

Sources of Finance and SME Financial Performance: Evidence from Edo South Senatorial District, Nigeria

Susan Izehi Enobakhare¹ & Clement Edojor Ozele²

^{1,2}Department of Accounting, Igbinedion University, Okada

ARTICLE INFORMATION	ABSTRACT
Article history: Published: October 2026 Keywords: Small and Medium-Sized Enterprises Sources of Finance Perceived Financial Performance Pecking Order Theory Nigeria	This study examined the relationship between five sources of finance and the perceived financial performance of small and medium-sized enterprises (SMEs) in Edo South Senatorial District, Nigeria. The study was anchored on the Pecking Order Theory and adopted a quantitative cross-sectional survey design. Data were collected from SME owners and managers using a structured questionnaire, with 342 valid responses obtained from 384 questionnaires administered. Perceived financial performance was measured using subjective assessments, while personal savings financing, bank loan financing, cooperative financing, microfinance financing and trade credit financing were examined as the explanatory variables. Data were analysed using descriptive statistics and multiple regression. The results showed that personal savings financing and cooperative financing had positive and statistically significant relationships with perceived financial performance, while bank loan financing had a positive but statistically insignificant relationship. Microfinance financing had a significant negative relationship with perceived financial performance, while trade credit financing had a negative and marginal relationship at the five per cent level. The regression model was statistically significant and explained 11.1 per cent of the variation in perceived financial performance. The findings suggest that the performance implications of SME financing differ across financing sources and that the availability of finance alone does not imply similar performance outcomes. The study therefore highlights the importance of considering the specific characteristics and conditions associated with different sources of SME finance.

1. Introduction

Small and medium-sized enterprises occupy an important position in economic activity because they support employment, income generation, entrepreneurship and local production. Their ability to establish, operate and expand, however, is closely connected to access to adequate financial resources. Smaller firms often face greater financing constraints than larger enterprises, making access to finance an important issue in the SME literature (Beck & Demirgüç-Kunt, 2006; Beck et al., 2008). Although finance can provide resources for working capital, productive investment and business expansion, obtaining funds does not necessarily translate into improved business performance. The source, cost and conditions of finance may determine whether the funds ultimately support or constrain business outcomes. This distinction is particularly relevant to SMEs because their financing choices often involve a combination of internal and external sources. The Pecking Order Theory provides a useful explanation for these choices. Myers (1984) and Myers and Majluf (1984) argue that information asymmetry encourages firms to prefer internal funds before external financing because external funds may involve additional costs and constraints. This perspective is particularly relevant to SMEs, which may face limited financial records, inadequate collateral and weaker relationships with formal financial institutions. However, the performance implications of financing may extend beyond the simple distinction between internal and external funds because different external financing arrangements impose different conditions on businesses.

Evidence from Nigeria supports the need for a more differentiated understanding of SME financing. Adegboye and Iweriebor (2018), for example, found that access to finance can influence innovation and productivity among Nigerian SMEs, but also reported circumstances in which increased access to finance was associated with declining productivity. Evidence from trade credit and informal microfinance also suggests that the performance implications of financing vary across financing arrangements and business contexts (Fisman & Love, 2003; Hoang et al., 2019; Amakom & Amagwu, 2020). These findings reinforce the need to examine whether different sources of finance are associated with different financial performance outcomes among SMEs. This issue is especially relevant to SMEs in Edo South Senatorial District of Edo State, Nigeria. The district comprises Oredo, Egor, Ikpoba-Okha, Ovia North-East, Ovia South-West, Uhumwonde and Orhionmwon, with Benin City serving as a major commercial centre. SMEs operating in the district depend on different financing channels to support their working capital, operations and expansion. However, the financing source accessible to a business may not necessarily be the source that is associated with the most favourable performance outcome. Understanding these differences is therefore important for SME owners, financial institutions and policymakers.

Despite the extensive literature on SME financing, an important empirical gap remains. Existing studies have frequently examined individual financing sources separately or have treated access to finance as a broad construct. Such approaches make it difficult to determine whether differences in SME financial performance are associated with particular financing sources when alternative

sources are considered simultaneously. The gap is particularly relevant at the local level, where financing conditions may differ from those observed in national or international datasets. The present study addresses this gap by examining the simultaneous relationships between five financing sources and SME financial performance: personal savings financing, bank loan financing, cooperative financing, microfinance financing and trade credit financing and their association with SME financial performance in Edo South Senatorial District. The study also responds to a measurement challenge associated with SME research. Many SMEs do not maintain publicly available audited financial statements, making objective financial performance measures difficult to obtain. Accordingly, financial performance in this study is operationalised as perceived financial performance based on assessments provided by SME owners and managers. This approach captures their perceptions of business outcomes within the financing environment in which their enterprises operate. The study is anchored on the Pecking Order Theory (Myers, 1984; Myers & Majluf, 1984). The Pecking Order Theory suggests that SMEs may prefer personal savings as an internal source of finance because internal funds generally involve fewer information asymmetry problems, financing costs and external constraints than borrowed funds. The relationships between bank loan, cooperative, microfinance and trade credit financing and SME financial performance are therefore treated as empirical issues to be examined rather than as direct predictions of the theory. Examining these sources simultaneously therefore provides an opportunity to assess whether financing sources differ in their implications for SME financial performance and whether different forms of external finance have similar consequences. The study makes two principal contributions. First, it provides evidence on the differential association of five financing sources within a specific Nigerian SME environment. Second, it shifts attention from the general availability of finance to the performance implications of particular financing sources. This distinction is important because financing that is accessible to an SME may not necessarily be financing that is associated with better perceived financial performance. The findings therefore provide evidence that may inform SME financing decisions and discussions on financing arrangements for small businesses.

2. Literature Review

2.1 Personal Savings Financing and SME Financial Performance

Personal savings constitute an important source of finance for SME owners, particularly during business start-up and the early stages of development. Unlike borrowed funds, personal savings generally do not create contractual interest or repayment obligations and allow owners to retain control over financing decisions. This is particularly relevant to SMEs because smaller firms often face greater difficulties obtaining external finance than larger firms (Beck & Demirgüç-Kunt, 2006). The importance of personal savings is consistent with the Pecking Order Theory. Myers (1984) and Myers and Majluf (1984) argue that firms generally prefer internally generated funds before seeking external finance because information asymmetry can increase the costs and constraints associated with external financing. The Financial Growth Cycle perspective similarly suggests that younger and smaller firms are more likely to depend on insider finance before developing the relationships and information required to access more sophisticated external financing (Berger & Udell, 1998). Evidence on SME financing patterns further indicates the importance of internal funds in financing smaller businesses (Beck et al., 2008; Berger & Udell, 2006). On this basis, greater reliance on personal savings is expected to be positively associated with SME financial performance.

H₁: Personal savings financing has a significant positive relationship with the financial performance of SMEs in Edo South Senatorial District.

2.2 Bank Loan Financing and SME Financial Performance

Bank loans represent an important formal source of external finance for SMEs. Access to bank credit can provide businesses with funds beyond owners' personal resources and enable them to finance working capital, productive assets and expansion. However, smaller firms may face difficulties obtaining formal credit because of collateral requirements, documentation and other lending conditions. Beck and Demirgüç-Kunt (2006) identify access to finance as an important constraint on SME growth, while Abor and Biekpe (2006) and Obamuyi (2010) provide evidence of financing and lending constraints affecting smaller businesses.

From the perspective of the Pecking Order Theory, bank loans constitute external debt that firms generally approach after internal funds become insufficient (Myers, 1984; Myers & Majluf, 1984). Nevertheless, external debt can support business performance when it provides adequate resources for productive investment and the financing conditions are appropriate. Nigerian evidence also indicates that bank credit can constitute an important source of SME finance, although its contribution may depend on accessibility and the ability of firms to use borrowed funds effectively (Obieche & Ihejirika, 2021; Anyanwu & Aguwamba, 2023). The literature therefore provides a basis for expecting bank loan financing to have a positive relationship with SME financial performance.

H₂: Bank loan financing has a significant positive relationship with the financial performance of SMEs in Edo South Senatorial District.

2.3 Cooperative Financing and SME Financial Performance

Cooperative financing provides an alternative source of finance through membership-based arrangements outside conventional commercial banking. Such arrangements may be particularly relevant to SMEs that face limitations in accessing formal credit. Cooperative societies may therefore provide small businesses with an accessible means of mobilising funds for their operating and investment needs.

Evidence from Nigeria provides support for the potential contribution of cooperative financing to small-business activities. Aribaba (2013) examined cooperative thrift and credit societies as a financing mechanism for small-scale businesses, while Ogunmuyiwa and Sofoluwe (2019) examined cooperative financing among micro-scale enterprises. More directly, Ogunmuyiwa et al. (2020) found that cooperatively sourced finance had a positive and significant effect on operational performance among micro-scale enterprises, although its effect on business survival was not significant. These findings suggest that cooperative financing can contribute to business performance, although its relationships with performance may vary across performance dimensions. Accordingly, a positive relationship with overall SME financial performance is expected.

H₃: Cooperative financing has a significant positive relationship with the financial performance of SMEs in Edo South Senatorial District.

2.4 Microfinance Financing and SME Financial Performance

Microfinance emerged partly in response to the financing difficulties experienced by individuals and small businesses that have limited access

to conventional financial institutions. Microfinance institutions provide financial services to borrowers who may lack the collateral, formal financial records or credit history required by commercial banks. Brau and Woller (2004) identify microfinance as an important means of extending financial services to underserved groups, while more recent research has examined its implications for SME financial performance. Microfinance can provide working capital and other forms of credit that enable small businesses to finance inventories, equipment and operating activities. However, access to finance does not necessarily guarantee better financial performance. Evidence from Nigeria indicates that the relationship between microfinance and business performance deserves closer examination. Amakom and Amagwu (2020) found that informal microfinance sources influenced the profitability of micro and small enterprises in South-East Nigeria. Similarly, Adewale and Adeyemo (2024) reported a positive relationship between microfinance bank loans and SME performance in Osun State, although they identified high interest rates and stringent loan conditions as challenges. These findings provide a basis for examining whether microfinance financing is associated with the perceived financial performance of SMEs in Edo South Senatorial District.

H4: Microfinance financing has a significant positive relationship with the financial performance of SMEs in Edo South Senatorial District.

2.5 Trade Credit Financing and SME Financial Performance

Trade credit refers to financing obtained when suppliers allow businesses to acquire goods or services and settle payment at a later date. It can provide SMEs with working capital without the conventional application procedures associated with bank borrowing and may therefore support inventory acquisition and business continuity. Fisman and Love (2003) demonstrate the importance of trade credit as a financing mechanism, particularly where financial intermediary development is limited. Hoang et al. (2019) further show that the relationship between trade credit and SME profitability is non-linear, indicating that the benefits of supplier credit may depend on the level at which it is used.

Evidence from Nigeria also suggests that the performance implications of trade credit are not necessarily uniform. Akinpelumi and Obamuyi (2018) found a negative and significant effect of trade credit on SME profitability in South-West Nigeria and emphasised the importance of maintaining an appropriate level of supplier credit. Thus, although trade credit can provide useful working capital, its contribution to performance depends on how it is managed. Given its potential to ease short-term financing constraints, the present study initially expects trade credit financing to have a positive relationship with SME financial performance.

H5: Trade credit financing has a significant positive relationship with the financial performance of SMEs in Edo South Senatorial District.

2.6 Synthesis of the Literature

The literature indicates that the performance implications of SME financing may differ according to the source and conditions of finance. Internal financing is theoretically preferred under the Pecking Order Theory, while external financing may provide additional resources but can involve different costs and constraints. Evidence from Nigeria and other developing economies similarly suggests that personal savings, bank loans, cooperative financing, microfinance and trade credit may not have identical consequences for SME financial performance. The present study therefore examines these five financing sources simultaneously within the Edo South SME environment.

3. Methodology

3.1 Research Design and Approach

The study adopted a quantitative, cross-sectional survey design to examine the relationship between the different sources of business financing and the financial performance of SMEs in Edo South Senatorial District, Nigeria. Primary data were collected from SME owners and managers through a structured questionnaire. The SME constituted the unit of analysis, while an owner or manager of each selected enterprise served as the respondent. The design enabled the study to obtain quantitative assessments of financing practices and perceived financial performance without manipulating the study variables.

3.2 Population, Sample and Sampling Procedure

The study covered SMEs operating within the seven Local Government Areas of Edo South Senatorial District: Oredo, Egor, Ikpoba-Okha, Ovia North-East, Ovia South-West, Uhumwonde and Orhionmwon. The SMEs operated across manufacturing, wholesale and retail trade, agriculture, construction, hospitality, transportation, information and communication technology and other service-related activities. The exact population of active SMEs could not be established because a comprehensive and current sampling frame covering the seven Local Government Areas was unavailable. Although records existed through institutions such as SMEDAN, the Corporate Affairs Commission and business associations, these did not provide a harmonised and up-to-date register of all active SMEs. The target population was therefore treated as unknown for sample determination. Cochran's formula for an unknown population was used, based on a 95 per cent confidence level, a population proportion of 0.50 and a 5 per cent margin of error. Although the calculated minimum sample size was approximately 384, 342 valid responses were obtained and used for the final analysis. Of the 384 questionnaires administered, 342 were returned in usable form, representing a response rate of 89%. Purposive sampling was used to select SME owners and managers in Edo South Senatorial District. The seven Local Government Areas in the senatorial district were covered, and respondents were selected from major business centres and commercial clusters where eligible SMEs were located. Only owners or managers who were directly involved in the financial and operational activities of the SMEs were selected to complete the questionnaire.

3.3 Data Collection and Measurement of Variables

Primary data were collected through a structured questionnaire administered to SME owners and managers in Edo South Senatorial District. The questionnaire comprised two sections. Section A collected demographic information, while Section B measured personal savings financing, bank loan financing, cooperative financing, microfinance financing, trade credit financing and perceived financial performance. The financial performance measures were adapted from subjective performance measures associated with Venkatraman (1989) and Wiklund and Shepherd (2005), while the financing measures were adapted from relevant SME financing literature, including Beck and Demirgüç-Kunt (2006). All substantive items were measured on a five-point Likert scale ranging from 1 = strongly disagree

to 5 = strongly agree. The final questionnaire contained 42 substantive items, of which 342 valid responses were used for analysis.

Financial Performance (FP) was operationalised as Perceived Financial Performance (PFP) because the study relied on assessments provided by SME owners and managers rather than audited financial statements. PFP covered profitability, sales growth, liquidity, operational efficiency, business expansion, sustainable growth and overall financial performance. The five financing variables were measured as composite scores for personal savings financing (PSF), bank loan financing (BLF), cooperative financing (CF), microfinance financing (MF) and trade credit financing (TCF). The 42 questionnaire items produced a Cronbach's alpha of 0.977, indicating high internal consistency.

3.4 Model Specification

The study examined the relationship between the five sources of business financing and Perceived Financial Performance (PFP). The model specified personal savings financing (PSF), bank loan financing (BLF), cooperative financing (CF), microfinance financing (MF) and trade credit financing (TCF) as explanatory variables:

$$PFP_i = \beta_0 + \beta_1 PSF_i + \beta_2 BLF_i + \beta_3 CF_i + \beta_4 MF_i + \beta_5 TCF_i + \varepsilon_i$$

where PFP represents perceived financial performance; PSF, BLF, CF, MF and TCF represent the five financing sources; β_0 is the constant; β_1 – β_5 are the regression coefficients; ε is the error term; and i represents the individual SME.

The model estimates the individual and joint association of the five financing sources with perceived financial performance.

3.5 Estimation Technique

The data from the 342 valid responses were coded and analysed using SPSS Version 27. Descriptive statistics, including frequencies, percentages, means and standard deviations, were used to summarise the respondents' characteristics and study variables. Multiple regression analysis was employed to estimate the individual and joint relationships between the five financing sources and perceived financial performance. The hypotheses were tested at the 5 per cent level of significance.

4. Findings

4.1 Respondent Profile

The analysis was based on 342 valid responses from SME owners and managers in Edo South Senatorial District. The respondents were fairly balanced by gender, with 169 males (49.4%) and 173 females (50.6%). Most respondents were aged between 31 and 50 years, accounting for 265 respondents (77.4%). In terms of educational attainment, most respondents held OND/NCE or HND/BSc/BA qualifications. SME owners constituted the majority of respondents (79.8%), while managers accounted for 20.2%. The businesses represented several sectors, with trading, wholesale and retail, hospitality, professional services and agriculture being more prominent. Overall, the profile indicates that the data were largely obtained from owners and managers with direct involvement in SME operations and financing decisions.

4.2 Descriptive Results

The descriptive results indicate generally high levels of agreement with the questionnaire items measuring the five financing sources and perceived financial performance. Personal savings financing recorded item means ranging from 4.3041 to 4.5643, while the corresponding ranges were 4.5965–4.8655 for bank loan financing, 4.5877–4.7895 for cooperative financing, 4.5731–4.8450 for microfinance financing and 4.5731–4.9357 for trade credit financing. Perceived financial performance also recorded high item means, ranging from 4.5468 to 4.9678. The generally high descriptive scores indicate strong respondent agreement with the statements measuring the financing sources and perceived financial performance. However, these descriptive results do not establish the independent relationship between any financing source and perceived financial performance. Such relationships are examined using the multiple regression results.

4.3 Reliability of the Measurement Instrument

The 42 questionnaire items produced a Cronbach's alpha coefficient of 0.977, indicating a high level of internal consistency among the measurement items. This result provides support for the reliability of the instrument used in the study.

4.4 Multiple Regression Results

Multiple regression was used to examine the individual and joint relationships between personal savings financing, bank loan financing, cooperative financing, microfinance financing and perceived financial performance. The model produced an R of .333, R^2 of .111 and adjusted R^2 of .097, indicating that the five financing sources jointly explained 11.1% of the variation in perceived financial performance. The overall regression model was statistically significant, $F(5, 336) = 8.365$, $p < .001$. Thus, the five financing sources jointly provide a statistically significant explanation of variation in perceived financial performance, although their overall explanatory power is modest.

Table 1. Summary of the Regression Estimates.

Financing source	B	Std. Error	β	t	p-value	Result
Personal savings financing	0.254	0.057	0.345	4.470	< .001	Positive, significant
Bank loan financing	0.066	0.111	0.071	0.597	.551	Positive, not significant
Cooperative financing	0.361	0.095	0.307	3.815	< .001	Positive, significant
Microfinance financing	−0.305	0.114	−0.336	−2.672	.008	Negative, significant
Trade credit financing	−0.170	0.086	−0.174	−1.967	.050	Negative, marginally significant

Source: SPSS output from the study.

The coefficient estimates show that the relationships between the financing sources and perceived financial performance were not uniform. Personal savings financing had a positive and significant relationship with perceived financial performance ($B = 0.254, \beta = 0.345, p < .001$), while bank loan financing had a positive but insignificant relationship ($B = 0.066, \beta = 0.071, p = .551$). Cooperative financing also had a positive and significant relationship with perceived financial performance ($B = 0.361, \beta = 0.307, p < .001$). In contrast, microfinance financing had a negative and significant relationship with perceived financial performance ($B = -0.305, \beta = -0.336, p = .008$). Trade credit financing had a negative coefficient ($B = -0.170, \beta = -0.174, p = .050$). Given the study's 5 per cent decision rule, the result is negative and marginally significant at the threshold.

4.5 Discussion of Findings

The findings show that the relationship between financing and SME financial performance varies across financing sources. Personal savings financing and cooperative financing had positive and significant relationships with perceived financial performance, while bank loan financing had a positive but insignificant association and microfinance financing had a significant negative association. Trade credit financing also had a negative coefficient, although the evidence was marginal at the 5 per cent level. The results therefore suggest that the performance implications of SME financing depend not simply on access to finance, but also on the particular source of finance.

4.5.1 Personal Savings Financing and Financial Performance

Personal savings financing had a positive and significant relationship with perceived financial performance ($B = 0.254, \beta = 0.345, p < .001$). This indicates that SMEs relying more on owners' personal savings reported higher financial performance, after controlling for the other financing sources. The finding is consistent with Pecking Order Theory, which suggests that firms generally prefer internally available funds before seeking external finance because external financing can involve information asymmetry and additional financing constraints (Myers, 1984; Myers & Majluf, 1984). It is also consistent with evidence that small firms often rely heavily on internal resources because access to external finance may be constrained by collateral requirements and other lending conditions (Beck & Demirgüç-Kunt, 2006; Beck et al., 2008). The finding suggests that owner-provided funds remain an important source of finance for SMEs in Edo South. Such funds may provide greater flexibility because they generally do not create the contractual repayment obligations associated with borrowing. However, the study did not directly measure financing costs, repayment obligations or the specific use of personal savings. These mechanisms should therefore be regarded as possible explanations rather than established causal mechanisms.

4.5.2 Cooperative Financing and Financial Performance

Cooperative financing had a positive and significant relationship with perceived financial performance ($B = 0.361, \beta = 0.307, p < .001$). This indicates that cooperative financing was significantly associated with perceived financial performance after controlling for the other financing sources. The finding is consistent with Nigerian evidence that cooperative societies can provide an important financing mechanism for small businesses (Aribaba, 2013; Ogunmuyiwa & Sofoluwe, 2019; Ogunmuyiwa et al., 2020). The finding suggests that cooperative financing may provide an alternative source of funds for SMEs alongside conventional banking channels.

4.5.3 Bank Loan Financing and Financial Performance

Bank loan financing had a positive but statistically insignificant relationship with perceived financial performance ($B = 0.066, \beta = 0.071, p = .551$). Thus, although the coefficient was positive, the evidence does not support the conclusion that bank loan financing made an independent contribution to SME financial performance when the other financing sources were controlled for. The finding indicates that bank loan financing was not significantly associated with perceived financial performance after controlling for the other financing sources. This is consistent with the broader literature, which indicates that the contribution of external finance depends not only on its availability but also on its terms and suitability to the borrowing firm (Beck & Demirgüç-Kunt, 2006; Berger & Udell, 2006). The finding should not, however, be interpreted to mean that bank loans are ineffective for SMEs generally. The study did not directly examine interest rates, collateral requirements, loan maturity, repayment burden or how borrowed funds were utilised. The appropriate interpretation is therefore that bank loan financing was not significantly associated with perceived financial performance within the present sample.

4.5.4 Microfinance Financing and Financial Performance

Microfinance financing had a significant negative relationship with perceived financial performance ($B = -0.305, \beta = -0.336, p = .008$). This was the strongest negative standardised coefficient in the model, indicating that greater reliance on microfinance financing was associated with lower perceived financial performance after controlling for the other financing sources. The finding is noteworthy because the descriptive results showed high levels of agreement with the positive statements concerning microfinance. This difference demonstrates that positive descriptive perceptions of a financing source do not necessarily translate into a positive independent association when the other financing sources are considered simultaneously. One possible explanation, which requires further investigation, is that the obligations or costs associated with microfinance may influence the performance implications of the funds, particularly where borrowed funds do not generate sufficient additional returns. The present study, however, did not directly measure loan pricing, repayment pressure or the use of microfinance funds. These factors should therefore be treated as possible explanations rather than established causes. The finding is consistent with Onyeiwu et al. (2021), who reported that microfinance bank loans and debt servicing significantly reduced the profitability of sampled SMEs in Lagos State. Although the two studies differ in geographical coverage and measurement of financial performance, the earlier findings provide relevant Nigerian evidence that microfinance financing does not necessarily translate into better SME performance. It therefore suggests that the usefulness of microfinance to SMEs may depend on the conditions under which the funds are obtained and utilised.

4.5.5 Trade Credit Financing and Financial Performance

Trade credit financing had a negative coefficient and was marginally significant at the 5 per cent level ($B = -0.170, \beta = -0.174, p = .050$). The result suggests that greater reliance on trade credit was associated with lower perceived financial performance after

controlling for the other financing sources. However, because the probability value is exactly .050, the finding should be interpreted as borderline rather than strong evidence of a negative association. The finding is notable because trade credit received high descriptive ratings among respondents. This suggests that SMEs may perceive supplier credit positively even though its independent relationship with perceived financial performance was negative and marginally significant. The result does not necessarily contradict previous evidence showing that trade credit can support business financing, since its performance implications may depend on the extent and conditions of its use (Fisman & Love, 2003; Hoang et al., 2019).

4.5.6 Overall Interpretation in Relation to Pecking Order Theory

Taken together, the findings provide partial support for Pecking Order Theory. The positive and significant relationship with personal savings financing is consistent with the theory's expectation that firms prefer internally available funds before seeking external finance (Myers, 1984; Myers & Majluf, 1984). The finding is also broadly consistent with evidence from African SMEs supporting the relevance of the pecking-order perspective (Agyei et al., 2020). However, the other findings show that financing sources cannot be treated as having identical performance consequences. Cooperative financing had a positive and significant relationship, bank loan financing was insignificant, while microfinance financing had a significant negative relationship and trade credit financing was marginally negative. These results suggest that the relationship between SME financing and perceived financial performance varies according to the particular financing source rather than simply according to whether finance is internal or external.

Overall, the evidence indicates that finance matters, but the source of finance matters as well. For SMEs in Edo South, personal savings and cooperative financing were associated with better perceived financial performance, whereas bank loan financing was not significantly associated with perceived financial performance and the evidence concerning microfinance and trade credit was negative. These findings provide further empirical evidence on the relevance of Pecking Order Theory to SME financing in the Nigerian context, particularly regarding the role of internal finance.

5. Conclusion and Recommendations

5.1 Conclusion

The study examined the relationship between five sources of business financing and the financial performance of SMEs in Edo South Senatorial District. Financial performance was measured using perceived financial performance. The findings demonstrate that financing sources do not have uniform association with SME perceived financial performance. Personal savings and cooperative financing had positive and significant relationships, bank loan financing had a positive but insignificant relationship, while microfinance financing had a significant negative relationship. Trade credit financing also had a negative coefficient, although the evidence was marginal at the 5 per cent level. Overall, the findings indicate that the performance implications of SME financing vary across the different sources examined. The statistically significant regression model, together with its modest explanatory power of 11.1 per cent, also suggests that financing is only one of several factors associated with SME financial performance. The study therefore supports a more differentiated approach to SME financing in which the implications of different financing sources are considered rather than treating all sources of finance as having the same relationship with perceived financial performance.

5.2 Implications and Recommendations

The findings suggest that SME owners should consider the observed implications of different financing sources when making financing decisions. The positive relationship observed for cooperative financing suggests that such arrangements may provide a useful alternative financing channel for SMEs. At the same time, the negative coefficient associated with microfinance financing and the marginal negative result for trade credit may warrant greater attention to the costs, repayment conditions and other terms associated with external financing. For financial institutions and policymakers, the findings point to the need for SME financing products that reflect the financial capacity and operating realities of small businesses. Particular attention should be given to improving the appropriateness and accessibility of financing options available to SMEs, while cooperative financing mechanisms could be strengthened as an alternative source of SME funding.

5.3 Limitations of the Study

The study has several limitations. First, it was restricted to SMEs in Edo South Senatorial District, which limits the generalisability of the findings to other locations. Second, financial performance was measured as perceived financial performance based on self-reported assessments from respondents rather than audited financial records. Third, the cross-sectional design does not capture changes in financing decisions and business performance over time. Fourth, the model considered five financing sources and therefore did not account for other factors that may influence SME financial performance. Fifth, the study obtained 342 valid responses compared with the calculated minimum sample size of approximately 384, which may limit the statistical power and generalisability of the findings. Finally, because both the explanatory variables and perceived financial performance were obtained from the same respondents using a single questionnaire, common-method bias cannot be completely ruled out.

5.4 Further Research

Future research could extend the study to other parts of Nigeria and employ longitudinal designs to examine how financing decisions and SME financial performance evolve over time. Studies could also incorporate objective financial measures where reliable records are available. Further research may examine additional financing sources, including retained earnings, government intervention funds, family financing, leasing and digital lending, while also considering factors such as financing cost, financial literacy and working capital management.

References

- [1] Abor, J., & Biekpe, N. (2006). SMEs' access to debt finance: A comparison of male-owned and female-owned businesses in Ghana. *The International Journal of Entrepreneurship and Innovation*, 7(2), 105–112. <https://doi.org/10.5367/000000006776928627>
- [2] Adegbeye, A. C., & Iweriebor, S. (2018). Does access to finance enhance SME innovation and productivity in Nigeria? Evidence from

- the World Bank Enterprise Survey. *African Development Review*, 30(4), 449–461. <https://doi.org/10.1111/1467-8268.12351>
- [3] Adewale, A. A., & Adeyemo, A. A. (2024). The effect of microfinance bank loan on performance of small and medium enterprises in Nigeria. *Gomal University Journal of Research*, 40(2), 177–192. <https://doi.org/10.51380/gujr-40-02-04>
- [4] Agyei, J., Sun, S., & Abrokwah, E. (2020). Trade-off theory versus pecking order theory: Ghanaian evidence. *SAGE Open*, 10(3). <https://doi.org/10.1177/2158244020940987>
- [5] Akinpelumi, A. D., & Obamuyi, M. T. (2018). Trade credit dynamics on profitability of small and medium-scale enterprises in Nigeria. *International Journal of Management, IT and Engineering*, 8(8), 200–213.
- [6] Amakom, U., & Amagwu, F. I. (2020). Informal sources of microfinance and profitability of micro and small enterprises clusters in South-East Nigeria. *Business Perspectives and Research*, 8(2), 173–185. <https://doi.org/10.1177/2278533719887450>
- [7] Anyanwu, S. U., & Aguwamba, S. (2023). The impact of deposit money banks' financing on small and medium enterprises (SMEs) performance in Nigeria: 1981–2022. *African Journal of Management and Business Research*, 12(1), 200–213.
- [8] Aribaba, F. O. (2013). An investigation of the performance of cooperative thrift and credit societies in financing small-scale businesses in Nigeria. *Mediterranean Journal of Social Sciences*, 4(1), 401–405. <https://doi.org/10.5901/mjss.2013.v4n1p401>
- [9] Beck, T., & Demirgüç-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), 2931–2943. <https://doi.org/10.1016/j.jbankfin.2006.05.009>
- [10] Beck, T., Demirgüç-Kunt, A., & Maksimovic, V. (2008). Financing patterns around the world: Are small firms different? *Journal of Financial Economics*, 89(3), 467–487. <https://doi.org/10.1016/j.jfineco.2007.10.005>
- [11] Berger, A. N., & Udell, G. F. (1998). The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle. *Journal of Banking & Finance*, 22(6–8), 613–673. [https://doi.org/10.1016/S0378-4266\(98\)00038-7](https://doi.org/10.1016/S0378-4266(98)00038-7)
- [12] Berger, A. N., & Udell, G. F. (2006). A more complete conceptual framework for SME finance. *Journal of Banking & Finance*, 30(11), 2945–2966. <https://doi.org/10.1016/j.jbankfin.2006.05.008>
- [13] Brau, J. C., & Woller, G. M. (2004). Microfinance: A comprehensive review of the existing literature. *Journal of Entrepreneurial Finance and Business Ventures*, 9(1), 1–28. <https://doi.org/10.57229/2373-1761.1074>
- [14] Fisman, R., & Love, I. (2003). Trade credit, financial intermediary development, and industry growth. *The Journal of Finance*, 58(1), 353–374. <https://doi.org/10.1111/1540-6261.00527>
- [15] Hoang, H. C., Xiao, Q., & Akbar, S. (2019). Trade credit, firm profitability, and financial constraints. *International Journal of Managerial Finance*, 15(5), 744–770. <https://doi.org/10.1108/IJMF-09-2018-0258>
- [16] Myers, S. C. (1984). The capital structure puzzle. *The Journal of Finance*, 39(3), 574–592. <https://doi.org/10.1111/j.1540-6261.1984.tb03646.x>
- [17] Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13(2), 187–221. [https://doi.org/10.1016/0304-405X\(84\)90023-0](https://doi.org/10.1016/0304-405X(84)90023-0)
- [18] Obamuyi, T. M. (2010). Firms' performance and lending constraints in Nigeria. *The Journal of Entrepreneurship*, 19(2), 179–190. <https://doi.org/10.1177/097135571001900205>
- [19] Obieche, P. N., & Ihejirika, P. O. (2021). Bank credit and SMEs financing in Nigeria. *Journal of Economics and Sustainable Development*, 12(14). <https://doi.org/10.7176/JESD/12-14-04>
- [20] Ogunmuyiwa, M. S., & Sofoluwe, N. A. (2019). Cooperative financing of micro scale enterprises in Nigeria. *Izvestiya Journal of Varna University of Economics*, 63(2), 117–132.
- [21] Ogunmuyiwa, M. S., Aladegoroye, O. R., & Abosede, A. J. (2020). Funding of micro scale enterprises: Is cooperative financing helpful? *Izvestiya Journal of Varna University of Economics*, 64(4), 430–443. <https://doi.org/10.36997/IJUEV2020.64.4.430>
- [22] Onyeiwu, C., Muoneke, O. B., & Abayomi, A. M. (2021). Effects of microfinance bank credit on small and medium scale businesses: Evidence from Alimosho LGA, Lagos State. *The Journal of Entrepreneurial Finance*, 22(2). <https://doi.org/10.57229/2373-1761.1373>
- [23] Venkatraman, N. (1989). Strategic orientation of business enterprises: The construct, dimensionality, and measurement. *Management Science*, 35(8), 942–962. <https://doi.org/10.1287/mnsc.35.8.942>
- [24] Wiklund, J., & Shepherd, D. (2005). Entrepreneurial orientation and small business performance: A configurational approach. *Journal of Business Venturing*, 20(1), 71–91. <https://doi.org/10.1016/j.jbusvent.2004.01.001>