity, tax payment, periodic financial statement preparation etc. For those who may not be able to meet formal financial institutions preconditions and have to resort to alternative financing sources by approaching informal financial institution, they may not experience the same change in routines as those who gained access to formal institutional financing. Whatever outcome their actions present may be a constraint or enabler to growth. At this stage, the outcome is still unknown.

The impact of loan preconditions on SMEs would involve evaluation of their current performance status in relation to a number of different financing sources, which may come under formal and informal financial institution. The narratives given by the owners as influenced by their experience with loan preconditions of different financing sources. Therefore, borrowing from other studies on firm growth; sales volume (Dunne and Hughes, 1996; McCann, 1991; Kachlami & Yazdanfar 2016), geographical expansion(Moreno & Casilas 2008), profitability (Kurwo & Ole 2014: 434), diversification(Lemak, 2009:320, Mansour, et al 2017), and new employment (Moreno & Casillas 2008) are the variables that have been commonly used as the parameter for SME's growth. However, this study allowed SMEs to express the kind of growth they have been experiencing as this permits their experiences and accounts to capture their reality. But, when needed those parameters mentioned above were used to guide the direction of the discussion especially when respondents were going off track.

Methodology

The research philosophy guiding this study combines an interpretivist ontology with a social constructivist epistemology. Deploying qualitative methods, the research approach is inductive. Case study was adopted as a research strategy using semi-structured interviews as the instrument for data collection. Purposive sampling was used with eleven SMEs interviewed out of the eighteen targeted, and eight financial institutions targeted and successfully interviewed. In total nineteen interviews were completed.

The coding was based on the individual narratives touching on their experience with the various financial institutions, especially in connection with satisfying loan preconditions. This allows for comparison and contrast between the participants' own accounts, including their expressed attitudes, and explanations being offered and the outcome of their decisions on their respective company's growth(Ritchie 2014:64).

Analysis

Table 1

		Expert	SMEs
	Different sources of financing	Number	
Formal financial institutions	DFI FG(BOI)	1	2*
	DFI SG(LSETF)	1	3
	Microfinance Bank	1	1
	Commercial Bank	1	2
	Islamic Bank	1	1
SME Expert	Rep of SMEs	1	
	Ajo	1	0
Informal financial institutions	Friends and family	0	1*
	Cooperative	1	2
		8	11

The study followed the interpretative phenomenological analysis (IPA) approach, from where three superordinate themes emerged and are the basis of the following chapter. Where they are illustrated with verbatim excerpts from the interview transcripts. The names of the participants and the actual name of their businesses are amended to protect their confidentiality.

Table 2

Superordinate Themes	**Sub themes**

Satisfaction of loan preconditions	The sacrosanct nature of precondition,
	Granting of access
Impact of Access	SME growth
	Change in routines
The interplay between formal and informal financial institutions on the growth of SMEs	Overcoming opaqueness
	Overcoming information assymetry
	Enforcement
	Overcoming socially conceived bias
	Mitigating default

The three superordinate themes and their constituent sub themes are explored in the remainder of this chapter,

Superordinate Theme 1: The sacrosanct nature of precondition

For formal financial institutions, respondents narrated their experiences in relation to how important it is for prospective SMEs desirous of accessing financial institution's loan to adhere to its preconditions. According to them no access will be provided if preconditions are not met. In the case of formal financial institutions, the responsibility of assessment of SMEs' loan suitability rest with staff of the instutition and the enforcement of sanctions rest with government through its agencies e.g. Central Bank and that of the informal institution, in the case of assessment and enforcement rest with appointed or elected representatives and periodically ratification is always sought from members as they can remove any elected representative who has acted against the agreed conditions, or adopt social sanctions to compel repayment in the case of default.

To uphold the sacrosanct nature of loan precondition all the experts and the respondent affirmed the "no waiver policy". This no waiver policy is applicable to all financial institutions.

The next theme which is a sub theme is satisfaction of loan precondition, all the nineteen participants agree that satisfaction of loan preconditions may lead to access, 18 were of the opinion that adherence to preconditions of loan may also lead to routine change, and all the participants confirmed they experienced growth in various forms after accessing loan.

There are different types of loan preconditions particular to each of the financial institution. For example all formal financial institutions may expect all prospective customers to be registered with corporate affairs commission, they will expect them to be in possession of tax identification number, evidence of audited account, have an existing bank account or open one etc. While an informal financial institution may require just membership, attendance to meetings, and payment of periodic agreed contribution.

The reason why banks instist on satisfaction of loan preconditions is captured in the Islamic bank expert's view:

> ‘Most bank don’t want to give loan to SMEs, because they feel they will not pay’. (This is a moral hazard issue. Moral hazard is the willingness to pay back a loan). It is a means of mitigating the risk of default.

In corroborating this fact, another expert (SMEs’ expert) :

> “In some cases, meeting preconditions of loan does not guarantee access, erm.. as most SMEs believe that even if they meet loan preconditions, banks may not still give them the loan. They have conditioned their minds that they(SMEs) cannot meet the conditions. They see the preconditions as excuse for not trying to access loan, thinking in their minds that it is not achievable”.

According to his narrative, he said even if they meet the preconditions they will still be denied. The reason for this, is that some SME owners have conditioned their mind that they can’t meet the preconditions and according to Islamic bank expert it is down to the risky nature of SMEs. Due to this reason they don’t even try to seek loan from formal financial institutions, some try but get frustrated and sought informal ones.

Sub theme: Granting of access

Satisfaction of loan preconditions leads to granting of access. This was confirmed by all participants that obtained access, none of the participant expressed views about accessing loan without satisfyng loan preconditions.

For informal institution, there are preconditions that must be met just like the formal ones. But, the difference is that the preconditions specific to formal institutions are different from informal institutions.

Informal institutions e.g. cooperative society and Ajo (contributory scheme) rely on relational approaches when administering loans. Relational approach is a form of personalized exchange that rely on informal relationships—which is very dominant in emerging economies (Khanna & Palepu, 1997 in Zhou and Peng, 2010:356). The cooperative society is managed based on rules and guidelines that are rooted in personal relationship amongst members. Exchanges are done on the basis of social affiliation, reputation and trust. For example, before loan request is granted to any member they must be known to the cooperative, before they are known to the cooperative, two members must have introduced them. When a new member is seeking loan, two members of the cooperative must stand as guarantors for them. In ability to be recommended by two existing members of the cooperative society, may bring an end to the member’s ambition of landing credit from the cooperative. All members are expected to attend periodic meetings. These are very important has it afford members to put a name to every face and to get to know each other. That why it is relational and face to face. When all the aforementioned preconditions are fulfilled access will be granted by the cooperative.

Therefore, satisfaction of loan precondition is important as accurately captured by all the experts and SMEs. This is very important for both formal and informal institutions.

Superordinate theme: Impact of Access

After loan preconditions have been satisfied, it is more than likely that access will be granted. According to 17 out of 19 respondents, satisfaction of loan preconditions may result into adoption of new practices/change in routines and growth.

Subtheme: change in routines

New routines can be developed as a result of meeting loan preconditions and obtaining a loan. In other words, it means SMEs have in place certain routines that were previously not existing. The excerpts below from respndents, explain how new rules are introduced and old ones rejected.

> "We have seen cases where SMEs will go and come back after some months with evidence that shows they now have proper processes in place. The bank normally gives them three months to regularise their operations. The bank expects them to have basic business/financial records, such as daily sales book, stock books"(example of excerpts that suppose change in routines).
> "There are no alternative, other than putting in place what will be required for them to qualify for loan. Many of the SMEs owners are not educated but that does not mean

Islamic bank expert describes the bank's position on tax payment in comparison to government backed development institutions:

> "Evidence of possession of tax identification number (TIN) - 'the bank is not concerned about payment of tax as it is not our concern and responsibility'. Only banks that administer government loans require evidence of tax payment from SMEs e.g. BOI, and LSETF".

All formal financial institutions' beneficiaries have their routine changed, this was influenced by the preconditions they met for loan access. Within the formal financial institution, there is one precondition that is not common to all of them, this is payment of tax. Only DFI SG and DFI FG require their prospective beneficiaries to present evidence of tax payment, and all their beneficiaries have adopted this routine.

All the participants DFI-SG - SME 1, DFI-SG - SME 2, DFI SG - SME 3, Islamic bank -SME 1, DFI SG -Expert, MB - Expert, and MB - SME 1 are in agreement that complying with loan precondition enables them to evolve new ways of doing things. MB SME1 argued that what changed in her business is the habit of auditing and adopting a business plan: she claimed they pracrice was picked up as result of meeting loan precondition and explained that she has other routines in place. She confirmed her business was already incorporated, she keeps record and do what she things is right. The latter and former routines made her to be on top every single thing happening in her business.

The cooperatives' loan beneficiaries such (coop – SME1, SME 2, Ajo and the expert) made it known that meeting loan preconditions do not have any effect on change in routine. It does not make them to have to register their businesses, pay taxes, have tax identification number amongst others. This is understandable as access to finance from informal financial institutions only require attendance to meetings, and regular payment and these are not in any sufficient way to make them change operationally.

Subtheme: SME growth

This subtheme touches on the way SMEs who had obtained loans and made sense of their experience about the type of growth emanating from loan access. The participants were of the view that SMEs that gain access to loan, experience some improvement that is synonymous with growth. Since the study is guided by a semi structured interview, experts expressed their views on growth in a variety of ways. They constructed the meaning of growth in a manner that mirror their sense making and understanding. They qualify growth according to their experience as representing these; increase in the number of employees employed, increase in turnover, increase in volume of sales,

geographical expansion, diversification, acquisition of asset. Three out of four experts expressed a common position about growth dimensions. Though, the commercial expert seems not to be aware of the nature of growth SMEs experience after getting loan. He even tried to excuse himself by saying he is not sure of what it is they experience but one interesting statement stood out from what he said and that is, most SMEs pay back as at when due. Which according to him is an indication that everything is going well with them.

However, the representative of SMEs agree that growth experienced by SMEs manifest only in two dimensions i.e. sales and turnover. He is not refuting that SMEs experience growth, but he is just trying to be specific about what constitute their growth based on his experience.

In summary, excerpts from direct statements made, indicated there are elements of growth experienced by SMEs as a result of access to loan, except that much cannot be said about AJO beneficiaries because none of the SMEs are into Ajo, because the main sector Ajo caters for are the micro businesses (Who don not qualify for this study). Even in the face of some growth indicators, especially in the case of the commercial bank, microfinance beneficiaries, there seems to be complaints revolving around repayment, high interest rate, short term tenure which has stunted their growth in comparison to DFIs.

Superordinate theme - The interplay between formal and informal financial institutions on the growth of SMEs.
From the participants' narratives, it can be established that there are various accounts that show commonalities between formal and informal financial institutions, especially the replication of some preconditions that are traditionally defined as (informal) personal or relationship based. Which have found their way into formal financial institutions loan requirements.

All the experts, except DFI FG mentioned account opening, operation of bank account for at least six months, and four (4) out of nine (9) SMEs categorically mentioned recommendation from their cooperative and that their cooperative was like an umbrella under which they were able get access to loan. The banks have to rely on the cooperative society's recommendation as they feel the cooperatives have more direct relationship with those SMEs and they feel confident of their recommendations.

In specific terms, commercial banks, microfinance banks, Islamic banks, and development banks require some element of relational approaches to be satisfied. This was evidenced from the experiences shared by the experts, and SMEs, which shows that if SMEs are organised into clusters or groups or cooperative groups it is noted they find it easy to meet other loan preconditions and access. The relational approach adopted by formal financial institutions is devised to achieve the same thing as the informal institutions, which is to get to know the SMEs in person. The formal financial institutions do that in different ways, e.g. through the requirement of operating a bank account with the bank, to get the cooperative to share in the responsibility of discouraging default by giving the power to recommend and enforce discipline. This will help to reduce the incident of opaqueness, information asymmetry, enforcement, overcoming socially conceived bias and mitigating default

Conclusions

The research question this study sought to answer is; to what extent do formal and informal financial institutions impact growth of SMEs? The starting point for the impact of formal financial institution on SMEs is at the point when loan is about to be accessed or when the importance or usefulness of a loan is realised. This is the point where actual effort is made to make the necessary arrangement to put things in place that will make the meeting of loan precondition a reality. As seen in the data, some respondents started preparing for formal financial institutions loan ahead of time. They knew

what it takes as a result of their educational background or through experience gained as an employee of a bank or past business experience. The extent to which formal financial institutions impact SMEs presents itself is at the point when satisfaction of loan preconditions is taking place, which will lead SMEs to gain access to a loan. Loan access and the things that they put in place which is analogous to new routines or new practices would set the scene for further manifestation of the effects of the impact. From the result drawn from the narratives, after providing a loan, formal and informal financial institution impact SMEs in many forms, this includes; changing their routines and increasing their growth.

Satisfaction of preconditions of a loan may lead to access. This is analogous to saying access can only be obtained after all the boxes have been ticked about loan preconditions. That means SMEs have in place certain characteristics that were previously not in place. For example, in the case of formal financial institutions access to loan mean the business must have been registered, possession of tax identification number, the record is being kept up to date, and the account is being audited, amongst others. This also means their routines have changed; this may help to explain how organizations reject old rules, learn new routines, and develop new capability (Oliver, 1992 in Peng, 2003).

100% of SMEs that claimed they gained access through formal financial institutions and the various experts confirmed that they imbibed new routines and retained them to enjoy future access to finance. They stressed the importance of routine retention as monitoring team can show up any time with or without notice. Monitoring play the role of a reinforcer. Reinforcer is a stimulus that generates an increase in the rate of the response that produced it. The formal financial institutions exert so much influence on SMEs that are interested in getting unhindered access to finance. According to Campbell (1974b:180 in Hodgson, 2004:184) states that every single process that can be found on the lower levels of the hierarchy are curtailed and shaped in a manner harmonious with the laws of higher levels, equally in the agreement is Veblen (1899a: 190 in Hodgson 2004:179). In this context, the higher level of authority is the formal financial institution. The SMEs' new behaviour is a product of what has been fostered down to it by the institutional structure. This was referred to by Sperry (1992) as downward causation; this notion was criticized and modified by Hodgson, (2006) as reconstitutive downward causation, he further expanded on this concept by likening institutions to social structures acting to some degree upon individual habits of thought and action (Hodgson, 2006). Because institutions simultaneously depend upon the activities of individuals and constrain and mold them, through this positive feedback they have strong self-reinforcing and self-perpetuating characteristics. Institutions are perpetuated not simply through the convenient coordination rules that they offer. They are perpetuated because they confine and mold individual aspirations and create a foundation for their existence (Hodgson, 2006).

The sharping of new ways of doing things as informed by prevailing higher order manifested in the form of financial institutions. In explaining this better, there are three types of actions seen as institutional isomorphism are examined: coercive (external actors compel conformity mainly through law or regulation); mimetic (uncertainty motivates organizations to adopt the practices of their most successful competitors), and normative (strong professional interests drive the adoption of specific values and beliefs by all organizations in the field) (Powell and DiMaggio, 1991, pp.67). Within the context of this study the kind of change SMEs experience is coercive in nature, and borrowing from psychology it can be referred to as extrinsically motivated behavior(Schunk, 2012:389). It is externally motivated because it was caused from the outside. SMEs that have enjoyed loan access; from sources such as DFI SG SMEs and DFI FG SMEs and Islamic bank indicated their desire to continue to seek access with those financial institutions with which they are

currently a beneficiary. This matches with North (2005:22) which says institutions provide the incentive structure that dictates the kind of skills and knowledge perceived to have the maximum payoff (North 2005:22). SMEs who obtained access from other commercial banks and microfinance banks in their narrative would love to try another source because of their expectation of improved loan precondition. Where SME tends to be motivated to move towards any source of finance that indicates rewarding outcomes and their behavior would likely mirror what that institution they are desirous of getting access from demands. Therefore, what the institution will likely demand can be seen as rules or structures or preconditions. Which are imposed from the higher level and will certainly influence lower levels of behavior (internal routines manifesting in daily operations) and it will command adherence for reward. In effect, the continuous adherence of those rules will automatically lead to the acquisition of new routines. The lower level here refers to the SMEs.

From the accounts of respondents, the no waiver policy signifies that there are no alternatives, other than putting in place what financial institutions require for SMEs to qualify for a loan, if not they will attract denial. Even, where SMEs' owners are not educated that does not mean they cannot work towards putting necessary things in place. They can do so by employing skilled individuals to help with record keeping. The kind of routine or practice adopted will be determined by the source of financing. For instance, if the financial institution from where the loan was obtained had as part of their preconditions required beneficiary SMEs to be registered with corporate affairs commission, that means the SME will become registered because of that requirement from the institution they source loan from. If payment of tax is expected to be in place, the prospective SME will start paying tax to get access to loan. For example, the SME that only obtained loan from cooperative is not a registered business but the rest of the participants who have had to access loan from formal financial institutions are all registered. Another example is record keeping, all participants except one, keep proper and even engage the service of an auditor. Commercial bank, microfinance and Islamic bank beneficiary are appeared not to have engaged in the practice of tax payment, but from their account, they have made the first step by registering with government corporate affairs commission and have obtained tax identification numbers. This in because the financial institutions they patronize never asked them to. This is also with other loan preconditions that are general to all formal financial institutions. 100% of SMEs that have obtained a loan from government backed DFIs, whether state or federal government, have in addition to registering their businesses, possession of tax identification number, also possess evidence of tax payments. These are some of the requirements of loan DFIs expect and that explains why those beneficiaries have adopted it. That is why it was stated above that the source from which loan is obtained influences what type of routine SMEs will adopt.

Equally, in the case of informal financial institutions, where no specific routines or practices such as opening of bank account, business registration, possession of tax identification number, evidence of tax payment, amongst others are required except meeting attendance and regular contribution, those SMEs that had experience access to loan from them did not make reference to having adopted any routine similar to what formal financial institutions have promoted and made mandatory. Similarly, according to the study, the only SME among participants that mentioned none adoption of any routines is a beneficiary of informal financial institutions and DFI FG SME 1 according to the experience he shared, he was not paying tax when he used to access loan from money lenders and friends and family, this is because those informal financial sources never cared about such practices. Rather, they are more concerned about relational mechanisms, and therefore SME that obtained loan from only the cooperative do not have her business registered, no possession of tax identification number, no evidence of tax payment, no proper record, amongst others.

Therefore, as informed by narratives from participants SMEs adoption of routine is dependent and influence by the source from which they got the loans from. Informal institutions do not enable the adoption of new routines.

The adoption of certain routines represent formality, such routines that make SMEs to be recognised as a corporate body and have their identity known to the government is analogous to fomality. The advantage of formality is that it offers the firm access to risk pooling mechanisms that may attract more educated paid workers and engage them in a longer relationship with the firm, which in turn makes training and capital goods acquisition more profitable. Formality may be a requirement for access to formal credit markets or Government provided business development services, as De Paula and Scheinkman (2007) have argued, formality increases the ability of micro-entrepreneurs to establish property rights over their investments and reduces the risk of being fined by government inspectors, and "it creates incentives for operating out of fixed locations rather moving from one location to the other".

The next impact of formal and infomal fination institution is growth. As captured by participant's accounts, what constitutes growth varies from one SMEs to the other; this research addressed growth from the specific individual's construction of what their reality are. The various sense making about what their business experienced and quantified as growth are;

SMEs that have obtained loan from Commercial bank & Micro Finance bank expressed their experience of growth in many areas, which include; increase in working capital, acquisition of more equipments, e.g., generator, completion of factory building and meeting customer's demand between themselves.

Specifically, microfinance bank beneficiary are of the view that they experience growth through geographical expansion, increase profitability, which was linked to bulk buying as a result access to a loan.

Commercial bank- SME 1 experienced growth through the acquisition of more equipments, e.g., generator, completion of factory building and meeting customer's demand. The researcher could also tell that he had help from his son who is based abroad. The respondent showed the researcher a machine and told him the cost which is on the high side. The researcher asked how he got the money and he mentioned he obtained part of it from his son (friends and family source) and remaining was finance from bank loan.

The commercial bank's beneficiaries, have differences in growth and that can be as a result of the number of sources available to each SMEs. The SME that got access from one source (commercial bank only), her experience in term of her qualification of growth is less compared with the SME that obtained access from two different institutional sources(one from formal financial institution i.e. commercial bank and the other informal institutition i.e. friend and family).

SMEs that have obtained loan from DFIs confirmed experiencing growth in many areas, which include; increase in the number of employees employed. Employee employment has also been a parameter for measuring growth both for micro and macro purposes (Birch, Haggerty, & Parsons, 1994; Littunen & Tohmo, 2003 in Moreno & Casillas 2008), as well as increase in turnover, higher sales volume, increased market share by moving to other market segments, expansion into other geographical areas, bulk buying and acquisition of asset. Overall, they all believe the source from

which they have obtained a loan has been very helpful. They were specific about things that helped, which include training they were sponsored to attend, lower interest rate (9% per annum), and longer tenure (which is three years). The growth dimensions reported by Islamic bank present growth in the form; of acquisition of more equipments, showroom upgraded which attract more customers, buying raw materials in bulk.

The particpnat who happens to be an Ajo coordinator (local daily contribution) shared his experience by saying beneficiaries only gets the same amount they have contributed. It only helps micro businesses owners to save their daily sales, and to be able to use the same to reinvest again in to the business. SMEs that have obtained loan from cooperative feels loan from cooperative impact is through the additional cash injected into the business, which increases working capital. Friends and family is another source mentioned in the study, but there is no growth linked to it by the respondent. This does not mean it plays no role but within the respondent's account, loan from friend and family was used as a means to start up a new business and address gaps in the meeting of precondition. It was used by another respondent to supplement another loan from commercial bank in order to buy an equipment and there is another SME owner who also obtain loan from cooperative as well as DFI FG said loan from cooperative society has helped his business to acquire more asset, improved working capital, which has helped the business to pursue more geographical expansion, employ more staff, achieve market development, and diversification. This shows access from two financial institutions, in this case formal and informal may result in more dimensions of growth, as recipient would have more financial resources to utilised. The outcomes are consistent with the evidence showing that capital allocation based on personal connections spurs growth in emerging economy (Allen, Qian, and Qian 2005; Allen et al., 2008).

It is discovered that growth captured in the experiences of participant shows higher growth in DFIs financed SMEs, followed by Islamic bank financed SMEs, followed by commercial and microfinance and cooperatives. The disparity evident in their growth pattern can be explained by the conditions or attributes present in the loans offered by each source. According to Emenalo (2014:182) "At the firm level, growth responds to access to credit and to the conditions that favour such access". For example, a source with a generous precondition such lower interest rate, longer loan tenure, higher loan amount as shown in the case of DFIs enable stronger growth in SMEs compared to commercial, microfinance, and Islamic bank with higher interest, lower loan amount, and lower loan tenure; and informal financial institution i.e. cooperative with lower loan size, lower interest rate and lower tenure.

The variation experienced in growth are as a result of attributes present in financing institutions. These attributes are financial institution's specific, such as; loan size, tenure, and interest rate play important role in growth. Consequently, those that were judged to have grown as informed by the accounts from respective respondents are the SMEs that have enjoyed access to finance from DFIs. The others, who also obtained access to microfinance and commercial banks via cooperative recommendations, do not appear to have a similar magnitude of growth compared to the DFI ones.

In summary, every participant has experience one form of growth or the order as a result of getting a loan. Although, there are few differences in the growth reported. Excerpts from direct statements made and few other ones that were summarized by researcher but informed by their direct statements, indicated there are elements of growth experienced by SMEs as a result of access to loan, except that much cannot be said about AJO beneficiaries because none of the SMEs are into Ajo, and the main group Ajo caters for are the micro businesses (Who don't qualify for this study). Even in the face of some growth indicators, especially in the case of the commercial bank, microfinance beneficiaries, there seems to be complaints revolving around repayment, high interest rate, short term tenure.

One distinctive factor missing in cooperative loan is the longer tenure, and lower loan size, if those two were catered for, similar growth experienced by DFI beneficiaries would be experienced by their beneficiaries too, this also extends to commercial, microfinance and Islamic bank. The major factor that determines the extent of growth is the loan attributes such interest rate, loan tenure, loan size and the support provided by the financial institution. Such support as captured in the narrratives are training, opportunity to participate in government tendering process, permission to take up government contracts, amongst others. These kind of support is widely provided by the DFI SG, this may be the reason why they show more growth outcome than the rest SMEs that borrowed from other sources. The above explanation addresses the first research objective, which is to what extent does formal and informal financial institution impact SMEs' growth.

The second research question this study wants to answer is; what is the nature of the interplay between formal and informal financial institutions and its impact?

Formal financial institutions mostly rely on impersonal exchanges or transactions that are not face to face, formal fianacial institution are expected to be able to operate in an anonymous situations by depending on hard information i.e. credit bureau, audited bank statement etc. Their activities are govern and enforced by government agencies i.e. central bank, etc. The informal financial institutions, for example, cooperative society is managed based on rules and guidelines that are rooted in personal relationship amongst members. Personal exchanges are face to face interaction that rely relational and reputational exchanges. Relational exchanges, are "personalized transactions based on informal relationships" (Zhou and Peng, 2010).

The DFI (Development financial institution), Islamic and commercial banks represent the formal institution. They are formal because their activities and rules are governed and enforced by the government regulators i.e. Central Bank of Nigeria, law court, and police force. The cooperative society represent the informal institution because their activities are governed by a community of private individuals. However, it is important to note that there is an element of government intervention in their activities, because they are mandated to accommodate a government official from the Ministry of Commerce to be present in their meetings. This government official is expected to keep details of every meeting. Cooperative societies' activities are largely based on personal exchanges. But there is still an element of impersonal exchange that is infused into their activities. When group pressure on a defaulting member fails, the cooperative may seek police assistance. For example, when there is default, the respondent said the cooperative may decide to lock the member's business premises. When going to enforce this, the assistance of police is always sought. By using the police, means an agent of the state is used as part of the enforcement process. There is an overlap here.

Commercial banks, Islamic banks, and development financial institution require some element of personal and reputational approaches to be satisfied. This was evidenced from the experiences shared by the experts and five of the SMEs who obtained loan from formal financial institutions.

When a new member is seeking a loan, two members of the cooperative must stand as guarantors for them. Two of the experts who share their experiences about formal financial institution mentioned account opening, operation of bank account for at least six months and membership of a cooperative or cluster amongst others as part of their preconditions. The idea of the formal financial institutions especially banks that SMEs must open a bank account and maintain it a six month before they can qualify for a loan is to create a relationship through which the bank can get to know them. The bank will advise them to ensure regular payment of daily sales is made into the account. The size of the payment will be used as the basis for calculating the amount SMEs is qualified for. This is more like

a personal exchange mechanism typical of an informal institution such like a cooperative. This accurately mirrors what an informal financial institution will expect from a new member. By asking them to be introduced by an existing member, who will give recommendation about their character and they must spend at least six months before qualifying for loan. This period creates an opportunity for many other members to get to know the new member.

The same way an informal institution such as cooperative society would want to provide access to only people known to them by recognizing and valuing the recommendation from two existing members. Which will permit them to know who the SME are and judge them accordingly, so also, the banks adopt similar approach by ensuring only customers known to them are considered for loan. However, the consideration is not only based on relationship but requires other preconditions to be met. The othee preconditions include but not limited to business registration, opening of account with the bank, presentation of audited account statement, presentation of six months account statement. Therefore, there is an overlap. This makes distinction between personal/impersonal exchanges in relation to both the formal financial institutions and informal society difficult to do. In other words, there seem to be no outright personal and impersonal distinction.

Due to prevalence of opaqueness, which particularly undermines lending from institutions that engage in more impersonal or arms-length financing which requires hard, objective, and transparent information (Augusto de la Torre, et al., 2010). "By opaqueness the literature means that it is difficult to ascertain if SMEs have the capacity to pay and/or the willingness to pay, which can be linked to moral hazard." Consequently, formal financial have found a way to overcome this opaqueness by borrowing from informal institutions some element of relationship lending approaches. Information about business situation, repayment history, business size is shared by the informal institution i.e. cooperative they belong to. This because they must have been obtaining loans in the past from the cooperatives and their record is easily available to the cooperative. That might be a good reason for informal institutions to continue with the practice and formal financial institutions may have to continue copying from them.

Through the interplay they formal financial isntitutions have been able to overcome information asymmetry, information asymmetries exist when one party has more information and other party is unaware of the complete information. The fact the cooperatives have members that know themselves, and membership is determined by the recommendation of one another and access to loan is possible if members guarantee you, this gives group members the incentive to monitor each other. Therefore, information is widespread within the cooperative hierarchy. Because the group will know their member's character and could make judgement about who is of good behaviour or not and what their repayment history are etc. Information asymmetry did not emerge from pilot study narratives but was made sense of by the researcher based on reflection from literature.

From the accounts of seven participants they were selected and recommended the best 20 to the DFI SG. It was the strength of their recommendation that they were able to have their first foot into the institution's credit ladder. Although all their preconditions were applied but the first step was through the cooperative's recommendation. The information the DFI requested from their cooperative was that we need the best among your member. The best they mean are those who have been tested and trusted, those who credit worthy and would not default. Microfinance SME 1 and commercial and microfinance SME 2 were also recommended to the commercial and the microfinance they both were current beneficiary of loans.

The impact of interplay is it makes formal financial institutions to overcome opaqueness and information asymentry, by using the informal financial institutions to obtain the right information about credit worthy members. On the other, it helps SMEs who have socially constructed bias that formal financial institutions would not grant them access to finance as the informal financial

institution through the cooperatives would bridge that gap for them. The fear the banks have that SMEs are too risky and their probability of default is very high would be allayed as the reliance on informal institutions will give them the assurance they are dealing with genuine SMEs. The general accounts of growth as shown in the response to the first research qurestion matches the conclusion that there is a positive relationship between formal and informal institutions and are complementary to each other(Allen, Qian, and Qian 2005; Allen et al., 2008). Both institutions enable growth and new routine adoption but in a disproportionare way. This disproportionality is influenced by various supports provided by the financial institutions.

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