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Effect of Microfinance Bank Services on Service Quality of Small and Medium Scale Enterprises in North-Central Nigeria

A. A.Yahaya[1] & L.W.Agboola*[1]

[1]*Department of Agricultural Development and Management, Agricultural and Rural Management Training Institute, Ilorin, Kwara State, Nigeria*
*Correspondence Email: agboolawl@gmail.com

Abstract

The study examined microfinance bank services and quality service among small and medium scale enterprises in north-central Nigeria. Data were elicited from 370 respondents who were carefully selected using a 4-stage sampling technique, and using a well-structured questionnaire. Data analyses were carried out by employing ordinary least square regression. Variables that make significant contribution on service quality of small and medium enterprises among the respondents were: household sizes, retail and treasury banking, electronic banking, banking supervision and advisory services. Microfinance banks should put in place strategies that will improve the rendering of their financial and non-financial services, particularly, those related to the provision of electronic banking, banking supervision/monitoring in order to enhance the level of quality service of SMEs in the region. Large household sizes should also be encouraged to enhance better service quality among SMEs.

Keywords: Microfinance Bank, Service Quality, SMEs, North-Central, Nigeria
JEL Classification: G21, L84

1. Introduction

It is a common knowledge that most countries of the world, including the advanced countries like America, Europe and Asia started their economic antiquity from the micro level before they finally grew to their current developed nations (Mejeha &Nwachukwu, 2008). For instance, the economy of Japan was mainly ran by small scale firms including old industries and cottage firms, taking benefit of availability of labour and employing their scarce resources which transformed to the current developed nation (Ogechukwu,2009). Similarly, Nigeria had many cottage industries transversely in all the states and societies that were taking advantage of her to reach the contemporary economic position (Ogechukwu, 2009).Small and medium scale enterprises (SMEs) function as the promoter for industrial growth and development (Akpan & Ikenna, 2015). This is basically as a result of their great potential in nurturing industrial production and economic expansion and the achievement of the basic expansion mission (Akpan & Ikenna, 2015). Across the globe, Micro, Small and Medium Enterprises (MSMEs) accounts for over 50% of Gross Domestic Product (GDP) and 75% of new jobs created (World Bank, 2015).Access to funding and credit plays an important role in supporting source of revenue and emerging micro-enterprises. Unreachability of such credit carried on to impede this progress. The formal pecuniary institutions perceive these initiatives as unsafe and insolvent and are, therefore, timid to offer such credit to them (Sanya, & Polly, 2017). The major role of MFBs is that of the

offering of financial intermediation. This is the transmission of funds or liquidity from those who have in excess to those in shortage (Ekpete & Iwedi, 2017). Nonetheless of the above, the effects of microfinance on the funding of small and medium enterprises have not received much attention in terms of investigation in the area of service quality offered by SME.

Quality service in line with Parasuraman et al. (1988) is an extent of the clients' view of the anticipated service in contrast to the real service performance. Consequently, companies ambitious to perform better than their competitors embrace it as an approach to please both the internal and external business clienteles (Jain et al., 2013). Over the years, the search to comprehend the effect of quality service on clients' fulfilment has been enhancing as their anticipations become strongly associated with their craving to obtain unique worth for their cash (Amin et al., 2018). This stresses the need to get the best out of customer fulfillment, mostly in the period of globalization with continuous rivalry, which upsurges customers' capability to express displeasure (Cook, 2011; Sarkar and Islam, 2021). Undeniably, businesses do not want to hold up behind their contenders in the offering of quality service (Ampah, et. al., 2019; Asa, et al., 2021; Ujakpa et al., 2017). Thus, they keep on struggling for competitive advantage with SME being no exemption. In line with Stafford (1998), quality service has an important role of motivating SME to pursue competitive advantage and client fulfilment. It is on this note that the study makes a humble attempt at examining the effect of microfinance banks' financial and non-financial services on quality service of small and medium scale enterprises in north-central Nigeria.The significance of the study could be drawn from the fact that effect of MFBs financial and non-financial services on SME performance will give convincing reasons to government and policy makers that aside from the objective of microfinance banks' profit, their services can also be employed to boost the activities of SMEs and increase their performance in terms of service quality. This study will also give policy makers better insights to the understanding of the specific MFBs services that is of greater help to improving SMEs performance and provide policy recommendation as to the relevant strategies to employ in order to ensure that such services are available from the MFBs angle and utilized at the SMEs angle.

2. Literature Review

Aremu & Olofinlade (2021) examined the microfinance credit effect on the performance of small and medium scale enterprises in Oyo State, Nigeria. Small and medium scale enterprises performance signs considered in the study were profitability and size of the market. Data for the study were collected from 150 SMEs owners with the use of structured questionnaire. Data analyzed were achieved using regression analysis. Result from regression analysis revealed a significant outcome of microfinance credit on the profitability and market size of SMEs in the study area. Need for microfinance banks to make provision for sustainable credit facilities through loans and advances to SMEs were therefore recommended. Khan and Akhter (2017) investigated quality service and the regulatory effect of Shari'ah-view on client contentment: A contrast between Islamic and conventional microfinance in Pakistan, taking a sample of 578 respondents with 289 from each side. Akhuwat and Kashf (Islamic microfinance) and RCDS and DAMEN (conventional microfinance) were chosen. The study employed the use of Analysis of Variance (ANOVA) correlation and regression analyses as well as interaction tests for testing the link of Shari'ah-view as a mediator between quality quality and customer fulfillment in the two types of

microfinance banks. The results revealed that Shari'ah-view was a strong mediator in case of Islamic microfinance while it is a weak mediator in the case of conventional microfinance. The conclusion drawn from the study was that Shari'ah-view played a critical role in achieving customer satisfaction in Islamic microfinance. The need for policy-makers and Islamic microfinance service providers to plan Shari'ah-consciousness programs to improve the Shari'ah-view of low income population is hereby recommended.

3. Methodology

The study was executed in North-Central Nigeria. The choice of the zone was informed by the high concentration of small and medium-scale enterprises and microfinance banks. The geopolitical zone which acts as an entry way between the northern and the southern divide of the nation is made up of 13% of the land mass of the country. The zone comprises such states in addition to Federal Capital Territory (FCT) as Plateau, Niger, Kwara, Benue, Nassarawa and Kogi states (Manyong *et al*., 2001). The year 2006 population census according to National Population Commission (NPC) put the zone at an estimated figure of 20,266,257. Geographically, the study area lies on latitude 11^0 07^1 and 13^0 22^1 north and longitude 06^0 52^1 and 09^0 22^1 east of the Greenwich Meridian. Predominant seasons experienced in the zone in a year were– the wet season which starts in May and stops in September/October and a long dry season running from October to May. Temperature of between27^0C- 34^0C (maximum) and 18^0 C - 21^0 C (minimum) were recorded during the raining season, while in the dry season, it ranges between 16^0C- 37^0C. Soil type characterized in the area were sandy loam and clay loam textured with a level of acidity/ alkanility (pH) of 5 to 7 and an organic carbon content ranging between 0.5 to 1.5%. The soil properties are leached ferruginous tropical soil and reddish, fine loam clay to sandy loam surface soil (Norman *et al*., 1982). Inhabitants of the zone were known for agribusiness, black-smites, weaving, dyeing and carving.

The study population consist of registered SMEs owners (1,159,017) with microfinance banks in the study area from whom data were elicited with the use of questionnaire. A four stage sampling procedure was used in the study. The first stage entails the purposive selection of Kwara and Niger states from the zone, having the highest (367,891) and second highest (252,584) number of SMEs, respectively in the zone. This was followed by the purposive selection of four and six local government areas from Kwara (16 LGAs) and Niger (25 LGAs) states, respectively, this is based on probability proportion to the number of local government areas in each of the states. Purposive selection of twenty (20) communities/districts from each of the states, with the number of communities/districts selected from each local government proportionate to the number of communities/districts in each local government area as the third stage. While the fourth and the last stage was the random and proportionate selection of the two hundred (200) SMEs from the selected communities/districts in each of the states using Yamane (2004) formular. The total sum of Three Hundred and Seventy copies (370), of the questionnaires were returned with the required information and were used for the analysis out of 400 copies administered. The procedure is as indicated in Table 1 below.

Data for the study were collected through primary source using structured questionnaire from some selected respondents to achieve the objective of the study. Survey method was used due to the nature of the study as well as the large number of respondents for the study in order to enhance reasonable coverage. Data collected includes respondents' demographic characteristics, financial services of MFBs, non-financial services of

MFBs.Collected data were analyzed using inferential statistic (ordinary least square regression)

Ordinary Least Square Regression.

Table 1**:** Sampling procedure for the selection of SMEs

States	LGAs	Communities/ Districts	Number of copies of questionnaire administered	Number of copies of questionnaire retrieved with useful information
Kwara	Offa	Offa, Balogun, Essa, Shawo Central and Ojomun Central	48	46
	Ilorin West	Adewole, Baboko, Ajikobi, Badari and Ogidi	55	52
	Ilorin South	Fufu, Akanbi, Balogun Fulani, Okaka and Oke Ogun	53	50
	Moro	Bode Saadu, Alara, Ajanaku, Arobadi and Baba Dudu	44	40
Niger	Suleja	Suleja, Bagama, Gauraka and Ikume	35	33
	Rafi	Rafai, Kagara and Guna	33	31
	Rijau	Rijau, Dukku and Shambo	31	29
	Mariga	Mariga, Bobi and Gulbin Beka	32	29
	Bida	Bida, Wadata, Landzun and Nassarawu	37	33
	Lavun	Lavun, Dabban and Mambe	32	29

Source: Author'sComputation

This was used to measure the interrelationship between the regressand and the regressors. In line with Yahaya (2020) the model is specified as

$SQ_i = f(AGE_i, GEN_i, EDU_i, HHZ_i, MBS_i, EBS_i, RTBS_i, SUP_i, ADV_i, TRN_i, GRM_i)$…..1

SMEs service quality (which is score generated from the principal components analysis) as a function of MFBs financial and non-financial services, controlling for owner's characteristics such as age, gender, education and household size. The independent variables were selected in line with Abdulmajeed et al. (2019); Rotich et al. (2015); Yahaya, (2000); &Yusuf et al. (2014).

Equation (1) is therefore expressed in a structural form specification as follows:

$SQ_i = \beta_o + \beta_1 AGE_i + \beta_2 GEN_i + \beta_3 EDU_i + \beta_4 HHZ_i + \beta_5 MBS_i + \beta_6 EBS_i + \beta_7 RTBS_i + \beta_8 SUP_i + \beta_9 ADV_i + \beta_{10} TRN_i + \beta_{11} GRM_i + \mu$ ……...……..…2

Where SQ = Service quality of small and medium scale enterprises (Principal Component Analysis PCA score), AGE = Age of the respondent in years, GEN = Gender of the respondent (equal 1 if male and 0 if otherwise), EDU = Educational qualification of the respondent (No formal education =0, Primary =1, Secondary = 2, OND/NCE = 3, HND/Bachelor Degree=4, Postgraduate =5, Others = 6), HHZ = Household size in number, MBS = Microfinance banking services (PCA score), EBS = Electronic banking services (PCA score), RTBS = Retail and treasury banking services (PCA score), SUP = Regular supervision and monitoring (PCA score), ADS = Advisory services (PCA score), TRN = Training and capacity building services, GRM = Group formation (PCA score), μ_i= Disturbance term (i.e. unobservable factors of each SME)

A priori Expectation

$\beta_1, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9, \beta_{10}, \beta_{11} > 0, \beta_2 > 0 < 0$

The coefficient estimates of age of SME owner, educational qualification of SME owner, household size and of all microfinance financial and non-financial services are expected to be positive, indicating that SMEs service quality increases with increase in each of them, while the coefficient estimate of gender can take a positive or negative sign.

4. Results

Multicollinearity Test of Specified Variables in the Model

Test for multicollinearity was conducted to check if there is a linear relationship among the specified variables and the result is presented in Table 2. The result reveals that the level of multicollinearity in the data set has not surpassed the minimum level and hence could be tolerated. This means that the VIF is below the threshold of 10 point mark, while the tolerance level is above 0.1point mark for all the explanatory variables in the model which implies that none of these explanatory variables is a linear combination of the other.

Table 2 Test for the Degree of Multi collinearity among the Explanatory Variables

Variables	VIF	TOL
Age	1.46	0.686057
Sex	1.32	0.754984
Education	1.19	0.838201
Household Size	1.1	0.908386
Microfinance Banking	1.09	0.914058
Electronic Banking	1.06	0.946024
Retail & Treasury Banking	1.03	0.970511
Supervision	1.03	0.970932
Advisory	1.03	0.97149
Training	1.02	0.982513
Group Formation	1.01	0.994881
Mean VIF	1.12	

Source: Authors' Computation

Effect of MFBs Financial and Non-Financial Services on SMEs Service Quality

The dependent variable in this model is continuous, which is the scores generated from the principal components analysis (PCA) conducted to reduce the items under the construct. The result as presented in Table 3 shows R-squared value of 0.663, which indicates that 66.3 percent of variations in SMEs service quality were explained by MFBs financial and non-financial services, as well as SME owner's characteristics. This implies that the explanatory power of the model is very high. Also, the reported F-statistic shows a value of 2989.6, with p-value of 0.000. This also implies that the F-statistic is highly significant, signifying that the overall model is significant and in good fit. As presented in the Table, five (5) out of eleven (11) hypothesized variables viz; household sizes, MFBs financial services (electronic banking and retail and treasury banking services), MFBs non-financial services (supervision and advisory services) were statistically significant at various levels of significance. This means that household sizes and some MFBs financial and non-financial services were the only significant factors affecting SMEs service quality. Other SME owner's characteristics such as age, gender and education, other MFBs financial services (microfinance banking services) as well as non-financial services which includes training and group formation were not significant and hence do not affects SMEs service quality.

Table 3: OLS Regression Result for Service Quality in the Study Area

Variables	Coefficient	Robust Std. Err.	T	p-value
Age	0.00928	0.009115	1.02	0.309
Gender	0.051724	0.085657	0.6	0.546
Education	0.009823	0.040068	0.25	0.806
Household Size	0.022756	0.009647	2.36**	0.019
Microfinance Banking	-0.00618	0.004657	-1.33	0.185
Electronic Banking	0.011856	0.00449	2.64***	0.009
Retail & Treasury Banking	-0.01335	0.00709	-1.88*	0.061
Supervision	0.436578	0.003772	115.73***	0.000
Advisory	-0.00701	0.004175	-1.68*	0.094
Training	0.072712	0.116257	0.63	0.532
Group Formation	-0.05882	0.159169	-0.37	0.712
Constant	-0.44425	0.233844	-1.9*	0.058
R-squared 0.663				
F-statistic 2989.07				0.000
N 370				

*Significant at ***at 1%, ** at 5%, * at 10%*
Source: Authors' Computation, 2019

The coefficients of household size, electronic banking services and supervision were positive at 5%, 1% and 1% level, respectively. Contrary to apriori expectation, the coefficients of retail and treasury banking services as well as advisory training were negative at 10% and 1% level, respectively. The positive and significant coefficient of household size (0.022756) indicates that a unit increase in the number of persons in the household of SME owners will lead to an increase in SMEs service quality by approximately 0.023 points. This is in line with Yahaya (2020). The positive and significant coefficient of electronic banking (0.0118556) implies that a unit increase in MFBs electronic banking services used by SMEs will bring about an increase in SMEs service quality by approximately 0.012 points. This is in agreement with the result of Yahaya (2020) Likewise, the positive and significant coefficient of MFBs supervision (0.4365775) implies that a unit increase in the number of times of supervision and monitoring by MFBs on SMEs will lead to increase in SMEs service quality by approximately 0.437 points. This is in tandem with Yahaya (2020). On the other hand, the negative but significant coefficient of MFBs advisory service (0.0070067) denotes that a unit increase in the level of MFBs advisory service for SMEs will lead to a decline in SMEs service quality by approximately 0.007 points. This is in conformity with Babarinde et al. (2019). In the same vein, the negative but significant coefficient of MFBs retail and treasury banking services (0.0133491) suggests that a unit increase in the level of MFBs retail and treasury banking services used by SMEs will lead to a decline in SMEs service quality by approximately 0.013 points. This also agrees with the findings of Yahaya (2020).

5. Conclusion and Recommendations

The conclusion drawn from the findings was that financial services, non-financial services as well as owner's characteristics were the drivers of SMEs service quality in the study area. Attempt to improve the service delivery of such, as the electronic banking services, provision of necessary monitoring and supervision services to SMEs will go a long way in bringing an improvement to the level of SMEs service quality.Having established from the findings that both financial and non-financial MFBs services affect SMEs service quality, this study therefore, recommends that

Large household sizes, improved rendering of both financial and non-financial services of electronic banking and supervision/ monitoring should be put in place in order to further enhance the level of service quality of SMEs in the region.

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