



INFLUENCE OF FIRM CHARACTERISTICS ON LOAN APPROVAL FOR SMEs IN NORTH CENTRAL NIGERIA: BANKERS' PERCEPTION

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Abstract

The scourge of paucity of finance to SMEs which has been undermining their potential as drivers of economic growth has been blamed partly on firm related characteristics. However, the fact that little has been done in this regard from the supply side (banks) spurs this research. This study investigates the influence of firm specific characteristics on loan approval for SMEs in North Central Nigeria. Data was drawn from the primary source through the use of questionnaires to elicit responses from the sampled bank loan officers in the study area. A sample of 207 was drawn from the volunteer loan officers in 448 branches using multistage sampling technique. Descriptive statistics and Kruskal Wallis H were employed in analyzing the data. The study found that all the identified firm characteristics (size, age, incorporation, industry, financial information, location and collateral), which are all significant at 0.01 but with varying degrees, are the factors influencing banks' credit approval for SMEs in the North Central Nigeria. The study concluded that while banks attach greater importance to firm size, firm age and location in their loan decision for SMEs, they also give consideration though lesser, to other factors. The study thus recommended among others, the need for SMEs to synergize and borrow as consortium rather than as individual units. This will facilitate improved financial access and economies of scale in terms of relatively reduced loan costs. Similarly, SMEs should also consider setting up urban offices to achieve close proximity to their banks for better financial access.

Keywords: Access to Finance, Credit Rationing, *Kruskal Wallis*, Owner characteristics, Social Capital

INTRODUCTION

The ability of Small and Medium Enterprises (SMEs) to contribute significantly to any economy is a function of its performance and growth. SMEs performance may be unattainable if they fail to access and easily use financing to support their investment opportunities (Mohamed, Sadek, Ghee, Abdullahi, Ismail, & Mustapha, 2015).

Finance is to business what blood is to human. Apparently, there exists a plethora of consensus that access to finance can transform the fortune of the SMEs sector, especially in the developing economies (Fatoki & Odeyemi, 2010; Kira & He 2012; Kira, 2013; Musamali & Tarus, 2013; Zarook, Rahman & Khanam, 2013).



Acknowledging the aforementioned fact, SMEs financing has been in the forefront of development agenda in Nigeria (Mordi, Anyanwu, Adebuseyi, Odey, Amoo, Mbutor, Adebayo, Akpan, Igue, Ibeagha, Belonwu & Zimboh, 2014). Broadly speaking, two categories of institutions have been actively involved in the credit delivery to SMEs in Nigeria, namely; the private sector institutions and the public sector institutions (Mordi *et al.*, 2014). The private sector-led institutions are dominated by the Deposit Money Banks (DMBs) and the Micro Finance Institutions.

Specifically, when it comes to formal external financing to the higher end of SME market segment, banks, especially DMBs and MFIs, have a prominent role to play as key and dominant players in the financial system. Accordingly, the Nigerian banking sector underwent tremendous reforms including consolidation in December, 2005. One of the cardinal rationales for bank consolidation is the need to promote credit delivery to the SMEs so that they can generate economic activities for the national economic growth (Mordi *et al.*, 2014). Notwithstanding the banking sector reform, SMEs are still plagued by myriads of problems, prominent among which is finance. In fact, available information still shows that credit delivery to SMEs has reduced significantly, due largely to the risk perception of the fund suppliers including banks. Given information asymmetry, Nigerian banks might perceive the SME sector to be very risky due to their lack of attractive firm related factors including size, age, formal financial history and adequate collateral; hence they are generally averse to extending credit to SMEs (Mordi *et al.*, 2014). To corroborate this, the loan portfolio of the Nigerian banks is more channeled to large companies and multinational institutions than the SME subsector (Ekpu, 2015). Consequently, the sector's long term growth and competitiveness are being continually compromised by this acute financial constraint.

A meta-analysis of the related literature (such as Fatoki & Asah, 2011; Ghimire & Abor, 2013; Kira, 2013; Kira & He, 2012; Le & Nguyen, 2009; Musamali & Tarus, 2013; Oke, Sanni & Ijaiya, 2019 among others) showed that previous studies on firm characteristics and access to finance had concentrated more on the demand side (that is SMEs only) hence; the study extends the knowledge frontier by empirically investigating same from the supply side's (banks) view point. Therefore, the study investigates the influence of firm characteristics on loan approval for SMEs in North central Nigeria.

LITERATURE REVIEW

Conceptual Clarifications: Firm Characteristics, Access to Bank Finance and SMEs

According to Musamali and Tarus (2013), firm characteristics can be described as specific factors relating to a firm which include its size, age, form of ownership and the industry to which it belongs. Also, in line with the above definition, firm characteristics have been viewed as enterprise traits which have bearing on its performance. Firm characteristics include factors such as firm's size, age, collateral availability and business information (Fatoki & Asah, 2011, p. 170).

To further elaborate these definitions and make them more all-encompassing, Kira and He (2012) defined it as traits of the firm which have positive or negative bearing on firm's operation. They further explained the traits of the firm to include its attributes such as firm's legal status (that is ownership or incorporation status), age, industry, size, collateral and business information.



However, some studies have collapsed collateral and business information into size and industry. This is premised upon the argument that the bigger the size of the firms and the more capital intensive the firms' industry, the greater their investment in non-current asset that can be pledged as collateral. Above all, the identified firm characteristics have wider application in the literature.

Ahiawodzi and Adade (2012) defined access to finance as the ability of individual or business to obtain credits from formal and informal sectors which include financial institutions, personal savings and family assistance. Based on this definition, access to finance is limited to credit availability and is construed as ability of an enterprise to access it from formal and informal institutions for the acquisition of productive assets that translate to firm performance through efficient utilization.

Claessens (2006) views financial products as accessible only if they are affordable and useable in meeting the financial requirements of individuals or firms. However, banks are the most patronized sources of formal financing for the vast majority of SMEs in Nigeria hence, the study focuses only on the SMEs access to bank financing including DMBs and MFIs.

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2015) defines Small Enterprise as one which total assets (excluding land and building) is more than 10 million naira but less than 100 million naira with total workforce of more than 10 employees but less than 50. Whereas a firm having total workforce of 50 and 199 employees with total assets (excluding land and building) of more than 100 million but not exceeding 1 billion is categorized as a medium enterprise.

Theoretical Underpinnings

Theory of credit rationing has its origin deeply rooted to the work of Stiglitz and Weiss (1981). They employed a model based on the credit markets imperfection characterized by asymmetric information which makes the costs of garnering accurate information on the borrowers and that of monitoring them highly prohibitive. According to Stiglitz and Weiss (1981), the widespread information asymmetry in the financial markets generates agency problems of adverse selection and moral hazard which affect credit availability as well as the capital structure of SMEs. This phenomenon is what they referred to as credit rationing. The assumption of the model is the existence of a number of finance providers, for instance banks, whose interest is the profit maximization via their interest choice and collateral, and sizeable number of potential deficit units (that is borrowers) whose interest is equally profit maximization vis-a-vis the investible projects alternatives. The idea here is that there is probabilistic distribution of the returns and associated risk from each investible project to be undertaken by the potential borrower. This probability distribution is known to the borrower but remain unknown to the finance provider.

The existence of information asymmetry in market equilibrium results into credit rationing situation among potential deficit units (borrowers) (Mordi et al, 2014; Stiglitz & Weiss, 1981). In other words, credit is said to be rationed if among the potential borrowers with seemingly similar features, some access credit while others do not, or certain pocket of borrowers are not able to access credit or can only access at a much prohibitive price. However, interest rates, collateral



requisition and other loan terms offered by the suppliers of finance might leave a chunk of potential borrowers without access to credit (that is adverse selection) (Fatoki & Odeyemi, 2010). On the other hand, these lending terms including interest rates and others might affect the action of the borrower ex-post. This behavioral change in the borrowers occasioned by the change in the loan contract terms is known as moral hazard (Stiglitz & Weiss, 1981). The suggestion of the Stiglitz & Weiss' theory of credit rationing is that reasonable numbers of SMEs that can utilize fund productively have difficulty of access to formal financial system.

According to Mordi et al (2014) borrowers' observable peculiarities, firms' characteristics and loan features can influence credit rationing. Hence, the theory underscores the significance of firm characteristics such as size, age, industry, collateral and incorporation that can be used to gauge credit worthiness of SMEs with a view to resolving information asymmetry and facilitate access to finance for SMEs.

Previous Empirical Studies and Hypotheses Development

The relevance of firm characteristics (including the size, age, industry, incorporation status or ownership form, location, collateral and financial information) to the facilitation of financial access has gained enormous momentum in the previous literature. Considering the size of the firm, Burkart and Ellingsen (2004) opined that it has a crucial weight on the debt proportion in the capital structure of the firm since real assets tend to influence the access to long tenured debt whenever required. Also in terms of diversification of operation to reduce or even spread the risk, large firms are believed to have an edge over their smaller counterparts. This assertion made Honhyan (2009) to conclude in his study that larger firms tend to enjoy stability as their size is an inverse proxy for the probability of bankruptcy.

Chavez (2017) used firm level data between 2010 and 2016 for 111 countries across the world and reported size as an important predictor of credit access. The fact that debt providers perceive the small firms as risky ventures escalates the cost involved in resolving information asymmetry (Cassar, 2004). In view of this, we hypothesize that:

There is no significant difference in banks' credit approval for SMEs with respect to firm size.

Chandler (2009) posited that the longer the firm stays in operation, the more persistent it is to unpleasant economic circumstances. It can also be said that older firms provide a resume which lenders can use to assess their credit worthiness. Klapper, Laeven and Rajan (2010) discovered that firms with less than 5 years in operation are less likely to access debt financing from lenders as they would be perceived to be in their earlier stage of operation, hence having no adequate credentials to gauge their capability and creditworthiness. To further buttress this, Le and Nguyen (2009) in their study posited that younger Vietnam SME firms experience hardship and prohibitive costs in accessing external financing from lenders due to information. Ngunli and Odunga (2019) also found positive association between firm age and financial access among Keyan SMEs. We therefore hypothesized that:

There is no significant difference in banks' credit approval for SMEs with respect to firm age



While Wu, Song and Zeng (2008) observed that access to finance might not necessarily be a function of the industry to which SME firms belong but a function of individual business feasibility and performance, Hall, Hutchinson and Michaelas (2000) reported possible linkage between industry and the financing mix of the firm. Although industry may not influence the firm's capital structure directly, it does so indirectly via the composition and nature of the firm's assets. In the light of this, firms in the same industry are exposed to the same class and degree of risk (Barbosa & Moraes, 2004). Consequently, if the risk degree is the yardstick for accessing external finance, firms in the high risk industry may not access as much finance as compared to other less risky industry. Likewise, to adopt profitability as a yardstick for financial access gives profitable sector upper hand in accessing finance. Oke, et al. (2019) also found firm industry affiliation explaining the probability of access to bank finance. Thus, it is hypothesized that:

There is no significant difference in banks' credit approval for SMEs with respect to firm industry

Considering incorporation or legal status, it may be observed that incorporation could influence the financial access to the extent that companies could have ample finance opportunities due to their ability to raise equity financing in addition to debt financing (Abor & Biekpe, 2007). Incorporation enhances financial credibility and formality of operation (Dietmar, Stahl & Woywode, 1998; Cassar, 2004). From SMEs perspective, Kira and He (2012) and Oke et al. (2019) reported positive nexus between firm ownership or incorporated status and financial access in Tanzania and Nigeria respectively. Thus, it is hypothesized that:

There is no significant difference in banks' credit approval for SMEs with respect to firm incorporation status.

With regard to firm's location and access to finance, Berger and Udell (2002) noted that access to external (debt) financing is largely dependent upon the geographical proximity between the firm and the finance provider. This perhaps, is premised upon the fact that the closer (in terms of geographical location) the banks are to their firm customers, the better they are able to utilize soft quality information about the borrowers' credit quality. In view of this, urban SMEs may have more access to debt financing than SMEs in rural settlements. Consequently, physical location of firms perhaps, could affect their access to finance. However, the same cannot hold in South Africa where Balogun, Agumba and Ansary (2016) found insignificant influence of location on access to finance among the South African SMEs. Thus, it is hypothesized that:

There is no significant difference in banks' credit approval for SMEs with respect to firm incorporation status.

The use of collateral is an essential feature of loan contract between the firms and finance providers. Collateral requirements are necessary to reduce lending risk occasioned by agency problems of information asymmetry, moral hazard and adverse selection. It is an alternative to trust and by developing relationships, it is expected that collateral requirements would be more



relaxed (Boot, Thakor & Udell, 1991). Collateral here is viewed as something that the lender can fall back upon in case of default on the part of the borrower. In view of this, it can be said that firms' heavy investment in tangible assets motivate higher financial gearing since facilities can be extended at relatively low interest rates if their borrowing is backed with such assets. Musamali and Tarus (2012), Ghimire and Abor (2013) and Kivunzi, Wepukhulu and Opiyo (2019) have also found that availability of marketable collateral is an important factor in bank loan decision for SMEs. We therefore hypothesize that:

There is no significant difference in banks' credit approval for SMEs with respect to firm collateral.

It is expected that a firm that has good financial records will be able to convince a fund provider of its ability to make good its financial promise, in terms of the repayment of the facilities. Kitindi, Magembe and Sethibe (2007) noted that financial stakeholders such as creditors, banks and other lenders utilize financial information provided by firms to analyze their present performance and predict future performance. Incidentally, most SMEs suffer financial constraints due to their information opaqueness. Non availability or inadequate business documents and financial information can result into information asymmetry and credit rationing (Sarapaivanich & Kotey, 2006; Magembe, 2017). Thus, availability of financial information explains the SMEs' financial access. We therefore hypothesize that:

There is no significant difference in banks' credit approval for SMEs with respect to firm financial information.

METHODOLOGY

Cross sectional survey design was adopted in the study. This design is usually adopted when there is no intent of controlling any of the study samples (Asika, 2006). The target population consists of all loan officers of the various branches of Deposit Money Banks (DMBs) and Microfinance banks (MFBs) in Benue State, Kogi State, Kwara State, Nassarawa State and Niger State of the North Central region of Nigeria. According to CBN Statistical Bulletin (2017) the total number of DMBs' branches in the five states currently stands at three hundred and fifty three (353) whereas that of Microfinance counterparts, based on Nigerian Deposit Insurance Corporation reports of 2017, stands at ninety five (95). This brings the number of all DMBs and MFBs' branches to four hundred and forty-eight (448). A sample of 207 was drawn from the volunteer loan officers in 448 branches based on the scientific sampling determination of Krejcie and Morgan (1970) using multistage sampling techniques. The study adopted both descriptive and inferential statistics. The descriptive analysis made use of such tools as tables, frequency distributions and percentages, and measures of central tendency and variability including mean and standard deviation. Kruskal Wallis H test (as the data violated the normal distribution assumptions) was adopted for inferential statistical analysis.

A well structured questionnaire was administered to each of the volunteer loan officers of the sampled banks. The questionnaire was divided into two sections. Section A covers demographic



information of the respondent including sex, education status, professional qualification, experience in bank and so on. Section B contains questions on the supply side variables including whether they approve SME loan request in the last 12 months and the factors (SME related factors) they consider important in their loan approval/rejection decisions. The question here take both dichotomous and interval (Likert, Semantic and Numeric) forms.

RESULTS AND DISCUSSIONS

Descriptive Statistics

Profile of the Respondents

Table 1 describes the characteristics of the surveyed banks' loan officers regarding age, gender, marital status and their highest educational qualification. With respect to age, the resulting frequency distribution shows that majority of the loan officers fall within the age bracket of 21-30 years where 173 out of the total 207 respondents representing 83.6 percent occupy the range. Only 16.4 percent (34 respondents) fall within the range of 31-40 years, and none of the respondents fall within the range of less than 21 years, 41-50 years, 51- 60 years and 61 years and above.

Table 1: Demographic distribution of respondents (Bank loan officers)

		Frequency	Percent	Cumulative Percent
Age	Less than 21years	-	-	-
	21-30 years	173	83.6	83.6
	31-40 years	34	16.4	100
	41-50 years	-	-	-
	51-60 years	-	-	-
	61years and above	-	-	-
Gender	Male	130	62.8	62.8
	Female	77	37.2	100.0
Marital Status	Married	118	57.0	57.0
	Single	61	29.5	86.5
	Widow	6	2.9	89.4
	Divorced	22	10.6	100.0
Education	OND/NCE	57	27.5	27.5
	BSC/HND	62	30.0	57.5



MSC/MBA	88	42.5	100.0
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Source: Authors' Computations (2020)

Regarding the gender of the respondents, the distribution reveals that only 37.2 percent (77 respondents) of the surveyed loan officers are female whereas male owner group makes up to 62.8 percent (130 respondents). Also, the distribution of the marital status reveals that majority of the respondents representing 57 percent (118 respondents) are married, 29.5 percent (61 respondents) are single, whereas, only 2.9 percent (6 respondents) and 10.6 percent (22 respondents) are widows and divorced individuals respectively.

With regard to their highest educational qualifications, majority of the respondents have attained M.Sc./MBA degree level. 42.5 percent (62 respondents) have M.Sc./MBA as their highest educational qualification, 30 percent (88 respondents) are BSC/HND holders, and 27.5 percent (57 respondents) have OND/NCE certificates. This shows that majority of the sampled respondents are young, active, responsible and educationally and professionally qualified enough to make good lending decisions.

Table 2 shows the descriptive statistics of loan officers based on their lending experience and overall banking experience. The loan officers' experience in the credit department of their banks is on the average about 4.4 years with standard deviation of about 2.5 years. The least experienced officers have spent not less than 1 year on the role while the most experienced officers have spent 8 years on the role. As for the number of years the loan officers have spent in banks overall, the statistics reveals that they have spent, on the average, over 8 years in their banks with a sample spread of about 5 years. The least experienced officers have spent not less than a year in their banks while the most experienced officers have spent 15 years in their banks. This shows that the respondents have requisite experience in SME lending.

Table 2: Summary Statistics of loan officers lending experience and overall banking experience

	Mean	Std. Dev.	Min	Max
Experience as loan officer	4.44	2.507	1	8
Overall banking experience	8.43	5.093	1	15

Source: Authors' Computations (2020)

With regard to banks having special units designated for SME financing, Table 2 shows that majority of the sampled bank loan officers (73.4 percent) attested to the fact that their respective banks have a special unit handling SME financing related issues.

Table 3: Distribution of Banks by SME financing unit

	Frequency	Percent	Cumulative Percent
SME financing unit			



Yes	152	73.4	73.4
No	55	26.6	100.0

Source: Authors' Computations (2020)

Results presented in Table 3 are the summary statistics of the frequency of loan application of SME borrowers in 2019 financial year and the frequency of bank approval of SME borrowers' loan requisitions. The results show that while SMEs applied often as evident in the mean value of approximately 4, bank approvals are indifferently granted to SME applicants as evident in the mean value of approximately 3.

Table 4: Summary Statistics of SMEs' loan application and Banks' approval

	Mean	Std. Dev.	Min	Max
SME loan application	3.94	0.453	2	5
SME loan approval	2.85	0.825	1	5

Source: Authors' Computations (2020)

Important firms Characteristics for Loan Approval Decisions of Banks

The summary statistics of the level of importance of firm characteristics to the bank loan approval process is depicted in Table 5. The results reveal that virtually all the firm characteristics including the size, firm age, incorporation status, industry, financial information, location and collateral, are important considerations in loan approval of banks. This is evident in their mean values of approximately 3. Overall, majority of the banks consider firm characteristics as important or moderately important in their credit approval to SMEs.

Table 5: Summary of loan officers' perceptions of the importance of firm characteristics in loan approval decisions of banks

	Mean	Standard deviation
Firm size	2.64	0.675
Firm age	3.07	0.429
Firm incorporation status	2.66	1.044
Firm industry	3.43	0.746
Firm financial information	2.96	0.759
Firm location	3.12	1.019
Firm collateral	2.81	1.009

Source: Authors' Computations (2020)

**Test of Normality**

Prior to the test of hypothesis, the data were subjected to diagnostic test of normality to determine appropriate statistical tests (parametric or non-parametric) to be conducted. The study used both Kolmogorov-Smirnov and Shapiro-Wilk to assess the normality of the distribution of the data set.

Table 6: Tests of Normality using Kolmogorov-Smirnov and Shapiro-Wilk

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Firm size	0.301***	207	0.000	0.761***	207	0.000
Firm age	0.456***	207	0.000	0.440***	207	0.000
Firm incorporation status	0.199***	207	0.000	0.865***	207	0.000
Firm industry	0.362***	207	0.000	0.711***	207	0.000
Firm financial information	0.214***	207	0.000	0.808***	207	0.000
Firm location	0.298***	207	0.000	0.729***	207	0.000
Firm collateral	0.265***	207	0.000	0.843***	207	0.000

a. Lilliefors's Significance Correction

*** significant at 1%, ** significant at 5%, * significant at 10%

Source: Authors' Computations (2020)

As shown in Table 6, the Kolmogorov-Smirnov tests produced relatively small K-S statistics of 0.301, 0.456, 0.199, 0.362, 0.214, 0.298 and 0.265 for size, firm age, incorporation status, industry, financial information, location and collateral respectively which were all significant at 0.01.

Similarly the Shapiro-Wilk test of normality obtained relatively small coefficients of 0.761, 0.440, 0.865, 0.711, 0.808, 0.729 and 0.843 for size, firm age, incorporation status, industry, financial information, location and collateral respectively which were all significant at 0.01. Both tests indicated that the distribution of the data departed from the normal distribution. This implies that the data is not normally distributed to carry out a parametric statistical analysis (ANOVA), hence non-parametric statistical test of difference (Kruskal-Wallis H test) was employed.

Analysis of differences in banks' credit approval for SMEs with respect to firm characteristics

In order to determine the differences in banks' credit approval for SMEs with respect to firm characteristics in the study area, the Kruskal-Wallis H non-parametric test was explored. To achieve this, banks were grouped into five based on frequency of their loan approvals namely; very seldom, seldom, neither often nor seldom, often, and very often. The differences among these groups were tested across all the identified firm characteristics using Kruskal-Wallis H as an alternative to one-way ANOVA test. Table 7 shows the results of the Kruskal-Wallis H statistics for all variables of interest.



For firm size, firm age, and location, the tests resulted in very large chi-square values of 105.943, 182.594 and 111.716 respectively which were all significant at 0.01. Thus banks differ significantly in their credit approvals with respect to firm size, firm age, and firm location. Thus, firm size, firm age and firm location exert very large influence on banks credit approvals for SMEs in the study area.

As regards incorporation status, industry, business financial information and collateral, the test resulted in large chi-square values of 54.262, 49.559, 95.047 and 70.590 respectively, which were all significant at 0.01. Thus, banks differ significantly in their credit approvals with respect to incorporation status, industry, business financial information and collateral. As such, incorporation status, industry, business financial information and collateral largely influence banks credit approvals for SMEs in the study area.

Table 7: Results of Kruskal-Wallis Statistics

Variables	Loan Approval	N	Mean Rank	Chi-square	p value
Firm age	VERY SELDOM	26	80.35	182.594***	.000
	SELDOM	6	94.50		
	NEITHER OFTEN NOR SELDOM	152	94.50		
	OFTEN	19	196.00		
	VERY OFTEN	4	196.00		
Firm size	VERY SELDOM	26	191.00	105.943***	.000
	SELDOM	6	141.50		
	NEITHER OFTEN NOR SELDOM	152	82.18		
	OFTEN	19	196.00		
	VERY OFTEN	4	196.00		
Incorporation status	VERY SELDOM	26	64.50		
	SELDOM	6	64.50		



Industry	NEITHER OFTEN NOR SELDOM	152	100.97	54.262***	.000
	OFTEN	19	179.00		
	VERY OFTEN	4	179.00		
	VERY SELDOM	26	147.00		
	SELDOM	6	147.00		
Financial information	NEITHER OFTEN NOR SELDOM	152	88.44	49.559***	.000
	OFTEN	19	147.00		
	VERY OFTEN	4	147.00		
	VERY SELDOM	26	32.50		
	SELDOM	6	32.50		
Location	NEITHER OFTEN NOR SELDOM	152	107.55	95.047***	.000
	OFTEN	19	180.00		
	VERY OFTEN	4	180.00		
	VERY SELDOM	26	16.50		
	SELDOM	6	16.50		
	NEITHER OFTEN NOR SELDOM	152	113.49	111.716***	.000
	OFTEN	19	163.00		
	VERY OFTEN	4	163.00		



Collateral	VERY SELDOM	26	48.50		
	SELDOM	6	48.50		
	NEITHER OFTEN NOR SELDOM	152	104.34	70.590***	.000
	OFTEN	19	179.00		
	VERY OFTEN	4	179.00		

*** significant at 1%, ** significant at 5%, * significant at 10%

Source: Authors' Computations (2020)

Discussions of Findings

Based on the result of hypothesis testing, there is significant difference in bank credit approval for SMEs with respect to firm size at 1% significance level hence, the null hypothesis is rejected. This implies that firm size is an important consideration in bank credit approval for SMEs in the study area. This can be premised upon the argument that small firms encounter difficulty in resolving information asymmetry with their lenders, whereas bigger firms are more diversified in their operations which influence their stability and solvency hence, their easy access to finance. The finding is in line with Honhyan (2009) and Chavez (2017) who also found that size is an inverse proxy for the probability of bankruptcy hence eases of access to finance.

In terms of firm age, the result shows that there is significant difference in bank credit approval for SMEs with respect to firm age at 1% significance level hence, the rejection of null hypothesis. This implies that banks lend credence to firm age as proxy for maturity in their loan decision for SMEs. The result is in line with the findings of Chandler (2009) and Le and Nguyen (2009) who argued that the longer the firm stays in operation, the more persistent it is to unpleasant economic circumstances thus, older businesses usually possess the requires synopsis with which their credit wherewithal can be appraised. More often than not, younger firms are victims of loan denial and prohibitive loan costs due to inadequate credentials in terms of their credit history (Klapper, Laeven & Rajan, 2010). In line with the credit rationing theory, information such as years of operations could perhaps resolves information asymmetry for firms and thus facilitates access to finance.

With regard to incorporation status and credit approval, the result shows significant difference in bank credit approval for SMEs with respect to incorporation status at 1% significance level in such a way that firms that are incorporated are more likely to get their loan requests approved than their counterparts. The study is in agreement with previous studies such as Coleman and Cohn (2000), Musamali and Tarus (2013), Balogun et al., (2016) and Oke et al. (2019) who also reported a statistically significant positive impact of ownership structure on financial access. This is in



tandem with assertion in the credit rationing theory where firm's incorporation status is assumed to be a sign of credibility and formality of operation which banks use in gauging the credit worthiness or otherwise of SMEs.

The result also confirms that there is significant difference in banks' credit approvals with respect to industry of SMEs in the study area. This study conforms to Barbosa and Moraes (2004), Solari et al. (2014) and Oke et al. (2019) who also reported similar findings. Theoretically, the linkage between industry categorization and the firm is premised upon the supposition that industry categorization is a substitute for risk inherent in the individual industries. Consequently, if the risk degree is the yardstick for financial access, firms in the high risk industry with frequent demand for credit are less likely to access much finance relative to other less risky industry perhaps due to the risk averse behavior of banks especially for SMEs.

In the same vein, financial information is an important consideration in banks' credit approval for SMEs in the study area as the result of hypothesis testing shows statistically significant difference. In line with the theory of credit rationing, SMEs are kept at an arm's length with the fund providers including banks due to information asymmetry which result into moral hazard and adverse selection problems. Availability of financial information is thus expected to reduce information opaqueness between the fund providers and SMEs thus, enhances financial access. Financial information (audited financial reports) provides a mechanism for gauging the capacity and credit worthiness of SME and thus, determines their accessibility for finance. The findings agree with the evidence put forth in Fatoki and Odeyemi (2010), Kira and He (2012), Musamali and Tarus (2012), Ghimire and Abor (2013) and Magembe (2017).

As regards firm location, the result shows statistically significant difference in bank credit approval for SMEs with respect to firm location. This is a pointer to the fact that banks' credit approval for SMEs is to a very large extent influenced by the firm's location. This means that firms located in urban areas perhaps with reckonable credit history, are more likely to get their loan requisition approved than their rural counterparts. This perhaps is due to the fact that the closer (in terms of geographical location) the banks are to their firm customers, the better they are able to utilize soft quality information about the borrowers' credit quality. The results conform to the findings in the previous empirical evidence such as Fatoki and Odeyemi (2010), Kira and He (2012) and Kira (2013) who also found a strong linkage between location and accessibility to credit.

Finally, the result also reveals significant difference in banks' credit approvals with respect to industry of SMEs in the study area. This indicates that banks' credit approval for SMEs in the study area is informed by the availability and adequacy of firm's collateral. Based on credit rationing theory, collateral may influence credit rationing behavior of the suppliers of finance. This is so because collateral requirements are necessary to reduce SME lending risk occasioned by agency problems of information asymmetry, moral hazard and adverse selection. The results concur with the findings in Abor and Biekpe (2007), Fatoki and Asah (2011), Ghimire and Abor (2013) and Kivunzi et al. (2019) who contended that collateral is an important factor influencing bank credit decision for SMEs.



CONCLUSION AND RECOMMENDATIONS

The scenario of paucity of finance widely reported in the literature on SMES financing has been blamed partly on their individual lending firms' peculiarities. This served as a spur for this research, especially in the North Central Nigeria where the challenge is reportedly prominent.. The study thus concludes that from banks' viewpoints, getting approval to credit by the SMEs is determined by all the identified characteristics but with varying degrees. The prominent and important firm related factors that are attractive to banks to enable credit approval include firm size, firm age and location. Although, the incorporation status, industry, financial information and collateral are also important in granting credit approval to SMEs, they are of lesser degree with respect to credit approval.

In view of the study findings and conclusion thereof, it recommended that SMEs should take full advantage of all the identified firm related factors influencing their loan approval giving prominence to size, age and location of the firm. Specifically, this can be achieved by synergizing and forming strong alliance, and borrow as a consortium rather than individual units. This will facilitate improved financial access and economies of scale in terms of relatively reduced loan costs. Similarly, SMEs should also consider setting up urban offices to achieve close proximity to their banks for better financial access.

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