Effects of micro loans and customer satisfaction on MSMES performance in Zaria metropolis

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Abstract

The significant role of micro finance institution (MFIs) all over the world have been felt by every individual nation in the world especially the developing nations in Africa. However, the effectiveness and efficiency of the MFIs in the highly volatile environment of Micro, Small and Medium Enterprise (MSMEs) in Nigeria has not been empirically investigated in Zaria metropolis. It was on this note that the study examines the Effects of Microloans, and customer satisfaction on MSMEs performance in Zaria metropolis. The research design used was cross-sectional and descriptive. Samples of 389 registered MSMEs operating in Zaria metropolis were selected. Primary data was used while questionnaire was the data collection instrument adopted. Data was analysed using regression analysis where SPSS 20.0 was used to process the data. The study revealed that MSMEs in Zaria metropolis of Kaduna State patronizes Micro loans to source for finance for their initial and start – up capital as well as their assets, as such, this has assisted in improving their innovative performance. Also, MSMEs in Zaria metropolis has adopted customer satisfaction as a strategy to retain her current customers and to attract potential customers and this initiative has helped in boosting their innovative performance. The study recommend that microfinance banks should make accessible, adequate and sufficient initial or start-up capital to its committed customers and that relevant authority should encourage MSMEs in each state and local governments to register before they commence operation and finally government should endeavor to promulgate friendly monetary policies that will help both MFIs and MSMEs to grow.

Key words: Microfinance, Micro-Loan, Customer Service, MSMEs, Zaria Metropolis.

1. Introduction

It is a known fact that (MSMEs) Micro Small and Medium Scale Enterprises are very important in playing a retail function and creating new jobs providing an outlet for the public to get products and even goods and services. They play a key role in entrepreneurial venture; it enhances innovation, invention and also enhance the delivery of goods and services to human beings (World Bank, 2017). Micro Small and Medium Scale Enterprises is responsible for atleast 90% of all business venture in advanced countries of the World such as Britain, United States of America,

France, Germany, just mention few and also give room to the greatest number of job creation such as trading, retailing, wholesaling of at least 70% in developing countries, to give room to about 45% job opportunities and 33% support to Gross Domestic Product (GDP), Kai, Kiragu and Githindi, 2019 quoting organisation for Economic Cooperation and Development (OECD, 2017). Because of the usefulness and importance of MSMEs, the Federal Government of Nigeria decided to give Ten Thousand Naira (N10,000) each to market people as trader money to help to boost their capital base in the year 2019.

Many of the countries in Africa find it very hard to run business smoothly especially, Micro Small and Medium businesses. Some of the factors range from inflation, fluctuating and unreliable exchange rate, harsh negative legal demands, exorbitant taxes, just mention few. All these make profit and several difficult (World Bank, 2018).

The Nigerian government has over the years embarked on series of policies and Institutional reforms aimed at enhancing the flow of finance from the banking sector to Micro, Small and Medium Enterprises (MSMEs) as well as those involved in the petty business (micro) activities of MSMEs has not materialized. Traditional banks perceive micro activities as bad risk, hence have little interest in funding the sector, this coupled with issues of high transaction costs and short tenor of payback period when funding is considered. A nation cannot achieve a positive economic growth and

development without having a good and reformed economic programme, this is why the Central Bank of Nigeria (CBN, 2005) licensed Microfinance Institutions (MFIs) to run and finance MSMEs that were unable to gain loan from Deposit Money Banks to boost and improve their businesses. (Ozioko, 2010). This has helped most MSMEs to come up and to become successful and this has helped attention to be shifted from large-scale Enterprises or large Industries to Micro, Small and Medium Scale Enterprises.

There is no merit without demerit, the main challenges facing African MSMEs in which Nigeria is among are finance, epileptic power supply, management problem, ability and competence problem, perception or view to MSMEs, information problem insufficient support from government, corruption just mention few. Therefore, this research intends to address if not all, at least, some of these challenges. In order to mitigate these challenges, the MSMEs need loan that, they can use to run a successful MSMEs that can come up with goods and services that can lead to customer satisfaction.

The need for loan or credit facilities become necessary due to shortcomings of self-financing, uncertainty pertaining results (output) and the time lag between inputs and output (Kohansal and Mansari, 2009). At this juncture, it must be noted that the paying back of loan by Micro Small and Medium Enterprise help to boost performance which is one the focus of this study. Poor loan repayment and management leads to default. This requires

a serious monitoring of cash flow as well as collection strategies from those who take the loan (debtors) and pivotal to this exercise, are measures to assess customers ability to meet the business loans payment term (Nawaii and Shariff, 2010). It was argued that businesses that are run with adequate loan tend to perform well than those that do not have adequate loan (Danjuma, 2017). An efficient and effective use of loan lead to profit making and maximization of profit can lead to business expansion thereby leading to the introduction of more goods and services that can bring customer satisfaction.

Customer satisfaction is an assessment by the customer on a product or service to attain favourable consumption (Mensah and Mensah, 2018). Customer satisfaction is also defined as a psychological condition of a customer that involves feeling or attitude on experience or specific aspects of it after receiving a product or service (Neupale and Devkota, 2017). Customer satisfaction is one factor that determines business performance (Naveed et al, 2017). Customers who are satisfied with the business organisation will be loyal and willing to contribute to the long-term profitability of the venture (Azigwe et al, 2016). Production financing structure at MSMEs most always is undertaken by business strategies to ensure that MSMEs get a competitive advantage (Gaio and Henriques, 2018).

Therefore, low customer satisfaction comes up through poor service quality (Atiyah, 2017; Jamaluddin and Ruswanti, 2017). The quality of services provided by

MSMEs is not better than the services given by large industries (Ismoyo et al, 2018). If the services provided by MSMEs are less satisfying, then it badly impacts customer satisfaction with competitive advantage.

Performance according to Obiwuru, Okwu, Akpa, Nwankwere, (2011), is the ability of an organisation to achieve such objective as high profit, product quality, large market share, good financial result and survival at predetermined time using relevant strategy for action. Williams and Anderson, (1991), also define performance as employee's achievement level in his or her responsibility and duties assigned in the work place. Furthermore, Anastasia (2008) viewed that organizational performance construct can be measured by effectiveness, efficiency, satisfaction and innovation of the product while Apolot (2012) sees organisation assessment of performance in sales growth, customer satisfaction and profitability as a measured by effectiveness, efficiency, satisfaction and innovation of the product while Apolot (2012) sees organisation assessment of performance in sales growth, customer satisfaction and profitability as a measure of business performance. Therefore, a good measurement of organizational performance must be able to consider the goal of the owner designed to promote the business such as, MSMEs in the areas of some specific results of output and profitability (Marr and Schiuma, 2003).

MSMEs are critical agents of economic transformation as they account for more

than 50 percent of Gross Domestic Product (GDP) of developing economies, are main source of innovation and technological development source of supply of both human capital and raw materials to larger businesses and main source of entrepreneurship and enterprise (Sanusi, 2003). The contribution of the MSMEs sector to the Nigerian economy is crucial for the achievement of the broader development objectives such as poverty alleviation, spreading of employment opportunities and increasing indigenous ownership of resources in the economy (Chidoko, Makuyana, Matungamire and Bemani, 2011). MSMEs contribute nearly half of Nigerian GDP and accounts for over 25 percent of employment in the country. MSMEs according to Kessy and Urio, (2006) is defined as a productive activity either to produce or distribute goods and services mostly undertaking in the formal sector. A micro enterprise is the one with fewer than 5 employees while small enterprise is with 5 – 49 employees and a medium enterprise is the one with 50 – 99 employees and a large enterprise is with more than hundred employees (URT, 2003).

1.2 Statement of the Problem

For years, significance of microfinance has increase due to the important function it plays on MSMEs. MSMEs performance has been slow and not encouraging in recent times. Oladele, (2014). This has given birth to high business mortality lately in the country and the big business organisations are moving to other neighbouring countries in West Africa such as Benin Republic and Ghana. It is in

this regard that this research came into place. For that reason, this study will clearly identify literature gaps that it intends to address below.

Haider, Asad and Atiq (2017) did a research on the topic "mediating role of opportunity recognition between credit, savings and performance of micro and small enterprises in Pakistan. This study intends to add customer satisfaction to its variables making it loan and customer satisfaction. Also, the initial research, was done at Pakistan while this research is been carried out at Zaria metropolis of Kaduna State, giving an environmental gap.

Furthermore, Duru, Abubakar and Vincent (2017) did a research on "Role of Microfinance Banks Credit in the Development of Small and Medium Enterprises in Lokoja, Kogi State, Nigeria". The domain of the research work was Lokoja while the domain for this research work is Zaria. Therefore, this research work intends to cover the environmental gap; also, the research done at Lokoja uses descriptive statistics and chi-square statistics for data analysis and testing the postulated hypothesis. This research intends to cover the methodological gap because chi-square is seen as an out-dated method of analysis therefore, this research intend to use statistical package for social science (SPSS). Another research work that has a methodological gap to this research is the work done by Oklahtheule (2017) on the topic "Effect of Small and Medium Scale Enterprises on economic growth in

Nigeria". The research uses secondary data collected from CBN statistical bulletin (2012, 2013 and 2015). Central Bank of Nigeria, Annual Report and Statement of Accounts (2011, 2012) and national Bureau of Statistics on Creation and Employment Surveys (2012). This research differs in terms of method of data collection by using primary data. Furthermore, Omogbai, Nwatoby and Andrew (2018) wrote a paper on the topic "Effects of Microfinance Banks and performance of MSMEs. The research uses secondary data by using CBN Annual Reports for the Period 1990 to 2015. But this research intends to cover the gap by using primary data.

Despite the effort of micro finance institution such as LAPO (Live Above Poverty), micro-cred micro-finance bank, Baobab, Echo micro-finance bank, Golden Bridge microfinance Institutions among others to take microfinance within the reach of poor people and MSMEs, who have still not benefited from conventional formal financial system, MSMEs sector had not shown any sign of growth and expansion especially in Zaria metropolis. Many people from Zaria metropolis, household product manufacturers and shopkeepers have innovative ideas for the business but they do not have any or much financial resources to implement them. This phenomenon leads them to more poverty and low standard of living, this research seeks to find out and make recommendations that will improve the situation.

Lastly, no studies have investigated the effect of microloans and customer satisfaction on MSMEs performance in Zaria metropolis. Taking the above into consideration, the research investigated the effect of micro loans and customer satisfaction on MSMEs performance within Zaria metropolis of Kaduna State, Nigeria in order to add to the body of knowledge.

2. Literature Review

Fanen amande-kur (2021) wrote on the topic "Micro finance and performance of micro, small and medium enterprises in Makurdi metropolis. The research is descriptive and simple random sampling techniques were adopted as a technique in selecting MSMEs sample size. A structured questionnaire was used in to collect relevant data for analysis. Data was presented through the use of frequency tables and chi-square test was used to carry out the analysis. This reviewed paper has the same features with this research that is being carried out except for environmental difference. Also, the reviewed paper makes recommendations specific for women but this research on-course makes a general recommendation for both genders.

Furthermore, Wombo, Ogaga and Tsetim (2020) researched on a topic "Effect of Microfinance Institutions" services on the performance of women Owned Small and Medium Scale Enterprises in Benue State Nigeria; the study focused on the women-owned SMEs in Makurdi metropolis. The research uses savings services, loans services and training services as Ivs.

Survey design was used in the study and primary source of data collection was used to collect data. Regression analysis was used as a technique of data analysis. The study found that saving services, loan services and training services of MFIs all significantly affect the growth of women owned SMEs in Makurdi metropolis in Benue State. From the research, it can be seen that there is a positive impact between MFIs services on the growth of women-owned SMEs in Benue State. The study recommends that women entrepreneurs should make themselves available for any business venture by joining different business groups in order to gain from any opportunity coming via loan. But this research differs with the above by concentrating on all genders.

Also, Ejaseri, Nurhasanah, Chairunnisa and Suregar (2019) researched on a topic "Model performance supported MSMEs – Based Applications through E-Money Go Food Business Customers satisfaction and Grab Food". The study uses a sampling method. It found that there is a direct or indirect effect of a positive and significant marketing strategies on the performance of MSMEs through business customer satisfaction. The research recommends businesses to create product presentation of updating crises and provide promotional package that is more diverse. This particular research differs from the reviewed paper because the reviewed paper concentrates on e-business or e-enterprise.

Lastly, Omandi and Vagango (2018) researched on the topic "Microfinance service and financial performance of small and medium enterprises of youth SMEs in Kisumu county Kenya". The research used a descriptive research design. A simple random sampling was used and primary data was collected by the use of self-administered semi-structured questionnaire. The data was analysed through the use of descriptive statistics such as frequencies, percentages, means score and standard deviation with the aid of SPSS and presented through tables, charts, graphs, frequencies and percentages. The research concludes that, some of the microfinance services such as the mobilizing of savings, training for financial expertise and the modeling of roles significantly influence on the performance of SMEs in Kisumu county, Kenya. There is an environmental difference (gap) between this research and reviewed paper.

2.1 Theoretical Framework
The research was built theoretically on the micro credit theory. The micro credit theory was derived from the economic theory that forms the foundation of the credit business in non-communist society (Ngugi and Kerongo, 2014). The theory was first conceived by Adam Smith in the 18th century that self-seeking individuals are always eager to employ their labour, capital and skills to their best interest, which eventually add up to the benefit of the entire society due to the work of the visible hand. Smith's micro credit theory was later popularized by Karl Max who went ahead to described principle of material prosperity of the non-communist society.

In the year 1994, Yunus advanced on the micro credit theory and came out with the psychological component of the theory known as "the social consciousness driven capitalism". The theory argues that species of profit-making private venture can be conceived that cares about the welfare of its customers. The psychological aspect of this theory looked at the impact private ventures make on their clients. By so, the clients were considered to be associated with the profit of firms. In other words, it is possible to develop capitalist enterprises that maximize private profits subject to welfare considerations of their customers. Issues of profit cannot come into play of the MSMEs because they do not have enough working capital to run its business organisation effectively and efficiently. Here, MSMEs that do not have enough working capital will have no choice to approach MFI for micro loans in order to augment. Furthermore, the use of these loans judiciously can lead to the provision of goods and services that can bring about customer satisfaction. The theory as advanced by Yunus (1994) looks at the impact of the micro credit on the clients of these private firms as their profitability is highly skewed to the welfare of their customers. The theory can be conceptualized to this study as the research looks at the micro-loan and customer satisfaction in relation to the performance of micro, small and medium enterprise. The reason the researcher uses this theory is because the theory tilts towards two dimensions; MSMEs, as a business organisation and MFI as a financial institution and its service delivery which is loan in relation to customer satisfaction.

2.2 Study Area

Zaria is a town in northern Kaduna State, in Nigeria in the northern region of the country located on latitude 11004' north and longitude 7043 east. It is on 15km radius from Patterzon Zochonous (PZ) post office and connected to rail and roads with other parts of Nigeria. Distances from Sokoto, Jos, Kano and Kaduna are approximately 404km, 387km, 176km and 75km respectively. The second main town in Kaduna State is Zaria and it is home to A.B.U., Nuhu Bamalli polytechnic, Federal College of Education, Nigerian Institute of Transport Technology, ABU Teaching Hospital and many other federal institutions. Zaria has population of approximately 975,153 (a projections from 2006 national census). Zaria comprises of two local government councils, sabon gari local government which consist of three districts; Sabon gari, Samaru and the Government Reserve Area and Zaria walled city and Tudun Wada (Sylvia, O. 2013).

Furthermore, Kaduna State houses twenty three (23) Local Government in which Zaria Local Government council and Sabon-gari local government council are part of it. The two local government councils (Sabon gari and Zaria local government) form Zaria metropolis which happens to be the scope of this research work. Zaria local councils is having 999 registered MSMEs while Sabon gari local council is having 1,058 in which the total of the two is 2,057 to give the total number of registered MSMEs in Zaria metropolis (Ministry of Commerce, Industry and

Tourism; Divisional Office, Zaria) during the period under study.

This research mainly focused on micro small and medium scale business in relation to microfinance banks in Zaria metropolis. The study will only be limited to three services (loan, savings & customer satisfaction) rendered by microfinance banks. This study will be carried out within Zaria metropolis. This research will use information gotten from respondents (registered MSMEs) within Zaria metropolis on the aim of examining the effect of microloans, savings and customer satisfaction on MSMEs performance.

3. Methodology

This study made use of descriptive design where data was collected using questionnaire and analysed with quantitative techniques. The population comprised of 389 registered MSMEs in Zaria Metropolis. In addition, questionnaire was adopted as the instrument of data collection. The

4. Result and Discussion

questionnaire measuring micro-loans and customer satisfaction was adapted from the study of Arora (2012); Bernard Kevin & Khin (2017) and Kemboi, Biwoth & Tarus (2014) respectively. Performance was measured by innovation and adapted from Datar, Kulp & Lambert (2012). The instruments had a five-point rating scale of Strongly Agree, Agree, Disagree, Undecided and Strongly Diasgree, response options.

The model estimated for the study is presented as thus:

$$Y = + _\beta X 1 + _\beta X 2 + \epsilon$$

Where:

Y=performance of MSMEs as measured by innovation.

X1=loan

X2= customer satisfaction

$_\beta$=the coefficient of independent variable.

 =intercept that is the value of Y when all other variable take the value of zero.

ϵ =error term

Table 1: Response rate of the questionnaire

Detail	Copies/rate
Questionnaire distributed	389
Questionnaire returned	377
Questionnaire not returned	12
Invalid	5
Usable questionnaire	370
Response rate	0.98
Valid response rate	95.12%

Table 1 shows the summary of the number of questionnaires distributed, number of questionnaires returned and the response rate. The researcher distributed a total number of 389 questionnaires to participants, 377 questionnaires were returned and this gives a response rate of 98%. In a further assessment of the

returned questionnaires, it was ascertained that 5 were invalid and this bring the total valid response rate to 95.12%. This is because of the effort made by the researchers and assistants of constantly visiting the participated MSMEs.

Table 2: Discriminant validity

Construct	CS	LN	Pi
Customer satisfaction (Cs)	**1**		
Loan (Ln)	0.230	**1**	
Performance (Pi)	0.550	0.318	**1**

The square roots of AVE are presented in bolded font on the diagonal and it can be observed that the values are greater than the correlations among the constructs, thus this criterion is satisfied.

5. Findings and Recommendations

The findings revealed that MSMEs in Zaria metropolis of Kaduna state patronizes Micro loans as source of finance for their initial and start-up capital as well as their assets, as such, this has assisted in improving their innovative performance. Also, MSMEs in Zaria metropolis has adopted customer satisfaction as a strategy to retain her current customers and to attract potential customers and this initiative has helped in boosting their innovative performance.

In line with the above conclusions, the study recommends that

Firstly, since Micro Small and Medium Enterprises in Zaria Metropolis of Kaduna state go for loan as a source of finance, it is therefore recommended that, Micro-finance banks should make accessible, adequate and sufficient initial or start-up capital to its committed customers who are consistent in their transactions with the bank in order to bring expansion.

Secondly, organized bodies such as National Bureau of Statistics, National MSMEs, in each of the state should work hand in hand with all the respective local governments in Nigeria in ensuring that small and medium scale enterprises in Nigeria at the local government levels are adequately registered before they begin operations so that adequate data that relates to the contributions to MSMEs either by donor agencies or by the government can be obtained at minimal or no cost at all.

Finally, government through the instrumentality of Micro-finance banks should capitalize on the success story of Micro-loans and, make friendly monetary and regulatory policies so as to create a secure haven for Micro-small and medium enterprises and intending micro small scale entrepreneurs to transact on a fair playing ground and to check some excesses of individuals who may wish to divert micro-loans meant for setting up new ventures

for other non-economic motives in order to increase the rate of customer satisfaction.

6. Suggestion for further studies

This study concentrated on micro-loan and customer satisfaction in Zaria metropolis of Kaduna State. Thus, there is need for more researches to be conducted in the area on the effect of micro-loan and green marketing on the performance of MSMEs in Nigeria.

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