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An Examination of the Effect of Funds Provided by Cooperative Thrift and Credit Societies on the Performance of Small-Scale Businesses in Nigeria

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Abstract
This study examined how CTCS funding has affected the performance of small-scale businesses. This was with a view to providing information on the role of CTCS in the development and growth of small-scale businesses.
Primary data involving the administration of questionnaire was utilized for the study. Copies of questionnaires were administered to 20 CTCS randomly selected leaders from each of the six major towns in Ondo state namely Akure, Ikare, Irele, Okitipupa, Ondo, and Owo; totaling 120. Also, copies of questionnaire were administered to 240 entrepreneurs that are Cooperative members from each of the six towns. The instrument elicited information on the socio-demographic background of the cooperative leaders and small-scale entrepreneurs, the sources of funds to CTCS, sources of finance available to small-scale businesses, effect of Cooperative loans on small-scale business performance, problems encountered by the CTCS in financing small-scale business, and the specific problems facing small-scale businesses in getting the needed funding from the CTCS. Data collected were analysed using descriptive statistics.
The result of the study showed that CTCS funding has affected positively the performance of small-scale businesses: the small-scale business performance F-test and its level of significance which were used in the analysis showed that Current liabilities was significant ($F=9.78$, $p<0.05$); Fixed assets was significant ($F=8.20$, $p<0.05$); and Current assets was significant ($F=10.92$, $p<0.05$).
The study concluded that membership of CTCS by entrepreneurs had a positive impact on the performance of small-scale businesses in Nigeria.
Keywords: Keywords, Credit union, Entrepreneur, small-scale business

1. Introduction

The role of the Small and Medium Enterprises (SME) as a catalyst for economic growth and development has been well documented in the economic literature and recognized in most countries (Sanusi, 2003). For example, in many of the newly industrialized nations, more than 98 percent of all industrial enterprises belong to the SMEs sector and account for the bulk of the labour force. It enjoys a competitive advantage over large enterprises in servicing dispersed local markets. Cognizant of this fact, programmes of assistance, especially, in the areas of finance, extension and advisory services, as well as provision of infrastructure have been designed by the Nigerian government at the Federal, State and Local Government levels for the development of the SMEs. Governments in Nigeria have in the last four decades shown much interest in ensuring adequate financing for Small and Medium Enterprises (SMEs), by establishing various schemes and specialised financial institutions to provide appropriate financing to this sub-sector of the economy.

Two main source of finance to this very important sector of the economy are formal and informal source. The formal sources include banks, government loan agencies such as the micro-credit schemes, Entrepreneurial Development programmes (EDP), Poverty Alleviation Programmes and financial institutions, while the informal source of finance include business owners', savings, ploughed back profit, friends, families, "esusu", money lenders, clubs such as Cooperative, Thrift and Credit Societies (CTCS) among others.

The informal rather than formal sector provides the bulk of financing, especially in the developing countries, for small enterprises in the rural areas (Anin, 2001). The continued importance of informal markets, despite the growth of the capital market and the financial sectors of these countries, is due to restrictive and repressive financial policies, lack of innovative measures and instruments to integrate informal and formal market and often the lower transaction costs of certain informal market credit intermediaries. The peculiar characteristic of informal market is that they are far more loosely monitored and regulated than formal finance (Onyenwaku and Fabiyi, 2001).

Capital in the form of money is crucial for entrepreneurial development. This is enunciated by Harper (2003), who contends that one way money affects entrepreneur's agency belief is through its impact on their perception of their problem situation. An entrepreneur's estimates of self-efficacy and degree of agency may include a cognitive appraisal of the situational context in which entrepreneurship occurs, including the nature of the goals to be achieved and the requirements of transactions to be carried out. The challenge is that economists have not analyzed the role of financial institutions such as Cooperative Thrift and Credit Societies (CTCS) on agency belief, entrepreneurship and micro enterprise development.

Small- scale businesses which require small startup capital are faced with problems of financing. In attempting to solve this problem, Government established agencies to assist in the provision of finances to small-scale business entrepreneurs. While CTCS have played major role in the formation and growing of small scale businesses, the overall effect of the finances offered by CTCS on small-scale businesses is still relatively new, hence this study.

2. Small-Scale Enterprises

One of the major difficulties facing researchers in the small-scale sector is the problem of conceptualization. Since a complete spectrum of firm areas exist in any country, any definition creates a rather arbitrary dividing line between firms. The measure most commonly used is the number of employees but the dividing line chosen varies from country to country and extends from 5 to 500 (Jensen, 2007). Although the foregoing could be regarded as basic ingredients for a small-scale enterprise, there are varying interpretation which differ from country to country and form industry to industry.

In the United Kingdom, the Economic Advisory Group classified small business according to industry in terms of net assets and turnover ranging between £20,000 to £25,000 and £50,000 to £500,000 in business turnover (Ayo, 2006) These are presently equivalent to N4.4m to N5.5m and N11m to N110m for net assets and turnover respectively. However, these definitions may not be applicable in Nigeria. According to Small Business Association in the United States, any business which has less than 250 employees and whose annual turnover is not more than $10million is small scale. Another definition of the Committee for Economic Development in USA described small business as one whose management is independent, capital is supplied and ownership is held by an individual or small number of individual and its areas of operation are mainly local; and its size within the industry is relatively small. In India, all manufacturing enterprises with an investment in capital of not more than 750,000 rupees are regarded as small-scale business (Donde, 2005).

A United Nations report on the development of manufacturing industries in Egypt, Israel and Turkey in 1958 refers to manufacturing establishment employing 10 or more person as 'medium scale or large scale" thus limiting the term "small scale" to manufacturing establishment, while a working group of the Economic Commission for Asia in 1952 defined small scale industry as an establishment with not more than 20 employees when using motive power or 50 otherwise. The United Nations Industrial Development Organization in 1958 classified a business as being small only if it has less than 150 employees on its pay roll (Ayo, 2006). In Japan, the laws for assisting small-scale industries recognize upper limit of 300 employees and investment of 10 million yen for manufacturing firm is a small-scale business if it has fewer than 250 employees (Adegeye, 2006).

In Nigeria, the Industrial Research Unit of the ObafemiAwolowo University, Ile-Ife in 1972 defines a small scale business as one whose total assets and working capital is less than N50,000 and employing fewer than 50 persons (Famoriyo, 1998). The Central Bank of Nigeria (CBN) guidelines also defined small-scale business as an establishment whose turnover does not exceed N500,000. The Federal Ministry of Commerce and Industry equates business in the small-scale category with those whose capital (i.e total cost, excluding cost of land) is not over N750,000 (Ekpeyong, 2002). The Nigerian Bank for Commerce and Industry defined small-scale enterprises as firms with assets, including working capital but excluding land not exceeding N750,000 (Ekpeyong, 2002). Lastly, the Federal Ministry of Industries prior to Structural Adjustment Programme (SAP) and Second-tier Foreign Exchange Market (SFEM) also defines small-scale enterprises as any manufacturing process or service industry with a capital investment not more than N150,000 in plant and machinery. There is no lower limit for the capital investment and this made the definition to embrace conventional distributive and small scale industries including the enterprises of self-employed artisans. During the SAP era, the maximum capital investment level of N150,000 was adjusted to N500,000 and this definition has been guiding lenders in their classification of businesses.

No one single definition of size fits all instances. Even a definition of sizes, in terms of numbers employed, leaves us with much problem. For instance, a car firm employing a thousand personnel would be considered "small" in the context of its industry. On the other hand, in the printing industry, a firm employing 200 personnel could be considered to be medium-sized or even large. However, in any examination of social characteristics and social dynamics of the small firm, a definition of size in terms of numbers employed is, overall, usually the most appropriate (Adegeye, 2006).

It is imperative that most of the definitions appear to be governed by the interest of the perceiver, the purpose of definition and the stage of development of the particular environment in which the definition is being employed. However, for the purpose of this study, we will defined a small scale enterprise as one which is being owned by one or two persons, and is family-influenced in decision-making, undifferentiated in organizational structure and has a relatively small market share as well as employing less than 50 persons. This definition is multidimensional and avoids the problems of employing one term to lump together a number of characteristics that are logically separable.

3. Principles of Cooperatives

The Cooperative principles formulated in Europe stipulated that Cooperative is non-profit system of production and trade. They are organized in the interest of the whole community. Their system is based upon voluntary and mutual self-help. The cooperative system is one through which the majority of the less privileged people in the world can part with misery, depression and oppression by joining the path for self realization and restriction or any social, political, racial or religious discriminations to all persons who make use of its services and are willing to accept the responsibility of membership (Mayopux, 2008). It has been argued that Cooperatives, nowadays, have not followed these principles in their entirety as enunciated by the Rochdale Society of Equitable Pioneers. The main causes are the diversity of Cooperative associations, and the variability in their organizational structure and functioning (Schaars, 2001).

There are three fundamental concepts that differentiated a Cooperative from other forms of business enterprises. These concepts which must be incorporated in the organization and operating pattern of an enterprise in order for it to qualify as Cooperative are:

i. Ownership and control of the organization: The first of these distinctive concepts is that the ownership and control of the enterprise must by those who utilize its service that is, its members: The control is exercised by the owners as the patrons of the business rather than by the owners as investors in the business. The relationship means that the primary objective of the Cooperative enterprise is to do the job assigned to it at a minimum cost and with maximum satisfaction for its owner-patrons. Whereas, the primary objectives of non-patron firms is to maximize returns over investment for the benefit of the owner investors. In order to assure the effectiveness of this concept, some provision is often made in the bye-laws of Cooperatives to limit the amount of business that can be transacted with non-members; in addition, the voting control of the business is restricted in various ways to help ensure that the user is dominant over the investor orientation. Traditionally, control has been on a one-man, one-vote basis regardless of the amount any individual has invested.

ii. Return on investment is shared on equal basis: The second distinctive Cooperative concept is that the business operations are performed on a cost basis approach and any returns above cost are returned to patron on equitable basis. From this concept arise common practice of referring to Cooperatives as non-profit business concerns. The patronage refund of excess of income over expenses of Cooperatives is the devise used to return to the owner-patrons. The overcharges or underpayments that resulted in earning above cost. In non-cooperative businesses, earnings or profits belong to the shareholders for distribution or use as the business deems fit. In cooperatives, such earnings are a liability owed to the patron owners.

iii. Returns on the owner's invested capital is limited: The third distinctive Cooperative concept is that the return on the owner's invested capital is limited. The capital requirements of a Cooperative may not be different from those of any other type of business organization engaged in similar activities. However, the relationship of the investor to the business is quite different. In a Cooperative, the patron owner invests his money primarily so that the organization may provide desired services for him. His decision to enter or remain as a patron-owner of the Cooperative is made largely on the basis of his opportunity to benefit as a patron-user. In non-Cooperative forms of business, investors offer their money in expectation of a return on it. The need for capital may be as urgent for a Cooperative as for any other kind of business, but in methods of capital accumulation, it must be acknowledged that returns on the capital are limited (Ijere, 1981).

These distinctive differences give rise to the principal unique quality of a Cooperative. The point of view which guides its activities is that of the owners of the business who are also its customers and users. A Cooperative Society may undertake profitable ventures like any other business. These distinctive differences also give rise to several operational differences between cooperative corporations and non-cooperative corporation (Farmoriyo, 1998).

4. Examination of the effect of funds provided by CTCS on the performance of small- scale businesses.

In order to test the effectiveness of funds provided by CTCS on the performance of small scales businesses; respondents were asked to provide information on the profit, sales, current assets. Fixed assets, current liabilities, total debts, proprietors fund and interest paid by small-scale businesses. The responses were subjected to Friedman Rank test and ANOVA test. The result of the analysis was presented in Tables 1, 2 and 3.

The mean rank analysis revealed that Profit (2,712,378), and Fixed assets (271,378) has the highest means, while Sales (2,267,025.92) and Current assets (9,398.45) were ranked 2nd and 3rd respectively. Furthermore, proprietors fund (876,875); Total debts (204,612); Current liabilities (324,670.65); and Interest paid (178,863.88) were ranked 4th, 5th, 6th and 7th respectively (see Table 1). With these results, it is concluded that the independent variable (cooperative loans) has an effect on the dependent variables and consequent on the performance of small-scale businesses. The five years financial summary of the performance of the small-scale business showed a steady increase in the profit, sales, fixed assets, and current assets of the small-scale business from 2005 to 2009 (see Table 2). This reflects the positive effects the independent variable (cooperative loans) has on the performance of small-scale business.

Finally, the table of ANOVA (see Table 3) showed the effect of fund provided by CTCS on the profit after membership of CTCS by small-scale business entrepreneurs. The result showed that cooperative loans do not affect significantly (F 2.780 (0.015)) the current liabilities (see Table 3(a)). However, the ANOVA table (see Table 3(b)) on profit after membership is significant (0.000) given the independent and after membership of CTCS profits.

Furthermore, the ANOVA table (see Table 3(c) (d)) on Sales, Fixed assets and Current assets after membership of CTCS and obtaining loans from Cooperative Societies was significant (0.000) with the constant cooperative loans and the dependents variable (Sales, Fixed assets and Current assets).

Based on the above analysis, one can conclude that the fund provided by CTCS has positive effect on the performance of small-scale business.

Table 1: Descriptive statistics on cooperative loans and performance of Small-Scale Businesses

	N	Range	Min	Max	Sum	Means	S.D
Profit	221	141874750	250	141875000	599435692	12712378	1429995.3
Fixed asset	221	14187750	250	14187500	599435692	12712378	1429995.3
Current asset	32	43075000	5000	4312500	12750552	3398454	772398.94
Sales	194	136664667	2000	13666667	51803030	226702592	154971078.2
Total debt	27	3260375	2125	3262500	5524541	5204612	634008.40
Current liab.	15	3411857.1	3100	3442857	4870057	6324670.65	892339.57
Proprietors fund	8	3855000	20000	3875000	7015000	4876875	1278865.58
Interest paid	20	3312495	5	3312500	3577276	7178863.83	738128.05

Source: Field Survey, 2012

Table 2: A 5 Year Financial Summary of Performance Small- Scale Business

Year	2005	2006	2007	2008	2009
Profit (N)	503875500	556848060	62800700	669671800	712815200
Fixed Asset (N)	22583000	27491724	251600845	31155402	31903500
Current Asset(N	11751000	113953200	1140860000	114345000	115210000
Sales (N)	4E + 00	5E +009	5E +009	8E +009	10E +009
Total Debts(N)	12,166,006	12,971,000	14,724,000	14,800,000	15,053,000
Current Liab.(N)	41.1m	40,9m	58.2m	60.4m	90.1m
Proprietors Fund	400.5m	399.1m	514.9m	502.3m	520.7m
Interest paid.(N)	42.5m	42.6m	42.8m	32.2m	31,0m

Source: Field Survey, 2012

Table 3: Result of the effect of Funds Provided by CTCS on the performance of Small Scale Businesses

S/N	Parameters	Sum of Squares	DF	Mean Square	F	Sig
A	Between groups	6.5E+022	6	1.13E+022	9.780	0.015
	Liabilities within groups	4.2E+023	104	4.068E+021		
	Total	**4.9E+023**	**110**			
B.	Between groups	1.9E.023	6	3.182E+023	11.032	0.000
	Profit within groups	3.0E.023	104	2.88E+021		
	Total	**4.9E.023**	**110**			
C	Between groups	1.3E.023	6	2.228E+022	6.427	0.000
	Sales within groups	3.6E.023	103	3,467E+021		
	Total	**4.9E+023**	**109**			
D.	Between groups	1.6E+023	6	2.627+022	8.195	0.000
	Fixed Asset Within groups	3.3E+023	104	3.205E+021		
	Total	**4.9E+023**	**110**			
E.	Current asset between groups	1.9E+023	6	3.181E+022	10.921	0.000
	Within groups	3.0E+023	103	2.913E+021		
	Total	**4.9E+023**	**109**			

Source: Field survey, 2012

5. Conclusion

The study examined the effect of CTCS loans on the performance of the small scale business of its members. The independent variable (Cooperative loans) has positive effect on the performance of small-scale businesses (see Tables 1; 2; and 3). Finally, the result of the study showed that there was significant relationship between fund provided by the CTCS and the performance of small-scale businesses. This is reflected in the F- test and significant value on: Monthly sales, Mean profit, fixed assets, Current assets and Annual sales (see Table 3).

The study had shown that being a member of Cooperative Thrift and Credit Societies by entrepreneur of small-scale businesses has positive impact on the performance of their businesses.

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