International Journal of Intellectual Discourse (IJID)
ISSN: 2636-4832 Volume 9, Issue 3. September, 2026

Influence of Microfinance Services and Social Capital on the Profitability Growth of SMEs in Nigeria

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Abstract
One of the critical factors that continue to constrain the SMEs sector in developing economies is the issue of accessing loan, which has broadly impeded the SMEs performance in Nigeria. This study examines the impact of microfinance services and social capital components on the performance of SMEs. This study used Stratified Probability Proportionate Sampling Technique (SPPST) and sampled 375 SMEs in the North-Western Nigeria. The results of the Generalized Ordered Logit Model 2 (GOLOGIT2) utilised in the statistical tools for analysing the data based collected on the relevant variables in the study. The results of the study generally indicate that both microfinance services and Social Capital components, have positive impacts on SME performance. The implication is that new policies should be adopted to ensure more efficient and quality access to Microfinance Institutions (MFIs). This may reduce the problem of accessing loans, improve business performance and further contribute to economic growth. Institutions such as SMEDAN and NDE which act as agencies to help monitor the activities of MFIs in carrying out their key responsibilities towards the SMEs. This study identifies several constraints when the focus of the study covering the North-Western region of Nigeria alone may not be generalizable due to differences in economic location. Since this study only focuses on microfinance factors, and social capital components, further study of other regions or states will provide a clearer description of the problems faced by SMEs. It is also suggested that future studies look at SMEs in terms of internal and external factors as well as other microfinance facilities that can be used to further explore the impact of SMEs on their performance in the economy.

Keywords: Microfinance services, Profitability growth, Small and Medium Enterprises, Social capital.

1. Introduction

The Small and Medium Enterprises (SMEs) sector is described as one of the sectors that have contributed to the development of many countries. The Organisation for Economic Co-operation and Development (OECD) in 2017 described SMEs as the driving force for inclusive and prosperous societies. Alexander et al. (2010) asserted that SMEs contribute significantly to innovative developments and the economic growth of most developed and emerging nations. Etuk et al. (2014) and Muriithi (2017) also affirmed that well-established SMEs create wealth and provide employment opportunities and sources of income.

SMEs have enhanced employment creation in various developing and developed economies (Ayyagari et al., 2011; Etuk et al., 2014). According to Abor and Quartey (2010), 85 percent of employment in the SMEs sector in Ghana is in the manufacturing sector, and 70 percent of its activities contribute to the Gross Domestic Product (GDP).There are no uniform criteria for the definition and classification of SMEs throughout the world, but the most commonly used are the number of employees, business turnover, and capital investment (Abe et al., 2015). Classification by size is considered the best approach, as it offers a realistic grouping of SMEs (SMEDAN, 2014). The characteristics of the categories of SMEs in Nigeria are based on employment and assets, excluding land and buildings (SMEDAN, 2014), as depicted in Table 1.

Table 1

Categories of Enterprise in Nigeria

Size of the Enterprise	Number of Employees	Assets in (Million) Naira
Micro Enterprise	Less than 10	Less than 5
Small Enterprise	10 – 49	5 - less than 50
Medium Enterprise	50 – 199	50 - less than 500

Source: Small and Medium Enterprise Development Agency of Nigeria and National Bureau of Statistics (2014).

Table 1 displays the categories of enterprises within the scope of the study in Nigeria, which comprise micro, small, and medium enterprises. It explains the categories based on employment and assets. Consequently, the employee-number criterion is given less consideration in Nigeria; therefore, the asset-based criterion is mostly considered a priority for SMEs (Etuk et al., 2014). The SMEs within the scope of the study (North-West) are presented in Table 2.

Table 2

Number of SMEs According to Six Zones of Nigeria

North-West			
States	**Small Ent's**	**Medium Ent's**	**SME**
Jigawa	1,022	75	1,097
Kaduna	2,712	170	2,882
Kano	7,790	496	8,286
Katsina	1,256	99	1,355
Kebbi	898	91	989
Sokoto	631	210	841
Zamfara	577	16	593
Total	14,886	1,157	16,043

Small Ent's represent Small Enterprises

Source: Small and Medium Enterprise Development Agency of Nigeria and National Bureau of Statistics (2014).

The North-Western zone is the largest zone in Nigeria, with about 16,043 SMEs, and has the most active SME activities. It possesses SMEs in both rural and urban areas, which provides the opportunity to study SMEs in both locations.

As a result of the persistent problem of accessing business finance, many scholars and policymakers have made concerted efforts to provide effective ways of reducing this constraint. Consequently, many empirical studies have explored

different dimensions and variables in different contexts. Examples of such variables reviewed by scholars include the amount of loans disbursed by microfinance institutions to SMEs and the conditions of the loan process, such as loan default and interest rates, among others.

Similarly, challenges associated with the formation of social capital have led many large and small enterprises in various economies to rely heavily on financial and human capital, instead of integrating them with social capital. These problems include under-investment by firms or organizations in social capital. In most situations, groups or individuals do not benefit from their investment in social capital (Herreros, 2004), unlike investments in financial and human capital. Secondly, there is uncertainty about the preferences of different individuals within a group or organization, particularly with regard to generalized or social trust.

To the best of the researcher's knowledge, there is no substantial empirical study that has collectively examined the impact of microfinance services and social capital components on the performance of SMEs with regard to profitability growth in North-Western Nigeria. This empirical gap provides the justification for the present study. Therefore, this study seeks to systematically address this gap by examining how microfinance services and social capital components influence the profitability growth of SMEs, with a view to providing policy recommendations that will encourage prospective SME owners and sustain the financial activeness of existing ones.

Objectives of the Study

The general objective of the study is to explore the influence of microfinance services and social capital on the performance of SMEs. The specific objectives are:

1. To examine the influence of savings on the profitability growth of SMEs.
2. To examine the influence of training on the profitability growth of SMEs.
3. To examine the influence of trust on the profitability growth of SMEs.
4. To examine the influence of networking on the profitability growth of SMEs.
5. To examine the influence of social ties on the profitability growth of SMEs.

Research Questions

In line with the specific objectives, this study seeks to answer the following research questions:

i. What is the influence of savings on the profitability growth of SMEs in North-Western Nigeria?
ii. What is the influence of training on the profitability growth of SMEs in North-Western Nigeria?
iii. What is the influence of trust on the profitability growth of SMEs in North-Western Nigeria?
iv. What is the influence of networking on the profitability growth of SMEs in North-Western Nigeria?
v. What is the influence of social ties on the profitability growth of SMEs in North-Western Nigeria?

There is no contention about the role played by the SME sector in different aspects of the economies of both developed and developing nations. The successes recorded by the sector in many economies were as a result of different economic measures, strategic plans, and effective policies that are capable of providing future rewards from sustained investment in the sector. Despite the incredible contributions of the SME sector, however, prospective entrepreneurs and SME owners in developing economies like Nigeria, and specifically in the study area, are excluded from accessing business loans, savings, and training, which form part of the most important services of microfinance to SMEs (Omotayo et al., 2017).

Despite the huge contribution of social capital to the development of firms, there

is a problem of putting it into practice, especially in a developing country like Nigeria. The problems involved in the formation of social capital cause most large and small enterprises in many economies to rely heavily on financial and human capital instead of utilizing social capital. These problems include under-investment by firms or organizations in social capital. In most situations, groups or individuals do not benefit from their investment in social capital (Herreros, 2004), unlike investments in financial and human capital. Secondly, there is uncertainty about different people's preferences among individuals in a group or organization, primarily regarding generalized or social trust. Normally, decisions on trust are taken without prior material information about the kind of trustees a firm or group is dealing with. In addition, there are transaction costs involved in monitoring the fulfilment of agreements regarding social capital. These issues lead most SMEs in developing areas like North-Western Nigeria to perceive social capital as an obstruction to their performance, even though social capital is believed to have significantly improved business performance in many developed and developing nations. It is on this note that this study considers important social capital components of trust, networking, and social ties for the betterment and improvement of SME performance in North-Western Nigeria. It has been revealed that effective utilization of social capital will lead to reasonable growth and development (Coleman, 1988; Putnam, 1995). Moreover, trust and networks of social capital immensely contribute to overall firm performance. Therefore, it is essential for SMEs to adopt drastic measures towards the implementation of social capital to achieve higher levels of profit (Ziaul Hoq et al., 2017). Lastly, this study will be significant to SME Owners in Provide insight into how savings, training, and social capital can be leveraged to improve profitability; Microfinance Institutions in guiding them to design both financial and non-financial services tailored to SMEs; Policymakers such as SMEDAN and CBN to provide empirical evidence for policy formulation to enhance SME growth in North-Western Nigeria; and researchers in contributing to literature on Resource-Based Theory and Social Capital Theory in the context of SMEs.

2. Literature Review

Empirical Review

Microfinance Savings and Profitability Growth of SMEs

Savings is considered a core component of microfinance services that enables SMEs to accumulate capital for reinvestment and business expansion. Empirical evidence suggests a positive relationship between microfinance savings and SME performance. For instance, Babajide (2012) found that savings mobilization by microfinance institutions significantly improved the profitability and growth of SMEs in Nigeria. Similarly, Imoisi and Godstime (2015) revealed that regular savings with microfinance banks enhanced the working capital and profitability of small enterprises in Edo State.

In contrast, Ogunlade and Osibanjo (2020) reported that while savings increased financial discipline among SME owners, its effect on profitability was not significant where interest on savings was low. However, most recent studies confirm that savings provides a financial buffer against business shocks and reduces dependence on expensive external loans, thereby enhancing profitability growth (Adeyeye et al., 2021).

Microfinance Training and Profitability Growth of SMEs

Training is another non-financial service of microfinance institutions aimed at improving managerial and entrepreneurial capabilities of SME owners. Several

studies have established that business training positively influences SME performance. For example, Olabisi et al. (2015) found that training on financial literacy, bookkeeping, and marketing significantly improved the sales and profitability of SMEs in South-Western Nigeria.

Similarly, Muneer et al. (2017) in Pakistan demonstrated that microfinance training enhanced entrepreneurial skills and led to higher profit margins among micro-enterprises. In Kenya, Wanjohi et al. (2019) also confirmed that SMEs that received regular training from microfinance institutions recorded higher profitability growth compared to those that did not. Therefore, training is expected to build human capital, which complements financial capital in driving SME performance.

Trust and Profitability Growth of SMEs

Trust, as a dimension of social capital, reflects the willingness of actors to rely on each other based on shared norms and expectations. Empirical studies show that trust facilitates access to resources, information, and credit. For instance, Ziaul Hoq et al. (2017) found that interpersonal and inter-organizational trust significantly influenced the financial performance of SMEs in Malaysia by reducing transaction costs.

In Nigeria, Ibrahim and Adesina (2019) revealed that trust among members of cooperative societies and business networks improved access to informal credit and enhanced profitability of SMEs in the North-Central region. Likewise, Akintimehin et al. (2021) found that trust between SME owners and their customers and suppliers led to repeat patronage and increased profitability. Thus, trust is hypothesized to have a positive influence on profitability growth.

Networking and Profitability Growth of SMEs

Networking refers to the relationships and connections that SME owners maintain with other businesses, suppliers, customers, and institutions. Literature indicates that networking provides access to market opportunities, information, and resources. For example, Hossain et al. (2020) found that business networking significantly enhanced the growth and profitability of SMEs in Bangladesh.

In the Nigerian context, Etuk et al. (2014) reported that SMEs in Akwa Ibom State that actively engaged in business associations and networking activities achieved higher profitability than those operating in isolation. Similarly, Obi et al. (2022) demonstrated that networking with microfinance institutions and other SMEs improved sales volume and profitability growth in South-Eastern Nigeria. Networking therefore serves as a strategic resource for overcoming market constraints.

Social Ties and Profitability Growth of SMEs

Social ties, which include family ties, friendship, and community affiliations, represent strong and weak bonds that provide emotional and material support to entrepreneurs. Putnam (1995) distinguished between bonding and bridging social ties, both of which are relevant to business performance.

Empirically, Olamide and Ogbechie (2020) found that strong social ties with family and friends provided initial start-up capital and customer base for SMEs in Lagos, leading to improved profitability. In Northern Nigeria, Abdullahi and Sani (2021) revealed that social ties facilitated access to informal loans and business information, which positively affected the profitability of SMEs. However, excessive reliance on family ties without professional networking may limit growth (Gedajlovic et al., 2013). Despite this, social ties are

generally considered a valuable social capital resource for SME profitability.

Summary of Empirical Review and Research Gap

Although numerous studies have examined the individual effects of microfinance services and social capital components on SME performance, most studies have focused on either financial service alone or social capital alone. Few studies have collectively examined the combined influence of microfinance services - savings and training - and social capital dimensions - trust, networking, and social ties - on the profitability growth of SMEs, particularly in North-Western Nigeria. This gap provides the justification for the present study**.**

Conceptual and Theoretical Review

The main objective of this study is to explore the influence of microfinance services and social capital components on the performance of SMEs, measured by profitability growth.

Therefore, the study is anchored on the Resource-Based Theory (RBT).

Resource-Based Theory (RBT)

Resource-Based Theory assumes that the foundation for improving a firm's competitiveness in the market relies on the organization's capacity to utilize its valuable tangible and intangible resources (Barney, 2007; Nothnagel, 2008). Tangible resources refer to the financial capital of a firm, such as equity and loans for investment, while intangible resources include physical assets such as buildings and machinery, as well as capabilities and knowledge (Barney, 2007). Furthermore, the goal of RBT is to demonstrate the importance of firm-specific resources in achieving sustainable competitive advantage and, consequently, leading to the growth and performance of the firm. Nothnagel (2008) revealed that strategic resources that are valuable, rare, inimitable, and non-substitutable can lead to sustainable competitive advantage. In the context of this study, microfinance services such as savings, training, and credit facilities are considered as external financial resources that enhance the internal resource base of SMEs, thereby improving their profitability and performance.

Theory of Social Capital

The Theory of Social Capital (TSC) is viewed as an investment in social relationships that include social networks, trust, and mutual agreements within groups or among individuals, through which they can gain access to resources to enhance expected returns based on their participatory and communicative activities (Lin, 1999). Coleman (1988) asserted that social capital is defined by its function. He argued that it consists of a variety of different entities, which contain aspects of social structure and facilitate specific actions of actors, whether individuals or corporate actors, within that structure. Furthermore, the recognition of social capital theory has encouraged pioneering approaches to development, such as the popular microfinance context, which this study links to the performance of SMEs.

Based on the notion of this theory, this study employs its components of social capital trust, networking, and social ties as utilized in most firms to establish mutual understanding and build effective organizational performance. Social capital is therefore considered a critical intangible resource that complements financial capital in enhancing the performance of SMEs in North-Western Nigeria.

Conceptual Model (Framework)

The conceptual framework of this study illustrates the relationship between the independent variables and the dependent variable. The independent variables consist of microfinance services (savings and training) and social capital components (trust, networking, and social ties), while the dependent variable is profitability growth of SMEs. The framework is

underpinned by Resource-Based Theory and Social Capital Theory, which posit that both financial and social resources are strategic assets for sustainable competitive advantage.

The framework hypothesizes that:

H_1 Savings has a significant positive influence on profitability growth of SMEs.

H_2 Training has a significant positive influence on profitability growth of SMEs.

H_3 Trust has a significant positive influence on profitability growth of SMEs.

H_4 Networking has a significant positive influence on profitability growth of SMEs.

H_5 Social ties has a significant positive influence on profitability growth of SMEs.

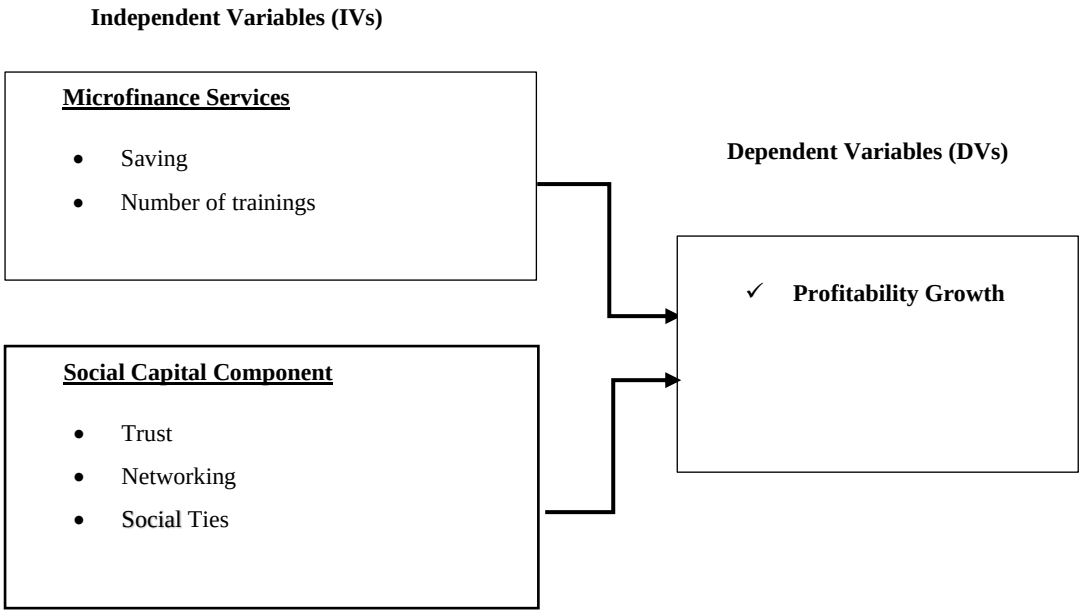


Figure 1

Conceptual Framework Showing the Relationship Between Microfinance Services, Social Capital Components and Profitability Growth of SMEs

Note. Researcher's conceptualization (2026) based on RBT and Social Capital Theory.

Saving in this study represent the amount of SME's deposit with MFIs. It represents the Naira value of a category of deposit of a particular SME in a bank (microfinance). The resource-based theory reveals that a firm's growth and performance rely on the available resources, both tangible and intangible resources. As such savings of SMEs with microfinance serve as their resources for future investment or capital accumulation. Previous studies such as Odetayo and Onaolapo (2016) have found a significant positive impact of savings of MFBs on the sales and profitability of SMEs. Other studies that indicated a positive relationship between microfinance savings and the performance of SMEs include Ene and Inemesit (2015), Kalui and Omwansa (2015), Laetitia *et al.* (2015) and Titus *et al.* (2014). Though, Titus *et al.* (2014) reported that the impact of such microfinance savings on the growth of SMEs is based on the frequency, the quantity, and extent of savings. In line with these previous studies, this research hypothesized that there is a positive relationship between Saving facilities of microfinance and the sales growth of SMEs. Therefore, this study hypothesized that microfinance saving has a positive relationship with SMEs performance.

3. Methodology

This study examines the impact of microfinance services and social capital components on the performance of SMEs. Using primary data. the study employs Stratified Probability Proportionate Sampling Technique (SPPST) based on the nature of the category of the data collected from the respondents.

For the purpose of data collection, a total of 750 questionnaires (in essence, 50 percent were increased) were sent instead of the pre-determined sample number of 375 SMEs to avoid such issue of non-response bias (Jeffery et al, 2011) as it is not every selected sample that would require likely response. This is following Hair et al. (2008). This indicates that a 50 percent rate of response is necessary to be an addition for reporting and analysis (cited in Watson, 2007). The estimated response rate of 50 percent used in this study is in line with the previous studies (Danlami, 2017; Maiyaki, 2012). The effective targetted responses were sampled and gathered based on the population and the idea of Krejcie and Morgan (1970). The scope of the study is based on the SMEs in the North-Western Nigeria. The results of the Generalized Ordered Logit Model 2 (GOLOGIT2) utilised in the statistical tools for analysing the data based collected on the relevant variables in the study.

4. Result and Discussion

Ordered Logit Regression for Profitability Growth Model

The ordered logit model is aimed to achieve the objective of this study, which is to examine the influence of microfinance services and social capital components on the profitability growth of SMEs in North-Western Nigeria. The result is presented in Appendix C. In this situation the Parallel assumption of the ordered logit (OLOGIT) must be held for the result to be valid. To see whether the parallel assumption of the OLOGIT is achieved, a post-estimation diagnostic check is conducted.

The Parallel Assumption Test for Profitability Growth

The result of the post-estimation diagnostic check, (parallel line assumptions) determines whether the ordered logit is held or not. Thus, the result is presented in Table 3.

Table 3.

Tests of the parallel regression assumption for Profitability Growth

	Profitability Growth		
Tests	**Chi 2**	**Difference**	**P>Chi2**
Wolfe Gould	34.85	24	0.071
Brant	246.1	24	0.000
Score	47.54	24	0.003
Likelihood ratio	38.51	24	0.031
Wald	47.67	24	0.003

Result computation (2026)

The result shows that the parallel assumption lines are violated, given that all the P-values are less than five percent, except the P-value of Wolfe Gould test, which is more than five percent (0.71 %). This testifies that the ordered logit assumptions did not hold. Frequently, when the parallel line assumption is not achieved, generalized ordered logit (GOLOGIT) is used (Wang, Chen, Wang, & Ye, 2018) as a solution to the problem, as it assumes that the coefficients are entirely different in the estimated model. The result of the generalized ordered logit is presented in Appendix D. Even if the different test carried out proved that the P-values of the variables is higher than five percent, indicating no violation of the

parallel line assumption, the GOLOGIT is still considered to be better than the ordered logit model, "because it was able to detect the existence of heterogeneity effects across observations" (Wang *et al.*, 2018 p7). Therefore, the GOLOGIT estimation was conducted in Appendix D. However, based on the proceeding statement, this study consider GOLOGIT 2.The GOLOGIT estimation was first established in the STATA routine by Fu (1998) to fit the generalized ordered logit model. Though Williams (2006) argued that GOLOGIT could not fit the particular case of the parallel lines model. He maintained that GOLOGIT2 makes it easier to overcomes the limitations of the GOLOGIT. The GOLOGIT assumes that the estimated parameters are entirely differentiated in contrast to the parallel assumption of homogeneity. However, in recent times, generalized ordered logit 2 (GOLOGIT2) has been established, which undertakes that some of the coefficients may be the same, while some may vary. Therefore, GOLOGIT2 overpowers the limitations of the GOLOGIT in terms of parallel line assumption, which makes model estimation more accessible and robust (Williams, 2006). It also allows a researcher to select among a model in which all parameters are constrained as against another one without constraints (Williams, 2006). Based on the preceding discussion and the assumptions of the GOLOGIT2, this study reported the GOLOGIT2 model. Thus, Table 4. depicts the summary of the result of GOLOGIT 2 of the profitability growth.

Summary of the GOLOGIT 2 result (Profitability Growth Model)

Table 4.
Summary of the result of Generalized Ordered Logit Estimates (GOLOGIT2) Profitability Growth

Variables	**Coefficients**
SVN (R1)	0.865 (0.008)
TR	0.569 (0.039)
TRT	-0.700 (0.091)
NTW	0.971 (0.002)
ST	NS
Constant (2)	-1.045 (0.719)

Result computation (2026). Note: SVN=Savings, NTR=Number of trainings, TRT=Trust, NTW=Networking, ST=Social Ties, NS= Not significant.

The result in Table 4 indicates that there is a tendency that a higher scale of savings increases the profitability growth of SMEs. Also, an increase in number of trainings would have a probability of increasing the profit of SMEs.

Interpretation of the Result of the GOLOGIT 2 of the Profitability Growth

In the first range, the microfinance services that are significant in affecting the profitability growth of SMEs are savings and training. While networking and trust are the social capital that have a significant influence on the profitability growth of SMEs. The result of the saving indicated that the higher the savings, the higher the profitability growth. There is a tendency that a larger scale in saving increases the profitability growth by 0.89 percent, and it is significant at a 5 percent level. This result accord with the findings of Kalui and Omwansa (2015).

The significant coefficient of the savings might be as a result of the participation of

SMEs in engaging with the microfinance, which leads to more access to finance that increase their assets, hence leading the increase in their profitability. Similarly, the result states that an increase in training would have a probability of increasing profitability growth by about 0.57 percent at a five percent significant level. Furthermore, Kalui and Omwansa (2015) established that found a significant positive impact of training on business practices in terms of keeping records and planned and executed innovations in businesses.

Additionally, the result indicates an increase in the level of networking would increase the profitability growth of SMEs by around 0.97 percent at a one percent level of significance. This result is in line with the findings of Baker (1990) and Batjargal (2010). The significant impact of networking predicts that an increase in the cordial relationship amongst their employees within SME in terms of the good information system, support and dealing with issues accurately plays an essential role in improving the profitability growth of the SMEs.

Though, concerning trust, the result shows that the higher the level of trust, the lower the profitability growth. It infers that an increase in the level of trust would have the likelihood of decreasing profitability growth by 0.70 percent at a 10 percent significant level. This may be a result of a conflict of interest amongst the employees or the employees and the owners in which might have course distrust regarding the different lines of activities, which may have a negative effect on their profit increase. This result does not correspond with that Kiprotich (2014) which found a significant positive impact between trust and the profitability growth of SMEs. The different results, maybe because of the differences in terms of the study area as the economy is dynamic and varies in different places.

With regards to the second range of the GOLOGIT2 results, both savings of SMEs and training have a significant impact on explaining their influence on the profitability growth of SMEs. Furthermore, trust, networking, social ties are not significant in explaining the influence Social capital on profitability growth. Therefore, the result shows that as savings increases, profitability also increases. There is a tendency that a higher scale in savings increases the profitability growth by about 1.27 percent at a one percent level of significance.

Similarly, an increase in training would have a probability of increasing the profitability of SMEs by 0.80 percent at one percent level of significance. The significant impact of the number of training received by SMEs from MFBs in the second range foresees that those SMEs have effective financial training in different aspects of the utilization of the resources, which leads to the increase in their profitability growth. This can also be related to the fact that most of the MFBs provide training services to those SMEs upon receiving loans.

Additionally, the results of the third range reveal that savings and the number of training have a significant effect in explaining the influence of microfinance services on the profitability growth of SMEs.

The result of the savings indicates that the larger the savings, the higher the profitability growth. There is a likelihood that a higher scale of savings increases the profitability growth by about 1.16 percent at a one percent level of significance. Similarly, based on the number of training the result indicates that the higher the number of training, the higher the profitability growth. An increase in training would tend to increase profitability growth by 0.42 percent at a 10 percent level of significance. This likelihood of an increase in the profit

maybe as a result of the efficient and effective utilization of the skills and training acquired from the services of MFBs.

Range fulfillment test

Table 5.

Range fulfilment test

Variables	Observation	Mean	Standard Deviation	Minimum	Maximum
Y	375	0.093	0.125	0.001	0.846

According to Gujarati and Porter (2009) the estimated logistic regression must lie between 0 and 1 i.e. ($0 \leq E(Y_i|X_i) \leq 1$). Table 5. present the summary of the test result.

Based on the result in Table 5 the range fulfillment test shows that the maximum value is (0.846) and the minimum value is (0.001) which indicates that the estimated model is within the range and fulfills the requirement.

5. Conclusion and Recommendation

This research was conducted with the primary objective of examining the influence of microfinance services and social capital components on the performance of SMEs in North-Western Nigeria. Specifically, the study examined the influence of savings, training, trust, networking, and social ties on the profitability growth of SMEs.

To achieve these objectives, a total of 750 questionnaires were distributed, exceeding the pre-determined sample size of 375 SMEs in order to improve the response rate and minimize non-response bias. Data were analyzed using the ordered logit regression model. However, the presentation of the results was carried out using the generalized ordered logit model (GOLOGIT2) as a result of the violation of the parallel lines assumption of the standard ordered logit model.

The findings revealed that both microfinance services (savings and number of trainings received) have a significant positive influence on the profitability growth of SMEs in North-Western Nigeria. The results indicate a high probability that SME profitability growth increases with higher levels of savings and with an increase in the number of trainings offered by microfinance banks.Similarly, networking and social ties were found to significantly influence profitability growth. Higher levels of networking in terms of information sharing, mutual support, and joint problem-solving increase profitability growth. This implies that SMEs in North-Western Nigeria that maintain reliable networking systems, coupled with strong social ties among employees, have a higher probability of increasing profitability growth. This finding supports the argument of Social Capital Theory.

However, trust was found to have a negative influence on profitability growth, suggesting that excessive trust without formal control mechanisms may be counterproductive and expose SMEs to opportunistic behaviour.

The study contributes to theory by validating Resource-Based Theory (RBT) in explaining the use of tangible (savings) and intangible (training, networking, social ties) resources by firms to achieve competitive advantage. This is consistent with Penrose's Theory of the Growth of the Firm, which posits that firm growth is driven by the effective utilization of available resources.Another contribution of this research is the employment of the number of loans received by SMEs as an outcome of savings and training, given the paucity of empirical studies in developing economies like Nigeria. This provides empirical support for the assertions of

regulatory institutions such as the Central Bank of Nigeria (CBN) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) that MFB services play a pivotal role in SME performance.

Conclusion

Based on the findings of this study, it can be concluded that microfinance services and social capital components are critical determinants of SME profitability growth in North-Western Nigeria. Savings and training serve as strategic resources that enhance financial inclusion and managerial capability, while networking and social ties serve as social resources that facilitate access to market information, emotional support, and collective problem-solving.

The study concludes that the integration of Resource-Based Theory and Social Capital Theory provides a robust framework for understanding SME performance. While microfinance services provide the financial foundation, social capital provides the relational infrastructure necessary for sustainable profitability growth. Therefore, policies aimed at improving SME performance should not focus solely on financial capital but should also incorporate the development of social capital.

Recommendations

Based on the findings, the following recommendations are made:

1. For Government and Regulatory Authorities (CBN, SMEDAN):

The government should formulate a sound policy that reviews the required share capital of Microfinance Banks to enable them to deliver effective financial and non-financial services to SMEs. Furthermore, financial support in the form of subsidies, grants, or tax reductions should be provided to MFIs and SMEs to reduce the rate of MFB closures due to insufficient operational **funds.**

2. For Microfinance Institutions:

MFBs should strengthen their savings mobilization programmes and regularize business development training for SME clients. Since savings and training have a significant positive impact on the number of loans received, structured savings products and practical entrepreneurship training should be made mandatory components of SME lending.

3. For SME Owners and Managers:

Since networking and social ties significantly increase profitability growth, SME management should invest in effective information systems and activities that encourage mutual understanding, teamwork, and cordial relationships among employees. Participation in trade associations, cooperatives, and business clusters should be encouraged. However, trust should be complemented with formal contracts and accountability mechanisms to avoid its negative consequences.

4. For Capacity Building:

The government, in collaboration with SMEDAN, should organize regular workshops, seminars, and conferences to sensitize SME owners on the importance of savings culture and social networking as drivers of access to finance and business growth.

Limitations of the Study

This study used the generalized ordered logit model for responses that are ordinal in nature as suggested by Wooldridge (2002). Although the model is appropriate for ordered categorical data, alternative models such as the multinomial logit or probit could be used for robustness checks, especially for non-ordered categorical data (Gujarati, 2004).

Secondly, the study was limited to North-Western Nigeria and focused on five independent variables (savings, training, trust, networking, and social ties) and one performance measure (profitability growth). Therefore, generalization to other geopolitical zones and to other performance measures should be done with caution.Finally, the study relied on self-

reported data from SME owners/managers through questionnaires, which may be subject to social desirability bias.

Suggestions for Future Research

Future studies should consider the following:

1. Future research could employ other social capital components such as civic engagement and norms, and other microfinance services such as micro-insurance and micro-leasing, to determine their effect on SME performance.
2. Other performance measures such as sales growth, employment growth, market share, and innovation could be examined beyond profitability growth.
3. Future research could adopt longitudinal research designs to examine the causal relationships over time, rather than the cross-sectional design used in this study.
4. Comparative studies could be carried out in other geopolitical zones in Nigeria or in other African countries to test the generalizability of the current findings.
5. Future studies could employ mixed-methods approaches, combining quantitative surveys with qualitative interviews to provide deeper insights into how trust negatively affects profitability growth.

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