

How Do Formal and Informal Financial Arrangements Influence  
the Growth and Routines of Small and Medium Scale  
Enterprises? A Qualitative Investigation of The Manufacturing  
Sector in  
Southwest Nigeria

**Olajide Timothy Ajewole**

Submitted to the University of Hertfordshire in partial fulfilment  
of the requirements of the degree of PhD

May 2020

## **ABSTRACT**

There is a substantial body of empirical research on institutional arrangements through which financial relationships are structured in Africa. Although current literature on formal and informal financial institutional arrangement has advanced our understanding of their comparative importance, there is a dearth of empirical investigations on the implications of loan preconditions on the growth of/adoption of routines in small and medium enterprises (SMEs).. Thus, this study investigates the impact of formal and informal financial arrangements on SMEs growth and routine change in the Nigerian manufacturing sector. Semi-structured interviews were conducted with representatives of eleven SMEs that are beneficiaries of loans from formal and informal financial lenders were targeted. Nine representatives of formal and informal lenders were also interviewed. The outcome sheds light on how financial arrangements may impact growth and routine change amongst SMEs in Nigeria. The growth and routine change experienced by SME are shown to vary according to the loan attributes and preconditions associated with the type of lender respectively. Also, the findings reveal the nature of the interplay between formal and informal financial lenders and its consequences; such as improved access to loans, better enforcement, savings and disbursement; while also helping the government to achieve its lending target and easing the challenges of trust and quality relationships. These results contribute to the theoretical debate regarding the origins of routines and the mechanisms of routine change. Furthermore,, it emphasises that further quantitative studies would be essential in investigating its relevance for (on) policy.

## ACKNOWLEDGEMENTS

First and foremost, my greatest thanks go to the Almighty God for his eternal grace, even in the darkest of times when the journey seems very lonely and confusing.

A special thanks go to the participants in this study who were forbearing and shared their experiences with me. They taught me the basis of what I know now about lending preconditions.

I would like to thank my supervisory team for their vital guidance, support, and feedback throughout the highs and lows of this PhD journey. Dr Denise Dollimore, went above and beyond to provide astute academic and pastoral guidance. Dr Marianna Dodourova, for her good humour, bluntness, assiduousness and intellectual engagement towards enhancing my work. Dr David Gindis, for always being there to offer stability and insight: providing his time even before he became part of my supervisory team. They all have my lifelong admiration and respect.

To my lovely wife who came into the scene and took the demand in its strides. She endured my time away from home due to the demands of my research. Also, we welcomed the arrival of our first child. In addition, my in-laws, Professor and Mrs Ayanlaja, have supported me with their prayers and good wishes. For this, I am grateful.

I will also sincerely like to convey my deepest gratitude to my parents, brother, sisters, uncle - Mr Olanrewaju and his family, my aunt - Ms Olanrewaju, and my friends; Chucks Ebeye, Seyi Oyetuga, and Farid for providing a boundless foundation of

discussion and reflection that permitted the crystallisation of my insights and ideas.

Thank you for all you have done for me.

## TABLE OF CONTENTS

<b>ABSTRACT .....</b>	<b>II</b>
<b>ACKNOWLEDGEMENTS.....</b>	<b>III</b>
<b>TABLE OF CONTENTS.....</b>	<b>V</b>
<b>LIST OF TABLES.....</b>	<b>XIII</b>
<b>LIST OF DIAGRAM.....</b>	<b>XIV</b>
<b>LIST OF ABBREVIATIONS.....</b>	<b>XV</b>
<b>GLOSSARY .....</b>	<b>XVI</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
1.1 Overview .....	1
1.2 Background to the Study.....	6
1.3 Statement of the Problem .....	14
1.4 Research Questions .....	15
1.5 Research Methodology.....	15
1.6 Summary of Original Contributions.....	16
1.7 The Scope of the Thesis .....	18
<b>CHAPTER TWO - LITERATURE REVIEW.....</b>	<b>19</b>
2.1 Overview .....	19
2.2 The Nigerian Context.....	19
2.3 Institutions.....	25
2.4 Theoretical Foundations of Personal Vs Impersonal Exchange.....	32
2.4.1 <i>Personal Exchanges</i> .....	32
2.4.2 <i>Impersonal Exchanges</i> .....	36
2.5 Culture.....	39

2.6 Trust.....	44
2.7 How Institutions May Influence Habits And Routine.....	49
2.8 Habits .....	54
2.9 Routine Change.....	68
2.10 Implication of Routine Change.....	86
2.11 Formal and Informal Sectors in Nigeria.....	89
2.11.1 <i>Formal Financial Sector</i> .....	97
2.11.2 <i>Informal financial sector</i> .....	101
2.12 Information type in lending.....	109
2.13 How Formal and Informal Lender Mechanisms Relate	110
2.14 Growth: Effects of lending practices.....	115
2.15 Summary .....	126
<b>CHAPTER THREE- METHODOLOGY .....</b>	<b>129</b>
3.1 Overview .....	129
3.2 Research Aim and Objectives .....	129
3.3 The Research Philosophy adopted .....	130
3.4 Research Strategy.....	135
3.5 The Research Method and Approach .....	138
3.6 The instrument used for data.....	140
3.7 The Process of Data Collection.....	141
3.7.1 <i>Pilot Study - Data Collection</i> .....	141
3.7.2 <i>Main Study – Data Collection</i> .....	143
3.8 Interpretative Phenomenological Analysis (IPA) .....	144
3.9 Critiquing of IPA as a Method and How it was Addressed	149
3.10 Thematic Analysis.....	153
3.11 Steps in Thematic Analysis .....	154
3.12 Connection between Themes .....	162

3.13 Time Horizons.....	166
3.14 Positionality, Reflexivity and Validity.....	166
3.15 Ethics and Responsible Research Practice.....	169
3.16 Limitations .....	170
<b>CHAPTER FOUR - PILOT STUDY FINDINGS .....</b>	<b>172</b>
4.0 Overview .....	172
4.1 Participants in the Pilot Study.....	172
4.2 Participants in Context: Lenders.....	175
4.2.1 CB Expert.....	175
4.2.2 IB Expert.....	175
4.2.3 Coop Expert.....	176
4.3 Participants in Context: SME Representative.....	176
4.4 Presentation of Result and Analysis.....	177
4.5 Superordinate and Corresponding Subordinate Themes	180
4.6 Superordinate Theme: The Sacrosanct Nature of Precondition .....	181
4.7 Superordinate Theme: Compliance to Loan Preconditions and Access .....	183
4.8 Superordinate Theme: Impact of Access .....	184
4.8.1 Subordinate Theme: Routine Change.....	185
4.8.2 Subordinate Theme: Growth.....	186
4.9 Superordinate theme: Partial or no Routine Change ..	187
4.10 Superordinate Theme: Access Denial .....	189
4.10.1 Subordinate Theme: Level of Familiarity.....	189
4.10.2 Subordinate Theme: Bias.....	191
4.10.3 Subordinate Theme: Insecurity .....	192

4.11 Superordinate Theme: The Interplay between Formal and Informal Lenders. ....	193
4.11.1 Subordinate Theme: enforcement.....	195
4.12 Lessons from the pilot study.....	196
<b>CHAPTER FIVE - MAIN STUDY FINDINGS .....</b>	<b>199</b>
5.0 Overview .....	199
5.1 Participants.....	200
5.1.1 State Empowerment Fund (SEF).....	201
5.1.2 Development Financial Institution (DFI).....	203
5.1.3 Microfinance Institution (MFI).....	204
5.2 Participant in Context: Informal Lender .....	204
5.3 Assigning Names and Sources of Finance .....	205
5.4 Participants in Context: Loan Beneficiary SMEs.....	205
5.4.1 SME 1 .....	205
5.4.2 SME 2 .....	206
5.4.3 SME 3.....	207
5.4.4 SME 4.....	207
5.4.5 SME 5.....	208
5.4.6 SME 6.....	208
5.4.7 SME 7.....	209
5.4.8 SME 8.....	209
5.4.9 SME 9.....	209
5.4.10 SME 10.....	210
5.5 Presentation of Result .....	210
5.6 Summary of Themes.....	210
5.7 Superordinate Theme: The Sacrosanct Nature of Precondition .....	211



5.8 Superordinate Theme: Satisfaction of Loan Preconditions and Access .....	213
5.9 Superordinate Theme: Impact of Access .....	214
5.9.1 Subordinate Theme: Routine Change.....	215
5.9.2 Subordinate Theme: Growth.....	220
5.10 Superordinate Theme: Impact of Routine Change ....	228
5.10.1 Subordinate theme: becoming formalised...	228
5.10.2 Subordinate theme: efficiency.....	233
5.11 Superordinate Theme: Non-Compliance to Loan Preconditions.....	235
5.12 Superordinate Theme: No Routine Change .....	236
5.13 Superordinate Theme - The Interplay Between Formal and Informal Lenders on The Growth of SMEs.....	238
5.13.1: Subordinate Theme: Loan Assessment.....	244
5.13.2 Subordinate Theme: Improved Access.....	246
5.13.3 Subordinate Theme: Transparency.....	249
5.14 Summary .....	251
<b>CHAPTER SIX – DISCUSSION.....</b>	<b>253</b>
6.0. Overview.....	253
6.1 Extent to Which Formal and Informal Preconditions Impact SMEs Growth.....	253
6.2 Growth and the Variation Experienced.....	255
6.2.1 Access to a Single Source – Formal Lenders	256
6.2.2 Access to a Single Source - Informal Lenders	259
6.2.3 Loan Access to More Than One Lending Source .....	260
6.2.4 Summary of Variation in Growth .....	260
6.3 Extent to which Formal and Informal Preconditions Impact Routine Change .....	265

6.3.1 Routines Linked to Formal Lenders – CB, MFIs and IB.....	272
6.3.2 Routines Linked to Formal Lenders – DFIs and SEF.....	272
6.3.3 Informal Loan Preconditions and Non-Routine change.....	273
6.3.4 Superficial or Partial Compliance and Partial Routine Change.....	274
6.3.5 Variation in Routine Change.....	276
6.3.6 Implication of Routine Change on SME Growth .....	278
6.3.7 Development of Good Business Practices as a Result of Routine Change.....	278
6.3.8 Efficiency as an Outcome of Routine Change.....	281
6.3.9 Development of Formalisation.....	282
6.4 Interplay between Formal and Informal Lenders and their Impact .....	283
6.4.1 Improved Access .....	284
6.4.2 Enforcement .....	288
6.4.3 Savings and Disbursement.....	288
6.4.4 Helps Bank to Meet the Lending Target .....	289
6.4.5 Ease the Challenges of Trust .....	291
6.4.6 Quality Relationships.....	295
6.4.7 Summary.....	298
<b>CHAPTER SEVEN - CONCLUSION.....</b>	<b>299</b>
7.0 Overview .....	299
7.1 Summary of the Findings.....	300
7.1.1 Impact of Loan Preconditions on SME Growth.....	300
7.1.2 The Extent and Variation in Routine Change.....	301

7.1.3 <i>The Interplay Between Formal and Informal Lenders</i> .....	307
7.2 Significance of the Study.....	309
7.3 Practice Implications and Recommendations.....	315
7.4 Policy Implications and Recommendations.....	317
7.5 Future Research .....	321
<b>BIBLIOGRAPHY .....</b>	<b>323</b>
<b>APPENDICES .....</b>	<b>378</b>
Appendix 1 – Examples of excerpts covering themes such as access denial, level of relationship and Bias (Full excerpts covering all the themes is available on request).	378
Appendix 2 - Nvivo screenshot.....	381
Appendix 3 – Steps in developing codes, themes and category .....	382
Appendix 4 – Code .....	385
Appendix 5 – Interview schedule – the pilot study.....	389
Appendix 6 – Interview schedule – main Study .....	391
Appendix 7 – Excerpts coded as preconditions .....	393
Appendix 8 - SME Assigned Names And Sources Of Finance.....	395
Appendix 9 - Ethics Approval Letter (Pilot Study).....	396
Appendix 10 - Ethics Approval Letter (Main Study).....	398
Appendix 11 – Consent Form .....	401
Appendix 12 - Underground Economic Activities Typologies	403
Appendix 13 - SME participant profiles .....	403
Appendix 14 - Themes that emerged during the pilot and main study.....	405



## LIST OF TABLES

Table 4.1 - Lender types and assigned names.....	174
Table 4.2 - SME representative.....	174
Table 4.3 -Themes that emerged during the pilot study.....	181
Table 5.1 - Lenders and assigned names .....	201

## LIST OF DIAGRAM

Diagram 6. 1 – Variation in growth .....	262
Diagram 6.2 - Depiction of Variation in Routine .....	277

## **LIST OF ABBREVIATIONS**

GDP: Gross Domestic Product

IFC: International Finance Corporation

IB: Islamic Bank

SME: Small and Medium Scale Enterprises

SOP: Standard operating procedures are a set of procedures or a manual that explains the details of the various roles within an organisation

SSA: Sub-Saharan Africa

SMEDAN: Small and Medium Enterprises Development Agency of Nigeria

MENA: Middle East and North Africa

MSMEs: Nigeria's National Policy on Micro, Small and Medium Enterprises.

NGA: Nigeria

ROSCA: Rotating saving and credit associations

IPA: Interpretative Phenomenology Analysis

OECD: Organisation for Economic Cooperation and Development

BDSPs: Business Development Support Providers

LASRRA: Lagos State Residents Registration Agency

TIN: Tax Identification Number

BOI: Bank of Industry

## GLOSSARY

**Borrowers:** This refers to individuals or group that get money from another individual or group such as banks or cooperative with the expectation and agreement to pay back with some interest at a future date.

**Corporate Affairs Commission (CAC):** The corporate affairs commission is an agency of the Nigerian government charged with the registration of businesses.

**Formality:** This is a state of being known to the official channels. Any activities under a formal arrangement usually follow a process created by the government and administered by government agencies, parastatals and ministries. Examples of the process expected of a formal organisation are registration, possession of tax identification number (TIN), and payment of taxes.

**Formal financial sector:** Comprises of business entities engaged in licensed financial activities such as lending and savings. They are usually regulated and licensed by the Central Bank of Nigeria and are registered with the Corporate Affairs Commission.

**Formal financial lenders:** They are the same as formal lenders. These are lenders whose activities are regulated by the government and usually require a license issued by the central government before they can be allowed to operate. They include commercial and development banks.

**Formal sector:** The formal sector represents the economy segment where businesses are registered, and they are compliant with tax regulations as stipulated by the government.

**Formal institutions:** These are set of formal rules created, administered, and authorised by the government, primarily through their agencies. Example of government agencies includes; the Corporate Affairs Commission (CAC), and Central Bank of Nigeria (CBN).

**Fragmentation:** The process of breaking something into small parts (Dictionary.cambridge.org., 2021).

**Habits:** A habit is a disposition to engage in previously adopted or acquired behaviour (including patterns of thought) triggered by appropriate stimulus or context. This is because habits are influenced by prior activity and have durable, self-sustaining qualities (Hodgson and Knudsen, 2010: 239).



**Hard information:** is a form of quantitative information, that are generally in written form, and are verifiable. For example, account statements, credit score, audited report.

**Informality:** This is a situation whereby some economic activities/some businesses are not compliant with government legislation, and as such hidden from regulatory scrutiny. For example, this can take the form of a registered business, which has some employees whose contract of employment do not adhere to the law.

**Informal financial lenders:** They are the same as informal lenders. These are lenders whose activities are governed by a group of individuals who have prior relationships. The basis of their lending is informed by the quality of past behaviours of borrowers. This sort of lending arrangement has its basis in the culture of the people, and it is not illegal. Informal lenders have no obligation to be registered before they could operate. These lenders include family and friends, money lenders, Ajo/Esusu, and cooperative societies.

**Impersonal exchange mechanism:** Impersonal mechanism is synonymous with a transactional exchange or formal exchange. This exchange mechanism is typical of formal lenders and is based on hard information about the parties involved in transactions.

**Informal sector:** The informal sector is synonymous with the shadow economy. It represents the segment of the economy where firms operate under the tax radar and with no government registration and control. The activities under the informal economy include all market-based legal production of goods and services that are deliberately concealed from public authorities.

**Informal institutions:** These are informal rules, for example, customs, cultures, norms, and communal practices that underlie informal exchanges. These are rules created and administered by groups of individuals and communities, with little or no government intervention or control.

**Institutional Arrangement:** Institutional arrangements are the structures put in place that frame social and economic interactions, i.e. lending preconditions (Hodgson, 2006, b:2).

**Legality:** According to the Merriam-webster dictionary, Legality is the quality or state of being legal. Legality in this study has to do with registering with the Corporate Affairs Commission (CAC), and having a tax identification number (TIN).

**Mechanism of exchange or exchange mechanism:** This is the process or the approach that determines the economic relationship between two or more economic players. The mechanism of exchange is the process that guides the behaviour of economic players when dealing with each other. In the case of formal organisation/lender, it manifests in the form of rules and regulations. In the case of informal organisation/lender, it manifests in the form of customs, culture, and norms. Examples of economic players captured in this study include lenders and SMEs. These players (i.e. lenders and SMEs) can either be formal or informal lenders. There are two mechanisms of exchanges captured by this study. These are personal and impersonal exchange mechanism.

**Official channels:** This represents agencies owned by the government, i.e. agencies, parastatals and ministries. For example, the corporate affairs commission (CAC) is an agency of the Nigerian government charged with business registration. Another agency owned by the Nigerian government is the federal inland revenue service and state inland revenue services (FIRS) – charged with tax administration.

**Organisation:** This study will treat organisations as players. They are referred to as players because they are economic actors. The organisations described in this study are formal financial lenders (i.e. banks, registered cooperative societies, government-regulated or government-owned organisations that provide loans). Meanwhile, informal financial lenders include unregistered cooperative societies, family and friends and Ajo (local contributory scheme).

**Personal exchange mechanism:** Personal exchange mechanism is synonymous with informal exchange, relational exchange, and reputational exchange. This mechanism of exchange is typical of informal arrangement, common among informal lenders and is based on soft information relating to past relationships or past conducts.

**Routines:** A routine is here defined as a generative structure or capacity within an organisation (Hodgson, 2009).

**Registration:** This is the process a business entity is expected to follow to have their names, nature and composition of their businesses captured by the Corporate Affairs Commission. This will make their identity and activities are known to the government, including their activities

**Shadow economy:** Shadow economy is similar to the informal sector. It comprises of all “economic activities which are hidden from official scrutiny and not taxed or unregistered.

**Soft information:** is a form of qualitative information that is not in written form and hard to verify. It is usually gathered through social or relational activities.

**Tax Identification Number (TIN):** This is in a numeric form, and it is required for all taxpayers to have one; without it payment of tax will be impossible.

# CHAPTER ONE

## 1.1 Overview

Most studies on Small and Medium Enterprises (SMEs) in both developing and developed economies consistently agree that access to finance is important for SME growth (Gherghina et al., 2020; Demirguc-Kunt et al., 2006). Many evidences abound about the difficulties SMEs encountered to gain access to finance in Sub-Saharan African (SSA)<sup>1</sup> countries (Shuaibu, 2021). As a result of the difficulties, according to Mlachila et al., (2013) commercial bank lending in Sub-Saharan Africa (SSA) is generally low, with about 35 borrowers per 1000 people, behind 227 borrowers recorded by the Middle East and North Africa (MENA) and Latin America and the Caribbean (LAC), and 136 global average. The reduced/lack of access leaves the affected SMEs with no option other than to patronise informal lenders. SMEs' growth enhances economic growth through contributions they make via tax payment and employment generation. The extent and how SMEs can obtain finance is a reflection of the institutional arrangement of the environment, where they domicile (Baumol 1990; Boettke and Coyne, 2003; North, 2005; Demirguc-Kunt, 2006:2).

In this study, North's (1990:3) definition of an institution is adopted. North (1990) suggest that "the term institution is the rules of the game in a society or humanly devised constraints that shape human interaction". The term 'institution' has been

---

<sup>1</sup> Sub-Saharan African (SSA): According to the United Nations Development Programme (UNDP), out of the 54 countries in Africa, 46 of them are Sub Saharan Africa (SSA) (United Nations Development Programme, ND).

interpreted and described in several different ways by researchers. Thus, there is not a standard nor widely used definition. Formal institution is considered as the set of rules created and administered by the government and through its agencies.

Meanwhile, North describes informal institutions as the set of rules created and administered by individuals, groups, or community. These could be manifested through customs, traditions, and culture. Also, North (1990) contends that organisations could be considered as players or economic actors, e.g., financial institutions (formal and informal lenders) as examined in this study. Formal lenders and informal lenders are essential players in institutional financing arrangements. However, in the case of formal lenders, they are registered and regulated by the government (e.g., legislators) whilst informal lenders are controlled and managed by groups of individuals within the community through shared norms and culture. It is essential to note here that the formal/informal terminology is used in different ways, and the author's definition is not necessarily shared by others. Further evaluations/ debates on the term, institution; formal and informal lenders are indicated in Chapter two, Section 2.3.

It is essential to note that the type of financial institution from which SMEs choose to obtain loans may impact their growth and routines. SMEs can source loans from either formal or informal financial lenders or both. Indeed, this is a manifestation of the dual nature of the Nigerian economy. There are both forward and backward linkages between formal and informal sectors. The forward linkages entail a twin approach: these include, firstly, subcontracting agreements with large domestic companies, government agencies and foreign companies on the one hand, as well as the supply of consumer goods from informal sector

businesses to the formal sector on the other. The backward linkages consist of the movement of funds, raw materials, equipment, and consumer goods from the formal sector to informal sector enterprises (Arimah, 2001).

The formal and informal finance segments within the Nigerian economy is characterised by distinct fragmentation that affects efficient intermediation (further details indicated in chapter 2).

Fragmentation is the state of division or broken down into fragments. In the case of market fragmentation, this indicates a system in which the market is divided or broken into fragments. The fragments can be formal sector, e.g., various banks and informal sector, e.g., Ajo, moneylenders, cooperatives, ROSCA. Since this study is about financing, other aspects of the back and forward movement between formal and informal lenders will not be fully explored. Current research shows the existence of the back and forward movement between formal or informal sectors. In Nigeria, registered SMEs can access loans from formal and informal lenders, and the informal lenders and their members can open bank accounts with formal lenders. Although informal SMEs cannot get loans from formal lenders, except with informal lenders (more details of this are captured under the interplay between the two - see section 6.4).

A business has to be registered to become a legal entity. Registered businesses have better advantages, e.g., access to formal loans and government subsidies (further details discussed on page 18). However, unregistered SMEs are more likely to be restricted from accessing loans from formal financial lenders. This is because formal lenders would not ordinarily provide credit to unregistered businesses. Correspondingly, this may partly contribute to the arguments by scholars about the reason formal financial lenders have not consistently met the credit needs of SMEs. This is mainly due to their stringent

preconditions, such as business registration, causing many SMEs to shy away from formal financing and opting instead for informal financing sources (Atieno, 2001:2).

Although business registration is not the only reason(s) for SMEs to opt for informal financing. There are numerous underlying causes of informalities—for example, a conscious decision to avoid detection by not registering their businesses to avoid paying tax. Also, the lack of information on the process of business registration or the advantages associated with formalisation (La Porta and Shleifer, 2014). However, being in the informal sector does not make an SME that is in legitimate business illegal (see more detail on legality and illegality on page 96).

Thus, it is common for these SMEs who patronise informal lenders not to have processes in place that would make it easy for them to meet loan preconditions of formal lenders and most times, they can avoid payment of taxes and regulations (Eilat and Zinnes, 2002). Data suggest that the core-identifying characteristics of informal financing mechanisms are reputation and relationship-based approaches. Thus, making it easier for SMEs to access loans from informal financial lenders rather than relying on formal financial lenders (e.g., Allen et al., 2005; Ayyagari et al., 2007). Conversely, transactional and arm's length-based approaches denote the main features of formal institutions.

Literature suggests that the institutional arrangement structures social and economic interactions and is synonymous with rules, constraints, or regulations (Hodgson, 2006b:2). According to North (2009:4), "this institutional arrangement could be formal – laws, rules, instructions and informal – conventions, customs,

codes of behaviours<sup>29</sup>. In line with this study, institution is the rules of the game, that provides structure to the lending relationship between lenders and borrowers.

An indispensable component in all lending relationships is information. Information can either be soft or hard and is required to be collected, processed, and transmitted between players for lending decisions to be made (Liberti and Petersen, 2019). Distinguishing between soft and hard information is essential to understanding the mechanisms of formal and informal lending mechanisms, and it is, explored here in Chapter Two.

There is an ongoing quest to identify an ideal path to achieving continuous sustainable financing for SMEs, which will enhance their growth and subsequently lead to economic development. Currently, the economic policy prescriptions that have been put forward have not provided the perfect solution to the problems facing developing countries (Easterly, 2002). Scholars, policymakers, and politicians, are therefore, more uncertain in their economic diagnoses and prescriptive assertions. In considering the policy route for developing countries, the question of the missing path to development is still open. Besides, there is growing recognition that it is no longer realistic to argue simply that one remedy can fit all developing countries, regardless of history or circumstance (Kasozi, 2008). Increasingly, institutional considerations have been put on the agenda by scholars, researchers and policymakers who seek to be informed by empirical experience and evidence from everyday country development events.



There seems to be a developing consensus that institutions matter for economic outcomes, and the research agenda increasingly focuses on ascertaining which institutions are essential for different economic outcomes while also identifying how institutions affect economic outcomes (Acemoglu et al., 2005; La Porta et al., 2008; Menard and Shirley, 2008; North, 1994; North et al., 2009; Shirley, 2008). This thesis attempts to understand how formal and informal lending influence SMEs in Nigeria. It explores the nature of exchanges such as personal and impersonal mechanisms and the type of information shared and transmitted, such as soft and hard information. More specifically, the loan preconditions associated with each lender is evaluated, and their implications revealed. This chapter begins with an overview and a brief background to the study - including the summary of SMEs in Nigeria. Next is a statement of the problem, then the aims, objectives and research questions, followed by an outline of the research methodology and finishing with the scope of the thesis.

Before going on to the next section (section 1.2), it is imperative to emphasise that the conceptual definitions of some major concepts, e.g., institutions, formal and informal institutions, formal sector, and informal sector/shadow economy, are subject to debates. Also, other authors may use them in different ways to those adopted by the author in this study. For clarity, conceptual definitions relevant to this study are presented in the glossary and further explanations of major concepts appear in section 2.3.

## **1.2 Background to the Study**

This study focuses on Small and Medium Enterprises (SMEs). The meaning of SMEs differ considerably from country to country and are dependent on features such as country, the

number of personnel, the fixed assets value, production capacity, level of technology usage, capital employed, economic development, and the particular challenges experienced by SMEs (Enquobahrie, 1997; Harabi, 2005). Many countries and international organisations set their guidelines for defining an SME, often based on the number of employees, sales, or assets (International Finance Corporation, 2010). Some countries adopt an SME definition that covers all firms with fewer than 250 employees, including micro-firms.

The definitional issue is further complicated because individual banks in the same country use different definitions of SME for their own strategic and risk management purposes. For instance, among banks in the Middle East and North Africa (MENA), the cut-off between small and medium firms range from 5 to 50 employees, and the cut-off between medium and large firms range from 15 to 100 employees (IFC, 2010). In Nigeria's National Policy on Micro, Small and Medium Enterprises (MSMEs), the framework contains the breakdown of what should constitute an SME. Accordingly, given the geographical location of the targeted population, the definition given by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was adopted. SMEDAN is the agency charged with the responsibility of developing the small and medium scale business sector in Nigeria. It defines "Small and Medium Enterprises as small business organisations that employ 10 -199 employees, or has an asset of USD32, 000 (approx. ₦10,000,000) to USD1.2 million (₦999,000,000) excluding land and buildings" (SMEDAN N.D.).

SMEs are critical to the Nigerian economy. A study by the International Finance Corporation (IFC) shows that approximately 90% of Nigerian businesses are SMEs (Oyelaran-Oyeyinka, 2010). Small and Medium Enterprises "with 10-70

employees constitute 90-per cent of the industrial sector of Nigerian economy amounting to 70 per cent of industrial development contributing almost 70 per cent of the manufacturing sector output and 1 per cent GDP” (Mohammed and Teru, 2020). SMEs not only contribute significantly to improved living standards, but they also bring about substantial local capital formation and achieve high levels of productivity and capability. (Gbandi and Amissah, 2014: 329). However, even though the “SMEs constitute more than 90% of Nigerian businesses, their contribution to the GDP is only about 1% in comparison to 40% in Asian countries and 50% in the U.S. and Europe” (Gbandi and Amissah, 2014:329, Mohammed and Teru, 2020).

According to the National Bureau of Statistics survey of 2019 on SMEs in Nigeria, there are 41, 543, 028 SMEs. Out of this number, it is estimated that micro-enterprises constitute 41,469,947 (99.8%), small enterprises: 71,288 (0.17%) and medium: 1,793 (0.004%). According to business type, the composition of MSMEs revealed that education, manufacturing, and wholesale/retail trade represent 68% of small enterprises. Manufacturing, wholesale/retail trade, and human health and social works make up 68% of medium enterprises. In comparison, wholesale/retail trade, agriculture, and other services activities make up 76.3% of micro-enterprises. The 36 states of the federation, as well as the Federal Capital Territory (FCT), shows that Lagos, Osun, and Oyo have the highest number of SMEs; these include 8,395 (11.5%), 6,131 (8.4%) and 3,007 (4.1%) respectively. States with the smallest number of SMEs are Yobe with 102 (0.1%), Bayelsa with 300 (0.4%) and Borno with 538 (0.7%). Regarding the structure of ownership, 65% are sole proprietorship, 21% are private limited liability company, 6% are faith-based, and 5% are partnerships SMEs (National Bureau of Statistics, 2019). This study was carried out

in some selected cities in the southwestern part of Nigeria consisting of the Lagos, Ogun – Ijebu Ode and Abeokuta. More details in section 1.7.

Globally, when considering the informal sector, SMEs account for a significant share of employment (Aidara et al., 2021) and GDP (Zou et al., 2021). For example, in developed countries, SMEs employ an average of 67 per cent of formal employment in the manufacturing sector (International Finance Cooperation, 2010). On the other hand, in developing countries, this number is around 45 per cent (International Finance Cooperation, 2010). Similarly, SMEs contribute a sizable share to formal GDP at 49 per cent on average in high-income countries and 29 per cent on average in low-income countries, respectively (International Finance Corporation, 2010). The contribution of SMEs to employment and GDP in developing countries seems comparatively modest. However, estimates suggest that the informal sector (which consists essentially of SMEs) accounts for up to 48 per cent of the total labour force and 37 per cent of GDP in developing countries (International Finance Corporation, 2010). The corresponding percentages for developed countries are much lower, at 25 per cent of the total labour force and 16 per cent of the GDP (International Finance Corporation, 2010).

Significantly, according to Schneider (2005), the average size of the informal sector (another word for informal sector is the shadow economy) as a proportion of official GDP in 1999–2000 in developing countries was 41%, in transition countries 38%, and in OECD countries 17%. An increasing burden of taxation and social security contributions underlies the shadow economy. If the shadow economy increases by 1%, the growth rate of the official GDP of developing countries decreases by 0.6%, while in developed and transition economies, the shadow economy respectively increases by 0.8% and 1.0% (Schneider,

2005:598). Boly (2012) reports that most developing countries (32 out of 47) are located in sub-Saharan Africa. Meanwhile, fourteen developing countries are located in Asia and one (Haiti) in Latin America and the Caribbean. They are all characterised “with low industrial base and significant market distortions that policymaking has to address” (Soldatos, 2016:196).

Most of the economic output in Sub-Saharan African countries, including Nigeria, is produced by the informal sector/shadow economy. Correspondingly, Gbandi and Amisshah (2014) affirm that finance adds about 25% to the success of SMEs in Nigeria and that more than 70% of funds available to SMEs are from the informal financial sector. The informal financial sector is a subset of the informal sector. Their operations are primarily outside the banking system and are majorly unregulated, and loosely monitored than formal sources” (Chandavarkar, 1985:4). Godfrey (2017) argues that the economic activities taking place within the informal sector are traditionally unregulated by law but governed by custom and personal ties. Also, operating outside the formal financial system does not suffice to make them illegal. What constitutes illegality is dependent on the nature of the activities, e.g., prostitution, oil racketeering, and armed robbery. Details of various activities, i.e. both legal and illegal, are shown in Appendix 12.

The informal financial sector is largely characterised by small scale financings such as transactions, loans, and deposits occurring outside the regulatory remit of a central monetary or financial market authority (Adams and Fitchett, 1992). These informal financial services include SMEs, money lenders, cooperatives, pawnbrokers, Rotating Saving and Credit Associations - ROSCA (Mohammed et al., 2015; Kyazze et al., 2017). The informal financial sector’s operations are marred by lack of good governance, unrecognised, unrecorded,

unprotected, and unregulated by the public sector (Onwe, 2013:60). SMEs that remain informal are those whose operations and characteristics remain unregulated by the government/other public authorities. For example, enterprises that are not officially registered and do not maintain a complete set of accounts. Also, workers with limited social or legal protection and employment benefits. Bank of Industry (2018) suggest that other examples of informal employment workers include street traders, subsistence farmers, small scale manufacturers, service providers (e.g., hairdressers, private taxi drivers, and carpenters).

The formal financial sector is comprised of business entities that are registered and operate within the scope of the official financial system. One of the government's functions is to offer a legal framework to provide some degree of structure for economic activities. However, when it comes to shadow or informal economic activities, they are not covered directly by the legal framework. One could argue that this is because they are not registered and regulated. Therefore, the legal frameworks are easily avoided, and contracts are frequently unenforceable and economic relationships can become stained by violence. Also, it could become very problematic for businesses to experience expansion because they could come to the notice of authorities. A large shadow economy could imply that tax rates are higher for those in the formal sector (Williams,2013).

SMEs perceive the preconditions of loan attached to formal financing, for example, payment of tax and business registration, as incurring extensive time and financial cost, and thus do not see any incentive to comply, even if they could (Stern and Barbour, 2005; Blazic, 2004). Thus, staying unofficial is often a deliberate choice based on the “degree of an appeal” of informality as against formality” (De Mel et al., 2011).

Furthermore, formality means registering with the government, having a registered place of business and making tax returns, amongst other things. Since most SMEs in developing countries are operating in the informal sector, it is impossible for them to play the developmental role they are meant to play. As their activities are not regulated, they do not make tax returns, and their accounts are not audited even if they keep proper records. Therefore, they are not in any position to make the expected contribution to economic development.

As a way to correct this imbalance, financing institutions provide a structure that determines how SMEs obtain loans, and in the process of paving the way for their operations to become formalised (Honohan and Beck, 2007; Gindis, 2013: 210). Like most businesses, irrespective of size, require finance for growth, they will have to comply with certain loan preconditions<sup>3</sup>. In complying with loan preconditions of lenders, internal processes of their operations may experience some changes. These changes in operation may not be possible without a change in routine. Evolutionary economists Nelson and Winter (1982) notably drew attention to the central role of the routines in business organisations, conceiving it as a unit of analysis, a pattern of action, DNA of organisation, and source of adaptation. While on the other hand, organisational ecologist, and organisation behaviour scientist, Hannan and Freeman (1984); Stieglitz et al. (2015), Safavi et al. (2020), asserted that routines might be a source of inertia indicating that routines could be hard to change.

Thus, this study is not suggesting that SMEs seek finance because they want to develop new routines. However, they may

---

<sup>3</sup> Loan preconditions are terms and conditions associated to formal and informal lenders.

experience a change in routine due to the preconditions they are expected to follow. Equally remaining in the shadow economy is a decision based on cost and benefit consideration. SMEs may lack the desire to transition from a shadow economy to a formal one due to the attraction of not incurring the cost associated with business registration and tax burden (e.g. default in tax payment can expose them to periodical visits by government officials). Therefore, one could contend that the limited benefits of going formal are likely to be one of the reason(s) some SMEs remain informal.

Research demonstrates that compliance with rules is often triggered by the external influence of the regulatory environment (Holmes et al., 2013). The literature discusses their importance and influence on the capacity of organisational routines to change (Etienne, 2010; Stieglitz et al., 2016). According to Teece et al. (1997:516), firms can integrate, build and “reconfigure internal and external competences to address rapidly changing environments”. Nevertheless, routines may remain unchanged under other circumstance, especially when SME owner can choose not to adapt or comply if the status quo is more favourable and vis versa.

A firm’s responsiveness to increasingly turbulent environments is associated with its dynamic capabilities, which have inherent strategic relevance to a firm (Teece et al., 1997). SMEs’ decisions to adapt or not adapt will be influenced by the behavioural dispositions of owners or managers. Moreover, the type of financial lenders they opt for may constrain or enable growth and adoption of new routines, which might determine if new behaviours can be operationalised.



### 1.3 Statement of the Problem

There is an emerging agreement that institutions matter for various economic outcomes, and the research agenda increasingly focuses on ascertaining which institutions are important for different outcomes. Furthermore, there is a substantial body of empirical research that provides descriptions of the institutional arrangements through which financial relationships are structured in Africa. This allows for some quantification of the comparative importance of various institutional arrangements. Lacking, however, from most of the There is a dearth of literature on formal and informal lending in Africa, particularly on empirical investigation of the impact of formal and informal lending on SMEs' growth and routine change. As a result, little is known, about the role of formal and informal financial lenders in enabling or constraining SMEs' growth and routine change. Especially, routine change within an organisation in the context of various lenders' loan preconditions (formal and informal). Using a developing economy like Nigeria provides the ideal context through which the impacts of formal and informal financial lending on SMEs' growth and routine change will be understood.

In light of the limited knowledge and notable gaps in the literature here, the aim of this research is to investigate the impact of formal and informal financial institutions on SMEs' growth and routine change. To achieve this aim, three objectives were created;

1. To identify how formal and informal financial institutions impact the growth of SMEs through lending preconditions.
2. To explore how institutions (formal and informal financial sources) impact the adoption and development of new routines in SMEs.

3. To investigate the interplay between formal and informal financial institutions and its impact on SMEs.

#### **1.4 Research Questions**

To address the research objectives identified above, the following research questions were developed:

1. To what extent do formal and informal financial institutions impact SMEs' growth?
2. Do preconditions of loan imposed by formal and informal financial institutions affect SMEs' adoption and development of new routines?
3. What is the nature of the interplay between formal and informal financial institutions and its impact on SMEs?

#### **1.5 Research Methodology**

To address the research questions above, a qualitative inductive study was employed with an interpretivist philosophy considered most suitable for surfacing rich insights on the lived experience of SME borrowers. A corresponding social constructionist epistemology was adopted alongside the case study as the research strategy. Semi-structured interviews were the instrument used for data collection. A pilot study was first conducted focussing only on lenders, followed by the main study. Purposive sampling and snowballing techniques were used to achieve eleven interviews with borrower SMEs and eight with lenders. The sense-making and analysis of data were done using Interpretative Phenomenological Analysis (IPA) and Thematic Analysis (TA) respectively.

## 1.6 Summary of Original Contributions

This study offers brief coverage of the evolutionary framework in the literature review and the corresponding useful handling of routines with a more suitable definition and categorisation of routine change. It drew on the modern evolutionary approach (Hodgson and Knudsen, 2010) and routines literature which amplifies the information-carrying and adaptive role of routines in organisations. The insight gathered include the important role of an external trigger, in the form of formal lenders' loan preconditions, which SMEs must adhere to if they desire access to loans.

The findings reveal the influence of loan preconditions and loan attributes. Indeed, adherence to loan preconditions makes access possible. Likewise, loan attributes (i.e. loan tenure, loan size and interest rate) were found to influence the growth of SMEs that gained access. Furthermore, adherence to loan preconditions leads to access to loans and the adoption of new routines. This shapes new practices and behaviours and ultimately make access to future loan possible.

These findings offer useful empirical insights on routine change which remain consistent with routines literature; first, by showing how higher and lower organisational levels influence each other within the lens of lending preconditions, and second by revealing how new, existing and old routines are influenced and shaped by owners' past knowledge and experience. The study also identifies and offers an explanation of the mechanism involved in routine change.

In contrast with prior research on routine that focuses on routine transfer and replication (Winter and Szulanski, 2001; Larty and Friesl, 2018), this study focuses on the change in routines within

an organisational setting, which was expressed - using three dimensions; (a) changing a routine by operating (possibly dormant) routine X instead of former routine Y, (b) making changes to a particular existing routine, and (c) developing and operating an entirely new routine. All these could be described as “routine change”.

Lastly, findings uncover the underpinnings and the nature of the interplay between formal and informal financial lenders and their implications. By illuminating the influence of formal lenders on informal lenders and vice versa. Such as formal lenders' role in providing banking services to the cooperative societies as a whole and helping them allocate loans approved by the cooperative management. Equally, formal lenders, i.e. commercial banks, rely on cooperative societies to recommend their members, who are tested and trusted and can meet the necessary loan preconditions. Examples of such loan preconditions are business registration, tax identity number. Due to these overlaps, the implication that was revealed includes improved access to loans, better enforcement, savings and disbursement, while also helping the banks achieve their lending target and easing the challenges of trust and quality relationships.

Overall, these results contribute to the theoretical debates regarding routines origin, mechanisms and change, SME financing, institutional economics literature, particularly the dualistic, and inseparable nature of formal and informal institutions. They also point in the directions that further quantitative studies would need to explore to be more relevant for policy.

## 1.7 The Scope of the Thesis

This study focuses on the impact of formal and informal financial lenders on SME growth and routine change in the Nigerian manufacturing sector. Theories and perspectives on concepts of institutions, culture, routines, and trust informed the theoretical foundations. The study also drew on research in cognitive psychology on habits and studies of growth in developed and developing economies. Having observed the gaps in the literature, the research focus was determined, and the aim, objectives and research questions were formulated.

The research participants are loan experts, lenders and SMEs. The experts are expected to have at least five years of experience in SME lending (SMEs with prior loan access).

There was no specific basis for choosing the study locations other than relying on the referral from friends and families. The referral led the researcher to four locations. These locations are three state capital cities: Lagos, Ilorin and Abeokuta and one town - Ijebu ode. These cities are situated in the southwestern part of Nigeria, except Ilorin, located in the middle belt of Nigeria. Ijebu ode is not a capital city but a big town located in the southwest of Nigeria. Most of the cities can boast of having a concentration of various sizes of SMEs and are made up of different types of lenders, i.e. commercial, development and microfinance banks, including registered and unregistered cooperative societies.

## **CHAPTER TWO - LITERATURE REVIEW**

### **2.1 Overview**

The conceptual, theoretical and empirical underpinnings of this thesis are presented in this chapter. First, the Nigeria context, followed by an evaluation of the several conceptual definitions of institutions linked to various scholars, are explored; next, the theoretical foundations of formal and informal institutional exchange approaches are discussed. Third, perspectives on the role of culture, trust, routines and habits, and routine change are reviewed. Fourth, the relationship between formal and informal rules/sector, and their implications are reviewed. Using Helmke and Levitsky's (2004) typology model, the relationship between formal and informal rules is then presented. Next is an empirically informed discussion on the effects of formal and informal institutions on financing. This is followed by a review of the literature on routines, the role of institutions and the relationships between them, which is contextualised in a modern evolutionary perspective which are at the forefronts of the role of routine change. Lastly, the effect of lending practices on growth is examined.

### **2.2 The Nigerian Context**

In most societies, business activities depend on the smooth functioning of the legal system. The legal system provides guidance and regulates interactions between business entities. The key members of the Nigerian legal system are judges. They make decisions and dispense justice on economic issues involving SMEs operations. Equally important are the legislators in the national and state assemblies and the legal officers in the

Attorney General's office. They are charged with legal duties to enhance the efficiency of SMEs through the enactment of business-friendly laws and policies. Ufua et al. (2020) contend "that the Attorney General is the legal adviser to the government. Likewise, "the Director of Public Prosecutions supports the Attorney General's office in the prosecution of criminal cases against SMEs and their directors in the event of frauds or deviation from rules governing their activities" (pg. 3).

Also, Ufua et al. (2020) suggest that the Nigerian legal system is an integral part of the institutional arrangement that structures the operations of business activities (e.g., SMEs). The current relevant law governing the operations of SMEs and other business entities in Nigeria is called the Company and Allied Matter Act (CAMA), Laws of the Federation of Nigeria (7th of August 2020). Part A of the Act emphasises clauses relevant to the registration of all SMEs in Nigeria before carrying out their businesses (pg. 3). Part B provides for the registration of business names, the categories most SMEs must abide by (pg.3). Meanwhile, Section 1 of the Act establishes the Corporate Affairs Commission (CAC) with the responsibility of registering and regulating companies and business names (as stated under section 7 of the Act). The act provides the capability to directly probe into the affairs of SMEs especially where the investment of the populace is at stake.

Moreover, to undertake other activities that are expedient for the effective implementation of the Act. The commission can protect and enhance SMEs business operations through the ease of doing business reforms. However, there are some challenges with the legal framework discussed above, e.g., weak enforcement by the regulatory agencies, inefficiencies, and corruption by the SMEs (Olujobi, 2017).

The Nigerian economic sector has different types of organisation in operation. The first types are companies with formalised and well-organised operations, e.g., oil companies, banks, government ministries and parastatals. The second type is the mid-level players who are also formalised. For example, professional services and smaller registered organisations, namely, formal SMEs. The next; are informal by nature. They include one-person or even partnership business comprising of petty traders, informal lenders, small personal services, e.g., barbers, tailors, carpenters.

La Porta and Shleifer (2014) suggest that many SMEs in developing countries operate in the informal sector. This is not surprising because most businesses in Africa are traditionally communal, relational and reputationally inclined. Also, there is an interdependent world view, and people within these settings place more importance on relationships and nurture rather than on an individualist approach (Triandis, 2005; Hofstede, 1980a). Therefore, by their characteristic, they do not follow any formal legal framework for their operations. More so, they do not pay tax, and neither do they keep proper records. The Nigerian informal sector is not an exception. See further details on SME and the informal sector and its legality in section 2.11. Informal lending happens in this sector, e.g., via cooperative societies, ROSCA, moneylending, Ajo, and loans from friends and family.

The advent of colonisation led to laws and regulations fashioned along the lines of those assimilated from countries like Britain and France. Gradually, widespread practise of formality is becoming more prevalent; thus, more regulations with the aim of formalising more businesses. However, the informal sector is still in existence and operates side by side with the formal sector. Hence, the existence of the dual approached (formal and informal economy) in Nigeria.



According to Benhassine (2018), there are two main reasons why governments usually consider high levels of informality as problematic. The first was prompted by the work of De Soto (1989), i.e. the idea that informality is costly for the firms themselves, who are unable to access bank financing, public contracts, or government intervention programs and suffer from low productivity as a result. The other reason is the assumption that a large informal sector represents lost tax revenues for the government. In response, many countries have introduced business entry regulation reforms intended to make it easier for firms to become formal (World Bank, 2016). However, even after these regulatory reforms, most firms remain informal in many developing countries, including Nigeria (Bruhn and McKenzie, 2014), leading to whether governments should venture into inducing informal firms to formalise (Benhassine, 2018).

The Nigerian formal financial sector ecosystem, within which all economic actors operate, serve as a vehicle for policy intervention programmes. Monetary measures are constantly used to improve access to finance for underserved SMEs and lure businesses out of the shadow economy. This has led the Nigerian government to create organisations such as the Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND), the Peoples Bank of Nigeria (PBN). PBN has been referred to as government social lending, the Community Banks (CB) now microfinance banks, Nigerian Export and Import Bank (NEXIM), and the Nigerian Agricultural Credit Guarantee Scheme (Soludo, 2008; Gbandi and Amisah, 2014). Others are the Small and Medium Equity Investment Scheme (SMEEIS) which was actually a voluntary initiative in 1999 by the bankers' committee through CBN's moral suasion, to assist in providing finance to the small

enterprises, the small and medium enterprises credit guarantee scheme (SMECGS).

All these policies and programmes are geared towards opening up the economy, providing more access to finance to the underserved. However, they come with preconditions. The typical conditions for an SME to get access to formal financing in Nigeria are; evidence of incorporation, a business plan, evidence of tax payment, demonstrating that they are enterprises with a high employment generation capacity, enterprises with good management set-up and proper accounting procedures, enterprises promoted by female entrepreneurs, six-months account statements showing the current exposure, amongst others (Central Bank of Nigeria, 2014; Bank of Industry, 2018).

Notwithstanding numerous efforts through financial sector reforms, the Nigerian financial markets remain largely fragmented, with substantial gaps in the financing of economic activities by formal lenders. Based on surveys of formal and informal financial institutions and their customers in Ghana, Malawi, Nigeria and Tanzania; the continuous poor performance of financial systems could be partly explained by the excessiveness of regulations. Also, this has led to continuous fragmentation of the market (Roe, 1991; Aryeetey et al., 1997; Nissanke and Aryeetey, 1998).

Again, putting a ceiling on deposit and loan rates have the disposition to increase/decrease the demand and the supply of funds. However, unsatisfied demand for investible funds necessitates financial intermediaries to limit the allocation of credit by means other than the interest rate. On the other hand, "an informal market develops at unrestrained rates" (Aryeetey et al., 1991:198). Thus, a fragmented credit market emerges in

which favoured borrowers obtain funds at subsidised rates from formal sources. Those unfavoured may have to seek credit from “often highly negative, and expensive informal markets” (Aryeetey et al., 1991:198). This fragmentation is discernible through different risks and cost characteristics, interest rate disparities with regard to the differences in cost of funds, transaction costs, and risk associated with each lender i.e. formal and informal lender (Aryeetey et al., 1997). The cause of these fragmented markets is due to the wide differences in risk-adjusted returns. “This may occur because funds and information, do not always flow between segments, and clients have limited access to different financial instruments, resulting in low substitutability” (Aryeetey et al., 1997:196). Where poor information and contract enforcement make it too costly for formal financial institutions to serve small businesses and households, informal financial lenders become their only hope (see more on exchange mechanism in section 2.4) may have an important role to play in serving these financial market segments.

Mohammed et al. (2015) argue that Nigerian SMEs find these loan preconditions too stringent, making satisfying them challenging. Also, funds are not often easily available to SMEs and this tends to increase the activities of informal financial lenders, e.g., Ajo, pawnbrokers, ROSCA and cooperative societies (Adeyemi, 2008). They often provide a less restrictive lending service to the informal sector widely considered to be ‘underserving of it’.

The dynamics of the dual economy and the basis of the underlying lending arrangements between economic actors is rooted in the theory of institutions. Hence, the next section will explore institutions, vis a vis various conceptual and theoretical underpinning of its operations from several perspectives.

## 2.3 Institutions

As mentioned in section 1.1, the conceptual meaning of an institution attracts several definitions and various descriptions. Despite years of continuous debates, there is no agreement about what could be described as a generally accepted definition. A less complicated approach would be to focus on examining the functions of institutions and how they do it (their mechanics). It is not unusual for various researchers to rely on numerous key conceptual and theoretical terms. After all, such differences may encourage healthy competition of ideas. Also, Hindriks and Guala (2015) argue that heterogeneous understandings of fundamental concepts may affect communication, making mutual criticism and cross-fertilisation difficult. The lack of agreement and the heterogeneous views are not what this thesis is designed to investigate. Therefore, to manage the divergence of views and diverse understanding revolving around various terms and the theoretical basis of meanings require a definitional stance. Before exploring the definitional stances adopted here, various definitions of the term institutions from different relevant authors will be evaluated.

Ostrom (1986) concludes that institutions are regulations consisting of a set of rules that are used to determine who qualifies for what and the conditions applicable. This type of actions could either permits or constrains behaviour. Also, it determines the set of rules to be combined and applied, the measures to be employed, the kind of information to be made available or not, and what benefits will be assigned to persons as an outcome of their actions. Meanwhile, North (1990) suggest that institutions represent every code of conduct and beliefs collectively instituted by society. Again, North (1990: 97) indicated that "institutions are formal rules (constitutions, laws, property rights) and informal rules (sanctions, taboos, customs,

traditions, and codes of conduct and are humanly devised constraints". North views institutions as restrictions that manage political, economic, and social relations and represent every code of conduct and beliefs collectively instituted by the society. Furthermore, North (2005:3) argues that "institutions are the rules of the game in a society or, more formally, they are the humanly devised constraints that shape human interaction". Therefore, institutions could be seen as the framework that defines the outcome of actions and inactions of economic players.

Similarly, the increasing acknowledgement of the role of institutions in social life involves the recognition that much of human interactions and activities are structured in terms of overt or implicit rules (Hodgson, 2006). The structuring of human interaction, as designed by institutions, creates a stable expectation of the behaviour of others. As a result, institutions enable the pattern of thoughts, expectations, and actions by imposing form and consistency on human activities. Therefore, it is essential to state that institutions are like a two-edged sword; they constrain and enable behaviour. Indeed, they can open up possibilities. These possibilities, as dictated by the institutional arrangement, may "enable choices and actions that otherwise would not exist" (Hodgson, 2006:2). Players would consider their interest when making decisions based on the choices and actions open to them. Decisions on adherence to rule are simply a matter of projected benefits or gains and anticipated costs, where no profit or gain is assumed from legal compliance itself. It is analogous to sacrificing something that one has to give up, for a particular outcome to be experienced.

Therefore, if institutions are labelled as cost, for instance, in terms of lending/borrowing, such cost includes doing what it takes to comply with rules by paying to register a business,

keeping records, and paying taxes. Also, the cost might include what the business owner gave up. For example, instead of becoming formal, by putting necessary things in place to qualify for a formal lender's loan; a borrower could opt for an informal lender's loan. The motivation behind which lender to go for is informed by the expected reward compared to the associated cost of accessing the loan.

Menard and Shirley (2008:1) in their view define "institutions as written and unwritten rules, norms and constraints that humans devise to reduce uncertainty and control their environment; these include (i) written rules and agreements that govern contractual relations and corporate governance, (ii) constitutions, laws and rules that govern politics, government, finance, and society more broadly, and (iii) unwritten codes of conduct, norms of behaviour, and beliefs." Menard and Shirley's perspective are more focussed on the institution as a way of controlling actors within an environment and determining the type of behaviours they would take place. This definition does not precisely view it from a cost vs benefit perspective as Hodgson's. This is not to devalue any of the descriptions, as both viewpoints are of great relevance to the concept of institutions and have relevance to this study.

Further debates on definitions can also be attributed to North and Hodgson. Hodgson in 2004, argued that North's (1990) definition sees institutions from only the macro lens but fails to consider that within an organisation, institutions, rules and constraints are present. Organisations are a special kind of institution that contain, firstly, standards to establish their boundaries and to distinguish their members from non-members, principles of sovereignty concerning who is in charge, and lastly, chains of command delineating responsibilities within the organisation (Hodgson, 2007:8). Hodgson argued that the

existence of these internal rules within organisations constrains individual employees' behaviour (Hodgson, 2010). This is because organisations are made up of groups of individuals bound together by some common purpose to achieve specific objectives. However, in Hodgson's alternative explanations, he queries North's definition that views organisations as "players", having a problem that involves an unnecessary combination of separate agency and organisation (Hodgson, 2007). This argument signifies a further distinction between the agency and the organisation, instead of being submerged under the same conceptual description.

According to Hodgson, astonishingly, the conditions that continuously allow institutions to be treated as players necessitate the comprehension of organisations as social systems with restrictions and rules (Hodgson, 2006). It is possible for organisations to be treated like players in some circumstances and seen as institutions in another. Individual agents act within the organisational rule-system. In turn, under some conditions, organisations may be treated as players within other encompassing institutional rule-systems. There are multiple levels in which organisations provide rules for individuals, and possibly, in turn, these organisations can also be treated as players within broader institutional frameworks. For example, the individual acts within a nation, but in another situation, a nation can sometimes be treated as an actor within an international framework of rules and institutions (Hodgson, 2006).

Nevertheless, to avoid being caught up in the controversy as to the definitive agreement on important terms, Hodgson (2004, 2006) suggests institutions can be legal (a system of rules which is enforced by the state, i.e. courts, law enforcement agents) and non-legal (rules not enforced by the state).

To clarify the confusion that emerged as a result of his earlier definition, North redefined institutions as the rule limit that determines the level of instability by providing a structure to every operation (North, 2009); in effect, they are structure incentives in human exchange, whether political, social, or economic. According to North's classic proposition, political institutions can be "any form of constraint that human beings devise to shape human interaction," and can work through "both formal constraints—such as rules that human beings devise—and informal constraints such as conventions and codes of behaviour."

According to Williamson (2009: 372), "the critical difference between formal and informal institutions is that formal constraints are centrally designed and enforced". However, informal institutions remain in the private realm. Similarly, Helmke and Levitsky (2006) define informal institutions as socially shared rules, usually unwritten (but not in all circumstances), that are created, communicated and enforced outside officially sanctioned channels. One could emphasise based on data that, formal institutions represent government-defined and imposed rules, while informal institutions capture private rules stemming from norms, culture, and customs that emerge spontaneously (Williamson, 2009). On the other hand, Helmke and Levitsky's (2004) distinction between formal and informal institutions, suggest that informal institutions lay emphasises on socially shared rules and in most cases, individuals. Also, some organisations could have relationships with formal and informal institutions at the same time or different intervals.

Hindriks and Guala (2015) managed the definitional problem encountered with institution by addressing it from three



perspectives. Firstly, in their study, they conceived institutions from the rule-based conception. This is the perspective that views behavioural rules as guides and constraints on behaviours during social interaction. Secondly, the equilibrium-based conception of institution as equilibria of strategic games. Thirdly, they evaluated the concept as the system of constitutive rules that assign statuses and functions to physical entities, e.g., how money was assigned with a status that adds economic value to it from being just a paper.

They further argue “that the equilibrium-based and rule-based accounts are individually inadequate, but that jointly they provide an adequate conception of institutions as rules-in-equilibrium. In the second part of their paper, they show that constitutive rules can be derived from regulative rules through the introduction of theoretical terms” (Hindriks and Guala, 2015:459). They reduced the theory of the constitutive rules to the rules-in equilibrium theory and suggested it accounts for how names are assigned to social institutions (pg. 459).

Considering the above, the debate surrounding the meaning and the differences between formal and informal institutions remains unresolved. Different scholars use these terms differently. Therefore, it would not be out of place if this study adopts definitions consistent with the phenomenon under study – which centres on loan preconditions. Thus, for the purpose of this investigation, North's (1990: 3) definition of institutions is adopted, i.e., "the rules of the game in a society or humanly devised constraints that shape human interaction". The definition adopted for formal institutions is the rules devised by the government, which are administered through its agencies. While informal institutions are those rules governed by individuals, groups, or a community. This could be informed by customs, traditions, and culture.

Similarly, the meaning this study will adopt for organisations such as financial institutions follows North's distinction as well by referring to organisations as players within an encompassing institutional rule-systems. Likewise, for further clarity and to avoid unnecessary confusion that may occur, when referring to organisations as players, a concise explanation of what organisation the study will be referring to will be needed. Hence, the organisations referred to in this study are formal financial lenders (i.e. banks, registered cooperative societies, government-regulated or government-owned organisations that provide loans); and informal financial lenders (i.e. unregistered cooperative societies, Ajo (local contributory scheme)). In addition, SMEs will also be referred to as players or economic players.

Likewise, the understanding of institution encompasses formal rules and informal rule. Therefore, the preconditions pertaining to each of the lenders will simultaneously be referred to as formal and informal rules or loan preconditions or preconditions of loan. The definitions chosen are due to the nature of this study, as preconditions of loan are more like devised constraints that shapes lenders and borrowers' relationships. In addition, it can also enable and constraint behaviours.

To emphasis, it is worth reiterating that all definitions of; institutions, and its components, i.e. formal and informal institutions, and organisations have different meanings to different scholars. The definitions chosen are only adopted for the purpose of this study, and not necessarily shared by others. The next section explores the meaning and theoretical foundations of personal and impersonal exchange.

## **2.4 Theoretical Foundations of Personal Vs Impersonal Exchange**

Reviewed literature suggests that institutions could either be formal or informal. The distinction between them is hard to make, and there are overlaps in-between. Different authors use these terms to mean different things. The purpose of making a distinction is to enable an easy understanding of the direction of this study. The underlying approaches have their basis in the people's culture (See more on culture in 2.5). Distinctions are made along the lines of attributes/mechanisms of operation of formal and informal institutions. The distinctions made are not designed to justify that both formal and informal institutions are different in reality, but just to create slight demarcations for this study to be understood with little or no confusion for readers.

Understanding the basis of formal and informal financial lenders' mechanisms of exchange requires the help of relevant theories. Therefore, this section details the theoretical basis, underpinning the context of this study. It covers the theory guiding the origins, nature of exchanges of formal and informal financial lenders, and the information types applicable to each type of lenders. The subsections 2.4.1 and 2.4.2 below explain the theoretical basis of personal exchanges and impersonal exchanges.

### ***2.4.1 Personal Exchanges***

Personal exchanges are transactions that are based on social and reputational recognition. For example, if a person lives in a community and the person is known to be of good conducts, i.e., the person pays their dues as and when it is supposed to be paid. Equally, if the person has no record of the prior incidence of debt or financial default, then, there is a higher probability that

members of that community would be inclined to recommend or do business with a person of such standing.

Personalised approaches or exchanges are based on informal relationships. This prevails in emerging economies and compatible with their cultural disposition (McMillan and Woodruff 2002; Khanna and Palepu, 1997). In relational contract theory, five prevailing contractual norms are adopted in defining personalised or relational approaches (Macneil's, 2000; Greif 2006). These are role integrity, contractual solidarity, flexibility, proprietary of means and harmonisation within the matrix (Macneil, 1983; Blois, 2002). Personal exchanges do well in an environment where there is a weak legal system (Zhou and Peng, 2010). Most developing economies have a weak legal system, and this makes personal approaches favourable.

As explained above in the last paragraph of 2.1, an informal institution is analogous to informal rules, or informal mechanism of exchange, which guides informal financial lenders. The informal mechanism of exchange is embedded in personalised approaches as engrained in the customs and culture of a given society. It is worthy to note that even though personal exchanges are linked to informal lenders, it could occur in formal lending or registered organisations. Individuals within formal organisations can influence economic exchanges with people they know. This may decrease the time it takes for a transaction to be completed. For example, an individual who has a relationship with someone in a position of authority can use their relationship to obtain a contract with or without following the prescribed rules. It is a form of corruption, especially when someone enjoys an unmerited advantage. If this happens in a formal setting, it will definitely be concealed and not stated in the books or reports of the formal organisation. For instance, a commercial bank will never inform the central bank in their periodic report that certain loans were

issued based on the relationship between one of the bank's staff and a customer. The reason for this is that the reliance on the reputation and the past relationship is not the official or expected economic exchange mechanisms for formal lenders. Also, an informal lender has no obligation to report to anyone.

Under personal exchange, parties trade rights and duties with respect to each other (Greif, 2006). Transactions based on relationships would prevent objectivity as exchanges are more of reciprocity and value of friendship. This type of exchange is characteristic of a weak legal system, and this may limit business opportunities and weaken competition (Zhou et al., 2008). Personalised exchanges do well when transactions are conducted with people who are geographically close to one another. Parties can protect themselves by ascertaining the likelihood of potential counterparties to fulfil their obligations, leading them to gather information on their wealth, reputation, and moral traits (Arruñada, 2016). However, if business transactions are conducted with economic actors who are geographically dispersed, a personal exchange approach will not be adequate. Therefore, ascertaining the reputation, wealth and the likelihood that every party will respect their expected contractual obligation will be difficult, if not impossible.

For example, empirical studies of manufacturing firms in Africa demonstrate that the absence of effective legal institutions in enforcing contracts leads to limited trade and market development (Collier and Gunning, 1999). An effective judicial system increases confidence in the possibility of exchange partners fulfilling legal obligations, thus enhancing the willingness to widen one's reach by engaging more business partners (Johnson et al., 2002). Low accounting transparency and financial disclosure, unavailability of a credit rating system, and weak institutions to verify quality, make transactions with

individuals outside relational networks very costly and sometimes even impossible (Zhou and Peng, 2010). The growth of emerging economies is often impeded by poor information dissemination in the economic system. High information asymmetry often leads to a reliance on personal relationships to reduce uncertainty (Peng and Heath, 1996; Zhou et al., 2003).

To reduce transaction costs, lenders would require a significant amount of trust to offer credit to customers. This usually happens particularly in countries with weak contract enforcement regulations, e.g., developing countries (Heikkilä et al., 2016). Without trust, it will be impossible for any lending to take place. That is why knowing those to be involved in a lending transaction is a prerequisite for most if not all informal lenders. This means that informal financial lenders may depend on social capital and the threat of social sanctions to screen potential borrowers based on the quantity and quality of their social connections (Heikkilä et al., 2016). The reliance on this sort of institutional arrangement may require understanding the nature of the national culture (details on culture is explored in 2.5) because it has a fundamental impact on the transactional cost of relational exchanges (Zhou and Peng, 2010).

Unfortunately, literature suggests that the existence of informal alternatives may not provide a solution as it cannot substitute for weak public contract enforcement (Ogilvie and Carus, 2014). Thus, rent-seeking is becoming the norm, as exchanges are influenced by relational mechanism only. The elites and the well-connected would benefit the most under such circumstance (pg. 26). Similarly, poor quality of information increases information asymmetry (Akerlof, 1970). Without proper information flow, product quality, as well as partner credibility outside relational networks, may be too costly to verify (Akerlof, 1970). Societies with informal mechanism are prone to having more deficient

formal contract enforcement mechanisms in place. As a result, they tend to depend on social capital and the threat of social sanctions. The quest to replace the disadvantages attributed to informality led to the advent of impersonal exchange mechanism as examined in the next section.

Hence, the reason for the formal sector, where impersonal exchanges guided by hard information can bring out objective outcomes.

### ***2.4.2 Impersonal Exchanges***

The expansion of an economy on a large scale led society to establish centralised and "impartial courts that, by the threat of coercively imposed sanctions, enable widespread impersonal exchange" (North, 1991; Li, 1999; Dixit, 2004). In an impersonal exchange situation, an economic player's decision to engage in a transaction is not dependent on his customer's reputation (Greif, 2006:221). Transactions are conducted without the knowledge of the other person's previous conduct, or the anticipation of impending trade with him, or the likelihood of reporting past misconduct to future business partners. As the economy grows, the number and range of partners reachable through personal exchanges increases and market transactions become complicated (North, 1990; Peng, 2003; Rajan and Zingales, 1998). The expanded transactions demand the advancement of rules that could facilitate impersonal exchanges. However, the demand for formal institutions does not automatically lead to their supply.

Governments and interest groups often play a significant role in designing and building institutions (Ring et al., 2005). The process within each country may differ, stall or reverse because

of political, economic, and social conflicts (Rajan and Zingales, 2003). Countries vary significantly in the initial quality of legal institutions, market economy experience, and cultural values and beliefs; this affects their quality, speed and effectiveness to build new market supporting institutions. An effective market supporting the legal system will have high-quality information institutions; this will ease the cost of arm's-length transactions. A high-quality information institution would offer enough flow of information to reduce uncertainties associated with impersonal exchanges (North, 1990). As a result, transactions are limited within the boundaries of those trustworthy network members. Once higher quality information institutions development is achieved, and the pursuit for price and quality information outside networks become reliable and efficient. Firms are more likely to exchange with the best offer, instead of being constrained to the limited small networks that personal exchanges favour. Therefore, to support impersonal exchange and the related market expansion, it is necessary to have an effective and efficient institution, i.e. legal system based on the coercive power of the state that is supported by the government (Greif, 2006:222). Achieving an institution that guarantees quality information would require the enactment of relevant regulation and willingness of the political class.

Recent empirical work shows the importance of well-designed credit market regulations and well-functioning court systems for debt recovery (International Finance Cooperation, 2010)2010; Emenalo, 2014). A detailed review of global bankflows revealed evasion of taxes by firms in economies with superior credit information was less in comparison with those with weak information institutions (Doingbusiness.org 2018:27-28). In a multi-economy study, the introduction of collateral registries for movable assets was shown to increase firms' access to finance by approximately 8% (Doingbusiness.org 2018:29). These are



the sort of mechanism that ensures lenders can mitigate the lending risk. The absence of repositories where information is kept, i.e. registries, especially in developing countries, adds to the stifling of access to SMEs.

According to Doingbusiness.org (2018), most reforms in Nigeria are federally driven. Especially, starting a business, and most were focused on the efficiency of processes rather than the quality of regulations. The foundation of doing business is the notion that economic activity, particularly private sector development, benefits from clear and coherent rules. These rules set out and clarify property rights and smoothen the process of dispute resolution. They also enhance the predictableness of economic interactions and provide contractual partners with essential protections against arbitrariness and abuse. Such rules are much more effective in shaping economic agents' incentives in ways that promote growth and development. They are reasonably efficient in design and are transparent and accessible to those for whom they are intended and can be implemented at a realistic cost (De Benedetto, 2018).

The quality of the rules also has a crucial bearing on how societies distribute the benefits and finance the costs of development strategies and policies (Doingbusiness.org 2018:11). Without adequate legal institutions, the threat of opportunism may pose high enforcement costs and deter the viability of impersonal exchanges. Therefore, building an efficient market system requires institutional development to ease the cost of enforcement and compliance.

Historically, economic growth improves when societies improve generalised contract enforcement and cease supporting intrusions by elites and the privileged few, whose actions had

devastated the security of contracts. Most developing societies experience weak growth, as there are too many interests conflicting with the enforcement mechanism. This indicates that contracting institutions are weak and to experience improved outcomes, attention needs to be paid to strengthening contract enforcement (Ogilvie and Carus, 2014). If contract enforcement is not strengthened, rules put in place to structure behaviours would be bent regularly to suit the elite.

The role of culture in how society address lending arrangements cannot be overemphasised. The next section will explore culture in relation to norms and values associated with the mechanism of exchanges relating to lending.

## **2.5 Culture**

Culture plays an essential role in the way institutions affect respective societies (O'Reilly et al., 1991). Also, culture manifests/affects the way the preconditions for lending is crafted. The culture of African societies in general is relationally and communally inclined. Hence, transactions are greatly determined by the reputation of the economic players. Different countries have practices that are heterogeneous, and it defines how they act and do business with each other.

Fukuyama (1996) suggest that national culture defines our way of life, including the level of general trust toward strangers. Jones et al. (1997) contend that it is the cooperative norms and values in a given society. Culture formulates behavioural expectations or beliefs about the legitimacy and effectiveness of informal relationship-based control of transactions in society. Thus, shifting the relative efficiency of relational transactions vis-à-vis arm's-length transactions (North, 2005). Several social psychologists suggest that social organisations are highly

correlated with per capita income in contemporary societies. They argue that most developing countries are "collectivist," whereas many of the developed countries of the West tend to be "individualist" (Lim et al., 2021).

Individualism/collectivism describes the relationship between individuals and groups and that collectivism often prevails in a given society (Hofstede, 1980a). Hofstede (1980) distinguishes between individualistic and collectivistic cultures in that individualistic cultures (e.g., The United Kingdom and the United States) are relatively less committed to group norms or interests than collective cultures (such as China, Japan, and Korea) (Zhou and Peng, 2010:362). Individualism on the one hand implies a loosely-knit social framework in which people are supposed to take care of themselves and their immediate families only. While collectivism, on the other hand, is characterised by a tight social framework in which people distinguish between in-groups and out-groups; they expect their in-group to look after them, and in exchange for that they feel they owe absolute loyalty to it (Hofstede, 1980b:45). In collectivistic cultures with high cooperative norms and values, such as Japan, the potential benefits from trading with network partners may be relatively higher than that in individualistic cultures with low cooperative norms, such as the United States (Chen et al., 2002; Hill, 1995). In collectivist societies, the social structure is "segregated" in the sense that each individual socially and economically interacts mainly with members of a specific religious, ethnic, or familial group where contract enforcement is achieved through "informal" economic and social institutions (Hofstede, 2010).

Members of collectivist societies feel involved in the lives of other members of their group (Greif, 1994). Given the relative stability of national culture, cooperative norms are likely to remain

relatively efficient in constraining opportunistic behaviours for a reasonably long period. At the same time, legal means are often the last resort for conflict resolution. This might explain why personal and relational transactions are still pervasive in Japan, even though the effectiveness of its legal institutions is relatively high (Hill, 1995 in Zhou and Peng, 2010:362).

In the early days of market development, economic activities used to be personal and supported by reputation and society relied more on personal exchanges (Erdkamp, 2005; Bransbourg, 2012). One could expect an individual reputation to play a more significant role and personal sanctions to be harsher. For example, in Rome, in the very early days, informal social norms strongly motivated people to fulfil their personal obligations. What is most important for understanding the role played by the Roman state is that both formal rules and organisationally supported institutions were well suited, and seem to have evolved, not only to enhance the enforcement of personal obligations but also to prevent them from interfering with the impersonal exchange. Roman friends made claims on each other which would cause a modern 'friend' to break off the relationship without delay" (Schulz, 1951:555) and vertical bonds amounted to several layers of patronage by people of higher status, who acted as patrons for their lower-status "clients," the *clientele*.

In the early Republic, "the situation was close to serfdom but survived later mainly for the relationship between patron and freed man" (Crook, 1967:93). Horizontal bonds meant that substantial mutual help was customarily provided by people equal in status, mainly under the informal bond and obligation of friendship. Friendship (*amicitia*) gave rise to serious and substantial duties. Therefore, "fulfilling contractual obligations was a matter of personal honour" (Temin, 2013:12).

Nigeria, with a score of 30, is considered a collectivistic society. This is manifested in a close long-term commitment to the member 'group': a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount and over-rides most other societal rules and regulations. This society fosters strong relationships where everyone takes responsibility for fellow members of their group. In collectivist societies, offence leads to shame and employer/employee relationships are perceived in moral terms (like a family bound). Hiring and promotion decisions take account of the employee's in-group and management is the management of groups (Hofstede, 1996).

Watanabe and Kanazawa (2021) and Huff et al. (2003) suggest a link between collectivism/individualism and trust. In fact, many imply that trust is high in collectivist and low in individualist societies (Idemudia et al., 2021). A common theme is that because collectivists have a more interdependent world view, they place more importance on relationships and nurture them with more care than individualists. The view above is also supported by Triandis (1989 and 2005); Chen et al. (1998); Hofstede (1980a and 1980b). More so, Japan is frequently cited as a cultural model for fostering trust and cooperation (Hagen and Choe, 1998; Casson, 1991; Rayamajhee and Bohara, 2020). Tanaka (2020) concluded that the Japanese concept 'Wa' or harmony involves sharing, cooperation, warmth, and fellowship leading to trust in a working relationship. Achieving Wa, and ultimately trust is crucial in Japanese culture (Hazama, 1978). Ouchi (1981) praised Japan for its between-firm relations, in contrast to the United States, where firms rarely trust each other sufficiently to enter a bilateral relationship.

Dyer and Singh (1998:673) noted that Japanese firms incur lower transaction costs than U.S. firms and generate higher relational rents. One could argue that it is a country-specific institutional environment that fosters goodwill, trust, and cooperation (Dore, 1983; Dyer, 1996; and Sako, 1991). Similarly, African societies, including Nigeria, have a similar collectivism ideology. This is evident in the large size of the informal sector whose activities are influenced by relational and reputational principles.

A theoretical discussion associating national culture and trust by Doney et al. (1998) indicates the general belief that when trust is high, relationships are strong, and motives are benevolent in collectivist cultures. Conversely, when trust is low, relationships are weak, and motives are calculative in individualist cultures (Huff et al., 2003:81). Borrowers within an informal setting are aware of the importance of their reputation and the implications of damage/default on their established reputation. Any default that cannot be reasonably defended could lead to embarrassment. Therefore, care is always taken by borrowers to judiciously utilise the credit borrowed. The continuous economic exchanges among players in such an environment are based on personalised mechanism, which is highly influenced by trust.

The relational constructs that surfaced in the way both formal and informal lending routines operate are attributes influenced by the culture prevalent within African societies. Although formal lenders are not exclusively based on relational approaches but there are indications of loan officers gathering soft information from their relationships with customers (Uchida et al., 2012).

There are other concepts like habits, norms and artefacts that serve as the constituents of culture. There are reflected in the

preconditions and relational constructs that surfaced within formal and informal lending. A stream of research recommends that relational exchanges or personalised transactions based on informal relationships— are a dominant strategy for firms situated in emerging economies (Boisot and Child, 1996; Johnson et al., 2002; Khanna and Palepu, 1997; Peng and Heath, 1996).

## **2.6 Trust**

The literature indicates “that informal lending is based on trust and relationships and it is experiential and culturally informed” (Fukuyama, 2002:32). For example, the coming together of individuals to form a cooperative society is analogous to the formation of a network for social capital reasons. The definition given to social capital encapsulates the concept of generalised trust. It provides access to membership in various types of networks, and permit acting within the norms of reciprocity. The attitudinal aspects of the concept, such as generalised interpersonal trust, are the most critical part of social capital (Rothstein and Stolle, 2017). The reason is that individuals can be members of networks that consist of untrustworthy agents, who play a destructive role in the spirit and the idea of trust. Thus, there is no logical reason why membership in networks per se should be a desired social value. Attitudes of generalised trust extend beyond the boundaries of face-to-face interaction and incorporate people who are not personally known to each other (Stolle and Rochon (2001). This chiefly translates to informal lending relationships and may indirectly be related to formal lending, especially when formal financial lenders rely on informal financial lenders to allow access to their members.

Some researchers pointed out that trust facilitates transactions among organisations by reducing transaction costs, such as

information searching, negotiation, monitoring and enforcing transactions. Similarly, the perception of partners' trustworthiness depends on the amount and accuracy of the information, the degree of cooperation and other factors associated with transaction costs (Liberti and Petersen, 2019).

Transaction costs lean towards zero if the information provided is perfect and balanced among parties (North, 1990). North stated that "costliness of information is the key to the costs of transacting. This consists of the costs of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreement" (pg. 220). Various scholars interested in network relationships have recognised the knowledge dimension of networks and its link with competitive success (Baum et al., 2000; Dyer and Nobeoka, 2000; Gupta and Govindarajan, 2000; Nishiguchi, 1994). A key argument is that membership in a network and the resulting repeated and enduring exchange relationships have the potential for knowledge acquisition by the network members. Knowledge about each other's businesses can be shared, with information that would be helpful to businesses revealed over the course of such relationships.

In his review, Portes (1998) identifies Pierre Bourdieu's (1986) analysis as the first systematic analysis of social capital. Bourdieu (1986:248) defined the concept as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition". As the concept evolved, through the work by Coleman (1988), Burt (1997), and others, a consensus emerged that social capital represents the ability of players to secure benefits by virtue of membership in social networks or other social structures (Portes, 1998; Bourdieu, 1986; Coleman, 1988; Putnam, 1993),



suggesting social capital to be an attribute of a social unit, rather than an individual. As a public good, social capital is available to and benefits not only those who create it but also group members at large (Kostova and Roth, 2003). Social capital was defined as the “aggregate of resources embedded within, available through, and derived from the network of relationships possessed by an individual or organisation” (Inkpen and Tsang, 2016). This definition accommodates both the private and public good perspectives of social capital (Inkpen and Tsang, 2016). From the social capital, various benefits, such as preferential knowledge access, may flow to the SMEs.

Individual social capital originating from an individual's network of relationships can be distinguished from organisational social capital derived from an organisation's network of relationships. The former has the property of a private good, whereas the latter takes on the nature of a public good. With social capital as a public good, members of an organisation can tap into the resources derived from the organisation's network of relationships without necessarily participating in the development of those relationships (Kostova and Roth, 2003). These two levels of social capital are often interrelated. For example, a cooperative society leader or representative through his or her social relationships and personal connections can help his or her members set up a business relationship with another organisation. In this case, organisational social capital is created based on individual social capital. Equally, a business owner can link up with others to create a group, and the ensuing relationship will form the basis of social capital. Through this, values and goals are defined, guiding how rules are administered and how goals are attained in a manner that brings common benefits to members.

On the one side scholars argue that variations in the amount and type of social capital can be explained primarily by societal-centred approaches (Rothstein and Stolle, 2017). The capacity of a society to produce social capital among its citizens is determined by its long-term experience of social organisation, anchored in historical and cultural experiences that can be traced back over very long periods (Savage et al., 2012). The society-centred approach views regular social interaction, preferably through membership in voluntary associations, as the most critical mechanism for the generation of social capital.

Following the "Tocquevillian tradition, formal and informal associations and networks are seen as creators of social capital because of their socialising effects on democratic and cooperative values and norms" (Newton, 1999). A second issue is that, even if the importance of voluntary membership is upheld, not all associations serve a normatively desirable purpose. Many groups are established to create distrust. An example was suggested by Alan Brinkley (2002), who refers to parochial communities that are not open to every member of the public but as an alternative to manifest and foster an inward-looking and isolating culture. From such extreme cases, some voluntary associations may use their power, perhaps as producer organisations, to extract resources from society in a way that is similar to blackmailing others, giving unmerited or disproportionate advantages to their members to the loss of the rest of society (Rothstein and Stolle, 2003).

The challenge of having good and bad relationships among group members surfaced in social capital research. It also promises new analyses to differentiate groups by the degree of face-to-face interaction members have with individuals unlike themselves. This distinction in social interaction has been labelled as bridging (contact with many dissimilar people) versus

bonding (contact with people like oneself) (Rothstein and Stolle, 2008:445). The relationship between lenders to lenders and SMEs to SMEs may qualify as bonding, while the relationship between lenders and borrowers/SME may qualify as bridging.

Social capital shapes the observance of the behaviour of fellow citizens, as institutional fairness sets the tone. The message of corrupt systems is, for instance, put in place to get what one needs without following the due process. Hence the individual agent will witness the use of corruption amongst fellow citizens and will feel obliged to engage in corrupt practices to get what they deem necessary in life. Studies are indicating that some state indirectly intervenes in the economy through the capital provision, favouritism, and participation in corporate governance (e.g., political appointments to upper echelons) (Boyer 2005; Kang and Moon, 2012; Musacchio and Lazzarini, 2014). This situation was referred to by Fainshmidt et al. (2018) as an indirect intervention in the private sector. For instance, according to Estrin et al. (2006), Russian oligarchs acquire their wealth, not as a result of their attainment of privatised means of production, but because Putin is the current president of Russia – enabled the accumulation of assets by these individuals. In many developing countries, corruption is rampant and often makes the state a vital actor in how organisations allocate resources. Those individual's businesses would continue to thrive as long as their relationships with those in power are intact.

However, there can be no generalised trust in those who just take advantage of others and the system. Corrupt and unfair practices, for example, might lead to experiences of discrimination and injustice, thereby negatively influencing generalised trust (Rothstein and Stolle, 2008:456, Sønderskov and Dinesen, 2016:181). In lending, the existence of corrupt practices may put ineligible borrowers in a position of advantage

while honest borrowers may see their application rejected. Against this background, the rules of lending set out the procedures and conditions borrowers have to abide by to qualify for finance. This is a sort of structure: in the case of informal finance, qualification for finance is hinged on trust resulting from existing prior relationships.

Meanwhile, in the case of formal finance, it is hinged on transactional or impersonal mechanisms. However, there is an element of trust in both. The loan officer of a bank may not be inclined to approve a borrower's loan application if he/she has doubts about the individual's integrity, even if all other preconditions have been met. An empirical explanation done in Sections 4.2.1 and 6.2.1, informed by participant's narratives, corroborates this line of argument. Where loan officers recommend worthy SMEs for a loan, this is done by drawing from information at their disposal based on what they know from various interactions and visits to SMEs places of business.

## **2.7 How Institutions may influence Habits and Routine**

Meyer and Rowan (1977) conclude that institutions draw much from culture and creates expectations that determine appropriate actions for organisations. Also, the arrangement informs the judgement by which regulations, laws, and presumed behavioural prospects seem normal, natural and abiding (Zucker, 1987). An institution is defined as what is appropriate in an objective sense, and thus render other actions unacceptable or even beyond consideration (DiMaggio and Powell, 1991). Institutional theory is thus concerned with regulatory, social, and cultural influences that promote survival and legitimacy of an organisation rather than focusing solely on efficiency-seeking behaviour (Roy, 1997). As Alan Wells

(1970:3) put it, "Social institutions form an element in a more general concept, known as social structure." The original institutional economists, in the tradition of Thorstein Veblen and John R. Commons, understood institutions as a distinct type of social structure with the potential to change agents, including changes to their purposes or preference.

Granovetter (1985) emphasise that one of the classic questions of social theory is how behaviour and institutions are affected by social relations; the adoption of an institutional lens may help to unravel it. Institutions both constrain and enable behaviour. The existence of rules implies constraints. However, such a constraint can "open up possibilities: it may enable choices and actions that otherwise would not exist" (pg.481). For example, the rules of language allow us to communicate; traffic rules help traffic flow more easily and safely; the rule of law can increase personal safety. Regulation is not always the opposite of flexibility or freedom; it can be its enabler (Hodgson, 2006). It must either be written or verbal, and that make transmission possible. Language aids cognitive processes by serving as a reasonable basis for understanding (Mayer, 1977).

In a continued changing human landscape, 'humans' are preoccupied to find ways to gain control of their lives. In doing that, they are continuously confronted with new challenges and problems that require a solution. North (2005) deduce that institutions become necessary to enable individuals to reduce the uncertainty or transform uncertainty into risk and enhance activities that bring about the development of new behaviours. In effect, Veblen agrees that continuous repetition of this enhancement activity is analogous to acquiring new habits, and behaviours occasioned by institutional dictation (Veblen, 1909:186). There are layers within which an institution operates, such as higher and lower levels (Campbell, 1974b). Campbell

states that every single process that exists on the lower levels of hierarchy are curtailed and shaped in a manner harmonious with the laws of higher levels (pg. 180), equally in the agreement is Veblen (1899). Therefore, organisations' behaviour is a product of what has been fostered down to it by the institutional structure. This relates to the idea of downward causation.

Kim (1992) view downward causation as the relationship between the whole and the functional parts. In other words, it is about a whole-part relationship. Chen (2010) queried this and labelled Kim's argument as invalid but instead favoured the relationship between levels. Similarly, Hodgson (2004) argument against the downward causation idea of Kim that her notion is weak and reducing higher-level influence on individual behaviours alone. According to Hodgson (2003:165), "all processes at the lower levels of an ontological hierarchy are restrained by and act in conformity to the laws of the higher levels". While, a stronger idea, which can be explained as "reconstitutive downward causation," encompasses changes exerted on individuals as well as populations as a consequence of causal powers connected with higher levels (Hodgson, 2003, Sperry, 1991:230-1) also suggests a strong interpretation of downward causation. He recognises, for example, that "higher cultural and other acquired values have the power to control the more immediate, inherent humanitarian traits downwardly.

The above disagreements do not nullify the downward impact of institutions on organisation and individual. Most of their argument is hinged on the fact that individuals and organisations influence higher-level constraints with variations through social actions, parliaments, and protests. The theory about strong downward causation put some sort of clarity to this line of debate.

According to Hodgson and Knudsen (2006:21) “through structuring, constraining, and enabling individual behaviour, institutions have the power to mould the capacities and behaviour of agents in fundamental ways”. For example, they could change aspirations instead of merely enabling or constraining them. Because institutions simultaneously depend upon the activities of individuals and constrain and mould them, through this positive feedback, they have strong self-reinforcing and self-perpetuating characteristics. Institutions are perpetuated not merely through the convenient coordination rules they offer; they are perpetuated because they confine and mould individual aspirations and create a foundation for their existence (pg.7). Hodgson (2006) describes and relates the foundation of the behavioural impact of the institution to routines and habit (Routines and habit are explained in section 2.8 and 2.9).

Hodgson (2007) opined that institutions are social structures that involve “reconstitutive downward causation”, acting to some degree upon individual habits of thought and action, including organisational routines. Rules and structures imposed from the higher level will certainly influence lower levels of behaviour, and it will command adherence for the purpose of reward or sanction. In effect, the continuous adherence to those rules will automatically lead to the new acquisition of new habits or routines. Zollo and Winter (2002) asserted that organisations develop, stabilise, and follow routines over extended periods and adapt to a changing environment by reconfiguring routines, creating new ones and using them consistently across the organisation.

The “general term for all regular and predictable behavioural patterns of firms is regarded as routine ”(Nelson and Winter, 1982:14). Cohen et al. (1996:684) define routines as "an

executable capability for repeated performance in some context that has been learned by an organisation in response to selective pressures". In essence, rules play a significant role in shaping the habit of players. This view was referred to as downward causation by Sperry (1969, 1976, and 1991). When confronted with the need to decide on a course of action, individuals consider their beliefs about the likely consequences of available alternatives (Hogdson, 2004). As a result of these beliefs, outcomes formed by the attitudes toward a given behaviour, subjective norms concerning the behaviour, and perceived behavioural control, which influence behavioural intentions and actual behaviour are experienced.

Cultural values as macro-level (societal) concepts and social beliefs as micro-level (individual) concepts, which are identical to the interactional psychology perspective, in which both individual factors and contextual factors combine to influence behaviour (O'Reilly et al., 1991). Although "the relationship between them is hard to understand" (Fu et al., 2004:285). Cultures are linked to beliefs. Literature specifies that stability is linked to values, as it is more of a long-lasting belief about what is essential (Sagie and Elizur, 1996). The individuals have both beliefs and values, nonetheless in Fu et al. (2004)'s paper, "social beliefs refer to those held by individuals, whereas cultural values are defined as 'cultural criteria or evaluative standards for judgment, not motives, beliefs, or attitudes of the individuals'" (Hayden, 1988: 416). This has implications on how societies allocate resources and the quality of the rules that guides that process (Doingbusiness.org 2018).

Also, SMEs operating within the Nigerian manufacturing sector may have to deal with those institutional pressures ingrained within their culture. Again, they have to influence what forms part of the relationship they share. No economic player could survive



in isolation, but by interacting and negotiating that relationship and making the best of it. Both formal and informal institutions define what is acceptable and discipline nonconforming behaviour, they allow individuals to form expectations about the actions and commitments of exchange partners, enable equilibrium practices to emerge (Greif, 1994), and support the conduct of exchanges (Redding, 2005). Thus, a social relationship defined by the institutional arrangement may lead to routine change and may present implications addressed in subsequent sections.

## **2.8 Habits**

Hodgson (2010) explains that to understand the concept of a routine, it is essential to appreciate the idea of habit and instinct. For each individual, the capacity to ponder on something and make a choice depends on habits and instincts inherited respectively from nurture and nature. Moreover, there is evidence that unconscious brain activities precede an individual's thinking (Hodgson, 2010). These indicate "that our thoughts process are predisposed towards the choice outcome before we are aware of our decision, and show that unconscious mental dispositions have sequential priority over associated conscious deliberation and decisions" (Hodgson 2010: 2). This argument may have consequences on business, economics, and the social sciences (Hodgson, 2009).

Often, humans repeatedly follow others' behaviour because of an instinctive or acquired disposition to conform (Hodgson and Knudsen, 2006). Behaviour can also be formed by inducements or restrictions, providing motives to attain specific customs, follow a particular dressing convention and use specific linguistic terms (pg. 21). In following others, individuals develop the habits connected with these behaviours. "Behaviours are copied, and

also the habits giving rise to them are imitated” (Hodgson and Knudsen, 2006:21). This is because habits are socially acquired, not genetically transmitted. In this respect, they are distinguished from instincts (pg.2). Instincts are blunt instruments to deal with changing, complex and unpredictable circumstances. Instincts are not static behaviours; they are dispositions that can often be suppressed or diverted (Robertson, 1978). Studies show that the expressions of feelings or dispositions depend on the social context. In some, circumstances, it can trigger inherited instincts such as fear, imitation or sexual arousal. Many of our characters and much of our behaviour are moulded after birth. The critical role of socialisation does not undermine the decisive role of instinct. Both instinct and habit are vital for the development of an individual. The work of socialisation can only begin after the inherited dispositions had played their part. Visualising the manifestation of instinct cannot be experienced without the help of culture and socialisation. Instinctive behaviour and socialisation are not always rivals but often complements: they interact with one another. The degree to which SMEs are affected by their social circumstances is immense, but understanding the process would involve knowing more of the critical underlying concepts such as instinct and their role in social theory.

Contextual triggers are required for instinct to be operational. Nonetheless, it can still be subjected to being suppressed or diverted. Comprehending “human behaviour may necessitate the understanding of the interplay between (inherited) instincts and (acquired) habits” (Hodgson, 2010:4). Outcomes cannot be explained only based on instincts (pg. 4). Therefore, “humans can acquire the capacity to develop habits alongside the development of the cultural apparatus that enable adaptive

solutions to problems of survival to be maintained and transferred” (Veblen, 1914:6-7; Richerson and Boyd, 2001).

According to the philosopher James Dewey (1922), habit is the acquired predisposition to ways or forms of response. As Hodgson (2004) explains, “All skills, from the knowledge of finance through competence with languages to the ability to play a musical instrument, depend on habits”. As affirmed in recent research in cognitive psychology (Tulving and Schacter, 1990; Cohen and Bacdayan, 1994), habits are acquired through incentive or constraint. These can provide reasons for individuals to acquire specific customs, i.e. following a traffic convention and using specific linguistic terms (Hodgson, 2004:3). To avoid the conceptual problems of an account-based mostly on intentionality, Hodgson (2006:8) suggests “that it is better to accept the foundational role of habit in sustaining rule-following behaviour”. It is from this point, he argues, that an alternative ontology of institutions and routines can be built. Before reviewing the evolutionary approach and the concept of routine as a replicator<sup>4</sup>, we turn first to work in cognitive psychology on habits. This helps to understand the relationship between habits and routines, how routines emerge and change and why they can be difficult to change.

All habits comprise thoughts or mental activity, and thought is a form of behaviour (Hodgson and Knudsen, 2010). For ease of understanding, habits expressed as visible behaviour can be referred to as corporeal habits and habits that are restricted to the mind as habits of thought (Hodgson and Knudsen, 2010:137). Nonetheless, a change in habits of thought is less straightforward. Because they are unobservable, they cannot

---

<sup>4</sup> Replicator was defined by Hull (1988: 408) as “an entity that passes on its structure largely intact in successive replications”. While, Hodgson and Knudsen (2012b) put it differently, saying it “an information-retaining and copiable mechanism”.

replicate straightforwardly through imitation (pg. 80). Necessarily, habits do not replicate directly by making copies of themselves, unlike DNA or a computer virus, and they replicate indirectly using behavioural expressions (pg. 137). People imitate one another, and eventually, the copied behaviour becomes rooted in the habits of the person from whom they copied it from, thus transmitting an imperfect copy of the habit (pg. 80).

It is noteworthy to state that an individual's present habits of thought tend to persist indefinitely, except if circumstances enforce a change (Veblen 1899). Literature suggests that habits and routines have strong inertial tendencies and stickiness (Hannan and Freeman, 1984). Also, they argue that frequent directional changes may have an undermining effect on organisation survival. Therefore, an element of inertia was encouraged. Thus, as an organisation age, they slowly enhance their reliability with which routines are applied (Hannan and Freeman (1984). Inertia may have "distinct advantages over adaptive strategies where environments are uncertain, characterised by rapid change and where change is dramatic" (Wholey and Brittain, 1986: 523). Sculanski (1996) connects knowledge-related factors such as the recipient's lack of absorptive capacity, causal ambiguity, and difficult relationship between the source and the recipient to inertia (Sculanski, 1996). For Collinson and Wilson (2006) and Huang et al. (2013) inertia is an outcome of inheriting previous processes, rules, norms and experience. This may translate to sticking to what is known without thinking or seeking a solution outside the box.

Meanwhile, Peng (2003) and Chavance (2008) recognise that the inertia inherent in habits and suggested that institutional change does not have a mechanistic effect on entrepreneurial behaviour because of inertia. This could act as a behavioural

constraint in the face of institutional change. Stieglitz et al. (2016:1865) summarised that “inertia is a function of age”, “it may become a source of obsolescence relative to the demands of the firm's environment if it persists”. Also, Dollimore (2016) also corroborates the view on resistance to change inherent in habits and routines. Akunyumu et al. (2020) suggest that an organisation success is determined by innovation, but lack of readiness creates inertia. Nevertheless, despite the perceived inertia, characterising habits and routines, there have been arguments suggesting they are still susceptible to change.

Current research in cognitive psychology demonstrates the possibility of change in habits and behaviour (Cohen and Bacdayan, 1994; Holland et al., 2006; Wood and Neal 2007; Zhao and Wang, 2020). Other studies elaborate on how ongoing change is influenced by; firstly, past influences, historical scripting and mental models. Secondly, heritage, habits, learning and experience (Hodgson, 2000; 2001; Sugden, 1989; Zhao and Wang, 2020). Thirdly, beliefs and expected payoffs (Greif and Laitin, 2004; Axelrod, 1986); and lastly, societal rules at different levels (Ostrom 2000). Other scholars, for example, Veblen (1899), have suggested external factors concerning how change can occur. According to Veblen, for any change to be experienced, external coercion must be enforced.<sup>5</sup> Borrowing from evolutionary theory, an individual phenotype<sup>6</sup> develops according to the instructions in its genotype<sup>7</sup> and the influence of environmental conditions (Hodgson and Knudsen, 2010).

---

<sup>5</sup> “The readjustment of men’s habits of thought to conform with the exigencies of an altered situation is in any case made only tardily and reluctantly, and only under the coercion exercised by a stipulation which has made the accredited views untenable. The readjustment of institutions and habitual views to an altered environment is made in response to pressure from without; it is of the nature of a response to stimulus” (Veblen, 1899:89).

<sup>6</sup> Phenotype is the actual character of an interactor, including its behavioural propensities and capabilities” (Hodgson and Knudsen, 2006:4).

<sup>7</sup> Genotype is the genetic constitution of an organism. It is a biological example of the more general class of replicators, which includes genotypes and replicators at the social and other levels.

Hence, practically, interventions in the form of external influence from lenders, whom SMEs may have decided to approach for a loan may require them to implement specific changes.

Wood and Neal (2009) in their research on cognitive psychology, highlighted the incentivising role of goal orientation. Depending on what strategy SMEs will be adopting, as determined by their goal orientation, an appropriate decision would have to be made. Some of the key factors that would influence SMEs choice in determining what strategy to adopt in manoeuvring and surviving their changing environment may include the cost associated with the decision to be chosen; such as the opportunity cost, associated benefits, the risks associated with the different alternative courses of actions.

This study acknowledges that routines are not the only things governing organisational choices. In explaining an alternative basis for organisational choices, the theory of demand and supply can be borrowed. The theory was developed by Adam Smith. He opined that when the cost of purchasing a product increases, the demand for that product (except for a few incomprehensible circumstances) decreases and vice versa. Furthermore, when deciding to obtain a loan, a prospective borrower should have different options to consider. These options may include alternatives or substitutes. In terms of lending, a substitute or alternative to borrowing from a formal lender is to obtain such loan from an informal lender. Each of these lenders has conditions that may be considered either stringent or generous by a borrower. If the conditions are stringent, it may indicate it is costly and hard to obtain, but if it is generous, it may indicate it is less costly and easier to obtain. A rational borrower would be more inclined to go with the lender with the easiest preconditions.

Based on the context of this study, i.e., focussed on finance, and its attendant preconditions, SMEs would be faced with decisions about what loan and which lender to approach. Also, factors such as costs, risks, penalties, and possible benefits attached to the lending options may have to be considered. Thus, the accruable benefits such as loan size, how easy to meet the preconditions, amongst others, would serve as incentives. While, high interest, risks of rejection may serve as disincentives. Furthermore, suppose the cost of putting things in place outweighs the expected benefit. In that case, this may influence prospective SMEs in deciding which loan source, i.e. formal or informal lender they may patronise.

This would prompt necessary decisions to be made, and such decisions could lead them to lenders, who would subject them to certain preconditions. The subjection to loan preconditions is necessitated by the regulations/regulators who have oversight on lenders activities. Both regulators and lenders are external to the SME, and their influence is crucial to lending. Without complying with such preconditions of loans, the possibility of obtaining access will be zero. Hence, SMEs would have no choice but to comply to become a beneficiary of such loans. The attendant implication(s) of such compliance to various types of lenders may have an effect on routines and subsequently may influence the way SMEs operates. This does not mean they wanted to deliberately change their routines, but based on this study's outcome, change of routine becomes inevitable as it is more like a by-product of adherence to preconditions of loan. In other words, one could deduce that routine change is triggered by external pressures.

To corroborate the higher level versus lower level influence, Dollimore (2016) findings show that external triggers play a significant role in shaping the routines of founders of the

business. Her finding reveals variation in founders' capacity to change habits of thought and negotiate new routines, which she linked to their experience and capacity for self-awareness. This is consistent with research in cognitive psychology interventions that discuss how altered "environments and environmental 'triggers' or 'cues' can bring about altered behavioural outcome" (Kilpinen, 1999; Lipsey et al., 2005)

To evolutionary economists, habits are the fundamental individual-level building blocks of which organisational routines are comprised and from where they emerge (Knudsen, 2008). Habits relate to individuals, whereas routines relate to groups or organisations (Cohen et al., 1996; Dosi et al., 2000). Individuals have habits; groups have routines. Routines are the organisational analogue of habits. However, routines do not merely denote habits that are common to individuals in an organisation. If this were the case, there would be no need for the additional concept of a routine. "Routines are not analogous to habits only, but they are organisational meta-habits, existing on a substrate of habituated individuals in a social structure" (Hodgson, 2004). Routines are one ontological step ahead of habits (pg.3). At this juncture, having explained the concept of habit, it is logical to proceed to the concept of a routine. However, before doing so, determining the definition that would guide this study is essential. Hence, this study will adopt the definition indicated below.

*A habit is a disposition to engage in previously adopted or acquired behaviour (including patterns of thought) that is triggered by appropriate stimulus or context. This is because habits are influenced by prior activity and have durable, self-sustaining qualities (Hodgson and Knudsen, 2010: 239).*



Going by the definition, Habits are dispositions rather than expressed behaviour. If we acquire a habit, we do not necessarily use it all the time. It is a propensity to behave in a particular way based on the situation at hand.

In Darwin's Conjecture (2010), Hodgson and Knudsen set out the meta-theoretical framework of Generalised Darwinism (GD) and the generalisable terms for the concepts of routines and organisations, namely replicator and interactor<sup>8</sup>. As a foundational information-carrying entity, in the modern evolutionary perspective, habits are conceived as elementary social replicators<sup>9</sup> (Hodgson and Knudsen, 2010).

The idea of GD provides a "framework in which particular (non-universal) evolutionary patterns and mechanisms can readily be considered" (Aldrich et al., 2008:11). The adoption of GD should not be confused with the assumption that the proposition that the detailed mechanisms of social and biological evolution are the same. Thus, the idea of generalising Darwinism depends on a degree of ontological commonality is at a highly abstract level (pg. 13). This "commonality is apprehended by the broad idea of a complex population system and the formulation of a highly general concept of selection and replication (pg. 13). In social and biological domain, these core Darwinian principles are not sufficient, but they are not invalid (pg. 15). Additionally, with the complexity characterising population systems in both nature and society, a generalised Darwinism is the only over-arching framework that can be used as it allows explanations to be provided to understand evolution in complex systems (Blute, 1997; Hodgson, 2001). In any case, using the GD framework

---

<sup>8</sup> Interactors are defined as an entity that directly interacts as a cohesive whole with its environment in such a way that this interaction causes replication to be differential" (Hull, 1988:408).

Social replicators, "are not inherited biologically, which act as stores of social dispositions, rules, and knowledge, and which can guide the development of human patterns of behaviour and social structures, depending on the overall context. Social replicators are neither genes nor DNA; they are replicated by other means" (Hodgson and Knudsen, 2010:77).

does not mean overlooking the differences in mechanisms of evolution in biology and society; however sufficient explanations of the particular mechanisms that occur in specific cases is required ((Hodgson and Knudsen, 2006:15).

In line with GD, “Darwinian principles, for instance; variation, inheritance and selection are appropriate to complete social and business-related explanations” (Hodgson and Knudsen, 2006a:6). Importantly, entities are presumed to possess some capacity to “retain and transfer on to other practical solutions to complications they face in the everyday struggle (Aldrich et al., 2008). The advantages of retaining such problem solutions or adaptations are obvious in avoiding the risks and costs of learning them anew (Aldrich et al., 2008). They assume that the entities possess some capacity to pass on to others information about such workable solutions, providing the foundation for a trans-generational cumulative growth of problem-solving knowledge” (pg. 5). Business organisations can be “referred to as social interactors<sup>10</sup>, and individual habits and organisational routines can be referred to as replicators” (Hodgson and Knudsen, 2010:86).

As in biology, replicators and interactors play a role also in the evolution of socio-economic systems. Replicators are mechanisms carrying a “set of encoded instruction that is passed on to the next generation by more or less copying exactly or by reproduction” (Hodgson and Knudsen, 2007: 356). In biology, DNA and genes are the adaptive mechanisms by which adaptive solutions are copied or passed on (Hodgson and Knudsen, 2006:5). Similarly, in a socio-economic context, habits and routines are the information-carrying mechanisms that

duplicate and transmit the adaptive answers (Hodgson and Knudsen, 2010).

Prior to Hodgson and Knudsen (2010), Cohen and Bacdayan (1994) explained the role of memory in the routine change process, by borrowing from cognitive psychology. The latter study distinguished cognitive psychology between procedural and other, more cognitive forms of memory, such as semantic, episodic or declarative memory. The domain of procedural memory is behaviour, whereas that of semantic and episodic memory is cognition or thought. Their work helps us to understand how routines work by allowing us to consider how any tacit or other information associated with a routine is preserved and replicated. Cognitive memory systems have the capability of modelling the external world – that is, of storing representations of objects, events, and relations among them. In contrast, procedural memory does not have this capacity. Past events and stimuli trigger procedural memory, leading to behavioural responses, which has a major tacit component. “Procedural knowledge is less subject to decay, less explicitly accessible, and less easy to transfer to novel circumstances” (Cohen and Bacdayan, 1994:557).

Routines depend upon a structured group of individuals, each with habits of a particular kind, where many of these habits depend upon procedural memory (Hodgson, 2007:110). The behavioural cues by some members of a structured assembly of habituated individuals trigger specific habits in others (pg. 110). Hence, the organisation or group offers a structured social and physical environment for each individual, including rules and norms of behaviour, in an unambiguous and informal form (Hodgson and Knudsen, 2010). This environment consists of other individuals, the “association between them and the physical artefacts and technological artefacts that they may

employ in their discussions and dealings” (Hodgson , 2007:111). On the one hand, the environment - either social or physical enables, stimulates and channels individual activities. On the other hand, it helps trigger the behaviour of others, produce or modify some artefacts, and help to change or replicate parts of the social and physical environment (Hodgson, 2007).

The explanation above may help in understanding the genotypic or phenotypic status of a routine. Phenotypic development is a product of both the genotype and the environment. The environment in which the SMEs in this study operate, comprise of regulators, lenders, and other SMEs. The change that any SME would experience will be determined by the habits of the managers/owners and the environment in which they domicile.

In this study, rules about lending will be formulated by regulators and passed on to lenders to administer. This represents the environment side of things. The intrinsic side of things, for example, involves genotype (in biological term), which is analogous to routine are the host to the instruction carried in the memory of the replicating individual, such as SME owner or manager. These people may have existing knowledge of solutions to current challenges. Otherwise, it is their responsibility to seek the right information dependent on their mindset, past experience, level of education and access to information.

If an SME owner is knowledgeable about the rules guiding borrowing, the knowledge on its own is abstract, until an actual step is taken to operationalise it. The phenotypical side of things is visible when the habits manifest or become operationalised. This is what (Hodgson and Knudsen, 2010:137), referred to as “corporeal habits, which is expressed as visible behaviour”. For instance, knowing (knowledge) that a business must be audited

annually is abstract. The acquisition of the knowledge and the willingness of the actor i.e. SME owner may be interpreted as disposition, which is more of an abstraction. The disposition is synonymous with the concept of the habit of thought. This can become operationalised when the individual puts in the right effort by including it as part of the firm's policies and produce an audit report for onward submission to regulators when required. This is an example of how a habit is operationalised. Furthermore, when such activity is being practised by a group of employees, who work together periodically to carry out the auditing task for the whole organisation, by making the necessary contribution, i.e. providing records, collating data, verifying figures, filling receipts. Then auditing would be said to be a behaviour.

Habits of thoughts are invisible. Dollimore (2016) reported marked variation in the capacity of entrepreneur to change habits of thought and negotiate new routine. This is because individuals such as managers and business owners are vested with decision-making responsibilities. The extent of their knowledge would determine the nature and extent of adaptation of their organisation experiences. This is in line with a recent study in psychology on cognitive interventions, where the business success of managers are associated with their awareness and readiness to change mind-set (Tushman et al.,2011). In most businesses, founders or business owners may have the disposition towards acting in a certain way. In line with the explanation in the preceding paragraph, disposition becomes routine when the knowledge has been passed on to members of the organisation. Hence, this resonates with habits and routines as replicators because they preserve and transmit social roles, interpretations, attitudes, knowledge, and skills and act as the relatively durable substrate of all beliefs and deliberative reason (Hodgson and Knudsen, 2010).

Also, Hodgson and Knudsen (2010), argue that the traits of an entity develop according to the instructions in its replicator and the influence of environmental conditions. The instructions for a character can be entirely open-ended, allowing multiple conditional responses or a gradual fixation through learning (Hodgson and Knudsen, 2006:27). A social relationship can qualify as a vehicle through which a new routine is learnt, transmitted or diffused. For instance, SME operations involve interaction between different units within the context of the organisational goals.

The importance of habits and routines cannot be overemphasised. Scholars such as Penrose (1959), Nelson and Winter (2002) and Hodgson and Knudsen (2004) in evolutionary economics, describe routine as a replicating entity. Hodgson (2006) and Felin et al. (2012) broke routine down to its micro foundational basis connecting it to habits, behaviour and notion of dispositions. From an evolutionary perspective, “through the intertwined mechanisms of variation, selection and information transfer (inheritance) they both sustain and transform the organisations of which they are a part and come to explain the diversity of the industry to which they belong”. (Dollimore, 2016:3).

Cohen and Backdayn (1994) proposed that routine enables the capacity to transfer knowledge and absorb capabilities. As captured in various definitions, they are the mechanism by which organisations can change, adapt, and maintain stability over time (Nelson and Winter, 1982; Feldman and Pentland, 2003; Becker et al., 2005; Pentland et al., 2012). They are referred to as managerial and organisational processes, the way things are done in the firm, or patterns of present practice and learning.

Learning may be synonymous with the transfer of knowledge. Similarly, as noted by Feldman, and Pentland (2003), it aids the dynamism of capability due to its flexible nature. A point also observed by Dollimore (2016) who showed a link between routine flexibility and cognitive.

## **2.9 Routine Change**

Before discussing the different types of routine change, this section will begin with a review of the nature of routines and the definition adopted here.

Most scholars consistently treat routine as an organisational capacity and generative structure (Eisenhardt and Martin, 2000; Zollo and Winter 2002), analogous to biological genes or computer programs, but having distinctive features of their own (Hodgson, 2004). Another useful description of a routine as a potentiality or capability, rather than behaviour, is found in the discussion in Cohen et al. (1996:683). "A routine is an executable capability for repeated performance in some context that an entity has learnt in response to selective pressures". Again, this points to the importance of distinguishing between capacity or disposition, on the one hand, and behaviour on the other. Capacity is the ability to operationalise a task, while disposition is the willingness to act towards something. Literature suggests that human behaviour has an observable pattern of routines. However, Cohen (2007:775) argues that routines are not observable. But rather an active disposition and as "an acquired propensity or disposition, which may or may not be actually expressed in current behaviour" (Hodgson and Knudsen, 2004:286). Hodgson (2008), defines routines not as behaviour but as dispositions. In his view, "a routine is a generative structure or capacity within an organisation. Furthermore, routines are organisational dispositions to

energise conditional patterns of behaviour within an organisational group of individuals, involving sequential responses to cues" (Hodgson, 2008:25). At the same time, other scholars have focused on the interpretation of routines as actual patterns of behaviour (Iannacci and Resca, 2021; Gersick and Hackman, 1990).

Therefore, literature is inundated with several definitions of routines. To ensure the elimination of confusion, as stated above this study will adopt Hodgson's (2009) view of routines as capacities or propensities. This is because routines are organisational dispositions to energise conditional patterns of behaviour within an organised group of individuals, involving sequential responses to cues (Hodgson, 2007). This is a process that may involve the disposition of top managers or owners to act in a particular direction for the betterment of their organisation.

Also, this corresponds with Pentland and Feldman's (2008) ostensive aspect of the routine, which they note makes routines challenging to observe, distinguish, compare and count. This study does not attempt to observe routines but instead relies on the narratives of SME owners who discuss their thinking, habits and experience of routine change." Becker et al. (2005) and Pentland and Feldman (2005a) submission underlie the invaluable value of routines to change within an organisation.

Nelson and Winter (1982) illuminated the importance of routine; they describe it as a unit of analysis, a pattern of action, DNA of organisation, and adaptation enabler. Cohen et al. (1996) describe routines as "an implementable competence for repetitive performance in some context that has been learned by an organisation in reaction to selective pressures". Feldman and Pentland (2003) view it as a source of flexibility and change, and



repetitive, recognisable patterns of interdependent actions carried out by multiple actors. According to Feldman (2000), the disposition of individuals within an organisation will determine their attitudes toward routine change. The evaluation of various options would be required, guided by specific criteria in decision making. In rational terms, options that fulfil the right criteria and bring the desired value might be the choice for managers.

Winter (1995:149-50) distinguishes between a “routine in operation at a particular location, as a network of coordinating relationships connecting specific resources” and the ‘routine per se, which is the abstract activity pattern’. Nevertheless, the term routine cannot apply to both the web of coordinating relationships and the activity pattern that is the outcome of the coordinating structure and its environmental triggers; it cannot usefully denote both potentiality and actuality (Hodgson, 2004). It has to denote one or the other, but not both (Hodgson, 2004).

From various definitions provided on a routine by different scholars, it is evident that changing of routines is believed by some as difficult (Szulanski, 1996; Szulanski and Jensen, 2004 and Hannan and Freeman (1984, 1989) are key supporters of the opinion that the capacity for organisation routines to change is somewhat limited. They argued that changes in routines population within an environment is a product of the need to survive or extermination of specific organisations and the consequence of persistence or exit of the routines they convey, rather than through alterations in the routines themselves. Jensen and Szulanski (2004) suggest that the stickiness and the inertia tendencies (Zhao and Wang, 2020) characterising routines may explain why organisation routines persist, leading to failures of many organisations. They further argue that if routines cannot be changed, there should be room or opportunity for it to be replaced. This is because routines, not yet

in place, maybe introduced if that will delay or prevent the extinction of an organisation.

Changes in routine can take different forms. Firstly, changing a routine by operating (possibly dormant) routine X instead of former routine Y. Adoption of a dormant routine is possible in some cases, as reflected from narratives. This is similar to a partial routine change. This may occur when the routine in question is not practised. Some registered businesses, instead of paying taxes regularly either do it once or manipulate their statements to reflect tax payments. This routine could be considered a dormant one because it is not being practised in reality. For example, having a bank account is one of the prerequisites for a loan from a formal lender. This could be the case whereby a borrower has a bank account, but funds from business transactions are not regularly paid into this account.

Another instance is when funds are deposited, but they include other income from different sources and withdrawals are made for other non-commercial purposes. This shows a situation where there is no demarcation between business and personal funds. The need to adhere to loan preconditions for the present or future requirement encourages SMEs to become more meticulous, organised, and mindful of how they manage their business account. This is essential because audited financial statements are required for DFI loans. Also, it could imply that they must present an account that is solely for business purposes. The importance of getting it right cannot be over emphasised because every figure is likely to be scrutinised. During this process, if a questionable transaction is found on the statement, the consequence might be a rejection of the loan application.

The second meaning of routine change relates to changes to a particular existing routine. This involves improving an existing

routine, e.g., bookkeeping. Reasonable and generally accepted bookkeeping follows standard bookkeeping principles. In some cases, the borrower adheres to those principles but in a manual version, which might lead to delays in preparing reports. For operational efficiency and/or presentational reasons, some changes could be made, e.g., changing from physical bookkeeping to electronic bookkeeping. This might result in having neatly and standard produced reports, that could easily be presented to lenders when seeking a loan.

Lastly, routine change could occur when developing and operating an entirely new routine. This could occur if an SME that is serious about getting access to formal loans, is not keeping records at all. Thus, it has to commence the practice of record keeping. Whatever be the case, all the different types of changes could be described as “routine change” because it does not occur if there are no trigger(s) that prompt any such change(s).

Baum and Singh (1994:4), “classify routines as hereditary entities that pass on their information largely intact in successive replications and that is concerned with the conservation and transfer of production and organising skills and knowledge”. Nonetheless, these entities are influenced by a variety of factors in the organisational context. Routines are affected by changes in jobs and changes in the incumbents of these jobs and by the ideas and mistakes of these incumbents (pg. 4).

From the above, in most cases averting or managing a particular unfavourable occurrence or impending doom may prompt routines to change. Burgelman (1994) suggests the various source of change in organisational routines. He illustrates the evolution of the product mix at Intel due to mid-level managers following internal rules, rather than decisions taken by top-level

management. Echoing Nonaka and Takeuchi (1995) on knowledge creation that change in organisations does not simply consist of responses to the external environment, but also consists of internally generated knowledge. New beginnings and a period of significant transitions were argued by (Feldman, 2003) as providing the window of opportunity to change. In a similar approach, the points of view offered in this research add to the routines literature by simultaneously focusing on the role of external influence caused by formal and informal lending rules. In the process of adhering to those rules, there may be a likelihood of change in routine and growth.

Sociologists have long documented the complex ways that rule influences organisational action (Dobbin et al., 1988; Fligstein, 1990; Powell, 1996; Edelman and Suchman, 1997; Heimer and Staffen, 1998; Scott, 2001). Top managers in organisations may adopt new formal programs to signal compliance to external audiences but decouple these formal programs from everyday work practice (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Silbey, 1984; Oliver, 1991; Sauder and Espeland, 2012; Scott, 2008). This usually takes place when the status quo is deemed favourable. Sometimes regulations run counter to the interests of influential organisation members (Edelman, 1990), and often regulations provide only ambiguous criteria to identify compliance (Silbey, 1981). Similarly, in Dietz et al. (2003) financial instruments were mentioned as incentives to trigger change due to compliance with environmental rules, although the context of their argument was based on the environmental rule. However, a rule is a rule irrespective of context.

Equally, Ilegbinosa and Jumbo (2015) argue that compliance with regulations is a trigger that could lead to organisational change. The way the trigger influences SMEs might vary. For instance, small businesses are at a disadvantage with respect

to large enterprises. This is due to “high compliance costs, that can exacerbate the resources and cash-flow constraints often experienced in the early stages of business development and may act as a deterrent to seeking a loan from formal financial lenders and thus may hinder the adaptation or renewal of existing processes” (Organisation for Economic Co-operation and Development, 2018:7). D’Adderio (2008) acknowledges the role of human interference in a rule-following context. He emphasised their influence and scope in framing<sup>11</sup> standard operating procedures (SOPs), templates and other forms of rules.

Daft and Weick (1984) stipulate that human actors can always apply discretion in interpreting the rule or procedure and assign meanings. According to Spender (1989), the inherent flexibility and adaptability of human practices implies that rules may attempt to guide organisational behaviour in a manner in which goals and purposes can be achieved and ultimately decide whether, how and when to abide by, sidestep, or altogether reject them. Flexibility in disposition is analogous to the work on cognitive dexterity. This signals the extent of flexibility inherent in the dispositions of SMEs. Some SMEs might be more inclined to informal lending, while some are more disposed to formal lending, while some are disposed to both. Their dispositions are grounded in past experiences, i.e. past work-related exposure, and education. Dollimore (2016) maintains that there is a strong link between cognitive dexterity and successful entrepreneurship performance. Similarly, any decision adopted (either to accept or reject a specific) set of habits/routines would attract consequences. Therefore, SMEs might perform better if

---

<sup>11</sup> Framing is often describe as a rationalist, cognitivist or mechanistic view (Tsoukas, 1996), which focuses on power of objective structures to define, prescribe and shape actions. It is commonly used in AI, computer science and positivist management literature (Taylor, 1911).

they are flexible enough to move between lenders or to accommodate both.

Also, most compliance theorists argue that regulatees' responses as purposeful action, considered as a satisfactory approximation for actual action processes (Etienne, 2010). The best-known example of studies to address this problem is the study conducted by Ayres and Braithwaite (1992). They combine rational choice theory (game theory) with an 'idealist' theory of empowerment, predicting that norm internalisation in trust relations would overcome temptations to defect. This compromise between 'a logic of appropriateness' and logic of consequences' (Mitchell, 2007) is typical of many significant contributions to the regulation literature (Gunningham and Grabosky, 1998; Kagan and Scholz, 1984). Disposition to adherence may not be far off from rationalism. As the expected benefit accruable as a result of compliance to loan preconditions may be one of the key reasons SMEs would comply.

Also, Beck and Levine (2005) demonstrated that law could play an important role in guiding and transforming the informal credit market into a semi-formal or formal financial system. Also, they deduced that a lack of a proper legal framework that fits the reality on the ground is a menace to the economy. In a bid to survive, every business, irrespective of size, interacts with its environment. The decision to receive a loan is based on a need identified, and compliance/adherence is a means to that end. This is analogous to the rational theory.

Within this environment, there are forces, and any SMEs desirous of survival must be adaptable to enhance and sustain their competitive advantage. Some studies refer to the response as the process of adaptation or alignment. Hamel and Prahalad (1993) opined that alignment is a dynamic process that

inevitably stretches resources and capabilities from time to time. As the alignment shifts over time, a firm must be capable of reinterpreting its environment and incorporating its understanding into new products, processes, strategy, and structure. According to Boisot and Li (2005) contend that a firm may respond in a rational and predictable way to market forces (Boisot and Li, 2005). This is aimed at surviving the competitive processes of selection. Thus, rational firms placed in similar positions would respond in similar ways (Porter, 1980). Some of the factors in a business environment include regulation, which comes under the economic factor (Grant and Jordan, 2015). Changes may likely occur when responding to forces in a business environment.

Change occurs when learning has taken place. Learning begins when individuals discover that the status quo will not deliver a desirable outcome (Hodgson, 1998). Organisational learning “involves a process of inquiry, reflection and evaluation in which the model is revised and becomes embedded in the regular practices of the organisation” (Hodgson, 1998:190). Similarly, borrowers would research, reflect, and evaluate various loan preconditions and explore how best their organisations can adapt/adopt them in a manner that guarantees access to loans.

According to Lant et al. (1992:603) “organisational learning is a complex process and with no room for trial and error, which is often emphasised in the organisational learning literature”. Barr, Stimpert and Huff (1992) delve more deeply into the cognitive processes of organisational learning. They found that “the process of strategic renewal at the railroads they studied ‘was more complex than the two-tiered models of organisation learning (single-loop and double-loop) usually found in the management literature” (pg. 32). They concluded that “renewal hinges not so much on noticing new conditions, but on being

able to link environmental change to corporate strategy and to modify that linkage over time” (pg. 15). Their research suggests the need for a more in-depth model of the organisational learning process to understand how interpretation affects strategy changes.

Learning is key to routine change, and the knowledge developed resides in the organisation memory. Argote and Ingram (2000) argue that the receiving organisation should strive for flexibility to usefully absorb and accommodate new routine. This is similar to absorptive capacity or dynamic capability, which touches on how knowledge is retained and sourced within and outside organisational boundaries (Teece, 2012).

According to the framework of McGrath and Argote knowledge is embedded in three basic elements of organisations—members, tools, and tasks. Members are the human components of organisations. Tools, including both hardware and software, are the technological component. Tasks reflect the organisation’s goals, intentions, and purposes (Argote and Ingram, 2000). Knowledge forms part of the experience that may inform future decision making and aid the competitive advantage of firms.

Likewise, in the field of strategy, the Resource-Based View (RBV) claims that competitive advantage originated inside the firm. It takes the form of valuable, rare, hard to imitate, and heterogeneous resources it had accumulated over time in path-dependent ways (Barney, 1986a, 1986b, 1991; Peteraf, 1993, Wernerfelt, 1984). Drawing from the resource-based view, firms were not just products of their external conditions. Instead, they are a product of the historical and path-dependent choices made by their managers, which allows them to be intrinsically different from each other (Penrose, 1959, Child, 1972, Porter, 1991).



Thus, the choices made would be aided by their knowledge, which is determined by their lived experiences.

What makes an organisation unique is the manager's ability to adapt faster than others to achieve a better fit between changing situations and their understanding (Boisot and Li, 2005). By implication, "the cognitive activities of codification and abstraction must be kept plastic and flexible" (pg. 326). At each point, an SME owner or manager would draw on their past experiences to determine which source of financing is most suitable and relevant to the overall goal of the company. Individuals have "memory accumulated over the years in the form of knowledge that is either embodied in habits, routines, behaviours and physical skills or representations – in both cases, a by-product of activity" (pg. 326). Moreover, they can rely on it for future application. Therefore, determining what is suitable and relevant to contemporary issues hinge on past knowledge and experience.

Teece et al. (1997) propound that learning processes are intrinsically "collective and can occur not only through the imitation and emulation of individuals, as with teacher-student or master-apprentice but also through joint contributions to the understanding of the complex problem". Learning requires standard codes of communication and harmonised search procedures. The organisational knowledge generated by such activity resides in new patterns of activity, in 'routines,' or a new logic of organisation (pg.520). As indicated earlier, routines are patterns of interactions that signify successful solutions to particular problems. The movement of employee inter and intra-organisation enabled social interactions and at the same time, aiding learning.

Routine change is usually necessitated by various factors. As emphasised above, sometimes it is as a result of laws or rules that emanate from a third organisation, such as the state, or an association of employers (Hodgson, 2004). Oliveira and Quinn (2015) recognise rules, specifically formal rules, as cognitive structures of human actors, which they suggest underlies and may precede routines. Rules can act as an external trigger in the form of loan preconditions emanating from lenders to SMEs, and the SMEs will have to adhere to reap the benefit accruable, i.e. access to a loan. SMEs adherence to rules would start from the point where understanding is established. SMEs are not expected to adhere to a rule they do not understand. Understanding is analogous to learning, and learning must have taken place within a social context. Adopting a modern evolutionary approach would make this analogy easier to comprehend. This is because the learning that takes place between the point of adherence and the point when SMEs first heard about the rules must have involved some level of interaction.

Habits and routines are conceived as social replicators, and their transmission and adaptation are accomplished through the process of variation and selective retention (Hodgson and Knudsen, 2010; Dollimore, 2014a, 2014b). The role individual SME owners may adopt may include employing new employee with skillset relevant to the dictates of the requirement for a loan. As SMEs adhere to these conditions, their way of doing things will be affected, for example, bookkeeping (Adebayo, 2003). When this is done, the record-keeping routine would have been noted to be changed - mirroring good practice. Another general example is driving. When there is a new skill, it will be evident in practice. For example, someone who has learnt how to drive could demonstrate his or her new skill by physically driving a car.

In line with behavioural research, people are generally thought to be effective in pursuing their goals, particularly when they have incentives and opportunities to learn from experience. It seems reasonable to describe choice as a utility maximisation process (Tversky and Kahneman, 1986:273). Borrowing from rational theory, an individual will evaluate, adapt and select the best option based on what is deemed beneficial. Knowing what will bring the best benefit will be determined partly by experience and current knowledge. This is possible because, according to MacDonald (2003), SMEs know and understand what is expected of them.

Similarly, in the context of seeking finance, SMEs may have to change their routine in line with the dictates of the lenders. Lenders operate within the ambit of formal and informal rules, and that defines the relationship they have with other economic players such as SMEs. Like other social, institutionalised structures, rules can constrain and enable organisational behaviours (Fuller et al., 2000), and thus new organisational routines emerge. This argument explains the influences exerted by the institutional environment and how it relates to routine change.

The rules emanating from the higher-level authorities are coercive because they comprise of prescriptions that are made mandatory by sanctions. Routines provide directions for what to do and how to do it (the cognitive dimension). March and Simon (1958) first shown that routines (which they referred to as “programs”) enhance efficiency through recurring experience. There will be an “increase in efficiency when players know which activities need to be performed (process) and what output has to be attained” (March and Simon, 1958:32). This is analogous to learning and knowledge of what is required for a specific goal to be attained by applying the right action for its completion. The

owners or managers of an SME may have to copy the template based on their understanding of the loan preconditions and compare available options, i.e. formal financial lenders and informal financial lenders.

The work of Miner (1987, 1990, and 1991) and Burgelman (1994), however, suggest that policy or rule changes may simply be the codification of changes that are already made. Just as words are introduced to the dictionary after they have been in use for a period of time. Rules or policies may codify changes as much as they make them. Pentland and Rueter (1994:48) extended the research in routine by observing that routine change requires deliberate efforts and new accomplishments. At the same time, Feldman (2003) argue that they are not finished product but ongoing activities, designating routines as emergent accomplishments. Previous observations point to the event that is external and can influence the internal activities of organisations. This can lead to changes within the organisation, such as introducing new technology and changes in how certain activities are performed.

The organisation structure is viewed as an adaptive vehicle, which is shaped in reaction to the characteristics and commitments of participants as well as to influences and constraints from the external environment (Miner, 1987). The adaptive process is referred to as institutionalisation: "In what is perhaps its most significant meaning, "to institutionalise is to infuse with value beyond the technical requirements of the task at hand" (Selznick, 1957: 17). Anticipating later work, Selznick distinguished between organisations as technically devised instruments, as mechanical and disposable tools, and organisations that have become institutionalised, becoming valued, natural communities concerned with their self-maintenance as ends in themselves.

The institutionalisation process was viewed as being subject to conscious design and intervention. The government may want to pursue a policy that addresses a societal problem, for example, encouraging banks to give out loans to disadvantage groups such as SMEs. This is an example of deliberate intervention. This kind of policy will make it mandatory for all banks to act in a certain way to achieve a particular goal. The intervention is an example of an exogenous pressure that may affect the operations of lower-level economic players connected or have to interact with the bank (Campbell, 1974:180; Kim, 1992). This is an example of downward causation.

Nevertheless, Selznick's (Selznick, 1957: 17) defined and described the process but did not explicitly account for it. He referred to this "process as institutionalisation". Since man is a social product" (Berger and Luckmann, 1967:61), institutionalised rules are groupings built into society as reciprocated on typifications or interpretations. Institutionalisation involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action. Since thought comes before action, knowing what to do would be determined by several factors, such as past knowledge, dispositions, and triggering the process of doing may be dictated by the external pressures.

Similarly, SMEs' external environment is complex and contextual. In line with this research, the environment that governs financing is more applicable to how firm react to lending issues. For instance, Scott and Meyer (1983: 140, 149) defined the environment in a technical context as those within which economic exchange takes place. As a result, organisations are compensated for acting within the ambit of control that governs the exchange process.

Furthermore, Scott and Meyer (1977) argue that there is less emphasis on institutionalisation as a distinctive process. Organisations do not necessarily conform to a set of institutionalised beliefs because they "constitute reality" or are taken for granted, but often because they are rewarded for doing so through increased legitimacy, resources, and survival capabilities. The same applies to SMEs in the Nigerian manufacturing; access to finance would be their major impetus to adhere to lending rules.

The operations of lenders are defined within the institutional arrangements, and they act within the authority of the law. Scot (1987) adopted the concept of authorisation, which he likened to the one vested on an organisation from a high-ranking authority. The sources of authority, as defined by Dornbusch and Scott, (1975: 56) is "authorisation as the process by which norms supporting the exercise of authority by a given agent are defined and enforced by a superordinate unit". Authority is legitimated power; legitimated power is normatively regulated power. When an organisation's power is "authorised it is, presumptively, supported and constrained by the actions of officials superior to it and in a position to oversee its appropriate application" (Dornbusch and Scott, 1975:502). The preconditions associated with lenders are legitimate and linked to benefits when followed.

In many areas, there are multiple possible sources of authorisation. Organisations must determine to which, if any, external authority that they have to connect. There are often costs as well as benefits associated with such choices. Organisations may have to modify their structures and activities in various ways to acquire and maintain the support of external authorities; and, at a minimum, they must provide information and access (Scott, 1987). Based on open system theory, it is not

surprising that organisations will tend to map the complexity of environmental elements into their structures (Buckley, 1967). The mapping of complexities dictated by environmental pressures, which is analogous to institutional pressures, may suffice as an explanation of the cause of change an SME may experience. This is not suggesting there is no alternative explanations to causes of changes in an organisation.

In the context of economic players and institutions, it is essential to note that efforts to reclaim a less deterministic and more historically grounded understanding of institutions have led scholars to re-examine the relationship between institutions and actions. The important conclusion, as noted by (Jackson, 2010:3) is that “institutions both enable and constrain action, but considerable indeterminacy and situational ambiguity persist”. From the above, the actions of players are determined by what has been handed to them consciously and unconsciously. Players may interpret or utilise institutions differently, stretching their boundaries, adapting them to new contingencies, or avoiding them through deviant behaviour (Oliver, 1992; Clemens and Cook, 1999). An SME may be deviant to formal rules and be obedient to informal rule. This is still acceptable within the dual institutional arrangement existing in Nigeria. This is possible because both formal and informal financial lenders have different preconditions.

Bell (1973) argues that the formal structures of many organisations in post-industrial society dramatically reflect the myths of their institutional environments instead of the demands of their work activities. Such elements of the formal structure are manifestations of powerful institutional rules which function as highly rationalised myths that are binding on specific organisations (Meyer and Rowan, 1977:343). Likewise, through repeated interactions, groups of organisations develop shared

understandings and practices, and institutional entrepreneurs can work to form the rules that define the field, and, at the same time, these rules shape the ongoing patterns of interaction from which they are produced (DiMaggio et al., 1984).

Equally, beneficiaries of loans may develop routines similar or in agreement with the type of preconditions they are subjected to in the process of gaining access. Specifically, SMEs that have adhered to impersonal mechanisms may develop routines that mirror formal rules. Likewise, SMEs that adhere to personal mechanisms may develop routines that mirror informal rules. The occurrence of that corresponds to Hawley's (1968) description of isomorphism<sup>12</sup> as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. At the population level, such an approach suggests that organisational characteristics are modified in the direction of increasing comparability with environmental characteristics. The number of organisations in a population is a function of environmental carrying capacity, and the diversity of organisational forms is isomorphic to environmental diversity (Hawley, 1968). Hannan and Freeman (1977) have significantly extended Hawley's ideas. They argue that isomorphism could be a result of nonoptimal forms which are selected out of a population of organisations.

Also, it could be because organisational decision-makers learn appropriate responses and adjust their behaviour accordingly. A central tenet of institutional theory is the belief "that organisations sharing the same environment will employ similar practices and thus become 'isomorphic' with each other" (Kostova and Roth, 2002:215). Organisations are pressured to conform to a set of institutionalised beliefs and processes that

---

<sup>12</sup> Isomorphism is described as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.



are deemed legitimate (Dickson et al., 2004; DiMaggio and Powell, 1983).

Drawing from the above discussions, there exist abundant literature that relates to formal rules and its impacts on routine change. What is conspicuously missing is studies linking informal rules to routine change. However, there are arguments on why SMEs remain informal, with arguments supporting excessive regulations. However, there is silence on how organisation routines are impacted by informal rules, especially within the scope of routine change. Further exploration is still needed on this front, and that will be addressed in this study.

This section has dealt with the meaning, origin, and importance of habits and routines. The next section will address the implication of routine change on SMEs.

## **2.10 Implication of Routine Change**

Routine change represents the emergence of a new routine as a result of adhering to loan preconditions. It is worthy of note to state that the present study is only investigating routine change in terms of established routines in the sector considered 'good practice'<sup>13</sup> by lenders and required to be adopted by aspiring borrowers. These new routines are likely to affect SMEs by altering the way they operate. Bruhn (2008) asserts that reform can trigger this change. A study in Mexico where the introduction of simplified business registration in the municipalities increased registration by 5% and wage employment by 2.2% and increased competition, and the same time reduced income of

---

<sup>13</sup> Good practice within the context of this study represents lenders preconditions for loans; for instance, they represent keeping of records/bookkeeping, auditing, registration of a business, the opening of a bank account.

incumbent businesses by 3% (Aparicio, 2014). Business registration reforms in Mexico also resulted in 14.9% of informal business owners shifting to the formal economy (Aparicio, 2014; Doingbusiness.org. 2018:27).

Furthermore, changes in how SMEs operate may manifest through for example, registration or incorporation, bookkeeping, auditing, and tax payment, amongst others. For instance, when a business becomes incorporated or registered, it becomes formal (Rand and Torm, 2012; Barry and Tacneng, 2014; Linares, 2018). Operating in the formal economy means SMEs must have become registered or incorporated, compliant to tax requirement: by paying what is due. Therefore, SMEs will be contributing to the formal economy. SMEs that comply with regulations will find it easy to get access to loans and benefit from government subsidies.

Also, formality may offer a “firm access to risk pooling mechanisms that could lead to a better attraction of more talented employees and engage them in a longer relationship with the firm, which in turn makes training and capital goods acquisition more profitable” (Fajnzylber et al., 2011:263). Besides, formality is a requirement for access to formal credit markets or government-provided business development services (De Paula and Scheinkman, 2007). This is suggested to have a positive and well-determined effect on gross profit growth in line with Fajnzylber et al. (2009, 2011) and McKenzie and Sakho (2010). However, as mentioned earlier, their studies were unable to analyse the registration effect on net profits due to a lack of reliable tax data. However, based on a field experiment in Sri Lanka, De Mel et al. (2011) showed that registered firms (with fewer than 15 employees) did not cause additional tax payments for the median firm in their sample.

Thus, suggesting that the negative tax effect on net profits may be reduced for smaller firms (Rand and Torm, 2012:991).

Similarly, a study of informality in Rwanda suggests that tax compliance and recording requirements are strong deterrents to registering a business and paying taxes (Stern and Barbour, 2005). Tomlin (2008) was of a different view; he argued that loan preconditions like tax payment are resources SME direct towards tax compliance which could otherwise be used for re-investment, which may facilitate future growth. Hence, there is a belief that taxes and a complex tax system put excessive pressure on SMEs. However, on the other hand, it increases the government's tax revenue and reduces the size of the shadow economy and the number of non-complying registered taxpayers (Vasak, 2008). This shows a mixed outcome for complying SMEs, who experienced routine change due to adhering to loan preconditions. SMEs that comply may become registered might enjoy more access to a highly-skilled workforce, including access to more credit and more government support but, may suffer from harmful effects by taxing net profit.

This was further countered by Rand and Torm (2012) that the net profits suggested by De Mel et al. (2011) may not be exactly as bad. Even if De Mel et al. (2001) are right, the adverse effects of the tax on net profit can still be managed by providing subsidies for SMEs. However, this study is not about the effect of tax alone but the effect of the overall loan preconditions on SMEs. This is emphasised in the literature as including change in routine due to adherence and consistent compliance to loan preconditions. Drawing from the above, if an SME decides to stay informal, it means access to credit from a formal lender will be challenging to obtain, and that may have implications. Some of the implications may include restricted access to more skilled

employees and government subsidies will not be opened to such SMEs.

Current research emphasises a practice perspective on routines while theorising how routine change occurs. For instance, institutional theory (North, 1990, Hodgson, 2006) have explored how both formal and informal rules operate in relation to managing transaction cost, and evolutionary theory (Hodgson, 2009:3). The literature also provided the needed explanation of how a new routine emerges from external triggers coupled with how it leads to adherence (Dollimore, 2016). Thus, one could conclude that institutions may influence SMEs in varieties of ways such as adopting new routines, enabling, or constraining their growth. Although, within a Nigerian manufacturing context, there is a dearth of empirical studies about the mechanism of how routine change occurs. The outcome of this study has shed light on this (see chapter 7 for more details).

## **2.11 Formal and Informal Sectors in Nigeria**

Most developing economies are characterised by a dual system, Nigeria is a good example. This is a situation in which both the formal and informal sector co-exist side by side and, therefore, have a close relationship. While the formal sector undoubtedly plays a vital role in the operation of monetary policy, the picture would be incomplete without some consideration of the informal sector that exists in developing countries (Oladele et al., 2014). As mentioned in section 1.1, there is always a back and forth movement between the two. This is applicable to the financial sub-sector of the economy. For example, although the relationship between “firms and workers can be informal. That means that such a relationship is not in the purview of state regulation. They can also develop an agency that falls within the formal sphere (Chen 2007; Harriss-White, 2003, 2010). Equally,

within the formal sector, informal network practices, e.g. between the state and business elites, is still widely in practice (Becker, 2014; Nolke, 2012).

The financial sector is comprised of formal and informal financial sub-sectors. The formal financial sector and informal financial sector co-existing side by side - a situation commonly denoted as financial dualism. In theory, the formal sector would imply an organised urbanised oriented, institutional arrangement - addressing the financial needs of the developed modern sector. Most businesses in the sector are registered. Meanwhile, the informal sector implies economic units which are outside the official channels and are unregistered. The informal economy entails the economic activities that are not taxed or compliant with the formal regulatory rules. These include employment or borrowing by formal SMEs which does not follow the formal rules. Indeed, posits that generally, many SMEs operate outside the banking system. Thereby they are more of passers-by or spectators of government monetary policy programmes (Osuji and Nwani, 2020). Germidis et al. (1991:13) defined it "as a form of an unorganised and non-institutional oriented setting, which is conducted within the traditional, rural, subsistence (non-monetised) domains of the economy". Unorganised and non-institutional sources operate outside the banking system, where monitoring is limited and regulation almost non-existent (Adeusi et al., 2012). Therefore, it can be argued that the informal sector is analogous to unorganised and non-institutional sources because they all are operating outside the banking system.

It is important to note that an informal sector is conceptually slippery because it may not necessarily mean the same thing as informal or shadow economy. Some literature refers to both terms as the same but in some, they are not. Thus, differentiating what represent shadow economy i.e. "informal economy" and

the “informal sector” comprise a source of disagreement among intellectuals.

The 15th ICLS (International Conference of Labour Statisticians) declaration specified that the informal sector is characterised by “units engaged in the production of goods or services with the primary objective of generating employment and incomes for the persons concerned”(ILO, 1993:7). These units typically operate at a “low level of organisation, with little or no division between labour and capital as factors of production and on a small scale” (ILO, 1993:7). In this sense, activities carried out by economic units of the informal sector are not largely discharged to dodge taxes, social security payments or violating labour or other legislative obligations. It is just the norm and the way the informal arrangement works.

As a result, these activities included in the informal sector should be differentiated from the activities included in the informal economy (Dell'Anno and Adu, 2020). An example of this result emerges by analysing the relationship between informal employment. This is widely considered to be one of the most essential “sources of informal value-added i.e. informal economy – and informal sector” (Dell'Anno and Adu, 2020:1065). These twin scenarios are conceptually distinctive because while informal employment refers to the characteristics of the job, the concept of the informal sector refers to characteristics of production units. Thus, we can have formal employment in the informal sector (e.g. a formal job carried out in informal enterprise) – that should not be included in the informal economy – and informal employment in the formal sector (e.g. an employee of a registered enterprise whose employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection – that should be included in the informal economy) (pg. 1065).

Moving on from national accounting to the economic definitional approach of informality, Dell'Anno and Adu (2020) proposed that the latter is usually based on the legality issues in terms of regulation and taxation. For example, Schneider and Enste (2000:79) defined the shadow economy as encompassing all “legal value-added creating activities which are not taxed or unregistered”. In this sense, this definition is comparable to the ILO definition of an informal economy. Meanwhile, Mazhar and Meon (2017) specified that the informal economy is one that cannot be taxed because the activities are mostly unrecorded and undeclared. According to the ILO Recommendation of 2015 n 204, the informal economy does not cover illicit activities. The meanings put forward above shows the existence of a lack of agreement as to the legality of the shadow economy and the conceptual divergence.

In terms of the theoretical views of the informal economy, Chen (2012) argued that there were four significant views linked to the informal economy: dualist, structuralist, legalists and voluntarist. The dualist school of thought argues that the informal economy arises due to the imbalances between population growth and employment opportunities in the non-agricultural sector. Therefore, if the growth rate of formal employment is lower than the growth of the urban population, we should expect an increase in the informal economy. The “structuralists” assert that informality arises due to excessive demand for informal labour rather than the lack of demand for formal labour as firms seek to remain profitable.

Again, Chen (2012) stated that another factor contributing to the rise of the informal economy under the structuralist school of thought was the reaction of formal firms to the bargaining power of organised labour and the avoidance of state regulations, taxes

and social protection of workers. Consistent with the legalist view, the formal sector may be unwilling to go into any kind of relationship with unregistered (illegal) enterprises. Registration, thus, confers some legal status on informal sector enterprises. Registration is utilised in an expansive sense to refer to activities that are duly registered with the appropriate authorities or with various guilds and unions. De Andrade et al. (2013) contended that registration provides some form of legality and protection for the enterprise in question.

Next, the legalist and voluntarist schools of thought are similar in the sense that they both focus on workers that decide to operate informally to avoid tax and regulation burden. However, the difference between these two schools is that the voluntarists do not blame the legal framework as the reason for operating informally (Chen, 2012). The voluntarists' view is shared by De Andrade et al. (2013) who are opposed to the argument on the high cost of registration as the cause of informality. They were of the view that reduction in the cost of registration does not on its own make informal businesses become formal unless forced to do so. This is explored further in routine change, i.e., section 2.7 and 2.8.

In addition, it is pertinent to argue that the concept of the informal economy – mainly used by labour statisticians – is structurally different from the concept of the Non-Observed Economy (NOE). NOE is introduced by the National Statistical Institute to encompass all economic activities that may not be captured in the basic data sources used for compiling national accounts (Coli and Tartamella, 2012; Adair, 2020). The NOE includes both “legal – as underground, informal (including those undertaken by households for their own final use) – illegal and other activities omitted due to deficiencies in the basic data collection program” (Koufopoulou et al., 2019:41).



Also, the ILO Recommendation No. 204 (ILO, 2015) clarified that the term “informal economy (IE)” referred “to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements.” This recommendation has become an international standard as it provides clarity as to what the informal economy stands for: In section (1), the IE does not cover illicit activities, and in (2) the IE covers all workers and economic units – including enterprises, entrepreneurs and households. Explicitly, the term “economic units” in ILO's classification refers to units that; (1) employ hired labour, (2) self-employed individuals and (3) cooperatives and social and solidarity economy units.

The legality of the informal sector is a subject of confusion, as it is generally seen as comprising of legal and illegal activities (Lippert and Walker, 1997). Though informal activities are not within the control of the government, the government is fully aware of them. Informality in itself is a “process of income generation characterised by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” (Castells and Portes quoted in Rakowski, 1994:504).

Some literature suggests that the conceptualisation of the informal economy and informal sector is mostly negative; Also, it indicates that it is either a problem of ‘unfair competition’ or the breaking down of the rule of law. Informality is most often seen as a rational calculation in which the gains of illegality offset the costs and barriers to formality.

In principle, any business is expected by CAMA 2020 to be registered by the CAC. They could be registered as a sole

proprietorship, partnership, or limited liability company. Alternatively, they could register only their names. The downside to just having a corporate name is that they are not legal entities. Their proprietors could be directly sued in their (own) names in any legal action. However, as long as an SME is registered, they will be eligible to access loans from banks or other financial institutions. The nature of informal sector SMEs, i.e., being unregistered makes it unlikely for them to access formal lending.

In determining the legality of the informal sector, in terms of their status, any business that is not registered is not a legal entity. However, in terms of their activities, as distinguished by Lippert and Walker (1997) (see appendix 12 for more details) there are two categories of activities within the informal sector. The first is legal activities and the second one is illegal activities. Similarly, the ILO's 2015 classification also acknowledges those activities described by Lippert and Walker (1997) as legal. This study recognises these legal activities of the informal sector and the informal economy covers self-employed individuals, owners of SMEs, cooperatives, social and solidarity economy units; informal lenders (i.e., family and friends, Ajo, cooperative societies and money lenders). Informal lenders' activities are not regulated by the government but by individual, groups and community. Furthermore, as mentioned above, this position is consistent with the types of legal activities emphasised by Lippert and Walker (1997); Awoyemi (2012) and Ekpo and Umoh (undated).

Awoyemi (2012); Ekpo and Umoh (undated) deduced that the legal activities of the informal sector can be categorised into three broad categories. These are:

- (1) *The informal, productive sub-sector: This encompasses all economic activities including the production of tangible goods. These include agriculture*

*production, mining, quarrying (Excluding Petroleum), small-scale manufacturing, building and construction. Specifically, they manifest in food production, woodwork, furniture making, garment making, welding and iron work.*

*(2) Informal service sub-sector: This sub-sector includes repairs and maintenance, informal education services, health services, counselling services, and labour or menial work. Repairs and maintenance services include tailoring, vehicle repairs and maintenance, tinkering, carpentry and servicing of various household and commercial tools. Informal health services, especially in the rural areas, include traditional birth attendants, herbalists and other traditional medical practitioners. Also, there are traditional spiritualists who offer counselling services. These services are rendered for fees paid to those who render them.*

*(3) The Informal financial sub-sector: The activities of this sub-sector are mostly unofficial, irregular, informal, shadowy and parallel. The most predominant type of informal finance in Nigeria is the Esusu. Among the Yoruba, it is called either Esusu or Ajo. Among the Igbo, it is called Isusu or Utus. Some groups operate with written laws while others operate with unwritten laws but on an oath of allegiance and mutual trust.*

The third sub-sector mirrors this study's focus – i.e. informal financial sub-sector comprising of cooperative societies (unregistered), and the traditional Esusu/Ajo (who were part of the participants of this study) and are described as informal lenders. The informal lenders enforce contracts using informal

means—for example, social isolation or ex-communication. Social isolation could lead to reputational damage, and SMEs would not want such to happen. Thus, they would take appropriate measures to curb/minimise it.

A flourishing shadow economy creates official statistics (on unemployment, official labour force, income, consumption) that are inaccurate. Policies and programmes that are framed based on inaccurate statistics may be unsuitable and self-defeating. The growth of the shadow economy may increase the tax burden of those in the formal sector. Also, it disincentivises formality and continues to encourage the growth of the shadow economy. Therefore, the existence of a large informal financial market in an economy is detrimental to effective financial intermediation and hampers monetary policy actions' effectiveness. When a large amount of money is unreported and out of the remit of the banking system; it makes it harder for the central bank to effectively influence the financial markets/institutions and monetary policy.

### ***2.11.1 Formal Financial Sector***

The formal financial sector comprises of commercial banks and various specialised financial institutions, which are created and licensed to operate by the governments in developed and most developing countries to target long-term investment. The formal financial sector is a central element of any national institutional arrangement whereby the structure of how capital is acquired and distributed is created and well laid out (Davis and Marquis, 2005). At a macro level, North (1990) cites transaction costs as a factor in the development of institutional arrangements, including sets of culturally determined norms (social, moral, legal, personal).

Recent literature on banking emphasised the role of the formal financial sector, especially banking, plays in reducing transaction costs, acting as delegated monitors for investors, and providing liquidity (Imoughele and Ismaila, 2014). It is these roles that make regulation and supervision necessary. Financial institutions, i.e. banks, reduce transaction costs in the services they provide. Bank services can be viewed as transforming assets into others, and such transformation has two aspects (Barth et al., 2009). First, banks transform deposits with few or no restrictions on the minimal amount and of short-term maturities, such as demand deposits, into loans with longer maturity and in larger amounts, and with credit risk (Aryeetey and Udry, 1995). Thus, they can be viewed as “providing services of divisibility, maturity, and risk transformation” (Barth et al. 2009:6). Secondly, they provide payment services through several payment systems (Barth et al., 2009).

Murray (1997) notes that financial institutions do not just oil the wheels of economic growth; they are the wheels. Weber et al. (2009) show that a country's historical background favouring investor-based systems (e.g., British colonies) increases the likelihood of stock exchange adoption and reliance on equity markets as the source of firm financial capital. Similarly, Zysman (1994) explains that Germany's heavy reliance on banks as the source of financial capital is rooted in its need to quickly catch-up with the industrial revolution that had emerged in Britain. Hence, a society's path-dependent political and economic history underpins the logic with which financial markets develop and operate (Acemoglu and Robinson, 2012; Davis and Marquis, 2005). Therefore, a less industrialised economy like Nigeria may not have a similar level of SMEs reliance on formal finance compared to a developed country such as Germany or Britain.

Earlier, Smith (1776) explained three key roles of government as: firstly, protection of lives and properties of the society and from external aggression. The next role is to establish a thorough system of justice. Lastly, the duty of creating and sustaining certain public works and certain public institutions, which can never be within the interest or capability of any individual, or a small number of individuals, to erect or maintain.

A popular view observed by Olson (1982) explains that if these governmental activities usually had the effect of benefiting the polity as a whole, the role of government would be less contentious than it is in many developed nations where the benefits of government policies are often enjoyed disproportionately by those who are most effective at influencing political decisions. Nevertheless, in economies where financial institutions work well, it is believed that most, if not all, are beneficiaries as the government ensures certain basic functions are provided. In such economies, there will be more fairness in the way resources are allocated.

Borrowing from Adam Smith above, the last two functions of the government are of high relevance to this discussion (Hillman and Keim, 1995). This is because it represents the role of government as a constituted authority with the power to create and maintain individual institutions like formal financial lenders. They also create mechanisms for the administration of justice for institutions created through laws on enforcement and property rights. Other scholars characterise these activities of government as "promotional, regulatory, and redistributive policies" (Lowi and Ginsberg, 1992).

In fairness, the regulation enacted by the government is to ensure impartiality in the way actors relate. Regulations refer to the establishment of rules, including legislative acts and

statutory instruments issued by the competent authorities nationally and supranationally, and rules issued by self-regulatory organisations and private bodies or 'clubs', such as a cooperative bankers' association (Lastra, 2005).

Supranational and international sources refer to laws administered across multi-territorial jurisdiction (Barth et al., 2009). Examples of such are laws made by the World Trade Organisation (WTO), European Union (EU), African Union (AU), and the West African Union. Banking regulation draws from national, supranational and international sources. At a national level, the competent authorities are (though this varies from country to country) the government, through the ministry of finance or treasury, the central bank and the bank regulatory agency/agencies. In the wake of the recent global financial crisis (Hanson et al., 2010), banking regulation has become more focused in recent decades on the lending function of commercial banks (Lastra, 2005).

Within these regulations, relationships between economic players are defined and laid out. This explains the institutional arrangement: where boundaries of formal lender's operations, functions, relationships and interactions within the financial environment are spelt out. The primary aim is to entrench financial mediation among economic players (Greenwood and Jovanovic, 1990:1076). The financing constraints that characterised the Nigerian formal financing environment exist to bring about orderliness in the way the game of financing is played.

The Nigerian government, through its agencies, mandates banks, financing firms, and other lending organisations to meet certain conditions for them to obtain grants that can be distributed to SMEs at reduced interest rates. Equally, donor

agencies, international financial institutions, i.e. World Bank, African Development Bank, may from time to time make funds available, in most cases, to the formal financial lenders. After receiving those funds, it is the formal financial lenders' responsibility to allocate those funds to qualifying beneficiaries (e.g. SMEs).

North and Thomas (1975) deduced that institutional arrangements help to secure property rights and enforce contracts. This has been linked to the economic development experienced in Europe. This was achieved by “reducing transaction costs, enhanced economies of scale, encouragement of innovation and improvement in the efficiency of factor markets” (Hodgson, 2017:2). Therefore, to safeguard property rights and reduce the transaction costs of economic players such as investors, i.e. donor agencies and funding institutions, the banks and other financing organisations who are intermediaries must ensure certain critical conditions for lending are put in place and met by the prospective SMEs.

### ***2.11.2 Informal financial sector***

The definitions of informal financial sectors vary across the globe. Pagura and Kirsten (2006) define informal financial sector as a sector whose financial exchange is based on relationships and reputation. Furthermore, within this sector, they imply that information asymmetries between informal financial lenders and their borrowers are less acute. The loan application procedures lighter, and the collateral requirement easier to fulfil. Also, informal finance is synonymous with this sector and it dates to the 16th century. The activities predate those of the formal financial systems but are not subject to government regulation today (Iganiga and Asemota, 2008).



A study was undertaken in Ghana, Malawi, Nigeria, and Tanzania by Aryeetey et al. (1997) and they concluded that informal finance is an important vehicle for mobilising household savings and financing small businesses. This function is carried out using specialised techniques that address the “problems of information, transaction costs and risks, which prevent banks from serving these market segments” (Rotich et al., 2015:339). The informal financial lenders are largely characterised by small scale financing and are transactions, loans, and deposits occurring outside the regulation of a central monetary or financial market authority (Adams and Fitchett, 1992). They include money lenders, cooperatives, Esusu, pawnbrokers, and Rotating Saving and Credit Associations (ROSCA) (Mohammed et al. 2015; Kyazze et al., 2017). It is important to note that informal financial lenders operating in the informal sector are mostly unregulated (Maloney 2004). However, a few of them may be registered, in most cases, the details of their activities are not fully open or known to the government (Godfrey, 2011; Webb et al., 2009). This has proven to be a problem since the “unregulated nature of the informal financial lenders means that statistical data are not routinely recorded by governmental or private agencies” (Stevens et al., 1992:20).

Numerous studies conducted in Africa indicate that informal financial lenders exhibit much diversity (Aryeetey and Hyuha, 1991; Chipeta and Mkandawire, 1991; Chipeta, 1996; Soyibo, 1996a). Informal activities have wide-ranging operational scope and features: community or group-based, others are organised around individuals. Some informal financial activities involve mobilising savings only; others are involved in both savings and lending, while some are involved only in lending. However, cash transactions dominate, informal finance (Hugon, 1990). Also, it could consist of an ‘in-kind’ type of transaction (Soyibo, 1996a).

Also, despite the variety, informal financial lenders have a lot in common: deposit mobilisation and lending are done on a small scale with little or no record-keeping, there is no barrier to entry. In contrast, lending is done mainly on personal recommendation. The “geographical coverage of the units is limited in scope, as deposit-taking and lending often take place among kin and people of the same locality” (Babafemi et al., 2015:193).

The informal financial lenders operate within this space. They are often better positioned to efficiently monitor and enforce repayment when legal enforcement is difficult and time-consuming (Allen and Qian, 2010). The most cited distinction is probably that the informal sector has an easier time dealing with problems associated with information and enforcement of contracts. In contrast, the formal sector can take advantage of economies of scale and the intermediation of funds over a more extended period (Jain and Mansuri, 2003). Likewise, informal financial lenders can monitor borrowers by offering credit to a group of known clients where social ties and social sanctions induce investment (Aleem, 1990; Ghate, 1992; Udry, 1990). Informal financial lenders can resort to social sanctions to enforce compliance based on their ties within the community (Etienne, 2010). This supports the community responsibility system that Greif (1998:3) mentioned as an aspect of reputation-based institutions, in which future exchanges are conditional on past conduct. Therefore, enforcement rests on social sanctions available within the community (Madestam, 2014:168). However, the current study focuses on intra-community based enforcement, which differs from the inter-community-based perspective studied by Greif. Within the same community, savings can be harnessed and re-invested locally among members. A set of meticulously crafted safety net and governance features seem to nurture the trust necessary for an

improved local financial institutional arrangement (Ksoll et al., 2016:82).

There are a variety of legal enforcement mechanisms open to lenders. For instance, formal lending is distinct in nature. They can enforce debt repayment by going after a defaulting borrower's income and assets without resorting to violence. They easily rely on courts to enable the enforcements of debt contracts (Djankov et al., 2008). For example, Banks in contrast, typically rely solely on formal legal institutions for the enforcement of their contracts (Stark and Jakubek, 2013). However, the informal sector hardly relies on formal legal institutions. This may be due to the unwritten nature of agreements (Liu and Spanjers, 2005).

Informal lenders have different approaches to enforcement. Many studies on informal lending showed that enforcement of obligations and repayments are generally alluded to as leading to complications and sometimes resulting in groups' collapse (Anderson et al., 2009; Bauchet and Larsen, 2017). As Ostrom (1990:33) observed, problems of appropriation and provision are "intimately bound together": if misused, crowding and non-payment can be severe, and members will not be driven towards contributing to the "common purse". As such, they cannot easily rely on formal enforcement to make members honour their obligations (Siwan et al., 2003:14). However, they do have strategies in place. These are informal enforcement strategies such as exclusion and social sanctions. Exclusion is deployed to deprive members of enjoying any future lending and that applies to other lending groups as well. The other strategy is to punish defaulters through a variety of social sanctions such as giving a bad reputation, retaliating at the workplace, or seizing or damaging personal properties (Siwan et al., 2003:18).

Informal lenders can exert social sanctions such as the loss of social reputation and various types of informal (even physical) coercion 'ex-post', which may discourage defaults 'ex-ante' (Siwan et al., 2009:14). Since informal finance is in the form of groups, members are drawn from the same area or formed by people known to each other or connected through friendship, business, religion or profession. Due to the reputational damage, it is doubtful for an individual who has defaulted to be accepted into another group, e.g., cooperative society. The social sanction meted out will disincentivise members from defaulting, and it is believed to be an effective enforcement mechanism. Besley et al. (1993) and Honda and Kirton (1999) point out the importance of social sanction mechanisms to deal with enforcement problems. Reputation powerfully amplifies the positive effects of social preferences on contract enforcement by increasing contract efficiency substantially (Lindenberg et al., 2020).

Anderson et al. (2009) argue that informal lending such as ROSCAs could never be sustainable unless there is an external or social sanctioning mechanism. The effectiveness of exclusion and social sanction was examined by Anderson et al. (2009). They argued that members in ROSCAs who receive the first money "pot" always have the incentive to deviate, even in an infinitely repeated game, without extra enforcement mechanisms to ensure compliance. Furthermore, there is evidence of moneylenders regularly monitoring borrowers' activities, by visiting them at their farms before the harvest. Also, they are making it difficult for the borrower to run away or use the proceeds of the invested loan for something else without making any repayment. In addition, there is the fear of losing access to credit in the future, which serves as a deterrent to default (Ghosh and Ray, 2015). The effectiveness of enforcement of exclusion and social sanction is a factor in the flow of information. Without proper information flow, product quality, as well as partner credibility outside the relational

network; it might become too costly to verify (Akerlof, 1970). High information asymmetry often leads to over-reliance on personal relationships to reduce uncertainty (Peng and Heath 1996; Zhou et al. 2003). Ahn et al. (2017) assert that organisations cannot operate sustainably without relying on some sort of extra means of enforcement.

Most businesses, e.g., SMEs, in developing economies, operate within the informal sector, just like the informal financial lenders (Ouchi, 1980 in Mathias et al., 2015). Harriss-White (2003) categorises the informal sector as "small firms that are not regulated as well as the activity that takes place in and around the registered, formal sector but is itself unregulated". The informal economy is characterised by actions outside the normal scope of commerce (Mathias et al., 2015). A substantial portion of the world's commerce occurs informally through unregulated economic activities (Godfrey, 2011; Webb et al., 2009). Many research papers have shown the importance of business regulation, demonstrating how it relates to different economic outcomes (Calice et al., 2012). Doing Business calculates a series of factors that facilitate the occurrence of informality and give policymakers insight into the possible areas of regulatory reform in Nigeria and other developing countries (Doingbusiness.org. 2018:24).

Furthermore, one of the most cited theoretical mechanisms on how excessive business regulation affects economic performance and development is that it makes it too costly for SMEs to engage in the formal economy, causing them not to invest or prompting them to move to or remain in the informal economy (Doingbusiness.org. 2018). SMEs may opt for bribery and other informal arrangements to bypass the rules where regulation is particularly arduous (Doingbusiness.org. 2018). The levels of informality tend to be higher in economies with

particularly burdensome regulation. Compared with their formal sector counterparts, firms in the informal sector typically grow more slowly. Also, “they have poorer access to credit and employ fewer workers—and these workers remain outside the protections of labour law and, more generally, other legal protections embedded within the law” (Doingbusiness.org. 2018:7). Firms in the informal sector are also less likely to pay taxes.

Irwin and Scott (2006) and Adiqwe (2012) research concluded that the irregularity and adverse government regulations or policies contribute to the lack of encouraging performance of SMEs in Nigeria. Also, Schiffer and Weder (2001) demonstrate that small firms contend significantly with higher growth obstacles as a result of challenges in areas, such as financing, taxation and regulation.

Bearing in mind, formal and informal sectors are intrinsically interlocked. The complex interaction between the two may lead to policy complications. This effect on the formal economy has been studied from various economic and social dimensions, including its implications for formal labour markets, poverty alleviation, credit markets, fiscal policy, monetary policy (Ahmed et al., 2016; Bandaogo, 2016; Batini et al., 2011; Carpenter, 1999; Castillo and Montoro, 2012; Kathuria and Raj, 2016).

Thus, examined literature suggest that excessive regulation makes informal SMEs remain informal and leads to the loss of expected benefit that the government should have accrued. Similarly, in cognisance of the cultural dimensions of the environment where these SMEs are located; initiatives that will make them play their developmental role and prevent loss of revenue to the economy should be encouraged. Therefore, this study argues that the informal sector SMEs should not be

pressured or forced to become formal. However, an approach that could incentivise them towards making the essential contribution to the economy without jeopardising their ability to be sustainable within their financial and managerial capability should be prioritised.

## 2.12 Information type in lending

Critical to the dynamics of financial transactions and institutions is information, which has been significantly transformed following the advent of new technologies in the last 50 years. Liberti and Petersen (2019) described it as "hard information", as such, this sort of information is quantitative in form. Hard information is information that has been verified, and which formal financial lenders frequently use for lending decisions. Most Nigerian banks adopt hard information in their operations. Hard information is vital to financial transactions, and it is numerically based. However, in the long run, it is technically employed by the banks to make lending decisions.

The opposite of hard information is soft information. Soft information is less useful and contextual. Numerous scholars are of the view that the importance of context for soft information is associated with whether a signal that is observable by outsiders is also verifiable by outsiders (Rajan, 1992). They maintain that for a signal to be verifiable, the interpretation of the signal mainly by the two contracting parties must be the same. Soft information is private and not verifiable. Hard and soft information can be referred to as objective and subjective information, respectively. Hard information is quantitative, involving the use of verifiable data. In contrast, soft information, on the other hand, is social, psychologically-based and greatly influenced by past relationship (Brickley et al., 2003). The manifestation of this is when a loan officer is evaluating a potential loan from a long-term borrower using his/her discretion based on some certain parameters to determine if the loan will be given or not. However, findings have also shown that loan officers can influence loans based on their personal benefits (Agarwal and Ben-David, 2014, 2018). According to them, loan officers do use their discretion, which is unlikely to improve the quality of their decision. While



hard information is important in finance, its exclusive application in lending in developing countries has not been fully researched, as pieces of evidence on most formal financial lenders show reliance on loan officers' opinions and other attributes of relationship informal mechanism to complement the hard information (Petersen, 2004).

There are arguments in some quarters that smaller, less formal and less hierarchical organisations are better able to use soft information in their decisions. Hence the reason relationship lending is built upon soft information. This is evident in some banks relying on information gathered by loan officers, registered cooperative societies and informal financial lenders such as unregistered cooperatives, friends and family, money lenders and Esusu. They base their lending decisions on trust and information obtained on members due to past conduct developed from close relationships.

This shows how entangled formal lending decisions are with both hard and soft information. The next section explores formal and informal financial lenders' mechanism and how they relate.

### **2.13 How Formal and Informal Lender Mechanisms Relate**

Explanations made above about both formal and informal financial lenders' mechanisms have provided a basis for understanding definitions, distinctions and the nature of dichotomy. However, how formal and informal lenders' mechanisms influence each other and their effect on players, in this case, SMEs, may offer explanations as to the nature of the outcome they achieved. In every environment, the application of a formal mechanism may involve some interference of informal mechanism. According to Helmke and Levitsky (2004),

interference underpins the relationship that exists and was captured using a two-dimensional typology. This typology was used to illuminate the relationship that may occur between a formal and an informal mechanism. The first is the degree to which formal and informal mechanism lead to similar outcomes, which they termed as convergence. Next, is the concept of divergence. It can happen when players experienced different outcomes after following the prescribed lending rules. This relates to "ineffective formal rules producing competing informal institutions. These informal rules shape "incentives in ways that are incompatible with the formal rules: to follow one rule, actors must violate another" (Helmke and Levitsky, 2012:724).

The second is the effectiveness of the relevant formal institutions, i.e., the extent to which rules and procedures that exist on paper are enforced and complied with in practice (Helmke and Levitsky, 2004). Effective formal institutions constrain or enable economic players' choices. Players believe that there is a high probability that official authorities will sanction non-compliance. Where formal rules and procedures are ineffective, players believe the probability of enforcement (and hence the expected cost of violation) will be low (Helmke and Levitsky, 2004).

**Table 1 - Typology of institutions**

Outcomes	Effective formal institutions	Ineffective formal
Convergent	Complementary	Substitutive
Divergent	Accommodating	Competing

*Source: Helmke and Levitsky, 2004:728.*

Reflecting on the table above, the relationship between formal and informal rules may be complementary, accommodating, substitutive, and competing. The formal and informal financial lenders exist side-by-side, they interact, and some SMEs have benefited from one or the two types of lenders (formal and informal financial lenders) simultaneously in the course of financing their businesses. Complementary informal institutions may also serve as a foundation for formal institutions, creating or strengthening incentives to comply with formal rules that might otherwise exist merely on paper. When informal institutions complement formal institutions, that is when it has filled or bridged a gap either by addressing contingencies not dealt with in the formal rules or by facilitating the pursuit of individual goals within the formal institutional context (Helmke and Levitsky, 2004). When this happens, the formal institutions would be seen as effective. The effectiveness of the role informal institutions play in the Nigerian SMEs lending practices may likely aid SME access to formal financial lenders. This is explored further in sections 6.4.4, and 6.4.6 of this study.

In a situation where an ineffective formal institutional arrangement exists, the adoption of an informal institution leads to achieving the same outcome: especially, the outcome associated with formal rules. If this happens, then it can be said that substitution has taken place and informal financial lenders will be referred to as substitutive informal financial lenders (Helmke and Levitsky, 2004). If reliance on informal approaches such as bribery results in obtaining loan access, then the informal institutional arrangement can be substitutive. On the flip side, if the borrower can get the same result as would a beneficiary of the formal lender by obtaining access from the informal lender for their credit need instead of relying on formal financial lenders. Thus, informal lending could be considered to be a substitutive to formal lending (see 6.2.2 and 7.4).

When an informal rule produces “incentives to behave in ways that alter the substantive effects of formal rules, but without directly violating them; they may contradict the spirit, but not the letter, of the formal rules” (Helmke and Levitsky, 2004:729). Accommodating informal rules are repeatedly created by players who dislike results produced by the formal rules but are incapable of amending or openly infringe upon those rules. As such, they often help to reconcile these players’ interests with the existing formal institutional arrangements. For instance, SMEs who symbolically or superficially adopt rules mirroring formal financial lenders’ preconditions and do not in practice adhere to them. Nevertheless, they have in a way accommodated them and created a sense of compliance for the formal financial lenders. If the formal lender fails to detect their deceit, they are likely to consent to grant them access to a loan. This is a form of decoupling or loose coupling.

Loose coupling or decoupling occurs through symbolic responses associated with adherence (Sauder and Espeland 2009). All forms of decoupling are analogous to resistance. By so doing, they have not efficiently enhanced formal rules but has enhanced stability by diminishing demands for change (Helmke and Levitsky, 2004). In higher education ranking, public shaming was suggested as an effective way of preventing decoupling. According to Meyer and Rowan (1977) enforcement and monitoring can enable compliance and prevent decoupling or loose coupling in lending. In a developing setting where enforcement is weak, it is likely for SMEs to decouple or loosely adhere to rules without suffering any consequence.

Notwithstanding, not all SMEs decouple; some accommodate by copying precisely the template dictated by the loan preconditions. Informal rules do not rely on hard information for

loan assessment purposes. However, formal financial lenders rely on soft information. Nevertheless, they do so by adopting it in addition to hard information. In other words, formal lender accommodates informal rules to achieve their lending objectives. This may not directly correspond to Helmke and Levitsky (2004) but resemble the accommodation part of their model.

Similarly, SMEs operating informally can adopt formal approaches if they belong to informal groups like cooperative societies. Cooperative societies may give them the shield they require and guide them with the right information needed to adhere to achieve access to formal lenders. In this case, informal institution i.e. cooperative society, may help to accommodate the interest of informal SMEs.

In a situation whereby informal institutions are competing with formal ones; this will manifest in the way informal institutions structure incentives that are incompatible with the formal preconditions (Helmke and Levitsky 2004). To follow one rule, players must violate another, in particular, informal institutions such as clientelism, patrimonialism, clan politics, and corruption are among the most familiar examples of how this occurs (Helmke and Levitsky, 2004:278). According to Horak et al. (2016), when informal rules are competing with formal ones, they suppress institutional development and result in a divergent outcome.

Competition can occur when expected outcomes for adhering to formal rules are achieved using informal means. Therefore, the motivation to explore formal mechanism in the future may not be attractive again (Helmke and Levitsky, 2004). Any source where access to a loan was granted may remain most favoured and might be the go-to source for future loans. Therefore, if SMEs

find informal rules easy to adapt to and they are consistently able to obtain access, then adhering to formal preconditions will not be encouraging for borrowers, vice versa. That means both formal and informal financial lenders compete.

The above depicts the sort of relationship that formal and informal institutions may have and their implication. Applying the typology in places has enhanced the discussion in chapter 6 (see section 6.2.2) and conclusions 7 (see section 7.4 and 7.5) to be richer, analytical and enabled distinction amongst various outcomes linked to the relationship between lenders and SMEs. However, this is not suggesting the typology perfectly fits the phenomenon of this study, but it has aid explanation on an abstract level. Drawing from above, the way they relate with each other would have some impact on the practice of lending as examined in the next section.

#### **2.14 Growth: Effects of lending practices**

It is often the case that banks adopt a mix of lending practices to evaluate a firm's creditworthiness and assess their credit risk (Uchida et al. 2006). In particular, financial statement lending and relationship lending are often used jointly. The adoption of financial statement and relationship lending indicates the dual approach of banks. The dual approach refers to the use of personal and impersonal approaches. This explanation goes to show how undistinguishable formal and informal institutions can be. As a result, a bank that can be viewed as a formal lender, rely on both personal and impersonal/transactional approaches. When this occurs, both soft and hard information would be in use.

Similarly, in a study on lending practices towards Italian manufacturing firms, Bartoli et al. (2010) find the distinction between transaction lenders and relationship lenders to be somewhat blurred, as firms may obtain debt finance from the same bank through different lending technologies. These lending technologies encompass relational and transactional approaches. This form of complementarity is found at both large and small banks, suggesting that transactions lending techniques, such as credit scoring, are used to “harden” - or codify - the soft information collected through relationship lending. However, the study also finds that the way soft information is embodied in the lending decision differs depending on the main approach used by the bank. Soft information increases (lower) the possibility of credit rationing if the bank adopts mainly transaction (relationship) lending technologies. In other words, banks that mainly use “hard information to screen borrowers tend to use soft information as a mechanism for further discriminating loan applications” (OECD, 2015:15).

A study conducted in Japan shows that before lending, banks emphasised three factors: i.e., the relationship factor, the financial statement factor, and the collateral/guarantee factor (Uchida 2011). The finding indicated that banks were relying on subjective soft information by emphasising the relationship, especially when they were under competitive pressure (Uchida, 2011). Another transactional technique adopted by formal financial lenders is Asset-Based Lending (ABL): ABL is any form of lending secured by an asset. It is thus a transactions lending technology in which lenders address the problem of information asymmetry by focusing on a subset of the firms’ assets, as the primary source of repayment (Berger and Udell, 2006).

Typically, four types of asset classes are secured under ABL: accounts receivable, inventory, equipment and real estate. Transactional lending is more likely to be a “one-off lending provision based predominantly on hard quantitative information about the borrower” (Bonini et al., 2017:173). According to Beck et al. (2014), when the credit cycle turned, assessing loan applications may turn out to be more challenging. During this period, bank officials in charge of loans may have to reduce their level of reliance on collateral and hard information and as an alternative, take a closer look at the prospects of the business seeking a loan. This requires a more subtle judgment and “softer information, such as the capability, integrity and level of seriousness of firm owners and management” (IIF, 2013 in Beck et al., 2014:31). They often resolve information asymmetry issues when lending to small firms by using fixed-asset and credit scoring lending technologies in extending individual loans and joint liability group lending for group loans. This poses a problem, however, for small businesses to qualify for loans because they lack sufficient “qualified” assets to put up as collateral (Ghosh et al., 2000). This is further exacerbated by the lack of information infrastructure in developing economies.

Since 2006, “over 165 countries studied by the World Bank have adopted at least one reform or the other to facilitate institutional development” (Distinguin et al., 2016:22). It should be stressed that financial sector reforms in most developing economies are ongoing, encompassing wide-ranging measures and efforts (Aryeetey et al., 2017). The formal financial sector reforms are likely framed to address policy-induced bottlenecks existing in the form of structural and institutional deficiencies contained within the polity (Aryeetey et al., 2017). An example of such policy in Nigeria is the Microfinance Policy Framework introduced by the Central Bank of Nigeria (CBN) launched in 2005.



The loan preconditions of formal financial lenders are designed to incentivise informal SMEs to become formalised. In most developing economies, the large size of SMEs in the informal sector and finance can be used as bait to draw them out. In drawing them out, they might be encouraged to get their business registered, obtain a tax identification number, amongst others. These are the type of things that lead to overbearing regulation mentioned in extensively reviewed literature as one of the reasons SMEs prefer to remain informal (Eilat and Zinnes, 2002).

Unfortunately, to achieve formalisation, SMEs have to operate in an overbearing regulatory environment with a plethora of regulatory agencies, multiple taxes, and cumbersome procedure that constantly exert a severe burden on their operations. Notably, SMEs have to deal with a myriad of agencies at a high cost. As stated earlier, they are heterogeneous and these differences in size and structure may, in turn, carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations (Idewele, 2020; Rand and Torm, 2012a; Akinboade, 2014). Public corporations, for example, commonly have more robust accounting requirements than sole proprietorships. Also, SMEs with employees may be subject to the full panoply of requirements associated with withholding labour income taxes and social contributions (International Tax Dialogue, 2007 in Ojeka, 2011). Under the regular taxation system, the SMEs are poorly treated, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Subjecting them to similar regulatory requirement raises an issue of fairness. To improve the imbalance, a

reduction in compliance and tax rate may lead to an increase in the small enterprises' profit margin (Ojeka, 2011).

Some of the arguments put forward about the effect of formalisation on growth. Demirguc-Kunt et al. (2006) analysed the effects of business and institutional environment on firms' decision to formalise operations and the effects of formalisation on access to finance and firm growth in developed countries, found that formalised firms grow faster than informal ones. Formalised firms face lower obstacles to their growth in countries with better developed financial sectors and efficient legal systems, strong shareholder and creditor rights, low regulatory burdens and corporate taxes and efficient bankruptcy processes. Registered businesses account for fewer financing, legal and regulatory "obstacles than unincorporated firms," and this advantage is more remarkable in countries with more developed institutions and "favourable business environments" (Demirguc-Kunt et al., 2006:2933).

Furthermore, Sleuwaegen and Goedhuys (2002) found that small firms grew faster in Germany than in Cote d' Ivoire because the latter lacked a robust legal and formal rule. Similarly, Beck (2007) used cross-country data for 44 countries and 36 industries in the manufacturing sector and found that financial development yields a disproportionately significant positive impact on the growth of industries that are technologically more dependent on small firms. Their results suggest that the furniture industry (an industry with many small firms) should grow 1.4% per annum, which will be faster than the spinning industry (an industry with relatively few small firms) in Canada (a country with a well-developed financial system) than in India (where there is a low level of financial development) (Beck, 2007). Given that "the average industry growth rate in their sample is 3.4%, this is a relatively large effect" (Beck,

2007). Thus, small firms not only suffer more from market frictions such as transaction costs and information asymmetries than large firms as discussed above, but these market frictions have a disproportionately more significant effect on small firms in countries with less developed institutions.

In another study conducted in Kenya, compliance to these preconditions, for example, bookkeeping, shows there is a relationship between growth and bookkeeping (Chelimo and Sophia, 2014). The formalisation process provides verifiable information that helps underpin the sort of credible commitments needed to foster the growth and development of firms (Gindis, 2013:210). Record keeping in the form of bookkeeping is a critical part of hard information and is synonymous with formality.

Formal and informal financial lenders have their strengths and weaknesses, implying that a borrower may benefit by simultaneously obtaining both (Degryse et al., 2016). Informal financial lenders rely more on soft information. This is due to their lack of credit history and collateral. Nevertheless, because the supply of fund to informal financial lenders is limited and lacks scalability, the interest rate on informal funds may increase in the required loan amount made available to beneficiaries, thereby making informal finance less interesting for businesses seeking to finance large projects. Informal financial lenders are also often better positioned to efficiently monitor and enforce repayment when legal enforcement is difficult and time-consuming (Allen and Qian, 2010). Informal finance from family members and friends may incentivise entrepreneurs due to mutual insurance between the informal lender and the borrower (Lee and Persson, 2016).

Formal financial lenders can scale up with credit demand and fill the financing gap that cannot be met by informal finance. Some

formal financial lenders usually offer loans at a lower interest rate than the informal lender because formal financial lenders, i.e. banks, may face fewer restrictions in attracting deposits. In addition, banks also have an advantage in handling and processing hard information (e.g., credit scoring and collateral-based lending). These characteristics of formal financial lenders benefit significantly the financing of large firms. From an SME perspective, a small business loan from commercial banks involves an average of twenty-seven (27) steps and nine (9) client meetings (Nenova and Niang, 2009), which makes them a time-consuming process (Khan, 2015:4).

On the other hand, informal financial lenders, which consist of friends and family, cooperative societies, landlords, commissioning agents, and other non-institutional sources, are easy to understand and operates with easy loan requirements. Also, SMEs can access a loan in a little time with little or no documentation. This type of borrowing usually happens within social networks, and the lender knows some if not all members of the network. The critical aspect of the social network is trust among members (Khan, 2015). Thus, for instance, the performance of informal financial lenders such as unregistered cooperatives societies depend on their ability to establish and maintain trust, provide quality services, and social responsibility among members (Ruben and Heras, 2012). The conventional view is that relationship lending is the obvious—if not the only—way to cope with opaqueness. It can mitigate opacity problems because it relies primarily on soft information gathered.

Formal financial lenders have borrowed this sort of relational approach from informal financial lenders by employing loan officers' service, who, through continuous, personalised, and direct contacts with SMEs, acquire necessary soft information for future loan decisions (Berger and Udell, 2006). However, the

loan size a formal lender can offer cannot be matched with what an informal lender would provide. This is because formal financial lenders have robust sources from where they could access funds, unlike the informal financial lenders, whose only source is mostly their members. For example, a cooperative society source of funding is the contribution from members and that is the only source from where loans are given to members. In the case of money lenders, their source of funding is limited and determined by the wealth possessed by the lender. However, a formal lender can attract grants from various sources; for example, government, donor agencies.

Allen et al. (2005) attribute the growth of the business sector to the reliance on alternative financing mechanisms such as those based on reputation and relationships. However, Ayyagari et al. (2007) argued that the role of reputation and relationship-based financing and governance mechanisms in supporting the growth of private sector firms is likely to be overestimated and unlikely to substitute for formal lending. The claimed growth tied to informal financing may be due to tax evasion, non-conformity with any official requirement that may involve cost. Recent studies regarding the impact of informal finance (i.e., based on relational exchanges) versus formal finance (i.e., based on impersonal exchanges) on growth are diverse. Some studies show that informal finance may support the growth of the private sector in countries with less developed legal and financial systems (Allen et al., 2005).

On the other hand, some studies suggest that only the development of a formal banking sector has a positive impact on economic growth (Ayyagari et al., 2010; Cheng and Degryse, 2010). Also, a study conducted in Albania shows that small and medium enterprises that adopt informal approaches such as bribery and reliance on personal networks, i.e., family and friend

ties (sometimes known as 'cultural capital') are more profitable than those whose approaches are through more formal legitimate contracting procedures (Karklins, 2005; Estrin et al., 2006). Equally, the results of Méndez and Sepúlveda (2006) indicate that the level of corruption which maximises growth is significantly greater than zero. That is, "corruption benefits growth at reduced levels of economic development and becomes detrimental to growth as the economy advances to a high level" (Wang and You, 2012:416). Equally, studies "conducted in Africa agree that bureaucracy and corruption are causes of poverty in Africa" (Barry and Tacneng, 2014:4). In a similar study on corruption and SME's growth, it was perceived as a challenge (Chilosi, 2001, Okpara and Wynn, 2007).

According to Mendoza et al. (2010:435), in the Philippines', corruption makes commercial activities easy for SMEs, particularly in cities with poor business environments. In a cautionary tone, Rose-Ackerman (2017:186) warns "that if exchanges are based on informal exchanges, it will lead to distortion and unpleasant outcome". In pre-modern times, personal networks facilitated trade, as Greif (2006) has shown for Maghreb traders in the Middle Ages (Rose-Ackerman, 2017:184) might be appropriate. However, in current times, if exchanges are only based on relationships without consideration for the viability of the business, there may be lots of capital around. Nevertheless, it is unlikely to be efficiently deployed (Rose-Ackerman, 2017). This is because businesses that are not viable may end up getting funded due to the influence of their network and reputation.

According to Degryse et al. (2016:32), obtaining a loan from informal financial lenders is associated with the higher sales growth rate for small firms. In developing countries, finance from friends and family play a much more significant role than in

industrialised countries (Degryse et al., 2016). More generally, SMEs in many developing countries sidestep market failures and lack of formal rules by creating private governance systems in the form of long-term business relationships and tight, ethnically based, business networks. However, there is variation in access to such networks across ethnic groups, as discussed by Biggs and Shah (2006). Indian entrepreneurs in East Africa, Lebanese firms in West Africa and European enterprises in Southern Africa form business networks whose members lend to each other. They provide personal references and ease transactions with an informal contract enforcement system based on reputation. These networks help overcome the problems of asymmetric information and weak formal contract enforcement systems. Advantages of networks even extend to new entrants who started twice as large in terms of assets as new entrants outside the ethnic networks and get immediate access to supplier credit without building up a reputation and relationships (Biggs and Shah, 2006).

While networks with private institutional support systems help their members overcome deficiencies in their economies' institutional environment, they have a discriminatory effect on non-members who can effectively be excluded from market exchanges. This has not only "negative repercussions for equity but also provides for a static pattern of business exchange, with little competition and innovation" (Beck and Demirguc-Kunt, 2006:2939).

A Brazilian micro-enterprise survey study on the 1996 introduction of a business tax reduction and simplification scheme called Integrated System for the Payment of Taxes and Social Security Contributions of Micro and Small Enterprises (SIMPLES), found out that there was a significant increase in 'formality' in several dimensions as a result of the scheme

(Fajnzylber et al., 2011). Moreover, newly created “firms that opt for operating formally show higher levels of revenue and profits, employ more workers and are more capital intensive (only for those firms that have employees)” (Fajnzylber et al., 2011:262). Equally, in an empirical study focusing on the implications of the shadow economy on official growth, a positive relationship between the growth of the shadow economy and the official economy under certain assumptions (meagre entry costs into the shadow economy due to a low probability of enforcement) was found (Schneider, 2005). They conclude that an expansionary fiscal policy is a positive stimulus for both the formal and informal economies (Schneider, 2005:613; Rand and Torm, 2012b).

In contrast to the above, Beck et al. (2008), in their study, found that Chinese firms that access loans from formal financial lenders perform better in different ways than firms that rely on informal financing. According to Saeed (2009), empirical evidence from Brazilian SMEs 1999-2005 revealed that internal or owners' funds and formal sources of finance had been found significantly related to the performance of SMEs and that informal source of finance seem not significantly related to SMEs performance (Oladele, 2014). The cause of the conflicting evidence was suggested to be caused by differences across the firm size samples (Degryse et al., 2016). Informal and formal finance have their strengths and weaknesses that imply that firms of different sizes may make different choices. Some firms may also benefit by simultaneously engaging informal and formal financiers. This is called co-funding and was found to have a positive effect on growth (Degryse et al., 2016).

The co-existence and potential complementarity demonstrate an ability to raise funds from both formal and informal financial lenders. As suggested by Degryse et al. (2016), co-funding can



be beneficial if SMEs that have been previously disadvantaged by the formal sector become a beneficiary of the formal sector again. This is possible after getting informal loan accessing and that experience may help to prepare the ground to acquire the ability to obtain access to formal finance. Furthermore, Degryse et al. (2016) argued that it is a familiar occurrence for small entrepreneurs to demonstrate an ability to raise funds from informal financial lenders before formal financial lenders give a green light on their funding. Most reasons for not getting access in the first place was because they could not meet loan preconditions. There is a possibility that after a series of funding from the informal sector, a business might be able to put in place all that is required to qualify for formal financing. Putting in place the requirement of formal financial lenders would involve decision making, which would set the wheels in motion leading to routine change. Routine change has been explored extensively in section 2.9.

The influential effect of informal rules on formal rules has been extensively addressed in general contexts and routed in similar but not the same environment. For example, in the issue of guanxi was explored by Horak et al. (2016) in China and Helmke and Levisky is applicable to both developing and developed environmental context (Helmke and Levitsky, 2004; Horak, 2016).

## **2.15 Summary**

The literature review has provided a context to the current study and a discussion on the nature of the institutionalised arrangement guiding lending relationships, and likely outcomes have been explored. Relevant theories such as institution theory, cognitive psychology and the theory of evolution and

concepts (e.g., institutions, formal and informal lenders, regulations, rules, social capital, amongst others) have offered the premise upon which relevant issues can be understood and, more importantly, critically compared. In this respect, the literature review does not only offer the necessary lens through which the data will be viewed but a mirror against which the participants' and researcher's independent understanding of the findings can be reflected.

The critical analysis of multiple perspectives has yielded numerous ideas which are self-evident in their relevance to the current research. The discussions enable the researcher to communicate the theoretical arguments towards which the research ultimately seeks to contribute. At the core of this study is, therefore, an understanding of individual experiences of lending and the preconditions linked to various lenders, including the interplay between formal and informal lenders and its implications. Focusing on such experiences may lead to the generation of a novel contribution to the broader debates on lending practice, and formal and informal rules related to growth and routine change.

This chapter provides a basis that addresses the gaps identified in the current understanding of the role of lenders as a key external influence on SMEs by explaining the coercive power exerting pressure on SMEs who are desirous to obtain loans. Thereby making them adhere to certain preconditions as this is the only way access to finance can be obtained.

In summarising the arguments presented in this chapter, the likelihood of growth has been established. However, the extent of it remains elusive. Equally, routine change was seen to be possible despite the stickiness; the coercive role of external triggers was presented to be powerful enough to create that

change in SMEs' routines. There are arguments to suggest that the nature of this change is determined by SMEs' disposition and capacity to adapt. The decision about where to borrow and the process of adaption emphasises the influence of past experiences/history. The changes in routines experienced might vary or otherwise across the different beneficiaries. However, except that the literature was able to establish the possibility of change in routine and growth, the likely underlying cause of the change, including variations that may occur remain elusive. Little is known of the extent of the underlying mechanism and causes of the routine change in relation to the developing nature of the Nigerian Manufacturing setting. Similarly, the role of formal and informal lenders needs to be explicitly presented within the lending viewpoint touching on growth and routine change, which the literature review could not do as there is no study out there demonstrating that.

Hence, the next chapter will explore how this can happen by looking at the methodology adopted, which led to the outcome that bridges the identified gap in the reviewed literature. This was done through attracting, eliciting and analysing narratives obtained from participants. Furthermore, it helps to understand how each formal and informal rule differs from each other and how they interfere with one another and how best they relate to one another for a better outcome.

To achieve the aim of this study, a systematic approach is necessary as explored in the next chapter.

## **CHAPTER THREE- METHODOLOGY**

### **3.1 Overview**

This chapter presents an in-depth description and justification for the methodologies and principles adopted in this study. This was done in line with the overall aim of the research design and questions. The articulation of reality was interpreted based on experiences expressed by SMEs, which touched on their lending relationships and the outcomes associated with them. As a result, the understanding of their realities on the effects of preconditions of loan helps the researcher to determine its implication on their businesses.

The study was in two stages, the first stage was the pilot study, and the second stage was the main study. This research began in September 2016 with several drafts of proposals and a continuous review of relevant literature. This was followed by the pilot study, which took place in August 2017. The main study was conducted between January and February 2018, and both analyses had been concluded.

Before discussing how this research was conducted and the explanations about philosophical ideology and paradigms, the research aim and objectives are presented in the next section.

### **3.2 Research Aim and Objectives**

This research aims to investigate the impact of formal and informal financial institutions on SMEs' growth and routine change.

To achieve the research aim mentioned above, three research objectives were identified:

The objectives of this study are:

1. To identify how formal and informal financial institutions impact the growth of SMEs through lending preconditions.
2. To explore how institutions (formal and informal financial sources) impact the adoption and development of new routines in SMEs.
3. To investigate the interplay between formal and informal financial institutions and their impact on SMEs.

### **3.3 The Research Philosophy adopted**

An interpretivism ontological perspective is employed for this study. This was done to assist in understanding the phenomenon at hand, reflects the study's context, accommodate the inherent complications and complexities, and the subjective nature of realities associated with SMEs experiences. However, this study is not investigating or observing routines per se, but drawing on participant narratives on their understanding of how habits of thought, habits and routines have or have not changed. Interpretivism interprets phenomena within its context and has the capacity to touch on how participants develop their knowledge (Schwandt, 1994).

The suitability of the interpretive approach is due to its ability to capture the subjective nature and multiple interpretations of reality as expressed by participants who are beneficiaries of loans. In this context, it was intended to understand how SMEs perceive lending from different perspectives following their experiences of different types of lenders and the associated

outcomes. When designing the underpinning methodological framework, the freedom and the flexibility of expression informed by participants' own opinion justify why this interpretative position is appropriate. This interpretive method of research starts from the position that our knowledge of reality, including the domain of human action, is a product of human actors' social construction (Walsham, 1993).

Interpretative philosophy is rooted in the philosophical traditions of hermeneutics and phenomenology, and the central influence of this approach is linked to German sociologist Max Weber. Interpretivism looks for meanings and motives behind people's actions like behaviour and interactions with others in society and culture (Whitley, 1984). Cultures can be comprehended by studying people's ideas, thinking, and the meanings that are important to them (Boas, 1995). Interpretivists argue that value-free data cannot be obtained, since the enquirers use their preconceptions to guide the process of enquiry. Furthermore, the researcher interacts with the human subjects of the enquiry, changing the perceptions of both parties (Walsham, 1995). Interpretivists contend that only through subjective interpretation and intervention can reality be fully understood.

Interpretivism sees reality as complex because different people view the same reality in very distinct ways. Several possible factors account for these differences: while some are independent of the individual, others are inherent to the individual. For instance, in a crash, witnesses would have differential views (Guba and Lincoln, 1994). The positions from which the crash was witnessed, the amount of time that elapsed between the accident and the time of making a statement, the reliability of the witnesses' memories, the amount of sunlight present, and the health and quality of eyesight would determine the witnessed reality (Guba and Lincoln, 1994:110). These and

other “variables account for differing interpretations of the accident” (Johnson, 2008:304).

Thus, there are two critical sides to understanding reality, the researchers and the participants. This relates to the idea of double hermeneutic, wherein the researcher attempts to make sense of the participants' interpretations, and at the same time, the participants are making efforts towards making sense of their own experiences (Elliott et al., 1999; Larkin et al., 2006). This means that the themes that emerged here may be constructed differently by another researcher or perceived differently by another reader. Nevertheless, it is expected that the researcher's efforts to present a logical and well-articulated account of the analyses would enable any would-be reader to make their ‘own’ credibility checks (Elliott et al., 1999).

Equally, the participants' narratives were expressed freely, as the instrument adopted for data collection was a semi-structured interview and questions are more or less open-ended to allow for openness and flexibility. This corresponds with the IPA principle deployed for capturing participants' perception embedded in their narratives; more details on IPA is explained in section 3.8.

Accordingly, understanding the subjective meanings assigned to reality by individuals is essential in interpretive philosophy. Reality can be “conceived along a continuum with two extremes” (Johnson, 2008:30). At one end of the extreme is the objective view of reality; at the other end is the subjective view. The difference between the two extremes is expressed in the subsequent question: Are the discussions and incidents that we are exposed to, understandable to us as objective realities that occur without our perceptions or as our subjective interpretations? An example of a riddle explains this distinction:

if it happens that a tree falls in the forests and there is nobody to hear it fall, would it make a sound? (Johnson, 2008). Those who agree with the objectivist ontology viewpoint may be quick to claim that it does (304). Their argument will be that regardless of whether anyone was there to hear it or not, the objective fact is that it made a sound.

Nevertheless, those who hold reality in terms of subjectivist ontology would contend otherwise. Since no one was there to witness, to perceive, to interpret and consequently make sense of the falling tree, it neither occurred, fell, nor made any sound (Johnson, 2008). However, an objectivist defines reality as being external to and independent of the individual. On the hand, the subjectivist defines reality as internal to and dependent on the individual's perception of experience. From a subjective viewpoint, reality exists if it was perceived and interpreted.

Without someone physically present to experience and interpret it, the subjectivist argues there is no reality. Discussions of the nature of reality are complicated because between these ontological extremes, many combinations of objectivism and subjectivism are possible (Johnson, 2006). The objective view on one end of the continuum mirrors positivism, indicating that reality is independent of the researcher. Moreover, the subjective end of the continuum sees reality within the lens of the individual, this mirror interpretivism.

Gaining the insight of SMEs is pertinent to this study, and that is why SMEs who are direct beneficiaries of loans from lenders are the focus. This is because they have experienced the lending process as defined within the existing financing institutional arrangements. An outsider who has not benefitted from a loan before would not be able to ascribe valid meanings that would represent a similar reality. In this ontological description,



cognitive elements ("meanings, beliefs and intentions") appear to be essential (Orlikowski and Baroudi, 1991:14). Thus, the researcher role is to interpret the subjective meaning SMEs ascribed to their reality within the context of their environment. The context here includes, for example, past lending experiences, education, and societal beliefs.

Past experiences may cover experiences and relationships with lenders. Educational background or level of education and the cultural beliefs within the community an SME belongs are experiences that may lead an SME owner to be more disposed to or be more comfortable with certain lending practices. These are variables the researcher accommodated in making sense of the participant's reality.

At this junction, it is crucial to transition on to issues of epistemological perspective. This is because leaning towards a social constructivist position is compatible with the aim of this research, as it enables the creation of new, usable knowledge through multiple perspectives of the truth (Jarvensivu and Tornroos, 2010). Epistemology, as a technical term in philosophy, it refers to how we know and the relationship between the knower and the known (Soini et al., 2011). Epistemology refers to "how people know what they know, including assumptions about the nature of knowledge and reality" (Mingers, 2003:213). Interpretive epistemology is one of subjectivism which is based on real-world phenomena. This means the world does not exist independently of our knowledge of it (Grix, 2004:83).

Regarding objects, for example; trees, Crotty (1998:43) suggested that we should bear in mind "that it is human beings who have constructed it as a tree, given it the name, and ascribed to it connotations we generally make with trees." A tree

will mean something else if no one calls it a tree. Although this statement appears controversial, the point here is that consciousness is always an awareness of something (Crotty, 1998:44). To experience a world is to participate in it; through participation, one is simultaneously moulding and encountering it (Heron and Reason, 1997:3). Therefore, the meaning is not discovered; it is constructed through interaction between consciousness and the world.

How knowledge is generated and exchanged by people in interaction within and between organisations forms the main focus of constructivism. This emphasis on the experiential nature of the process, and the social contexts that both define and create it, are equally reflected in Easterby-Smith et al. (2002) where experience is stated as very important to reality.

It is in relation to the explanation made above that it was concluded that interpretivism and social constructivism are the most appropriate to the phenomenon at hand. Equally, the ontological and the epistemological stance of this study is more aligned with a case study research strategy, and its adoption is in tune with the research aim. The next section will explore the adoption of a case study as a research strategy.

### **3.4 Research Strategy**

The adoption of a case study research strategy is, on the one hand in line with the philosophical stance explained above, and on the other hand, suitable for qualitative research, as it could be used to achieve the research aim and objectives (Saunders, 2012). Equally, the phenomenon under study, which is the impact of formal and informal lending to SMEs in the manufacturing sector in Nigeria, can easily be explored by adopting a case study. This is because a case study provides

tools for researchers to study complex phenomena within their contexts (Baxter and Jack, 2008).

According to Moen (2006), the unit of analysis must be a living part of the whole, and the SME represents that living part that connects the whole. The unit of analysis under study here is the SME. They are individuals who have had past or ongoing dealings with lenders, and their experiences would offer some uniqueness and originality needed for an enriched outcome. The study is interested in investigating the relationships of the unit of analysis (SME) with lenders and the implication of that relationship on their growth and routine change.

There are critical justifications for adopting a case study. For example, case study research allows for the exploration and understanding of complex issues. It can accommodate a range of philosophical positions. For example, interpretivism and social constructivism. The choice of case study is as a result of its ability to be tailored to the inherent complexity of the research problem (Anthony and Jack 2009; Houghton et al., 2010; Farquhar 2012; Merriam, 2009; Stake, 2006; Yin, 2014). It is recognised as a tool for investigating many social science studies (Grassel and Schirmer, 2006) and community-related issues (Johnson et al., 2006). It goes beyond the surface but reveals behavioural conditions through the participant's perspective (Zainal, 2015). Also, this works well with the choice of Interpretative phenomenological analysis (IPA) adopted for making sense of participants' narratives (Smith & Shinebourne 2012; Eatough and Smith, 2008; Smith et al., 1999). See 3.8 for more details on IPA.

This is because a case study, according to Yin (1994, 2009) is an empirical inquiry that examines an existing phenomenon within its real-life setting, especially when the boundaries

between phenomenon and context are unclear. Due to this reason, the study was carried out in real-life settings with participants (e.g., at their offices and factories). Undertaking data collection at their place of work, i.e., offices and factories made the context of their realities easier to understand and captivate.... It also gave room for an in-depth investigation to be done. This has exposed the detailed information needed to achieve the research objectives and contribute to knowledge.

In statistical analysis, one is generalising to a population-based on a sample that is representative of that population; however, in case studies, one is generalising to a theory based on a case selected or unit of analysis selected to represent dimensions of that theory (Yin, 2009). Furthermore, the role that the researcher performed, involves data collection, designing, interviewing, transcribing, analysing, thematising, verifying and reporting. This does not imply that this order was followed as listed. Similarly, a case study is popularly linked with qualitative research (Creswell, 2014; Denzin and Lincoln, 2011; Merriam, 2009; Miles et al., 2014). The goal of most qualitative studies is not to generalise but rather to provide an enriched, contextualised understanding of some aspect of human experience through rigorous studying. This explanation mirrors what was done by the researcher, as this research employed a qualitative method and explored and discussed the phenomenon using a variety of data sources. This ensures that the issue is not explored through one lens, but rather a variety of viewpoints which gave room for multiple aspects of the phenomenon to be discovered and understood.

In determining the right research strategy, careful consideration of the different case study approaches is required to determine the design that best addresses the aim of the study and that aligns with the researcher's worldview. An interpretative case

study appears appropriate because it supports the researcher's philosophical approach that views reality as a phenomenon that is constructed intersubjectively through meanings and understandings developed socially and experientially. Correspondingly, Yin (2014), Merriam (1998, 2009) "emphasises that whenever information is abundant and concepts abstract, it is important to utilise processes that help interpret, sort, and manage information and that adapt findings to convey clarity and applicability to the results".

The researcher ensured narratives are captured in a way that reflects participants' view and not clouded by their own biases. The research finding contributes to theory and practice by providing the knowledge that improves the understanding of the implication of loan preconditions on SMEs' growth in the Nigerian manufacturing industry. Therefore, it does not generalise to all context but only offers explanations based on data gathered in connection to the phenomenon relating to the constructed impact of formal and informal lending to SMEs in the manufacturing sector in Nigeria.

### **3.5 The Research Method and Approach**

The research approach and method this study will adhere to are qualitative method and inductive approach. These two are in agreement with the philosophical stance of this research. Qualitative method is concerned about gaining a qualitative understanding of the phenomenon under study. In other words, it is concerned with uncovering the underlying causes of a particular issue. It relies on small sample size and non-statistics data.

In contrast, the inductive approach is interested in unravelling phenomenon that cannot be fully explained by existing theories.

It aims to move from specifics to broad generalisation. Although, for instance, institution theory, routine theories, cognitive psychology theory, and social capital theory were relied upon, they could not explain or provide the answers to the research questions.

For instance, the institutional theory was used to define and explain the concepts and the theoretical basis that can help readers understand the phenomenon and the implication of the arrangements that structures the relationship between SMEs and lenders. The routine theory was adopted to define and theorise what the likely effects of compliance to loan preconditions can be. Cognitive psychology was employed to aid the debates and expositions on learning, memory, and transfer of knowledge - by drawing from the work of Mayer (1977), Cohen and Bacdayan (1994), with the sole aim of substantiating and clarifying the foundations of habits and routines origins. Social capital was introduced to amplify the understanding and idea behind the networks associated with informal lending and the interplay between lenders. This was done by relying on Helmke and Levitsky (2004) and Kostova and Roth (2003).

Although these theories enabled the understanding of key concepts and the related theories but do not explain how the context of lending preconditions to SMEs within the Nigerian manufacturing can impact their growth or routine change. Therefore, the adoption of the inductive approach is suitable for a situation where there is no theory explaining the phenomenon at hand. The inductive approach builds knowledge from the bottom to the top via observation of the world (Ritchie et al., 2013). As a result, themes were developed from data collected, based on the qualitative methodology that focused on unravelling underlying causes of the phenomenon under

investigation, where appropriate findings were drawn and conclusions reached (Schwandt, 2007).

Due to the qualitative method and the philosophical basis of this study, the most appropriate research instrument that seems suitable to address the research objectives is a semi-structure interview. It allows for flexibility and the free flow of expressions from participants to the researcher. Free flow of expression is essential for a rich holistic description, as it can illuminate the understanding of the phenomena under review (Merriam, 1998). The next section will illuminate further the reason and the usefulness of the research instrument chosen.

### **3.6 The instrument used for data**

A semi-structured interview using guided questions was employed in the pilot and the main studies to gather primary data. Semi-structured interviews offer greater flexibility than structured interviews, generate richer data. Also, allows the researcher to follow interesting or new areas that may arise during the interview (Smith, 1995).

As mentioned in the last paragraph of the last subsection, semi-structured was deemed suitable because it enables exploration of experiences in line with the research problem outlined above in 3.2 and helped in the generation of insight relevant to the themes emerging across these experiences. The semi-structured interview meets the research requirement as it aids the transfer of SMEs' narratives to explicit forms of data, especially when conducted in a reflexive style (Nonaka and Takeuchi, 1995; Stover, 2004). It is also an effective method for enabling the generation of narratives through which experiences can be analysed (Potter, 1996).

The instrument collected primary data, with questions framed to elicit responses that touched on the constructed realities formed by SMEs' owners within the context of loan preconditions. Adopting this method provide for flexibility (Saunders et al., 2009), in a manner that subsequent questions are framed, as participant's responses may prompt the researcher to ask further questions that are relevant to the direction the discussion is heading, hence leading to the originality of ideas. The research instrument employed open-ended questioning, and that supports the gaining of access to the perspective of the person being interviewed (Qu and Dumay, 2011) and allows the interviewer to pursue points of particular importance. This included providing participants with the opportunity to expand upon their answers as necessary. These narratives were then transcribed by the researcher and then subjected to the same processes of open/initial coding. Themes then emerged from the data (see 3.10 for more details on themes that were developed). Therefore, to accomplish the aim of the research in line with the method and the philosophical ideologies of this study, the next section explores the data collection process.

### **3.7 The Process of Data Collection**

Data were collected in two phases. The reason was that the study was in two parts: the pilot study and the main study.

#### ***3.7.1 Pilot Study - Data Collection***

The research started by contacting family and friends. Through that effort, the researcher got introduced to the secretary of the Lagos State Small Scale industrialist and a cooperative society chairman based in Ilorin, Kwara State. Nigeria is divided into 36 states plus the Federal Capital, Abuja, making it 37. Lagos State is one of the states in Nigeria. Through the researcher's



interaction with him, it was realised there are other state chapters of the Small-Scale Industrialist Association. The researcher started checking their contact details online. Through that means, a few individuals; whose interest seems to match the requirement of this study were discovered and contacted. They include the Chairman of Ogun State Small Scale Industrialist Association, the Chairman of Lagos State Small Scale Industrialist association on LinkedIn. The researcher contacted them, and that was how a relationship was created. During the exchange of correspondence, the researcher informed them of the research which has to do with understanding the role financing preconditions play in the lending process and its implications. They agreed to participate, and a future date was arranged. Further contact was suspended for those that stated they had not obtained a loan before.

However, in maintaining participant anonymity, the effort was focused on presenting participants' experiences without presenting data that identifies them. The questions were open-ended in nature and were chosen to provide insight into how and why the individuals had become involved in lending. Their narratives offer an initial insight into how individuals were making sense of their experience in lending to SMEs and the way they perceive the impact of such loan preconditions on SMEs' growth.

The pilot study interview was conducted over four weeks between the 2nd of August 2017 to 30th of August 2017. All interviews were recorded. The data from the pilot study had a significant influence on the subsequent development of the data collection instrument used in the main study. More importantly, the need to increase the sample size of experts from four to eight was realised in the pilot study and it was put into consideration and implemented in the main study. Specifically, two of the four

experts referred to the Bank of Industry. Similarly, some questions relating to regional variations in loan preconditions were removed because responses from respondents who are experts in lending revealed loan preconditions of any financial institution such as a bank is constant and do not change according to regions. This was substantiated further by information on the central bank website indicating that there is only one central bank of Nigeria. Also, any regulation passed by the Central Bank covers the whole financial sector of the country.

The revelations supported the achievement of the pilot study objective, whereby it informed the next phase of data collection, i.e. the main study, by ensuring the development of subsequent research instrument captured some of the lessons learnt from the responses that emerged from the pilot study. See more details in section 4.12, where questions relating to regional contexts were removed due to the standardisation of lending preconditions across all the states and regions of Nigeria.

### ***3.7.2 Main Study – Data Collection***

The main study's data collection follows a similar pattern as the pilot one. Friends and families were contacted, and through them, a list of potential participants was compiled. The Lagos State and Ogun State Small Scale industrialist associations were also contacted, which led to access to their members who have obtained loans in the past. Due to time, distance and cost factors, the number of participants targeted was restricted to twenty (20). Of the twenty (20), at least eight was approved to be the minimum required for the study. The rationale for targeting SMEs that have achieved access to finance is to evaluate their interpretation of the effect loan preconditions of different sources, i.e. the formal and informal lenders, have on

SME. The researcher had first-hand information from SMEs' owners about their lending experiences, views and interpretations.

As stated in the last paragraph of 3.7.1, two more banks and a government financing agency were added to the targeted sample. As a result, the researcher included a microfinance bank, a development bank, i.e. Bank of Industry and Lagos State Employment Trust Fund (LSTEF). The mandate of microfinance institutions (MFIs) is to provide banking services to the poor. Many of the Nigerian microfinance banks evolved from very informal beginnings, i.e. local cooperatives. The development bank was created to provide the much-needed financial support for industrial development in the country, and the Bank of Industry does that in Nigeria. The Lagos state government established LSETF through the Lagos State Employment Trust Fund Law 2016 to provide financial support to residents of Lagos State, for the job, wealth creation and to tackle unemployment (www.lsetf.ng, 2018) See more details in 5.1.

The inclusion of additional sources of financing allows for the evaluation of the extent to which access to loan from each of these sources affects SMEs. The questions that were asked revolved around; preconditions of loan, how SMEs met them, and the implication it has on their businesses. The researcher allowed respondents to answer questions based on their realities. See appendix 5 and 6 for the Pilot and Main Study's questionnaires.

### **3.8 Interpretative Phenomenological Analysis (IPA)**

Interpretative Phenomenological Analysis (IPA) is employed for capturing and sense-making of narratives. This is because IPA

is concerned with the detailed examination of personal lived experiences of participants (Eatough and Smith, 2008). In the light of the philosophical principles and research method employed, the researcher visited participants' offices and factories to have the first-hand experience and to witness their lived environment. This exposed the nature of work ongoing in their factories and workplaces. This action eases and guides the researcher when interpreting their narratives. The understanding of the connection between their lived experiences, social relationships, the environment and its effects on their subjectivity made much difference to this qualitative research outcome.

Unfortunately, many researchers are unable to comprehend that management behaviours/actions as practised in an organisation is not the same as management theory. Managerial actions are moulded by and knotted in a network of human activities, which depend on competing human mutual actions (e.g., communication) and experiences (Anosike et al., 2012). In capturing this web of connectivity that constitutes the multifaceted reality of lived experience, requires employing an approach that holds non-positivistic research procedures such as interpretative phenomenological analysis (IPA) (Anosike et al., 2012). As we know, IPA seeks to capture experiential understanding and the connectivity of the network-facing individual subjective realities. Smith et al. (2009:11) state that IPA is "an approach suitable for qualitative, experiential and psychological research which has been informed by concepts and arguments from three key areas of philosophy of knowledge: phenomenology, hermeneutics and idiography". IPA draws on each of these theoretical approaches to inform its distinctive epistemological framework and research methodology (Shinebourne, 2011).

As indicated above, the philosophical roots of IPA are most closely aligned with phenomenology (Oxley, 2016). Phenomenological researchers generally seek to evaluate the rich details of participants' ways of making meaning of particular experiences by focusing more intentionally on aspects of lived experience that regularly go unnoticed or uninvestigated daily (Finlay 2011). At its best, this "interpretative approach combines the detailed description of a phenomenological core (which aims to capture something of the claims and concerns of the 'person-in-context') with the more speculative development of an interpretative account (which considers the meaning of such claims and concerns)" (Larkin et al., 2006:117).

Phenomenology focus is "on the way things appear to us through experience or in our consciousness where the phenomenological researcher aims to provide a rich textured description of lived experience" (Finlay, 2008:1). There are two distinct branches to be considered, the descriptive and the hermeneutic or interpretive. Hermeneutic phenomenology is less objective and more personal (reflexive) on the part of the philosopher (researcher). It is referred to as interpretive phenomenology because it takes an interpretive rather than a descriptive method of analysis. (Finlay, 2008, 2009; Matua and Van Der Wal, 2015). Hermeneutic research is interpretive and focussed on historically connected meanings of experience and their developmental and cumulative effects on individual and social levels. Similarly, Pietkiewicz and Smith (2014:8) observe that IPA blends ideas from both backgrounds, "resulting in descriptive method".

Finlay (2011) identified Martin Heidegger's (1962) hermeneutic phenomenology and Edmund Husserl's (1970) transcendental phenomenology as the twin in-depth categorisations of phenomenological study. Resulting from Heidegger, IPA

focuses on exploring the meaning of personal experience as an interpretative endeavour on the part of both researcher and respondent. At the same time, in agreement with Husserl's phenomenology, IPA is concerned with examining experience, as far as possible, in its 'own' terms as contrasting to for example being excessively pressured by prior psychological theorising or by the personal inclination of the researcher. In consequence, IPA operates with a double hermeneutic. See section 4.4, where the researcher explains how he tries to make sense of the participants' views in their attempts to make sense of their world (Smith & Osborn, 2015).

Furthermore, IPA extends beyond traditional phenomenology in its distinct commitment to idiography (Pietkiewicz & Smith, 2014). Idiography can be defined as the study of the particular versus the general (Smith et al., 2009). It underscores the importance of the individual as a unit of analysis (Smith et al., 1995). An idiographic approach is committed to the detailed examination of a particular phenomenon (preconditions) as it is experienced and given meaning in the lived-world of a particular person (SME).

More importantly, as suggested by Matua and Van Der Wal (2015), phenomenology has now transitioned from descriptive phenomenology, which emphasises the 'pure' description of people's experiences, to the 'interpretation' of such experiences, as in hermeneutic phenomenology. This shift of focus of phenomenological inquiry from 'description' to 'interpretation and understanding' is grounded in the work of Heidegger who argued that all descriptions are already an interpretation because understanding is an inevitable basic structure of our 'being in the world' (Heidegger 1962; Finlay, 2008). An individual practically interprets and finds meanings in events in their lives and how these events influence the context in which they operate, for

example, a mother or an employee (Heidegger, 1962; Wojnar and Swanson, 2007) and by extension SMEs.

Consequently, the capturing of perceptions and constructed realities of SMEs and lending experts was systematically done by adopting IPA because it touches extensively on their lived experiences, in connection with the relationships crafted within the institutional lending arrangement, and the subjectivity of the participants relating to their cognitive capacity.

Eatough and Smith (2008) suggested the use of an analytical approach that involves employing several levels of interpretation. Beginning with an empathic sharing of the participant's ideas based on experiences, the analysis then moves through a series of levels to a more interpretative stance and then further towards a more abstracted and conceptual reading, while still grounded in the participant's words and lived situation. Smith et al. (2009) contend that "for IPA, a successful interpretation is one that is principally based on a reading from within the terms of the text produced by the participants". When successfully applied, it creates outcomes that lead to a richer and deeper understanding of management practice.

As such, IPA is an inductive approach used to understand the SMEs' 'personal' account of their lending experience in relation to its effects, rather than trying to find causal explanations for events or produce objective 'facts' (Smith and Osborn, 2008). In the current study, the IPA approach acknowledges the inevitable influence of the researcher's views, assumptions and beliefs upon the interpretation of the participants' account, and it is, therefore, crucial for the researcher to reflect upon this explicitly (Smith et al., 1997). The analytic account produced from the interview data is viewed as a joint product of reflection and

collaboration from both the participant and the researcher (Smith et al., 1997).

Analysis of textual data and elucidation of themes requires a systematic process of coding, examination of meaning and provision of a description of the social reality. This study adopts a qualitative research involving some level of familiarity with the data collected, which can help to obtain the right interpretations and conclusions. Examples of analytical approaches suitable are content analysis and thematic analysis. To achieve an enriched analysis that captures the participants' reality, and at the same time reflect the phenomenological and hermeneutic/interpretative ideologies, thematic analysis (TA) was chosen.

From the above, it can be established that IPA is essential because it allows the obtained information to be clearly understood and analysed in ways that address the research questions. Despite the merits of IPA, there are various concerns raised against its adoption, this has been explored in the next section.

### **3.9 Critiquing of IPA as a Method and How it was Addressed**

IPA has been critiqued by some for being too descriptive, less standardised, not providing enough level of interpretation, ambiguous, and lacking context (Pietkiewicz and Smith, 2014). Other criticism of IPA is that the methodology suffers from some major conceptual and practical limitations. Also, it cannot accurately capture the experiences and meanings of experiences rather than opinions of it (Emery and Anderman, 2020).



Whilst phenomenology as philosophy is associated with introspection allowing the philosopher to explore his or her experiences through 'phenomenological meditation'. Also, phenomenology as a research approach relies on the accounts of participants and the experiences of researchers. Yet, the critical unanswered question is whether both the participants and researchers have the requisite communication skills to successfully communicate the nuances of experiences. Therefore, a phenomenological study is suitable for highly eloquent individuals. This may be particularly the case when interviewing people about sensitive issues (Pietkiewicz and Smith, 2014). However, the criticism could be regarded as elitist. Thus, suggesting that only those having access to the right level of fluency are allowed to describe their experiences. However, it is sensible for readers hoping to use IPA for future projects to note this criticism and adopt extra attentiveness when collecting rich and exhaustive data from participants.

Secondly, IPA, like other phenomenological inquiries, focuses on perceptions is problematic and limiting to our understanding, because phenomenological research seeks to understand the lived experiences but does not explain why they occur. A rigorous research inquiry seeking to understand the experiences of its participants will also seek to explore the conditions that caused the experiences which took place in the past and the socio-cultural dimension.

Various approaches have been put forward to address the shortcomings mentioned above. For example, Creswell (2013) list of standards. This could help remedy the arguments against IPA research and make it unique and exceptional. As a standard of excellence in a phenomenological research study, the

standard proposed by Creswell was followed. These standards stipulate that the author needs to:

- convey an understanding of the philosophical tenets of phenomenology.
- have a clear “phenomenon” to study that is articulated in a concise way.
- use procedures of data analysis in phenomenology
- convey the overall essence of the experience of the participants, including a description of the experience and the context in which it occurred.
- be reflective throughout the study (pg. 152-153)

In line with the standard proposed above and to address the shortcomings cited about IPA; necessary steps were taken.

In terms of ensuring clarity of ideas, the philosophical underpinning of how reality was captured and how sense-making and analysis were done to mirror the steps above. Also, further clarification was done using interpretivism and social constructivism. Details of the interpretivism ontological and social constructivism epistemological perspectives are described in section 3.3. The rationality and justification of IPA’s adoption are presented and explained within the context of this study. This was done by unravelling the main three key areas that IPA draw from i.e. phenomenology, hermeneutics and idiography (see section 3.8 for details).

This research identifies concisely and clearly the “phenomenon” of study, i.e. the influence of formal and informal lending on SMEs in the manufacturing sector in the South West of Nigeria.

Participants’ voice and opinion were considered while ensuring sufficient critical analysis was undertaken. Allowing participants to provide explanations as they deem necessary without

interference from the researcher. This was aided through the use of open-ended questions. Thereby allowing for flexibility, sharing of lived experiences and personal reflection.

To ensure the researcher's interpretation is reflective of the participants' views and not influenced by the researcher's biases, efforts were directed at making sure lived experiences were captured. This was done through visits to factories and office locations. Also, this enabled researcher's sense-making and analysis to be based on narratives and the experiences gained from visits to participants' locations. Thus, the researcher's prejudice and bias were minimised/mitigated.

Additionally, the study employed a small sample size. This allowed easy management of data and enabled detailed analysis to be conducted. Furthermore, the above standards were observed to achieve standardisation and orderliness. This enabled better organisation and presentation of the lived experiences of the participants. For example, a description of the experience and the context in which it occurred were done using superordinate and subordinate themes. Efforts were taken to explain each theme and the link between them.

At each stage of the data analysis, reasonable effort and due attention were given to reflection on participants' accounts. Where necessary, references and quotations from participants were cited as a means to make sure analysis and sense-making were reflective and grounded in participant's views.

Further standardisation in the analysis was attained by following a step-by-step approach rooted in Thematic Analysis (TA). Six different steps were followed, these include familiarisation, generation of initial codes, searching for themes, evaluation and reviewing of themes for further improvement. Also, choosing

what aspect of the data each theme had to capture and identifying what was of interest. Lastly, reporting of the results and findings. The adoption of NVivo also addresses the criticism as it aids the organisation of thoughts and patterns that systematically emerged.

Common threads across different participants' account were searched and categorised into various levels of themes. This led to a systematic and organised presentation of ideas, entrenched in participants narratives. To ensure that the analysis was systematically approached and routed in respondents' realities. Thus, a thematic analytical method was employed in the classification and presentation of participants' perceptions. The conceptual meaning and justifications are explored in the next section.

### **3.10 Thematic Analysis**

This study adopts TA because it is a more flexible, useful and systematic analytical tool. It is a systematic approach that searches for and identifies common threads across different participants' account. This is essential for investigating the impact of loan precondition on SME growth and routine change, a phenomenon that has never been investigated before.

Some authors contend thematic analysis as a process used for qualitative methods. It is not a separate method, preferably something to be used to assist researchers in analysing data (Boyatzis, 1998; Holloway and Todres, 2003). Aronson (1994), Attride-Stirling (2001), Crabtree and Miller (1999), described it as a guide in conducting research with an applied focus (Guest et al., 2011) or as a described inductive versus deductive coding (Fereday and Muir-Cochrane, 2006). Others claimed thematic

analysis should be considered a standalone method (King 2004; Thorne, 2000). From the various descriptions, it can be concluded that there is no consensus about what it is.

To make the best use of thematic analysis, this study clarifies and introduces methodological approaches relating to each step involved in adopting thematic analysis. Through this approach, the steps taken to get data coded, categorised, interpreted, and analysed were explicitly explained.

However, the flexibility permitted by the adoption of thematic analysis may lead to contradiction and a lack of consistency in the development of themes resulting from the research data (Holloway and Todres, 2003). To prevent inconsistency and enable cohesion, an adequate attempt was made to be explicit, using the interpretative epistemological position that coherently underpins the study's empirical claims (Holloway and Todres, 2003). This takes the form of consistently interpreting narratives thematically. This was preceded by the coding of data. Data coding informed theme development, and the type of coding done is inductive coding.

The explanation above touched on the meaning and reason for the adoption of the thematic approach. However, the explanation about the structure and the sequence of the analytical stages is presented in the next section.

### **3.11 Steps in Thematic Analysis**

For a quick reminder, the capturing of perceptions and realities rooted in participants' narratives was done using interpretative phenomenology analysis (IPA) and the analytical tool employed is thematic analysis. The process and sequence followed in conducting the analysis thematically are presented below here.

To start with, the data collected was transcribed by the researcher himself. The researcher reflected on the response from the respondents and maintained a continuous parallel examination of a range of sources to determine how codes might be understood in relation to both the broader theoretical context and participant's stories/narratives.

To logically analyse and clearly link data to themes, reduction of text was needed and synthesis of findings to generate answers to the research question was important. For this to be accomplished, the steps followed the suggestion of Nowell et al. (2017) on how a trustworthy thematic analysis can be done. This involves the following key stages. The first stage is familiarisation with the data and the identification of recurring themes; the second stage is the generation of initial codes, the third stage is searching for themes, the fourth stage is reviewing themes and fifth stage is defining and naming themes, the sixth stage is the production of the report. Below is the explanation of how each of the stages works:

The first stage involved familiarisation with the data and the identification of recurring themes arising from the data. An index of the themes identified relating to the research questions was developed, and each part of the data was labelled systematically and rigorously in relation to their relevance. The familiarisation was made easy by uploading the transcripts into NVivo version 2.0. and reading them from there.

The second stage is the generation of initial codes. The second phase involves the initial production of codes from the data, a theorising activity that requires the researchers to keep revisiting the data. Qualitative coding is a process of reflection and a way of interacting with and thinking about data (Savage, 2000).

The third stage is searching for themes, the third phase begins when all data have been initially coded and collated, and a list of the different codes identified across the data set has been developed. Some codes are inductively formed and make up the main themes, some of which matched an interview question, and were represented as parent nodes in NVivo. Some codes in NVivo are subsequently labelled subordinate themes and other superordinate themes.

Codes are the lowest units of analysis that capture interesting features of the data (potentially) relevant to the research question. Codes are the building blocks for themes, (larger) patterns of meaning, underpinned by a central organising concept - a shared core idea. Codes are like tags attached to a word, phrase or clause under examination. For instance, "increased sales, increased number of employees, improved revenue" represent any improvement participants noted they experienced in their businesses (Glisczinski, 2018). These items were categorised under "growth". See more explanation on growth in the next paragraph.

Category refers to the descriptive level of text and is an explicit manifestation of the participants' account. Categories are descriptors of themes (Green et al., 2007; Bailey, 2003). Similar to a theme, the meaning of category is attributed by the researcher, and it may consist of subcategories that identify the meaning of category. A category is the primary product of the analytical process, has a descriptive identity and is mainly used at the beginning (Vaismoradi et al., 2016). A category is a way coded segments are grouped, with the purpose of decreasing the amount of various parts of data in research analysis. For example: 'growth, represents data (statements or words from excerpts) coded as improved sales, increased number of employees, improved revenue, amongst others. Therefore, the

grouping of these coded items represents a category or theme. In addition, category and theme are sometimes used interchangeably. That may result in a lack of cohesion between the method of data analysis and the result (Morse, 2016). Therefore, at the start of the description of the process of theme development, there is a need to describe the meaning of a category and differentiate it from a theme in terms of the level of depth and abstraction.

In the light of that, a theme is a higher-level of categorisation; a theme is more than a category. It is through the development of a theme that a category is given the depth of meaning (Green et al., 2007). Thus, its development has a priority to the development of a category. For example: 'The interplay between formal and informal financial institutions on the growth of SMEs' is labelled as the superordinate theme. This particular theme is made of smaller themes labelled subordinate themes, such as improved access, enforcement and savings, and disbursement are subordinate themes. These are signalling what the superordinate theme represents. Each item under the subordinate themes such as improved access, is made up of categories. An example of such items under the category of improved access is data signalling how SMEs obtained access to finance as a result of the overlap of personal and impersonal exchange mechanism/formal and informal relationships.

Each theme was developed based on narratives, where patterns that were representative of key stages in the lending process were picked up as superordinate themes. Patterns leading to these key stages are categorised as subordinate themes. Therefore, the themes are divided into two headings: superordinate themes and subordinate themes. In other words, a superordinate theme may have the following features, these are they appear more often or more pervasive across different



participants' narratives, they are essential and are likely to manifest in the way people react when the theme is violated (Shatkay and Wilbur, 2000). The choice of the themes may not completely satisfy all the stated points, but at least two to three out of the four points reflected in the choice, designation and arrangement of themes. Also, the arrangement of the themes in the findings chapters was determined by the order of events that led to access to loan and the attributed outcomes. Subordinate themes are the subcategories that come under each superordinate theme. See details in chapter four and five.

Hence, for example, the data coded under the superordinate theme 'impact of access', represents an outcome, and it is one of the key milestones in the lending process. The superordinate theme (impact of access) speaks to the effect of access to finance on beneficiaries. This means that after access to finance has been experienced by an SME, there may be some impact as a result. For instance, these impacts were found to manifest through growth and change in routine. Therefore, access to a loan could lead to growth and routine change, and they are both classified as subordinate themes. Sequentially, before impact can be experienced, there must be access to a loan. For example, the excerpts that were coded under growth are below:

1. *Yes, access to a loan may result in SMEs acquiring more infrastructure, i.e. motor vehicles, machinery etc". was coded as growth.*
2. *Getting a showroom upgraded to attract more customers", was also coded as growth (See appendix for details of all the codes and categories).*

Equally, an example of excerpts that were coded under the subordinate theme 'routine change' is stated below:

1. *It makes SMEs to start doing things right. This includes keeping proper books of account, conducting the periodic stock count. Whenever an SME request for a loan and after the bank has done its assessment if they realise, they do not keep proper books, and they are not registered etc., such SME will be denied access.*
2. *We have seen cases where SMEs will go and come back after some months with evidence that shows they now have proper processes in place. The bank normally gives them three months to regularise their operations. The bank expects them to have basic business/financial records, such as daily sales book, stock books. (See appendix for details of all the codes and categories).*

The steps mentioned above were employed to enable interpretation of different perspectives to make them relevant to the research question. More examples of illustrations of how some narratives were coded under selected themes are shown in Appendix 4 below. The table in Appendix 3 was created to show the reader what steps were taken to code and categorise data under themes. The first column is the category; the second column is the code. The third column contains the narratives, which represent the examples of the actual excerpts. There are other items in the cell: such as reference and percentage, i.e. Reference 1 - 6.91%, Islamic Bank-Expert and File. Reference' Reference 2 - 3.22% Coverage' signalled the number of times a particular code was assigned to different excerpts. This is to demonstrate patterns or the number of times a code occurs. The 'Reference 2 - 3.22% Coverage' shows the percentage of times a particular code occurs. The word "file" represents where and what name the transcript is saved with on NVivo. In this case, 'Islamic Bank Expert' is used to save the transcript on NVivo. IB expert (assigned name) is one of the respondents. It appears on

NVivo as Islamic Bank Expert because the transcripts of the interview were generally saved using each participant's assigned name.

The fourth phase involves evaluation and reviewing of themes for further improvement. This is a step that is preceded by the creation of a set of themes. During this phase, researchers review the coded data extracts for each theme to consider whether they appear to form a coherent pattern. Individual themes were reviewed and compared against the data set to see if the meaning is coherent. In this phase, inadequacies in the initial coding and themes were revealed, and necessary adjustments were made (King, 2004). Whenever the researcher identifies a relevant issue in the text not covered by the existing set of codes, a new code would be created. If the researcher found out that there was no need to use a code or if it substantially overlaps with other codes, it would either be merged with the most relevant one or deleted (King, 2004). The researcher also incorporated the processes of returning to the data, and generating memos informed by both the primary data and non-technical literature analysis, which supported the immersion required to support the emergence and refinement of emergent themes and categories (Mills et al., 2006; Strauss and Corbin, 1998). The reason for the explanations about various themes is to allow readers to understand how each theme was derived from the data.

During the fifth phase, researchers decide what aspect of the data each theme captures and identify what is of interest to them and why. According to Braun and Clarke (2006), themes need to be punchy and give the reader a sense of what the theme is about. To achieve relevance and clarity, similar data may be included in multiple themes if they represent the meaning the theme is trying to project. At this stage of the research,

consideration was given to each theme on how they fit into the overall story reflecting on the data in relation to the research questions. For each individual theme, a detailed analysis was conducted, and identification of the appropriate story was developed.

The sixth and last stage is the production of a report. At this stage, all the themes were arranged logically in line with the order that tells the story of how SMEs' relationship with banks are structured, touching on the preconditions of loans, and how these loan preconditions are satisfied, and how it impacted growth and routine change. Thorne (2000) encouraged researchers to clearly communicate the logical processes by which findings were developed in a way that is accessible to a critical reader. As a result, the claims made in relation to the data set are rendered credible and believable. Halpren (1983) recommended that researchers keep methodological notes, trustworthiness notes, and audit trail notes to ease the reporting process. This was complied with by ensuring that at each point of the analysis, specific references were made to narratives, directly quoted from participants' excerpts.

The content of the coding process was anchored on the individual narratives on their experience relating to lending preconditions within the context of the lenders and borrowers. While doing this, IPA principles were adequately adhered to capture narratives that was thematically analysed. Chapter 5 and 6 dealt extensively with the actual analysis, by explaining relationships and patterns between lenders and SMEs in relation to access and its implication.

### **3.12 Connection between Themes**

The order in which themes were arranged reflects the key stages an SME desirous of obtaining a loan has to go through before access is granted. Under the pilot study, four main superordinate themes emerged. These four superordinate themes are the sacrosanct nature of precondition, the impact of access, access denial, and the interplay between formal and informal financial institutions on SMEs.

To clarify the connection between themes, one must understand how the first theme came about. The first superordinate theme is the sacrosanct nature of precondition. As explained in 4.6, it is the starting point of getting access to a loan. The reason is that loan preconditions are too valuable to be disregarded (it must be met). The importance of this theme (sacrosanct nature of precondition) makes it to come first in the arrangement of themes. As a result, the next theme is compliance with loans' preconditions and access. This is what determines or qualifies a prospective borrower for a loan. This is a standalone theme, and it is a superordinate theme. This is because it is an important milestone in the SME lending experience. What comes after access to a loan has been obtained is the effect or impact the previous stage of "satisfaction of precondition and access" has on SME, and that is how the theme "impact of access" emerged. One must appreciate that obtaining a loan is determined by the satisfaction of the loan precondition. What this indicates is that satisfaction of loan precondition is essential. It is important because it is the only way that leads to access to a loan. Impact of access is a superordinate theme. The subordinate themes associated with the "impact of access" are "routine change and growth". This is because it is a key milestone in the SME lending experience based on the narratives and context of this study.

The next theme is access denial, which emerged from data, and it indicates the outcome of not satisfying loan preconditions. While this theme (access denial) is the outcome of the situation where loan preconditions are not satisfied. The connection between the superordinate theme (access denial) and the constituent subordinate themes (such as the level of familiarity, bias and insecurity) is that they provide explanations to the superordinate theme "access denial (See details in 4.10).

The last theme under the pilot study is the impact of the interplay between formal and informal financial institutions on SMEs. This superordinate theme draws on the implication of the overlap that occurs when a lender borrows or adopts the mechanisms that are synonymous with other types of lenders. For example, an informal lender may rely on official channels such as police for enforcement reasons, especially when default occurs. Another example is when a formal lender relies on relational approaches, i.e. liaising with cooperatives to recommend some of their tested and trusted members. This is the meaning that surfaced from data in the pilot study (See explanation on 4.11).

Under the main study, six main superordinate themes emerged. These six superordinate themes are the sacrosanct nature of precondition, the impact of access, the impact of routine change, non-compliance to loan preconditions, no routine change, and the interplay between formal and informal financial institutions on SMEs.

The first superordinate theme is the sacrosanct nature of precondition. As explained above, it is the starting point of getting access to a loan. The reason is that preconditions are too valuable to be disregarded; they must be met. SMEs who have gained access would have adhered to all the preconditions. The next theme is the satisfaction of loan preconditions. The

satisfaction of preconditions is analogous to compliance with the preconditions of loan, which can lead to access. The satisfaction of loan preconditions is a standalone theme, and it is a superordinate theme because it is an important milestone in the SME lending process.

The next superordinate theme is the impact of access. This study aims to investigate SMEs' constructed view about the impact of loan preconditions on their businesses. Logically, what would follow after a loan has been granted is the effect of the loan they obtained. The impact of access is categorised as a superordinate theme. While the themes designated as subordinate themes under the 'impact of access' are those themes representing what the impact of access are, such as routine change and growth. According to data, routine change and growth surfaced as outcomes of compliance to loans' preconditions and getting access. Therefore, they (routine change and growth) are explanatory devices for the superordinate theme "impact of access".

The next superordinate theme is "no routine change". This is categorised as a superordinate theme because it signifies a key milestone after which loan preconditions has not been satisfied. The effect of this superordinate theme is; becoming formal and efficiency. These two are categorised as subordinate themes because they are the outcome of routine change. Without routine change, these outcomes cannot be experienced. As a result, the impact of routine change is independent, while becoming formal and efficiency are both dependent on the superordinate theme.

Next is non-compliance to loan preconditions, which indicate that SMEs that fail to comply would not be granted access to a loan. Data did not reveal much on this, and as a result, no

outcomes or subordinate themes surfaced. More details can be found in 5.12.

Another superordinate theme is no routine change. It indicates a situation where routines are not affected as a result of satisfaction of loan preconditions and access. Data revealed that this occurs when access is obtained from informal sources. No further outcomes or subordinate theme was identified for this theme. More details can be found in section 5.13.

The next superordinate theme is the interplay between formal and informal lending on the growth of SMEs. This superordinate reflects the whole process of relationships between lenders and borrowers and its implication; hence that is why it comes last. This superordinate theme draws on the nature and the implication of the overlap that occurs when lenders adopt exchange mechanisms that is synonymous with both personal and impersonal exchanges. For example, a formal lender may rely on relational approaches such as making sure a prospective SME is known to their organisation. The loan officer is usually tasked with this responsibility. This may involve visiting SMEs place of business., including asking them to open an account to allow the bank to know their turnover after a period (See explanation on relational approaches under personal exchanges in 2.2.1). In accordance with the data collected, the outcome of the interplay is as follows, improved access, loan assessment, and transparency. These outcomes are designated as subordinate themes. The reason for this designation is because they are the effect of the interplay. In other words, the superordinate theme is independent of them. Therefore, without the interplay between formal and informal lenders, there cannot be any outcome relating to the subordinate themes identified.



### **3.13 Time Horizons**

Research studies and the research onion consist of a time dimension where there are two types of time horizons, which are Longitudinal and Cross-sectional research (Saunders et al., 2006). Longitudinal Studies are repeated over an extended period, allowing researchers to track changes over time (Cooper and Schindler, 2013). This type of time horizon is suitable for testing and developing theories on human development (Kloep et al., 2009). Cross-sectional studies are "carried out once and represent a snapshot of one point in time", and they study various sectors or sections of a population (Cooper and Schindler, 2013:128).

This study is analogous to cross-sectional research because the phenomenon at stake is to assess the impact of lending relationships relating to formal and informal lenders and their beneficiaries (Blossfeld and Rohwer, 1995). Regarding this research's aim and questions, the focus is to explore the impact of lending preconditions on Nigerian small and medium scale enterprises within the manufacturing sector. This is expected to be conducted within a limited time, and that contributed to the reason why a cross-sectional and limited time horizon was considered most appropriate. The study compares and categorises SMEs according to different sources from which they have obtained finance and how each of the sources have impacted their growth and adoption of new routines.

### **3.14 Positionality, Reflexivity and Validity**

It is recognised that adopting the epistemological view on social constructivism and the ontological view of interpretivism is not without limitation. To acquire and represent authentic beliefs and meanings, the researcher would need to become embedded

in the relevant political community and emerging narratives (Hay, 2011). The view here is that the researcher is indistinct from the socially constructed narratives emerging within field research, which presents a further challenge. A way out of the 'vicious circle, which would make a balanced interpretation possible' is required (Silva, 2007:167).

However, in maintaining consistency within the constructivist position, it is important to recognise that the 'right' interpretation has a question of truth. Also, the truth within such an ontological account is also based on the same processes of social construction. The response to this matter, therefore, appears from the intersubjective construction of reality through the meanings and understandings developed socially and experientially (Guba and Lincoln, 1994). By emphasising trustworthiness and authenticity, a presentation and interpretation of data consistent with both the participants' accounts and the researchers' interpretations (Walsham, 2006) can ensure that the researcher does not cloud the participants' reality with his own bias.

The researcher requires transparency to the audience in terms of revealing the researcher's established theoretical disposition and sensitivity and the role this has in generating the initial areas of interest. To capture the value of the research within the interview context also requires the validity of the interpretation. The researcher ensured that immediately after each interview, the process of documenting own experiences of the interview and interview setting was done, as this is important to the subsequent interpretation of the data (Glaser, 1992).

The acknowledgement of the role of the researcher in the research process is necessary because the findings and analysis are inescapably bounded by both the researcher's

sensitivities and their direct involvement. For example, in shaping the interactions through which the data was generated (Mead, 1912). In doing so the discourse and narratives generated within various interviews are regarded as extensions of the construction of the experience itself as imbued with affections, connotations and dispositions (Blumer, 1936; Mead, 1934; Shoter, 1993; Wittgenstein, 1958). In doing so, such discourse is itself an extension of the power relation constructed between interviewer and interviewee and as an extension of the process through which the narration of history is endowed with present reality and future intent (Foucault, 1972).

Three alternative benchmarks: authenticity, plausibility, and criticality were used in planning and enacting the study. These standards, adopted from the highly relevant qualitative research literature, can be seen to bridge the philosophical position characterised with the methods employed (Walsham 2006; Lukka and Modell, 2010). The first criterion, authenticity, requires maintaining a close and consistent alignment with experiences from the field and the accounts of those interviewed.

The findings and analysis chapter closely reflect the empirical findings. Plausibility requires that the findings connect intersubjectively with the reader at both a personal and professional level. By drawing closely on the empirical findings, theoretical interpretation remains firmly based on finding and analysis. Subsequent abstraction similarly adheres to data so that the pattern of interpretation may be closely followed by its audience. Finally, criticality in research and its presentation is focused on encouraging the reader not to take for granted both their ideas/beliefs and that of those individual perspectives presented in this study. Therefore, it is a fundamental part of IPA in ensuring that the researcher remains aware of their personal

experiences and pre-understandings, particularly their influence on data analysis (Finlay, 2008).

The researcher endeavoured to stay close as much as possible to the original events so that the difference between analysing a narrative and linking it to participants' own reality was achieved. To ensure that this study's narratives were close to participant's reality, the transcribed format was shared with participants to ensure the researcher's interpretation of their reality matches their 'own' account.

### **3.15 Ethics and Responsible Research Practice**

The research maintained the highest ethical considerations and responsible research practices. To ensure the safety and comfort of the researcher and participants, all interviews were conducted in person. Where interviews were conducted in person, these were conducted only in spaces approved by the University's ethics committee. Permissions were confirmed as relevant.

All data generated by the research is stored using the University of Hertfordshire approved research drive. All names and locations that might risk participant anonymity in the analysis and presentation of the data have been substituted or removed. Where justified, other details that might lead to identifying potential participants were also generalised to a level that would mitigate the risk. This includes focusing on the empirical data from the interview in the Analysis and Findings Chapters. This avoids revealing any data that might otherwise threaten anonymity. Details concerning the participants' identities were restricted only to the researcher and supervision team.

### **3.16 Limitations**

Firstly, the reviewed literature suggests that a case study cannot generalise its conclusions. However, this is a perfectly acceptable 'limitation' given the dearth of knowledge in the area under study. The value of the rich data on processes and perceptions that this research unveiled would have been missed. Also, with regards to the involvement as a researcher, necessary and reasonable precaution was taken to maintain an objective stance throughout this study while faithfully recording all dialogue with participants.

It is important to reiterate that this study did not attempt to generalise but uncover the underlying influences and implications of lending relationships between lenders and SMEs. As such, this study consciously did not employ a large sample size as this study is qualitative; a large sample size would be deemed unnecessary and work invariance to the study objectives.

Similarly, the adoption of a sampling technique that permits referrals may have restricted the researcher to a closed network of individuals who are known to each other. This works perfectly well for achieving the research aim. This was the only way a purposive and snowballing technique can be applied. However, this means that some of their experiences may be similar, and that might prohibit the flexibility and inclusion of others who may have richer ideas.

The adopted methodologies above and approaches are in line with the purpose and aim of this research.

### **3.17 Summary**

This chapter justified and established the philosophical approach of interpretivism and constructivism. Thus, allowing the generation of new ideas permitting the use of relevant sense-making ideologies. For example, IPA which captured the lived experience of SME that benefited from loans. Thematic Analysis (TA) was employed to systematically analyse data in a logical and explicit manner grounded in participants' lived experiences. A qualitative methodology using a semi-structured interview approach demonstrated the depth of the investigation in an undiluted and unique manner, having placed participants in control of their accounts. The next chapter contains the findings of the study with an overview and profile of each of the participants to underscore the presence of the personality behind the accounts.

## CHAPTER FOUR - PILOT STUDY FINDINGS

### 4.0 Overview

Having identified the relevant theoretical foundations and determined an appropriate research methodology for this research in the previous chapters, the present chapter describes the findings of the pilot study. Accordingly, this chapter describes the types of lenders, names assigned to them, themes that emerged, participants' context and the analysis of their responses to the semi-structured open-ended interview questions (leading to a qualitative data).

### 4.1 Participants in the Pilot Study

Five experts from formal and informal lenders and SME groups were targeted, out of which four were successfully interviewed. These participants came from a variety of backgrounds: commercial bank, Islamic bank, executive of an SME association, and executive of a registered cooperative society. Table 4.1 below describes the type of lending organisation to which each participant belonged. The labels given to these participants in the "assigned names" column is used to ensure their anonymity is protected. The "status" column is to distinguish between those that were interviewed and those that were not. The "type of lender" column refers to formal and informal financial lenders. As noted in chapter two, formal rules represent "those with government-defined and enforced constraints, while informal rules capture private constraints embedded in culture,

norms, code of conduct, amongst others” (Williamson, 2009:371).

Formal financial rules are regulated and recognised by the government and, then, act under the monetary authority’s supervision. Three out of the four participants represented formal financial lenders, and the remaining one represented the informal financial lender. As explained in sub-section 2.11.1 and 2.11.2, formal financial lenders usually adopt impersonal exchange approaches and most cases have also embedded a personal approach to their exchange approaches. The informal financial lenders are lenders whose activities are guided by as norms and cultural practices within society. Informal financial lenders are not regulated by the monetary authorities or any other public authority, and they work with little to no trace of formalisation in their transactions. Therefore, their activities are regulated by groups of individuals within the community to which they belong (Germidis et al., 1991). They mainly adopt personal exchanges, which is influenced by network and relationships.

The pilot study included two formal lending experts, one informal lending expert and an SME representative. This has been depicted in Table 4.1 and Table 4.2 below, respectively. Table 4.1 depicts the types of lenders under which each participant falls, i.e. formal or informal lender. Those that fall under formal financial lenders are commercial bank (Commercial Bank Expert), Islamic bank (Islamic Bank Expert) and the only lender that fall under informal lender is cooperative society (Coop expert). The participant that is conspicuously missing in the Table is the Bank of Industry expert (DFI Expert) who was not included because the researcher was unable to secure an interview with him (until during the main study). The SME representative appears below in Table 4.2 to indicate he belongs to a different participant status. He represented the SMEs. He



was included in the pilot study so that the researcher could use his experience to gauge and understand the effect loans have on SMEs. This is because the group he represents are direct beneficiaries of lending services provided by lenders. He was targeted as an individual who is experienced in SME financing and their relationship with lenders. It will be erroneous to categorise him as a lender.

**Table 4.1 - Lender Types and Assigned Names**

<b>Lenders types</b>	<b>Lenders</b>	<b>Assigned name</b>
<b>Formal lender</b>	Commercial Bank	CB Expert
	Islamic Bank	IB Expert
	Cooperative Society	Coop Expert

As mentioned above in section 4.1, the fourth participant was not included in Table 4.1 because he is not a lender but a representative of an SME. See Table 4.2 below for his categorisation.

### **SME Representative**

**Table 4.2 - SME Representative**

<b>Participant type</b>	<b>Affiliations</b>	<b>Assigned name</b>
SME representative	Executive at NASSI	SME representative

Before going into the results and analysis of their narratives, it is important to consider the respondents' views and research framework in context. All the participants in the pilot study were experts with many years of experience in SME financing and its operations. The rationale for targeting them for an interview was

to ascertain how SMEs meet loan preconditions and its implications on SMEs.

## **4.2 Participants in Context: Lenders**

### ***4.2.1 CB Expert***

The commercial bank expert manages the loan portfolios of all customers (e.g. SMEs, micro-businesses). The commercial bank expert makes appropriate recommendations to the regional management team based on the report submitted by sales or credit or loan officers on loan applications. This report is mostly done after the credit/loan officers have conducted the required assessments on prospective SMEs and judged them worthy. However, the final approval resides with the regional manager.

Due to a busy workload, the commercial bank expert requested that the interview be brief. The request was accommodated, and the questions were kept concise. His office was located within a business environment, with other offices and a market nearby. This indicates that the bank is situated in a commercial area. In terms of educational background, the CB expert reported that he was educated to degree level and had over eight years of banking experience.

### ***4.2.2 IB Expert***

The representative of the Islamic Bank is a branch manager who also had a hectic schedule, which made it extremely difficult to organise the interview appointment. Before the researcher was able to conduct the interview, a total of four visits to the branch were made, along with countless phone calls, all to no avail. On the fourth occasion, the interview took place in the branch

manager's office. The position the participant maintained mirrored that of the commercial bank branch manager and her narratives reflect the practical understanding and underlying biases that often make financing of SMEs both difficult and, at the same time, possible. The participant's position emphasised her organisation's commitment towards the profession and the organisation, as well as their understanding of the nature of SMEs in general and the cultural beliefs of people in Nigeria. The relevance of this is expanded in the findings and discussion chapter.

### ***4.2.3 Coop Expert***

The Cooperative expert is an academic, with a PhD qualification. He has worked as a university lecturer for approximately 30 years. The interview appointment was arranged by the researcher's acquaintance after several consultations. He engaged well with the interviewer, responding to all questions asked. It was evident that his experience as a member and as a top executive, and many years of involvement in cooperatives, informed his narrative. The cooperative he represents is registered, and therefore, it is a formal lender.

### **4.3 Participants in Context: SME Representative**

The SME expert had more than ten years of experience. He is a top executive of the Ogun State Chapter of the National Association of Small-Scale Industrialist (NASSI). The NASSI was founded in 1978 and registered under the land perpetual succession Act as a non-profit organisation. It has a national secretariat, four zonal offices and branches in all the states of the federation and Abuja. Nigerian Association of Small-Scale Industrialist is the voluntary coming together of a group of SMEs. The association admits those in manufacturing, processing,

mining and service industries and whose capital investment fall within the definition of the small-scale industry as may be reviewed from time to time by the government.

The position of the participant is an elective one. He leads, champions and represents the interest of all SME owners within the association. On the agreed date, the researcher travelled approximately two hours to meet the respondent at his office. The researcher arrived around 9:00 and met with his secretary. He was told by the secretary that the chairman has not arrived and was asked to wait for him to come. He arrived around 30 minutes later, and the researcher was invited into his office. Pleasantries were exchanged, and informal discussions ensued for a couple of minutes, after which the interview commenced. He presented his view in a manner that reflects his 'personal' business relationship with banks as well as experiences other SMEs had shared with him.

#### **4.4 Presentation of Result and Analysis**

This section will present the results of the study and describe emergent themes. The findings were presented using the participants' experiences drawing from Interpretative Phenomenological Analysis (IPA) (Willig, 2013), and analysis was undertaken using the principles of thematic analysis (Cole, 2013). The account presented here results from a thorough analysis of the data. However, it represents possible construction of the experience of an SME that benefitted from loans from either formal or informal lenders. The double hermeneutic is acknowledged here, wherein the researcher attempts to make sense of the participants' interpretations, and at the same time the participants are making efforts towards making sense of their own experiences (see section 3.3 and 4.4 for more on double hermeneutic). This means that the themes

constructed here may emerge differently for another researcher or another reader. Nevertheless, it is expected that the researcher's efforts to present a logical and well-articulated account of the analyses would enable any would-be reader to make credibility checks (Elliott et al., 1999). Furthermore, borrowing from Yardley (2000) principles for evaluating the quality of qualitative research, verbatim excerpts are deemed as valuable when extracted and included where necessary in the analysis to justify and validate findings.

To achieve a methodical and thorough analysis, the process of thematic analysis was employed. It involves observing the key stages of thematic analysis such as; familiarisation with data, the identification of recurring themes, generation of initial codes, searching for themes, reviewing themes and defining and naming themes, and lastly, production of a report. This enabled detailed and systematic coding, categorising and theme development to be achieved (See chapter 3, section 3.9 and 3.10 for more details). It is important to note that codes were produced across the four experts' narratives, (See Appendix 4 for details on coding) from where patterns/themes emerged. Some refinements were made to the themes and new ones emerged in the analysis of the main study. These themes are viewed as a combined construction of participants' (SMEs and experts) narratives and the researcher's interpretation. This is attributable to the double hermeneutic nature of IPA, in that it is an effort in making sense of participants' experiences, who are simultaneously trying to make sense of their own experiences (Smith and Osborn, 2008).

It is recognised that there may be divergent interpretations. This equally relates to the hermeneutic nature of IPA, in which readers can make sense of their 'own' meaning-making through their own interpretation of the data, which might differ from the

researcher's and that of the participants. This is associated with the addition of another level to the process of hermeneutics (Smith et al., 2009). On different occasions, the researcher usually realises old meanings should be replaced as they may appear not to represent or adequately articulate the reality expressed during the study. This led to refinements of the themes on three to four occasions. Some codes that had sat under themes that required amending were renamed to enable a better explanation and comparison across different sources of financing. This gives room for a clearer understanding of the data that had been coded.

This section was written to represent the convergence, divergence, commonality and individuality that are portrayed within and across themes. This is imperative in guaranteeing that the research is both phenomenological and interpretative, sustaining a closeness to the accounts of participants whilst adding an interpretation from a psychological perspective (Smith et al., 2009).

Within this section, verbatim quotes from the participants were used to describe, explain and expand on narratives that lead to themes. The presentation of verbatim excerpts has been modified to some extent to ease reading and understanding. While eliminating hesitations or unnecessary text, the researcher has chosen to retain some hesitations such as 'erm', where this is done. This is to allow interpretation to be reflective of the underlying emotional response. Any absent or shortened material is designated with '...', and where slight amendments have been made the use of square brackets '[]' was adopted. Italic text is used to draw the reader to particular aspects of interest. Additionally, the researcher's reflections will be interspersed all over this section to clarify his contribution and reflexivity to the research process. The four superordinate

themes and their related subordinate themes that emerged in the pilot study is explored and explained starting from the next section 4.5 to section 4.11.

#### **4.5 Superordinate and Corresponding Subordinate Themes**

The superordinate themes are overarching patterns that emerged from the analysis of participants' narratives and in many aspects, mirror theoretical framework. The theme captures a common, recurring pattern across the narratives, organised around a central organising concept. It describes the different facets of a pattern across the dataset. A subordinate theme exists 'underneath' the umbrella of a superordinate theme. It shares the same central organising concept as the theme but focuses on one notable specific element. It is used only when there is one particular element of a theme with a particular focus and is particularly important for the research question.

Six superordinate themes that emerged from the analysis of the pilot study interview transcripts include:

- The sacrosanct nature of loan preconditions
- Compliance with loan preconditions
- Impact of access
- Access denial
- Partial or No routine change
- The interplay between formal and informal financial lenders on the growth of SMEs.

The six listed superordinate themes with their corresponding subordinate themes are shown in Table 4.3 below.

**Table 4.3 - Themes that Emerged During the Pilot Study**

<b>Superordinate themes</b>	<b>Subordinate themes</b>
Sacrosanct nature of precondition	
Compliance with loan preconditions and access	
Impact of Access	Routines change
	SME growth
Access denial	Level of relationship
	Bias
	Insecurity
The interplay between formal and informal financial lenders on the growth of SMEs	Enforcement

#### **4.6 Superordinate Theme: The Sacrosanct Nature of Precondition**

Meeting loan preconditions for all lenders, whether formal or informal, is sacrosanct. The sacrosanct nature of the loan precondition was evident in the participants' narratives. For formal financial lenders, participants narrated their experiences in relation to how important it is for prospective SMEs desirous of accessing formal lender's loans to adhere to its preconditions. According to them, no access will be provided if preconditions are not met. The banks lack the autonomy to accommodate individuals that do not meet loan preconditions. Commercial bank expert remarked that there are:

*Established standards that the Central Bank of Nigeria (CBN) has mandated all banks to abide with.*



*If there is any compromise, the bank will be penalised by the CBN (Commercial bank expert).*

This speaks to the sacrosanct nature of loan preconditions. Similarly, informal lenders, represented by the Coop expert, also affirmed the same position as others claiming loan preconditions must be met. He reported that anyone desirous of accessing a loan from the cooperative society must meet the preconditions created, agreed and administered by members of the cooperatives.

Drawing from the excerpt above, loan preconditions denote the standard that lenders must uphold, which, if they fail to, might lead to severe penalty. Therefore, all narratives from experts support the position above. There is no possibility of side-stepping the requirement of meeting loan preconditions; the existing system has made it mandatory for all preconditions to be met. All four experts are in total agreement that before access can be achieved, every player, both formal and informal financial lenders and SMEs, must treat loan preconditions as sacrosanct. The superordinate theme “The sacrosanct nature of precondition” speaks to the importance attached to loan precondition that SMEs must meet before a loan is provided. To improve the understanding of this theme, it is essential to state that there are two types of lender covered by this study, formal and informal lender. The Subordinate theme that was drawn from the experiences narrated here is “satisfaction of precondition and access”. This means loan preconditions are very important and granting of access to finance is conditioned based on their satisfaction.

#### **4.7 Superordinate Theme: Compliance with Loan Preconditions and Access**

The theme of compliance to loan preconditions and access emerged from narratives as no participant shared their experience about loans given to them without the satisfaction of loan preconditions. The relevance of this study is that most if not all the participants have to satisfy the loan preconditions before they can obtain access to a loan. Therefore, the satisfaction of loan precondition is the main determinant of loan access. The subordinate theme could be relevant to the sacrosanct nature of loan preconditions. This made it compulsory for both formal and informal financial lenders to ensure they are satisfied by loan seeking SMEs.

Examples of the kind of loan preconditions common to formal financial lenders are evidence of incorporation business plan, six-month membership, business registration, possession of a tax identification number, evidence of tax payment, enterprises with high employment generation capacity, enterprises that have good management set-up and proper accounting procedures, six months' account statements showing the current exposure, membership of a business association, amongst others (Central Bank of Nigeria, 2014).

For informal lenders, examples of the kind of loan preconditions common to them are two guarantors, regular meeting attendance and regular contribution. To satisfy the preconditions of formal lenders, documentary evidence must be provided and verified. It is the responsibility of each lender to conduct necessary verification of preconditions, which may involve checking documentary evidence, inspections of premises from the officials of the formal lender, particularly those that are formal. Commercial bank expert commented that:

*There are no alternatives, other than putting in place what will be required for them to qualify for a loan. Many of the SME owners are not formally educated, but that does not mean they cannot work towards putting necessary things in place, especially by employing educated individuals to help in keeping proper records.*

His comment was also corroborated by other participants. This goes to show that satisfaction of loan preconditions and access is important for both formal and informal institutions before a loan application could be considered.

The granting of access to loan emerged as an outcome that confirms the narratives of participants, which points to satisfying loan preconditions. This is a reflection on what comes into play after loan preconditions have been fully satisfied.

#### **4.8 Superordinate Theme: Impact of Access**

From the previous themes explained above, it was established that satisfaction of preconditions of loan might lead to access. This is analogous to saying access can only be obtained after all the boxes have been ticked in relation to loan preconditions. The theme here emerged because of narratives about the benefits of obtaining loan access. This superordinate theme tries to explore the effect of financing on SMEs after the loan has been granted. It touches on the effect that access to loans has on loan beneficiaries. The effects as informed by the participants led to the emergence of some specific themes, such as routine change and SMEs' growth. These are treated as subordinate themes, which are explained below.

#### **4.8.1 Subordinate Theme: Routine Change**

The context to which this theme speaks is when SMEs have in place certain characteristics that were previously not in place because of having to comply with loan preconditions. For example, in the case of formal financial lenders, access to a loan will mean businesses must have been registered, be in possession of a tax identification number, keep up to date records, audit accounts, amongst others. This means their routines have changed. We cannot adequately establish at this point whether the routine change that has occurred at this point is temporary or permanent. The outcome of the main study's analysis expatiates on that (see section 5.10.1).

The narratives emanating from the participants reveal various experiences. The CB Expert and the IB Expert are the only two respondents that agreed in totality to the theme. For example, the CB Expert commented that:

*We have seen cases where SMEs will go and come back after some months with evidence that shows they now have proper processes in place. The bank normally gives them three months to regularise their operations. The bank expects them to have basic business/financial records, such as daily sales book, stock books.*

The narrative suggested that access to loans, as determined by the satisfaction of loan preconditions and access, might influence routine change in SMEs.

#### **4.8.2 Subordinate Theme: Growth**

This subordinate theme touches on the effect of obtaining loans on beneficiary SMEs. It speaks to the effect loan preconditions have on SMEs' activities/businesses. The four experts were of the view that SMEs that get access to loans may experience some improvements that are analogous to growth. Since the study is guided by a semi-structured interview, experts expressed their views on growth in a variety of ways. They constructed the meaning of growth in a manner that mirrored their meaning-making, understanding and reality.

Based on their narratives, the nature of growth SMEs have been experiencing an increase in the number of employees, an increase in turnover, an increase in the volume of sales, geographical expansion, diversification, and acquisition of assets. Three out of the four experts expressed a common position about growth dimensions. Though, the CB Expert seems not to be aware of the nature of growth SMEs experience after obtaining loans. He attempted to excuse himself by saying he is not sure of what it is they experience, but one interesting statement stood out from what he said, and that is, most SMEs pay back when due. This, according to him, is an indication that everything is going well with them.

On the other hand, his statement— "I am not too sure"—might suggest he knows what they experience, but he is not proud to say it. This will be adequately explored further when conducting the main study, as participants will include SMEs themselves, and they would be able to construct their reality based on their experience. However, the SME representative agrees that growth experienced by SMEs manifest only in three dimensions, i.e. sales, turnover and acquisition of assets.

*Access to finance has an impact on turnover, sales, and acquisition of asset; however, it has no impact on the number of employees employed, and business ability to diversify” (SME representative).*

He is not refuting that SMEs experience growth, but he appears to be specific about what constitutes growth based on his experience.

#### **4.9 Superordinate theme: Partial or no Routine Change**

This theme emerged from the SME representative’s narrative. This narrative indicates a situation where prospective SMEs do not copy exactly the template symbolised by the loan preconditions handed to them by formal financial lenders. They either adhere superficially, partially or refrain from complying. According to the SME representative, how it happens is captured in his excerpt below:

*Not in all cases, as most SMEs keep two books of accounts. One will be the actual book of account, and the other one is mostly doctored to show banks that the business is doing well. They do this to deceive bank officials, and the bank officials will find it difficult to discern. SMEs show business record books that do not match the cash flow in their bank statement. The argument put forward on this is that they don’t bank all their money, which may be true.*

Most of the new routines mentioned in 4.8.1, such as business registration and Tax Identification Number (TIN) are one-off routines that most SMEs can easily obtain. Nevertheless, other routines such as record keeping, auditing, and tax payment are continuous practice, which most find difficult to adhere to

consistently. SMEs may superficially demonstrate compliance by loosely decoupling from it. What usually happens is what is captured in the excerpt above, when business records are altered, or two records were created, one will be the original, and the other will be made to mirror what is acceptable to lenders.

The one-off routines are analogous to corporate governance, which can be likened to best practices. Best practices, within the context of this study, are the activities or practises that can lead to beneficial outcomes for all stakeholders. For example, stakeholders in an economy could be the government, business, citizens, amongst others (Ocasio and Joseph, 2005). According to this research, lenders, government, and SMEs are key stakeholders. Any practices that benefit each of these groups will qualify as best practice. Tax payment is of great benefit to the government; it adds to the GDP and improves the growth experienced by a country. For SMEs it encourages them to be responsible, and open to government support; another practice is record keeping, which has made many business owners to detect fraud which means it is beneficial to the SMEs themselves. Therefore, any routine that is of benefit to the mentioned stakeholders will be analogous to best practice.

Hence, if the SMEs are able to obtain loan from formal financial lenders, even with loose/partial compliance by presenting altered records which are not conspicuous to the lenders, they would still be experience change in routine in those best practises such business registration, possession of tax identification numbers. However, what they will not change is tax payment, accurate accounting records, and auditing because these are routines that are ongoing and continuous. For example, tax is expected to be paid annually, auditing is done annually, and record-keeping is daily, and SME could alter the record to show they do them.

In summary, a loose/partial compliance will lead to partial routine change, which is analogous to best practises, while a complete lack of compliance will lead to no routine change.

#### **4.10 Superordinate Theme: Access Denial**

This superordinate theme touches on what may lead to a denial of access. In this subordinate theme, narratives that emerged explain instances where the satisfaction of loan preconditions and access may be difficult to achieve or even if achieved, may not necessarily lead to access.

Three Subordinate themes emerged from the above: Level of familiarity, bias, and insecurity.

##### ***4.10.1 Subordinate Theme: Level of Familiarity***

This theme emerged from the narratives of participants around access from informal financial lenders. It reveals how important it is for SMEs desirous of accessing a loan from informal lenders to be known to the community to which they belong. This can only occur if the owner of the prospective SME socialises with certain people who are linked to cooperatives or other local groups that may have links to financing schemes before the time of making his or her intention known. This is very important as informal institutions like cooperative societies are based on personal exchanges rooted in relationships and reputation. As the Coop expert confirms, every prospective member must be known to an existing member before they can be introduced to the group. Before they qualify for loans, the member must have two guarantors. One of the guarantors might be the same person



who introduced the member. In addition, the member must have spent six months, and during that period, he or she must have attended meetings and made his or her financial contribution consistently.

Accessing a loan from an informal lender will not be possible, no matter how good and viable a business is, except the owner is introduced to the cooperative society. For example, a registered or unregistered cooperative society expect prospective members to be introduced by at least one existing member. In some cases, viable businesses may lose out of gaining access to cooperative membership because they are not well known in the community. The situation happens when the person just moved into the community. In such a case, trust and reputation typically built in a relationship will be absent, preventing them from getting recommendations from existing members to become a member of their cooperative.

An example of a member was cited. An existing member recommended someone. At some point, the member that introduced him left the cooperative society and moved to another part of the country. The new member did not mingle well with other existing members; this is because of a language barrier. As a result, he could not create the right relationship with the right people. According to the Coop expert excerpts:

*No one knew him enough to stand as a guarantor for him, and he was not able to obtain loan despite being a member for more than six months. He decided to withdraw his funds and revoke his membership. The policy around the withdrawal of funds is that the owner of funds will have to give six months' notice. This policy was applied to him, and his money was paid back to him in full. Though he approached other members, requesting if they can stand for him, but*

*those ones were scared because they don't know him well. This made it impossible for him to get a loan, and he withdrew his membership.*

The above excerpt illustrates the challenge that a new SME that intends to obtain informal institution finance may face when not well known to many existing members. As explained under the superordinate theme “access denial”, lack of familiarity or low level of familiarity may lead to denial of access.

#### **4.10.2 Subordinate Theme: Bias**

Responses from participants explained the existence of the feeling of unfairness among formal financial lenders as it has led to an inherent inclination or prejudice against SMEs when it comes to formal financing. It is generally assumed that SMEs are too risky. IB Expert's account touched on this as evident in the excerpt below:

*Generally, giving loan to SMEs is seen as very risky by banks. Many banks shy away from giving it. I don't like giving it. According to my experience, the default rate of SMEs is high, and some show lackadaisical attitude when they default. Some SMEs will give you very flimsy excuse for defaulting and made it look as if you are asking for too much. Example of such is complaint about no sales, because of that they cannot pay.*

This is a feeling of lack of confidence on the part of the bank as they feel money given as loans to SMEs is not in safe hands. They believe SMEs are risky, and their ability to pay back is low. This means that for SMEs to gain access to loans from formal

financial lenders, they may have to go the extra mile to convince formal financial lenders of their ability and capability.

This sort of bias was not apparent from narratives about informal financial lenders.

#### **4.10.3 Subordinate Theme: Insecurity**

The SME expert also came up with a similar view that negates the general narrative of how the meeting of loan preconditions can lead to access (as previously established in the superordinate theme). He commented that there is a general belief that banks do not want to give loans out, especially to SMEs. According to his narrative, he was of the view that

*In some cases, meeting preconditions of loan does not guarantee access, erm... as most SMEs believe that even if they meet loan preconditions, banks may not still give them the loan. They have conditioned their minds that they (SMEs) cannot meet the conditions. They see the preconditions as an excuse for not trying to access a loan, thinking in their minds that it is not achievable [SME representative].*

From the summarised narrative above, the SME Expert believes formal lenders have a negative predisposition against SMEs. This is known to the SMEs as it has made them lose faith in the formal financial lenders, and it has led to a widespread feeling of insecurity among them, which has prevented many from even attempting to acquire loans.

#### **4.11 Superordinate Theme: The Interplay between Formal and Informal Lenders.**

This touches on the overlap of preconditions of loans and processes between formal and informal financial lenders and how they affect each other. Therefore, this theme explores how the two lenders influence each other and also explores the implications of that influence on beneficiary SMEs. For example, the Oxford Dictionary defines interplay as the way in which two or more things affect each other. The data here shows how each lender is similar in how they operate and the kind of influences and support they lend to each other.

As loan preconditions are sacrosanct with formal rules, so also it is for informal rules (See 4.6 Superordinate theme: The sacrosanct nature of precondition). The only difference is that the rules and the process of enforcement are different from one another, and they impact each other in a number of ways.

Based on the IB and CB Experts' opinion, formal rules may, as part of other preconditions for a loan, require any SME who belong to a group, e.g. cooperative society, to obtain a guarantee from the group before a loan can be issued to him/her. For example, the IB Expert made the following comment:

*In the case of SMEs that belong to a cluster, there will be a need for them to be guaranteed by their cluster or association. The parent body must provide a guarantee that the members that the bank is providing funds to are creditable and are of good character.*

This shows that banks are happy to engage with SMEs based on cooperative membership or any other group-based initiative.

The reason for banks to require a recommendation from the group to which a borrower belongs may be to know more about the credibility of such borrower. They (the bank) may find it hard on their own to know who the SMEs are because they have a reduced face-to-face/personal relationship with the SMEs.

Similarly, according to the explanation given by the Coop Expert, the most important determinant for granting a loan request is conditioned on one's past actions and social affiliation. For instance, Coop Expert expressed his opinion by saying:

*You must be a member for six months and be known to have been attending meetings and keeping up to regular agreed contribution. Two guarantors will be needed from existing members to vouch and guarantee that you will pay back when seeking a loan.*

This is important to cooperatives as they seem to lack such capacity that supports impersonal exchanges. This is because the cooperative is meant for a group of people that see themselves face-to-face and must have existing relationships. One can only become a member after being introduced by an existing member, and before a loan is granted, two members must stand as guarantors. The two guarantors will be held responsible if there is a default.

Similarly, the expert representing the formal lender also claimed that the Commercial, Microfinance, and Islamic Banks and other formal financial lenders, i.e. banks, would expect an account to be opened by new SMEs for a while (at least six months). The bank will advise them to ensure a regular deposit of an agreed amount into the new account. This is to create a relationship-like scenario that would allow the formal financial lenders to learn who the prospective SME is, and on that basis, trust can be

established, and the decision to lend can be made. This reflects how informal rules, i.e., relationships, complement formal rules.

On the other hand, it is expected that formal financial lenders will typically adopt official channels to manage all their processes. In contrast, this may not ordinarily be expected of informal financial lenders. However, from participants' narratives, it is established that informal financial lenders (i.e., Cooperative Society) do rely on official channels when necessary. This was apparent in the way the enforcement of rules was carried out.

#### **4.11.1 Subordinate Theme: enforcement**

Enforcement emerged from the data, and it fits perfectly under the superordinate theme of the interplay of formal and informal financial lenders. Formal financial lenders do not rely on informal enforcement mechanisms for enforcement purposes, except using formal official enforcement channels such as police or the law courts. Informal financial lenders times resort to official channels in other to recover unpaid debts. For example, the Cooperative Expert talked about seeking the services of police officers in debt recovery or when they need to take over business premises. In a situation of default, after all efforts and options have been explored, an informal lender may rely on the formal enforcement agencies, such as the police as a last resort for enforcement purposes. As such, the Coop Expert remarks:

*We have the power to close members' business premises with police support.*

Resorting to official channels during times of enforcement may indicate that social pressures and sanctions may not always be

enough. Hence the support of law enforcement agencies will be needed.

#### **4.12 Lessons from the pilot study**

In conclusion, from the survey instrument, it was realised that some refinements had to be made to the research questions, thus necessitating the removal of questions relating to regional contexts. The reason for this is because banking operations in Nigeria are fully standardised, irrespective of regions (Cbn.gov.ng 2019; Adigwe et al., 2018). In other words, the regional context may not have much implication or any significant role in the outcome of the research. Similarly, the outcome of the pilot study revealed that there is uniformity in the application of banking policies across regions and formal lenders, especially when it comes to meeting loan conditions.

On the other hand, from discussions with various lending experts, including the Coop expert, there was no suggestion that the operations of informal financial lenders are not the same across regions. Similarly, their exchange approaches stated in various studies are in line with experts' accounts (Zhou and Peng, 2010; Berger and Udell, 2006). This is not to say that there might not be a slight variation that may not have been captured during the study or in the literature reviewed. However, if there are variations, they may not be very significant. Hence, that might be the reason why it is not evident in narratives and literature.

The implication of this strict policy is that SMEs that do not meet the loan precondition will not get access to finance. Therefore, one of the encouraging revelations of the pilot study about Nigerian formal financing institutions is that their operations are

very standardised. Also, there is little or no room for cutting corners, except when SMEs deliberately falsify documents they presented and slip through the formal financial lenders' screening process without detection. Every application for a loan will be treated based on laid down principles. Although there might be some hidden way of circumventing the system like the one mentioned above about falsification of a document, which the participants acknowledged, otherwise, the assumption made about the standardisation of banking operations in relation to a loan for SMEs may have revealed a different outcome.

Another aspect that was modified is an informal approach. This centres on questions covering the practice of SMEs engaging in bribery of bank officials, relying on friends and family to access a bank loan. As captured by narratives of the beneficiaries of both formal and informal financial lenders, there is no such thing as bribing or relying on an official of the bank or the coop society to sidestep the loan preconditions. There may be some truth hidden from their responses, but that cannot be verified. This may affect conclusions to an extent about whether SMEs have or do not have alternatives to access loan than to abide by laid down rules that are stipulated in the loan preconditions or may have to wait to put things in place. This aspect was modified to explore the implication of no waiver policy on SMEs. The impact of no waiver forces SMEs to change their routine in a manner that conforms to the precondition of the lender.

Apart from the points mentioned above, other aspects of the aim of the pilot study (to carry out 'preliminary analysis' that would inform the research question) were adequately achieved. The



pilot study pointed the researcher's attention to other aspects that were previously not considered, including the various sources of financing, which have varied preconditions, and the effects that this may have on the adoption of new routines or new practices and growth. These were included in the main study, and the implications were fully explored.

## CHAPTER FIVE - MAIN STUDY FINDINGS

### 5.0 Overview

Through the adoption of interpretative phenomenological analysis (IPA) for making sense of interview transcripts, coupled with the use of thematic analysis (TA) to achieve a systematic and orderly analysis, six superordinate themes and eight subordinate themes emerged, and these form the basis of this chapter. Details differentiating between new themes that emerged in the main study from those that emerged in the pilot study are explained below in Section 5.6. These themes are illustrated with verbatim extracts from the interview transcripts drawn from the interviews conducted.

Although a consistent pattern of themes emerged across the participants' narratives, the individual experiences within these themes varied considerably. These commonalities and differences are reported in the results. The names of the thirteen participants have been changed to safeguard their confidentiality. In presenting verbatim extracts from the transcripts, some minor changes have been made by the researcher. Minor hesitations, such as repeated words or words such as "erm" or "eh" have been deleted from the text for readability. Also, due to the expressive language impairments, participants in some circumstances used words or phrases that did not make sense or that were unclear. These were excluded using dotted lines within excerpts. Dotted lines at the beginning or end of excerpts indicate that the person was talking about something else prior to or after the excerpt.

## 5.1 Participants

Four experts on lending were targeted and successfully interviewed. They include:

1. An acting director of operations of Lagos State Employment Trust Fund (SEF)
2. A senior member of staff in charge of SMEs credit in the Bank of Industry.
3. A head of a department of a microfinance bank.
4. An owner of an informal financing institution (locally known as Ajo)

According to Diagram 6. 2 below, types of lenders under each of the formal and informal financial lenders are those participants that fit into the above definitions (see 4.1). Three lenders (SEF, Bank of Industry, and Microfinance Banks) fall under formal financial lenders because they are regulated through the official channels. The official channel referred to here is government agencies. In Table 5.1, informal financial lenders (Ajo, friends and family, Money Lender and unregistered cooperative society) are regulated privately, i.e. individuals or the community and are usually guided by customs, norms and culture. Similarly, their lending approaches are mainly relational and based on the adoption of soft information.

The experts were assigned names in column 4 of Table 4.1 and 4.2 above. Correspondingly, the respective participating SMEs are captured, with assigned names, in the first column of Table 5.1 below. The purpose of assigning names is to uphold the principles of anonymity to which this study subscribed. However, informal financial lenders such as Ajo, friends and family and cooperative society will not be assigned any name because the name in the current form is general to many and different

communities, and it does not make anyone or any group identifiable.

**Table 5.1 - Lenders and assigned names**

<b>Type of lenders</b>	<b>Lenders</b>	<b>Name of lender</b>	<b>Assigned name</b>
<b>Formal lender</b>	Lagos State Employment Trust Fund (SEF)	State Empowerment Fund (SEF)	SEF – Expert
	Bank of Industry	Development Financial Institution (DFI)	DFI Expert
	Microfinance Bank	Microfinance Institution (MFI)	MFI Expert
<b>Informal lender</b>	*Ajo, Friends and Family  Money Lender  Cooperative society.		*Ajo, Friends and Family,  Money Lender Cooperative society

## **Participants in Context: formal lenders**

### **5.1.1 State Empowerment Fund (SEF)**

The Lagos State Employment Trust Fund was established by the Lagos State Employment Trust Fund Law 2016 to provide financial support to residents of Lagos State, to promote entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. In addition, the Fund also develops programmes designed to

train and place unemployed Lagos residents in jobs while also focusing on programmes designed to drive innovation within the Lagos ecosystem. The fund is financed by the Lagos State Government, and it was also expected to raise additional funding from various sources, including donor partners, development agencies, corporate organisations, and individuals<sup>14</sup>.

Under this scheme, SEF is created to eradicate poverty among the residents of the state through encouraging and empowering them to undertake entrepreneurial endeavours. SEF provides the most generous loan attributes in Nigeria at the time of this study. This is because the scheme gives out loan to micro, small and medium enterprises at less than 5% to 6% interest per annum, with tenure of at least three years.

The person assigned to talk to the researcher for this study by SEF is an acting director; therefore, he is well versed in the operations of the organisation which was also observed from the way he responded to questions including knowledge of how SEF manages their loan portfolio. His job description indicates that he operates at the strategic level, with no direct involvement with the operational level duties. Personal questions were avoided during the interview; this was done by the researcher due to acknowledging the cultural practice within the society which expect respect to be given to people who are older or highly placed. Moreover, this participant is a highly placed official, and the researcher tried not to make him feel uncomfortable or inconvenient by asking personal questions.

---

<sup>14</sup> See <https://lsetf.ng/>.

### **5.1.2 Development Financial Institution (DFI)**

Development Financial Institution is Nigeria's oldest and most successful development financing institution. It was reconstructed in 2001 out of the Nigerian Industrial Development Bank (NIDB) Limited, incorporated in 1964. The bank took off in 1964 with an authorised share capital of 2 million pounds (GBP). The International Finance Corporation, which produced its pioneer Chief Executive held 75% of its equity and several domestic and foreign private investors. Although the bank's authorised share capital was initially set at N50 billion in the wake of NIDB's reconstruction into DFI in 2001, it has been increased to N 250 billion to better position the bank to address Nigeria's rising economic profile in line with its mandate. The DFI is strategically positioned to manage foreign grants and aids given to facilitate the attainment of the nation's developmental aspirations. The bank's development orientation is focused on prudent project selection and management. It supports quality projects with high developmental impact, such as job creation and poverty alleviation. Also, the government expects DFI to operate in ways the enhancement of the socio-economic standard of Nigerians can be achieved. To have its impact felt nationwide, it operates an office in each of Nigeria's geo-political zones and the Federal capital territory, Abuja (BOI website, 2019).

DFI provides loan at an interest rate of 9% and maximum <sup>15</sup>loan tenure of three years, with loan amounts averaging above ₦20 million per obligor (Bank of Industry, Nigeria, 2019). A senior

---

<sup>15</sup> *Loan tenure could be short term, medium term or long term. If it is short term, it means payback period will be one year or less. And, if it is medium term, the expected payback period will be between one year to four years. While, a tenure referred to as long term, would represent a payback period of at least five years.*

member of staff was interviewed. He has been in the SME financing sector for more than fourteen years and had worked with lenders before joining DFI. He is well versed with the credit operations of the organisation, including how the loan portfolio of SMEs is being managed. He is not currently directly involved with the operations, as he is at the mid-management level.

### ***5.1.3 Microfinance Institution (MFI)***

According to the Central Bank of Nigeria (CBN), microfinance banks provide financial services to the poor who are traditionally not served by conventional financial institutions (CBN, 2016). Microfinance banks in Nigeria are established to provide easy access to affordable loans to those that are excluded by the formal banking sector. For example, micro, medium, and small enterprises as well as improve the general financial status of its customers. Most of the Nigerian microfinance institutions are limited liability companies duly incorporated under the 2002 Companies and Allied Matters Act, and they are regulated by the Central Bank of Nigeria. The loan interest provided by microfinance is about 60% per annum, with minimum tenure to be one year (Cbn.gov.ng, 2019). The respondent representing the microfinance bank is referred to as an MFI expert in this study.

### **5.2 Participant in Context: Informal Lender**

The informal lender, locally known as 'Ajo', which normally provides small loans to petty – micro-enterprises, was initially targeted and an expert, a key person who coordinates the operation, was interviewed. From the interview, it was realised that most of their beneficiaries are not engaged in manufacturing. Further painstaking research by the researcher,

via interviews and direct interactions with the beneficiaries, was carried out to ascertain what they do and how their businesses work. The outcome of this interaction confirmed that all the beneficiaries are into petty trading. Also, the size of their business can be categorised as a micro business.

However, petty trading and micro-business do not qualify or fit into the definition of SME adopted by this study. As such, the researcher did not engage them for further interview. However, in the course of the interview, it was noted that some SMEs had enjoyed access to loan from family and friends and money lenders. These have contributed interesting dimensions to this study, especially on the informal lending relationship with formal lending. As such, some of the key points drawn from them are interspersed across the findings and analysis sections in 5.4.5, 5.13 and 6.4. Further details of the sources from where each SME obtained loans is 5.3.

### **5.3 Assigning Names and Sources of Finance**

Most of the SMEs who participated were recommended by the lenders as previous loan beneficiaries, except SME 7, SME 8, SME 9, and SME 10. This is in line with the snowballing survey technique.

### **5.4 Participants in Context: Loan Beneficiary SMEs**

#### **5.4.1 SME 1**

This participant is a CEO of a confectionary business, and he doubles as the secretary of the Lagos State chapter of the



National Association Small Scale Industrialist. He shared his experience on both microfinance and Lagos state-owned financial empowerment agency loans and their impact on his business. Before starting his own business, he was a senior manager in a manufacturing company. He arrived at his office at 8:30 am; after that the interview commenced. From the sound of machines and operators emanating from the factory, it shows that there were a lot of ongoing manufacturing activities.

#### **5.4.2 SME 2**

He is a member of the Lagos State Small Scale Industrialist Association (LASSSI). The researcher contacted the association and was introduced to some members who agreed to participate in the study. SME 2 happened to be one of those members. Membership of this group was formed by 'people' who are small scale manufacturers, who desire to tap into the benefit that membership of social network or social groups brings. They always use it as a platform to pull resources together to pursue a common goal. Some of their objectives include liaising with the government on policy relating to improvement of financing, negotiating with banks, using their cooperative society to provide funds for deserving members, recommending tested and trusted members to formal financial lenders, amongst other things.

SME 2 shared his experience about the loans he had obtained for his business (from microfinance and SEF). He runs a company that produces home products. He mentioned during the interview plans to diversify and add more products to their product portfolio. He obtained his MBA from the UK. He was already in his office at the time the researcher arrived, which was around 8:00. The researcher could tell from the movements and

sounds around the factory that production was ongoing at the time.

#### **5.4.3 SME 3**

He is the CEO of a small carpet manufacturing and trading company. He did not appear to have a formal education but comes across as adequately learned. He told the researcher about the training he had attended, including the ones organised by the SEF. He spoke intelligently, and it was clear he understood his business inside out. He had previously obtained a loan from a microfinance bank and currently SEF. In his narratives, he compares both experiences, microfinance loan and developmental loan, and gives his conclusions. The researcher only saw one of his staff who notified him of his arrival. The office was detached so the researcher could not ascertain the nature of work going on in the factory.

#### **5.4.4 SME 4**

This participant (SME4) has a PhD, his factory is a three-storey building. He is into the manufacturing of pharmaceuticals products. At the start of the interview, he questioned the researcher about his identity. He asked how he could be sure the researcher was not from one of his competitors. The researcher had to present his University ID card before the interview commenced. This participant is widely experienced in business financing and had obtained a number of loans from cooperative society and DFI. The interview was conducted on a Sunday. There was no significant activity going on around the factory because it was a Sunday, and the researcher could not see much as the offices were not within the factory building.

However, there were signs that a lot of production goes on during the week. The researcher saw some pallets that must have been used to offload raw materials or to store finished products. The researcher also saw a big industrial generator.

#### **5.4.5 SME 5**

He is educated to a degree level and previously worked with formal financial lenders. He jointly owns a food processing and packaging business with his wife. The new factory was built with money sourced from personal savings, family and friends, and a money lender. After this series of loans from savings, family and friends and money lenders, he became eligible for DFI loans. SME 4 hosted the researcher and conducted the interview in his lounge. The factory is located within the same compound at his house. The office was detached from the main house. Because of this, the researcher could not ascertain the nature of the work going on in the factory.

#### **5.4.6 SME 6**

He is into small scale manufacturing and fabrication of factory equipment. He obtained loans from a microfinance bank in the past. He is educated to a diploma level. He shared his experience about microfinance loans and the sort of prospects and challenges they pose. The factory and the office were within a small industrial estate. The office is detached from the factory, which made it impossible for the researcher to see the nature of the work undertaken there.

#### **5.4.7 SME 7**

He was a company director before retiring to manage his own company, which is into the manufacturing of beverages. He has obtained loans from two commercial banks in the past. The researcher was taken on a tour of the factory. During the tour, the researcher saw some factory workers and other support staff busy with production, including machines and equipment.

#### **5.4.8 SME 8**

She is a business owner that has been into processing and packaging of food product: i.e. vegetable oil for more than 20 years. She has benefited from microfinance and commercial bank loans in the past. She also belongs to a co-operative society. She obtained commercial loans through the co-operative society. The researcher did not see much activities ongoing, except equipment and storage facilities which were not in use at the time of the visit. The interview was conducted in the factory.

#### **5.4.9 SME 9**

This business owner is into floor tiles and marble manufacturing and has been in the business for more than ten years. The business has obtained a loan from an Islamic bank in the last four years. The office is detached from the factory; however, the researcher could tell that many activities were ongoing in the factory because the researcher was able to view the coming in and out of staff.

#### **5.4.10 SME 10**

She is a retiree who has been involved as a member of a co-operative society for more than 15 years. She has been running a nylon manufacturing and packaging business for more than 17 years. She mentioned that she has never approached any formal source of financing for her business except co-operative society. The cooperative society she belongs to is not registered with the government. Therefore, it is categorised as an informal lender. The interview was conducted in her house, and the researcher could not see what nature of work was ongoing.

In summary, at the end of the main study, ten individual SMEs were interviewed. In addition to that, a total of four experts who have many years of experience working with formal and informal financial lenders were interviewed—bringing the total number of individual interviews conducted to fourteen. A summary of themes was provided to set the scene in the readers' mind, and the details of the themes, supported with relevant excerpts, are presented in Section 5.7.

### **5.5 Presentation of Result**

This section presents the results of the study and describes how the themes emerged.

### **5.6 Summary of Themes**

This chapter presents six superordinate themes and their constituent subordinate themes (see Appendix 13 below). This is in addition to the four superordinate themes that emerged in the pilot study (see section 4.4). Three new superordinate themes emerged: *impact of routine change*, *non-routine change* and *non-compliance to loan preconditions*. The corresponding

subordinate themes to the superordinate theme, *impact of routine change*, are 'becoming formalised' and 'efficiency'. Two of the new superordinate themes, *non-compliance to loan preconditions* and *non-change in routine*, have no subordinate theme. Three additional subordinate themes emerged for the existing superordinate theme, the *interplay between formal and informal financial lenders on the growth of SMEs*, is: 'Loan assessment', 'improved access', and 'transparency'. In total, six superordinate themes and eight subordinate themes are explored in the remainder of this chapter, where they are illustrated with verbatim excerpts from the interview transcripts.

From Appendix 14 below, the first column shows the themes that emerged from the pilot study and subsequently emerged in the main study. The second column contains the themes that did not emerge in the pilot study but only in the main study. The third column shows the subordinate themes that emerged during both the pilot study and the main study. The fourth column contains the subordinate themes that emerged in the main study only.

## **5.7 Superordinate Theme: The Sacrosanct Nature of Precondition**

Loan preconditions are critical to all lenders. In keeping with the sacrosanct nature of loan preconditions, lenders do not waive or sidestep any loan preconditions. The only difference is that the type of loan preconditions relating to different lenders may vary. For example, all formal financial lenders may expect all prospective customers to be registered with the Corporate Affairs Commission; they will expect them to have a tax identification number. They will expect them to have an existing bank account or open a new one

On the other hand, an informal lender may require just membership, attendance to meetings and payment of agreed periodic contribution. The rationality behind the creation of loan preconditions is to identify credible SMEs that are loan-worthy, who will not default after the loan has been issued. For formal financial lenders, participants narrated their experiences in relation to how important it is for prospective SMEs seeking to access formal financial lenders loans to adhere to its preconditions.

All participants involved in the main study mentioned that none of the lenders they have a past or present relationship with, would permit the waiving of preconditions. This was affirmed by other beneficiary SMEs. For example, SME 3 commented that:

*“Their conditions are essential to them; you cannot get the money until you have done them”.*

From the excerpts related to this theme and captured in the above, all borrower maintained that they must adhere to loan preconditions before access could be obtained. According to them, access will not be provided if preconditions are not satisfied. Both the formal and informal lenders lack the power to accommodate individuals that do not meet loan preconditions; hence, the meeting of loan preconditions is sacrosanct.

## **5.8 Superordinate Theme: Satisfaction of Loan Preconditions and Access**

The Subordinate theme “satisfaction of loan preconditions and access” emerged due to the importance attached to loan preconditions by all parties. This made it compulsory for both formal and informal financial lenders to ensure they are satisfied before access is granted. All the participants commented that from their experiences, they endeavour to satisfy loan preconditions in their bid to gain access to loans. The superordinate theme encapsulates the various loan preconditions every SME must adhere to in order to qualify for a loan. It captures their narratives about what they must do and what the lenders expect before access is granted. Loan preconditions are to identify the SMEs that are credible and worthy of a loan. All participants emphasised the satisfaction of loan preconditions as the only means through which loans can be accessed.

SEF expert expressed his opinion as thus:

*“Let me give you a hint, we don’t work in isolation. We have partners that complement all the processes we have. Except if someone applies through submission of a paper application all applications are done online. And it will not get to us until our partner (PWC) has reviewed and shortlisted, which will be based on merit. They do the first level screening. They make recommendations and we follow that. They might recommend that an application should be declined or be considered for the next stage. The next stage is an interview, which is jointly conducted by SEF and PWC. These are processes we have put in place to*



*ensure that the process is not circumvented. I can tell you for a fact that our processes are merit driven”.*

The above excerpt shows a detailed process involved in loan application approval and how important it is for it to be followed. The importance of following the process would result in the granting of access. In other words, it is expected that access would be granted as soon as all preconditions have been met. This is analogous to saying access can only be obtained after all the boxes have been ticked in relation to loan preconditions. Following the loan precondition, the aftermath is granting of access. This was supported by the view expressed by the DFI Expert, and he commented that:

*“If you (SMEs) meet our conditions getting a loan from us is very easy”.*

The excerpt above shows quite clearly that gaining access to finance is hinged on meeting loan preconditions.

## **5.9 Superordinate Theme: Impact of Access**

This theme emerged from the narratives of participants who reflected on what access to finance means to their businesses.

According to DFI Expert,

*“For instance, some business approached us in the past, and after evaluating their application, we might realise they did not meet those conditions. But, later on, after a few months, they came back and after evaluation of their application the second time, we*

*became satisfied as they were able to meet all the expected conditions”.*

DFI Experts account points to routine change as a result of seeking and meeting formal loan’s preconditions.

According to SME 4, another point touching on growth was mentioned:

*“When I wanted to get the loan from them, I told them I wanted to buy a distribution van. Which I did, and that has helped the business tremendously. Anytime I want to take money from them, I will tailor it to a project”.*

In other words, it concerns what the effects of access to a loan are on SMEs that have obtained loans. Drawing from the narratives across the different participants’, the following Subordinate themes emerged, which include: Routine change and growth.

### **5.9.1 Subordinate Theme: Routine Change**

The effect of access to a loan may lead to routine change. There are three different ways in which changes have occurred to routines within the context of this study. First is changing or adopting a routine possibly dormant routine X instead of former routine Y (see explanation on page 72). The second is making changes to a particular existing routine and the third scenario is the development and operation of an entirely new routine was experienced by respondents. This is because before SMEs can

gain access, certain practices must have been developed or put in place. This theme explores the new routines that were developed as a result of meeting loan preconditions and obtaining a loan. In other words, it means SMEs put in place certain routines that were previously not in existence. For instance, in the case of formal financial lenders, access to loans mean businesses must have been registered, they must now be in possession of a tax identification number, they are now keeping update records, and their account is being audited periodically, amongst others. This appears to explain how new rules are introduced and old ones rejected (Dollimore, 2016). This analogous to Holland et al. (2006: 777) referred to as “breaking habits”. This is understood as “steadily changing an old behaviour that was regularly performed within a specific situation into new behaviour that is frequently performed in that same situation”.

As explained in 5.3, SME 4 obtained some loans from family and friends and money lender. According to him, these loans from family and friends and money lender helped put the right things in place for DFI loan. Example of some of the things he was able to put in place as a result of access to loan from family and friends and money lender are recording keeping, building a factory, obtaining relevant accreditations. This accentuated an interesting dimension to the study, and it cannot be neglected. Hence, the reason why it is featuring here.

SME 5 observed that:

*“No formal financing institution will want to provide a loan to a start-up. Because at that stage, I was just starting up by building structures, getting required statutory documentation, i.e. National Agency for Food and Drug Administration and Control (NAFDAC)*

*registration, getting a microbiologist, registering the business with the Corporate affairs commission (CAC). And after putting all these things in place, I decided to seek the Bank of industry loan facility”.*

He used the money he got from informal financial lenders to put in place those things mentioned in the excerpt above. The routine he developed was for the purpose of qualifying to obtain future loans from formal financial lenders, not from informal financial lenders. Therefore, informal finance does not, on its own make, SME wants to adopt a new routine that may bring about formality.

Drawing from his experience, accessing loans from money lenders or friends and family does not directly lead to routine change. However, it would help towards putting physical and operational structures that may later set the scene for new routines to take place. One can say it aids the establishment of new routines, and it will only lead to routine change if the SME is interested in pursuing loans from the formal financial lenders. The reason is that they (formal financial lenders) would want to see accounting books, sales books, registration documents, amongst others.

As a result of the loan borrowed from informal financial lenders, i.e. money lenders and friends and families, SME 5 was able to put things in place that made meeting formal lender’s loan precondition possible. Consequently, he was able to register his business, obtain the necessary documentation needed to get his business going, built his factory. These made him ready to meet the formal financial lenders’ loan precondition.

According to the account of SME 8, who has enjoyed access to loans from two different formal financial lenders, i.e. MFI and

commercial bank at different times prior to the time of interview. She attested to change only in auditing; however, from her further narratives, it appears routine such as the keeping of records came up as part of the routine that was developed, but this was not mentioned specifically. Also, at some point, she added the importance of having a business plan which she reported as being a requirement for a loan.

All participants who obtained loans from formal financial lenders, including the experts, agree that complying with loan preconditions enables them to evolve new ways of conducting their businesses.

From the findings, routine change experienced is not the same across the board. This is because the loan preconditions SMEs are subject to are not the same across different lenders. Therefore, there is a variation in routine change. In Diagram 6`.1 below are some examples of how SMEs claimed they experience routine change.

Diagram 6.2 shows the variation experienced by different SMEs. The routine change seen here is pointing to new practices that were adopted as a result of SMEs effort towards meeting loan preconditions. It shows that formal financial lenders led SMEs to acquire different routines, which are linked to the lender's preconditions. While informal financial lenders may not enable routine change, however, there is an exception as beneficiaries can experience routine change as a result of obtaining a loan from informal lenders. This is elaborated in section 6.3. It is important to note that the routines mentioned in the third column are made sense of by the researcher based on SME narratives.

Some of the routines developed are analogous to making changes to a particular existing routine. According to SME 8,

when they could not develop a proper accounting procedure because they lack the required skill. A new employee who is a professional was employed, and all the coupling relations between routines, i.e., a bundle of different routines involved in each unit were created simultaneously and diffused across the organisation. For instance, the tracking, recording and reporting of all daily transactions and reporting of periodic stock takings, which will all be made available to the accountant who would use them to prepare profit and loss account, balance sheet and any other documents required for auditing and loan application purposes.

Besides the exact “cloning” of the original routines, these new routines must be, to some extent flexible and adaptive to be suitable to the new, in part similar but also different, organisational context. The keeping of relevant books is not for owners’ consumption but must be of the right standard that measures up to what can be presented to lenders. Several adaptations would be required and that may require having the right skill and flexibility.

Furthermore, the development and operation of an entirely new routine were experienced by respondents. There is substantial evidence informed by participants’ account about the adoption of completely new routines. For instance, SMEs with no proper records, and no Tax Identification Number (TIN) have had to develop these routines and keep operating them for no other reason but to remain compliant. These are evident from most if not all respondents that they had to develop specific new practises to be eligible for loans.

### **5.9.2 Subordinate Theme: Growth**

This subordinate theme touches on the way participants obtained loans and how they made sense of their experience about growth and the dimension of growth emanating from access to loans. To encourage openness and freedom of views, the researcher respectfully did not probe for sensitive information; rather, participants were encouraged to express or evidence growth in their preferred way. Hence, participants expressed growth in qualitative ways, based on their experience of improvements and what they used the loan for.

This theme speaks to the effect that loan access has on SMEs. The participants were of the view that SMEs that get access to loans experience some improvement that is synonymous with growth. Since the study is guided by a semi-structured interview, the participant expressed their views on growth in a variety of ways. They constructed the meaning of growth in a manner that mirrored their meaning-making and understanding. Since the qualification of growth experienced by each participant is not the same. Formal lenders experience more growth COMPARISON INCOMPLETE... – this is shown in diagram 6.1 (see section 6.1 for more details).

Looking at individual experiences, starting from SEF expert's account, it indicates they are continually looking out for better opportunities that would be of benefit to beneficiaries. They have put in place support mechanisms, for example, the provision of periodic training through the BDSPs (see meaning in the glossary). The latter are consultants working with the DFI to support borrowers. The DFI expert was not able to talk about growth in specific terms but was able to explain the kind of support they provide to SMEs to nurture their growth potentials.

This is understandable because they are only giving out loans; they are not the beneficiaries.

SME 1 and SME 2, who are beneficiary of loan from SEF both reported that they were able to repackage their products, expand into bigger markets: by getting their product into bigger public places such as schools, supermarkets and also being able to repay what is due in instalments without a struggle. Staff capacity was also improved with additional manpower added to the workforce. SME 2 was at the time of the interview researching a new product, which he was planning to introduce to the market. SME 3, who also is a beneficiary of a loan from SEF, from his experience, reported that the loan had improved his productive capacity and he can meet customer demand with ease. The free training he received also taught him that he could increase his profitability by outsourcing manufacturing. The loans obtained from SEF are observed by borrowers and the SEF expert as the most generous in terms of the interest rate. See excerpts from SEF expert confirming this claim.

*“All our loan programmes attract only five per cent interest per annum and a guarantor. You do not have to present any collateral, and we use the guarantor-based system”.*

The narrative reveals the interest rate amount, and when compared with other loans claimed to have been obtained by other participants, one could conclude that it is the most generous.

Another growth observed is an increase in working capital. It was suggested that access to loan enable SMEs to benefit from economies of scale, as they are able to purchase in large quantity at a reduced cost. SME 9 mentioned that the growth



they have experienced as a business was as a result of the loan, which has made it possible for them to be able to have the capacity to undertake bulk buying, reducing overall raw material costs and enabling them to buy better quality raw materials. This, SME 9 believed has made it possible for them to save production time, as they have quality raw materials to use and more time to focus on other important aspects of the business.

In addition to the reduction in processing//manufacturing time, working capital was mentioned to have increased. According to SME 1' s account:

*“They will ask you what you will use the money for. We told them we want to change our package. They didn't give us the money directly. They paid directly to the company and the remaining balance we told them we want to use it for working capital, and they gave that to us”.*

The working capital they receive helps them to have a sufficient amount of stock throughout the year and also helps SMEs to acquire assets through the banks' asset financing loans. This account supports the kind of growth SMEs can experience.

SME 5 (beneficiary of loan from the DFI) shared his experience about the loan he obtained. He expressed that it helped to improve product packaging; procurement of new machines, and that has led the business into getting into new markets. According to him, the new packaging has made their product acceptable to other big stores and high-profile customer locations. See excerpts below:

*“The new packaging has made our product acceptable to other big stores and high-profile customers”.*

From the excerpt, growth is also experienced through increased productivity. This is due to improved production capability, which improves meeting demand as a result of new production equipment purchased. This contributed to an increased market share and entering a new market.

The microfinance expert revealed his organisation has no mechanism in place to assess if beneficiary SMEs are experiencing growth or not.

However, he mentioned there are some indicators they use to determine the status of SMEs that have been obtaining loans from them. This is reviewed by monitoring teams at each stage of loan application assessment when an existing customer seeks another loan. After each visit to a customer place of business, a report will be prepared. The new report will be compared with the previous one. The comparison will show if there is any improvement or not in the SME's business. Some of the things they check include but not limited to annual turnover, asset value, a quantity of stock.

Another point made was that some SMEs would be treated in their first loan attempts as a micro business. The loan amount they will qualify for will be the size every micro business will attract, but after a period, they usually move up to qualify to be treated as an SME. This supported by MFI Expert's account where he asserts that:

*“We have not been doing impact analysis. But, I know that most businesses that have started with us started*

*with micro loans, and most of them graduate to SME loan. Another thing is that as they graduate from micro to SME loan, we realise the business with just one shop has grown to two, and the one with two has grown to three. The way they graduate is not linear. Some take one year to graduate, some two years to graduate etc. At the bottom of the pyramid, there is a lot of money for them to make”.*

This means they would be receiving a higher loan amount compared to when they were treated as a micro business. He claimed that most SMEs they currently serve used to be micro-business, but now they have moved up to SME and they also expand their outlets.

SME 6 commented based on his experience about loans from microfinance banks. He explained that MFI is a source through which his business can get cash and inject the same into the business to meet demand. He did not completely want to agree that the growth he is experiencing is down to loan alone and partly due to the quality of his work.

SME 7's meaning-making regarding the kind of growth his business experienced, referred to the acquisition of more assets such as a generator, renovation of factory buildings, and second-hand machinery. He made a statement about having improved access with lesser preconditions and reduced interest rates. This, he believes, will make life easier for manufacturing SMEs. After the interview, the researcher was taken around the factory, and he saw many machines that were not utilised. The question that came to the researcher's mind was, why? Is there a problem? Since he told the researcher that his business is growing and he has a loan from the commercial bank, why are there unused machines? Maybe he is struggling with the

payment? From his earlier explanation, the researcher also learned that he gets support from his son, who makes financial contributions to his business.

The relevance of the support SME 7 gets from his son may have helped his business, compared to if there was no one to assist. In this case, there was no particular loan precondition expected to be met apart from the existing cordial relationship between father and son. The money was used to purchase a machine, and that qualifies as growth.

According to SME 8, who has in the past access loan from a commercial bank, claimed to have experienced growth in working capital and productivity. However, further questions revealed doubts about her business growth occurring as a result of access to a commercial and microfinance bank. It was mentioned that the loan helped address the problem of working capital. Furthermore, there is improved cash strength. Nevertheless, at some point when repayment reaches 60%, cash begins to dry up, and productivity diminishes at this point. There seems to be a relationship between the stagnation of cash flow and interest rate. SME 8 commented:

*“The cash started to diminish. Cash diminishes because she has to pay more. The loan interest is very high at 60 something 68% per annum” and “productivity will slow down”.*

It was explained that there is usually a period in which there is a decline in the fortune of the business. According to SME 8: *“this started happening on the 8th instalment when the tenure is for a year,” “You will get trapped, you just find out that the remaining money*

*(principal) will be used to pay off the loan and be struggling to stay afloat”.*

As captured in the narrative presented by SME 8, the business would have used up all liquid cash to keep up with her repayments. The account reveals that a loan with more favourable terms would be better. It was suggested that a “5 - 10% interest rate per annum as best for the manufacturing sector, a tenor of three years and a moratorium of three months”.

Drawing from SME 10 narrative, it appears if the only source of financing is from the informal financial lenders, i.e. Cooperative society, they may end up using it for working capital.

When SME 10 was asked about what she uses the loan for, what she said was:

*“It is working capital”.*

Coop Expert was interviewed during the pilot study. Likewise, some SMEs who are beneficiaries of a cooperative society’s loan was interview during the main study. It was gathered that most of them use cooperative loans for working capital. This is not because the Cooperative society wants them to use it for that purpose but because the amount they are given is not enough to do other things rather than working capital. In a cooperative society, the amount of loan you get is mostly determined by the person’s contributions. As observed by participants, you can only get 200% of what you have contributed. In support of this claim, see SME 10 account below:

*“If I say I want to get a loan, they’ll give me 120 thousand Naira because they will give me twice the*

*money, I have with them. If you have 400 thousand Naira (N186,463 based Oanda currency conversion dated 10<sup>th</sup> of Feb 2020), you are eligible to collect 800 thousand Naira (N372,927 based Oando currency conversion dated 10<sup>th</sup> of Feb 2020)”.*

In some rare instances, you can get 300% of what you contributed, and that can only happen when you have paid back your first and second loan within the terms agreed, then it stays that way.

SME 4 commented that through the loan from Cooperative society and DFI, acquiring assets, including buying stock in bulk, was achieved. As a result, the business was able to increase its market share. For instance, access to cooperative society loan with its low interest and short tenure, and DFI with bigger loan amount and loan tenure is a good one. The loan attribute must have played a role in the magnitude of growth enjoyed.

In summary, every participant has experienced at least one form of growth as a result of getting a loan, though there are some differences in the and magnitude of growth reported. The excerpts are direct and summarised statements made by participants, indicating the variation in growth experienced by SME because of access to loans. Even in the face of some growth indicators, especially in the case of the commercial bank and microfinance beneficiaries (see SME 8 excerpt above), there seem to be complaints revolving around repayment, high-interest rates, and short-term tenure. Hence, see section 7.5 for suggestion on the reduction of interest rate and increase in loan tenure to cater to the need of the manufacturing sector.

## **5.10 Superordinate Theme: Impact of Routine Change**

This superordinate theme explores the effect of a routine change on SMEs due to meeting loan preconditions. This theme captures the participant's understanding of the implication of routine change within the reality of their businesses.

For instance, CB Expert's narrative expressed the effect of record keeping:

*"It helps their businesses by preventing pilfering. Pilfering is the act of stealing by staff, and they will know the state of their businesses at any time".*

As explained (in 2.6), routine change means SMEs have operationalised specific things that were not previously in place. The new practices put in place could mean the implementation of practices more common in large established organisations. The implication of routine change may be positive or negative on the business.

The two subordinate themes that emerged, as a result, are: *"Becoming formalised and efficiency"*.

### **5.10.1 Subordinate theme: becoming formalised**

The adoption and adherence to loan preconditions, which has led to new practices being put in place, has made it possible for SMEs to be transformed from operating informally to operating formally. Although, for example, SEF expert commented in a manner that captures this categorisation. According to him, he commented that:

*“Through the report provided by the BDSPs, we have insights into those that are doing really well and those whose operations are changing towards more formalisation and structuring”.*

This is very important because the assurance that a present and future loan request will be approved will be doubtful if when the formal lender’s officials visit the business premises of SMEs, they found there is no evidence to show records are existing. For example, if there is a lack of record-keeping and irregular bank deposits; evidence of registration of business; these conditions which they have to meet, amongst others. Such conditions could be argued to make organisations formal. Formality means businesses are now out of the shadow economy, they are now known through official channels, and they are making a tangible contribution to the economy such as business registration, payment of taxes or complying with regulatory requirements. Businesses in shadow economies are operating under the radar without being detected by the government or government agencies (Schneider, 2001).

The kind of change experienced differs in nature between different players. Thus, there is a variation in routines as manifested in the way SMEs operate across the board. What this means is that the type of practice SME 1 adopts may be different from that of SME 5, yet they may all experience some changes that will be common to them all.

To put this in proper context, commercial banks as part of their many preconditions, require SME to have a tax identification number; they are not interested in the payment of tax or any evidence of payment. Any SME that could obtain a loan from them may not likely have imbibed the practice of tax payment because they may not be motivated towards doing so at the point



of seeking a loan. On the other hand, Development financial institutions' (DFI) and SEF beneficiaries will have to present evidence of paying tax. Evidence of payment of tax is part of the requirement for their loan. Thus, they may continue to adhere to this practice to acquire future loans from the DFI and SEF. They are also aware that the monitoring team can visit for evaluation. Therefore, any DFI and SEF beneficiaries must have their businesses registered, a bank account opened, a tax identification number processed and secured, and in possession of evidence of tax payment.

None of the participants who obtained loans from informal lenders thought that tax payment and business registration are part of the loan requirements they have to meet. These two are the most likely routine that makes a business to be formalised. If these are absent in any business, they might likely remain in the shadow economy, and their source of financing would continue to be informal financial lenders. For instance, in the case of informal financial lenders, access will mean that the only change in the owner's routine will be "meeting attendance" and "regular contributions". These cannot be interpreted as the same organisational routines change that can lead to formalisation.

All participants who have accessed loans from formal financial lenders have echoed similar experiences regarding what they have to do to obtain loans and also reasons why they continue to engage in such activities. For example, the registration of their businesses brings to the fore their existence, and the government can trace them if they act inappropriately. They can also attract government patronage and subsidies. Registration to get a tax identification number is another step after business registration; this is a one-off thing. For most informal SME, getting registered with CAC and for tax identification purpose is an outright development and operation of an entirely new

routine. Payment of tax is continuous, especially for SMEs interested in further loans from DFI and SEF. Therefore, one can conclude that formal financial lenders enable SMEs to migrate from informality or shadow economies to formality or the mainstream economy. Again, this conclusion is reached based on the researcher's sense-making and construction of meaning from how the participants have narrated their reality.

Monitoring by the formal financial lenders on beneficiary SMEs means that beneficiary SMEs must keep up with the practice of the new routines. If they stop practising the routines, future loan access may be jeopardised. According to IB expert (The excerpt by IB expert was borrowed from the pilot study because SME 9, a participant in the main study, had previously obtained a loan from them):

*“The SMEs will continue to keep proper books, because they know we may come any time to check their stock, sales records, and other things”.*

That was an official speaking here. Whenever bank officials visit SMEs' business premises, they can inspect anything ranging from business incorporation, regulatory compliance like NAFDAC, Lagos State Residents Registration Agency (LASRRA) card, to TIN (tax identification number), evidence of tax payment, valid identity, e.g., national ID, and international passports. It is safer to keep to these preconditions because anything can be asked and checked. For instance, the DFI expert specifically talked about why tax payment is important to them, according to him:

*“Let us look at this through altruistic perspective; the loans we give out are taxpayers' money. Without the taxpayers, we will not have funds to give out to*

*anyone. I think is just and fair for this benefit to also go back to the people who contributed it. Because of this principle, no one will be given a loan even if all other preconditions are met, but tax payment is not. Tax payment is the highest of all”.*

Going by the statement above, it is not surprising to see why most beneficiaries of DFI claimed to be paying taxes. This shows the high level of priority attached to it. However, accessing loans from informal financial lenders may not encourage the adoption of routines analogous to the one above. Informal lenders do not encourage this kind of routine. The only condition to be met is mostly relationship-based ones. This does not mean the relational approach is inadequate, but rather it may be serving a different purpose that works well for the informal financial lenders. Through the personal or relational approach adopted by informal financial lenders, they would know who the SMEs are, and trust can be built that way.

To summarise, the sort of activities a relationship-based loan precondition promotes would encourage the SME to be acting towards meeting preconditions, such as physical attendance to meetings and making financial contributions to the cooperative society. Therefore, it can be concluded that informal financial lenders judging by the nature of their loan preconditions which is relationship inclined, may constrain beneficiary SMEs to remain informal and continue operating in the shadow economy. This is because there is no incentive to act towards formality. While, formal financial lenders enable SMEs to move out of the shadow economy into the formal economy because access to finance is tied to tax payment, registration of the business, regulatory compliance, amongst others.

### **5.10.2 Subordinate theme: efficiency**

This Subordinate theme conveys how adherence to formal lending rules enables routine change that impacts SMEs positively. It takes into consideration the implication of putting things in place, such as payment of tax, business registration, the keeping of relevant books of accounts. This sort of routines can aid SMEs in utilising their time and energy in a way that their business objectives can be achieved. This is because when proper records are kept, the owner would know the actual state of his or her business and can make sensible and well-informed decisions. Some participants observed that change in their routines had enabled them to experience efficiency in their operations. Below excerpt is SME 5's comment about the way routine change has impacted his business:

*“We have been able to improve our efficiency because we used to get calls from customers complaining that they found stones in our Ofada rice<sup>16</sup> but now with the new machine purchased through the bank of industry we have been able to eliminate that. We now have a stone picker, and the time it takes to pick stones from the rice is quicker compared to before when we hand pick stones ourselves”.*

Similarly, the narrative of SME 4 matches a new state of efficiency that has been attained; as a result, leading to change in routine, which manifested through new processes put in place within the organisation. According to SME 4, He commented that:

---

<sup>16</sup> Ofada rice is a type of rice grown in some parts of Nigeria.

*“It has removed the issue of not having proper accountability for each aspect of the business. Every aspect now has a cost centre, so we look at the cost centre when we are having an issue, unlike before, it has really improved, in terms of administration, it has really improved. Functions are now managed by a competent individual that has been employed”.*

From the narratives as captured in the excerpts above, it is evident that access to loans is an outcome of the preconditions that were satisfied which led to a change in the way SMEs operate. Thus, enabling efficient operation.

According to SME 4, he linked some improvements experienced by the business to routine change as a result of meeting loan requirements: according to her:

*“It has actually increased our productivities, and it has removed the issue of not having proper accountability, every aspect now has a cost centre, so we look at the cost centre when we are having an issue, so now things have really improved, in terms of administration, it has really improved”.*

Similarly, he also linked the routine change they experienced to taxation reduction because they can employ an accountant who manages all financial matters, and with his skill, they are able to calculate what their tax payment will be. Prior to when a formal loan was sought, tax officials will come and demand arbitrary figures, but presently, they are in a position where they know what constitutes the right computation for tax, with knowledge of facts and figures about what was actually earned and expended. Accordingly, they are using this knowledge to their advantage by engaging with the tax authority if conflicts arise. The narrative of

the participant supports the notion that good accounting records could help in renegotiating tax rates, therefore informing SMEs of what they are due to pay.

In summary, new routines developed helped sharpened skills. This is made possible as a result of putting the right practice in place, which is geared towards meeting loan preconditions. This comes into play by the way SMEs acquire and develop the right skills through training and employment of competent new employees who will pay attention to the right aspect of their operations and help improve quality, including the quantity of output and transaction cost.

### **5.11 Superordinate Theme: Non-Compliance to Loan Preconditions**

As explained above, this superordinate theme has no subordinate theme. Non-compliance to loan preconditions captures the participant's account of why SME may not meet loan preconditions. The probability of non-conformity to loan precondition cannot be verified in this study as the participants all attest to meeting loan preconditions before access was granted. However, the participants were of the opinion that if loan preconditions are not met, there will be no loan. Since the study only targeted loan beneficiaries, their accounts are the basis of this theme.

One example of a narrative that captured this reality is the SEF expert account which stated that it is a requirement for all SMEs to adhere to the preconditions before access can be granted.

*“These are processes we have put in place to ensure that the process is not circumvented. I can tell for a fact that our processes are merit driven” (SEF expert).*

He insisted that nothing else will change except preconditions are followed. Therefore, access denial can occur with formal and informal financial lenders if loan preconditions are not met.

In summary, all the participants that have obtained loans from formal and informal financial lenders agreed that non-compliance might lead SMEs to be denied access, and they may end up exploring options that might make them worse off. Also, access denial may lead to further delay. This is because to overcome denial, and they will have to put certain things in place, which would meet the loan requirement of lenders. For example, in the case of a formal lender, the prospective borrower will have to register their businesses, keep a proper record, register and payment of taxes.

### **5.12 Superordinate Theme: No Routine Change**

As explained in 5.4 above, this superordinate theme has no subordinate theme. From the narratives of the participant who received one of the informal financial lenders' loans only, it is clear that meeting loan preconditions for informal lender do not have a direct impact on change in routine. As prospective SMEs are not required to register their businesses, pay taxes, or have a tax identification number. This is understandable, as access to finance from informal financial lenders only require attendance to meetings and regular payment and these are not in any way sufficient to make them change operationally. These sorts of preconditions are reputation-based. However, SMEs that reported a routine change are those that have the desire to or

are able to get access to a loan from formal financial lenders in addition to informal financing. Therefore, access to informal financing alone does not guarantee routine change except if the SMEs have met loan preconditions of formal financial lenders or are currently enjoying access. For example, SME 10, who claimed she has only been approaching and gaining access to an informal lender in the past. In her narrative claimed:

*“I don’t deal with the bank. I get my loans from my cooperatives; at least, I’m running about three cooperatives”.*

When questions about the adoption of new routines, for example, ‘record-keeping’, were asked, the response was “no”. She seems not to see the need to do so in the future. She did not demonstrate from her narrative that her business adopts any new routine due to access to informal financial lenders’ loan. The dependence on informal financial lenders only and lack of aspiration to approach formal financial lenders may imply that informal rules do not enable the adoption of new routines and sound business practices (see explanation in sub section 6.3.3 and 6.3.7).

Similarly, SME 4 though he claimed to have experienced routine change, he linked the change to a formal lender: DFI. When the researcher asked him a question about routine change resulting from meeting loan preconditions from cooperative society and getting loans from them. He responded by saying:

*“No, there is nothing you are required to do than, to attend meetings, and be a financial member, which is by paying your monthly contribution” [SME 4].*



Clearly from the excerpts, accessing a loan from informal financial lenders only can constrain the adoption of new routines except if the SME has the ambition to add more sources of financing from formal financial lenders, except registered cooperative society in the future. Registered cooperative and unregistered cooperative have similar relationship-based loan preconditions, which applies to all informal lenders.

### **5.13 Superordinate Theme - The Interplay Between Formal and Informal Lenders on The Growth of SMEs**

From the narratives in the main study, it can be established that there are various accounts that show commonalities between formal and informal financial lenders, especially the changes mirroring routines that are traditionally seen as personal or relationship-based, which have found their way into the loan requirements of formal financial lenders.

From the participants' narratives, it can be established that they obtained their loans through the recommendation of their respective cooperative societies (see excerpts below).

*“We have a cooperative, and we recommended 20 people for the scheme in Lagos”.*

Before loans were made available through the recommendation of the cooperative society, the formal lender might have made contact with the cooperative society. During that encounter, the formal lender made a request to the cooperative society asking if they could recommend their best 20, who are trusted and tested. The excerpt above is a response to a formal lender's request to the cooperative society. From the excerpt, it is

obvious the informal financial lenders provided the names of good members. The account was narrated by participants (SME 1 and SME 2) who obtained a loan from the SEF.

The cooperative was created by members who share the same goal and are into a similar line of business (manufacturing). The cooperative society has financed many members who qualified for loans to help them towards improving their businesses. Due to this reason, they know those who are creditworthy among their members. This made it possible for a cooperative society to know whom to recommend. The recommendation was relied upon by the formal financial lenders because they believe the cooperative society have a more direct relationship with the SMEs. This helps formal lenders to overcome information asymmetry.

Informal financial lenders are managed based on rules and guidelines rooted in personal relationships, which can be referred to as informal rules. Exchanges are conducted on the basis of social affiliation, reputation and trust (see 2.3 and 2.4). For example, before a loan request is granted to any member, they must be known to the cooperative society. This is corroborated by SME 4 excerpt below:

*“You must have been contributing into your account, and you must be six-month-old in the cooperative, if you enter the society in January, by June ending, you will be able to get something”.*

When a new member is seeking a loan, they must have been members for about six months; two members of the cooperative society must stand as guarantors for them. Membership of cooperatives society is part of the loan preconditions that form

part of the loan preconditions for SMEs. This allows a relationship to exist, and members get to know each other.

Similarly, formal financial lenders like microfinance bank and commercial may expect an account to be opened by new SMEs as a way of creating a relationship through banking. The bank will advise them to ensure regular deposit of daily sales into their account. The size and frequency of the payment will be used as the basis of calculating the amount SMEs is qualified for when seeking future loan. From the time of account opening and when they are judged to have qualified for a loan will be six months or three months depending on the bank. This is more like a personal exchange mechanism. This accurately mirrors what an informal lender will expect from a new member. By asking them to be introduced by an existing member, who will give recommendations about their character and expect them to remain registered and make regular contributions for six months before access to a loan can be granted. The period of opening an account and operating it allows the formal financial lenders to get to know the customer; they will also conduct what is called KYC at the point of account opening. KYC is referred to as Know Your Customer (KYC). It involves knowing where formal lenders' customer lives, the description of their houses, the size of their household, amongst others.

Similarly, for the informal lender, members would have known your house at some point long before joining the cooperative society. After registration as members, you will be asked to attend meetings and make regular contributions. The period from registration to the time you qualify for a loan will be six months.

Similarly, an informal institution such as a cooperative society would want to provide access to only those known to them, so

also, the formal financial lenders, i.e. banks adopt the same approach by ensuring only customers known to them are considered for a loan. However, this is not to say the consideration is based on personal exchanges or a relationship-based approach alone (for formal financial lenders, other conditions will still apply). However, it means being known will bring you closer to get access to a loan.

From the discussion above, formal financial lenders such as microfinance institutions, commercial bank and development financial institutions require some element of relational approaches conditions to be fulfilled. This was evident from the experiences shared by the participants, which shows that if SMEs are organised into clusters or groups or cooperative groups, they will find it easy to meet other loan preconditions and access them. The relational approach adopted by formal financial lenders is devised to achieve the same thing as the informal financial lenders: to get to know the SMEs in person. Formal financial lenders may achieve the same through different strategies, e.g. the requirement of operating a bank account with the bank, getting the cooperatives to make a recommendation about their best and trusted members. This will help to reduce information asymmetry because the group will know their member's character and are able to make judgements about who is of good conduct. It is likely they also know what their repayment history was. The cooperative also plays the role of a godfather or an influential personality, or an entity with influence. For example, SME 8 had obtained a loan from formal financial lenders in the past; when the researcher told her about other sources with generous preconditions, i.e. DFI and SEFI, she said:

*“Those ones are hard to get; you need to be connected. If I have anyone in government, it will be easy” [SME 8].*

Nevertheless, she had obtained loans before, thus explaining how she accomplished accessing previous loans, as most of the preconditions are similar.

*“I was able to access three million from a commercial bank because when they came here, and they saw the need for it, and they give it to us under the cooperative. We have a cooperative here, so because it is the cooperative that did it for its members; it was cooperative that access that money, they did not do it on an individual basis, but the cooperative ask each co-operator to provide his/her guarantors, the cooperative is like a screening body” [SME 8].*

She had obtained a loan from a bank with similar conditions. According to her:

*“It is the same conditions, but it came through under the umbrella of the cooperative” [SME 8].*

What can be understood from the responses is that there is a belief that if you are in contact with someone influential, access will be easy. This appears to be why she feels she cannot approach the DFI or SEF, which gives loans out on more favourable terms.

Fortunately, the cooperative played the role of the influential personality that could take the place of a mediator between her

and the formal financial lenders. The previous loan she obtained was through the recommendation of the cooperative to the formal lender. The cooperatives may reach out to banks asking them to offer loans to group members, and the bank in turn listens and use the information provided by the cooperatives or groups as a starting point to evaluate the suitability of recommended SMEs.

Hitherto, most of those who have obtained loans through cooperative society's intervention had previously shared the view that access to loans from formal financial lenders would not be possible. They were later able to access it through the intervention of cooperative societies. In the real sense, the cooperative may not consciously act on the premise that they are stepping in to play the Godfather role, but they are indirectly acting in the interest of their members. In so doing, their actions have enabled access to formal lender easier for those who are struggling. Also, when access from formal financial lenders is achieved, elected leaders of informal financial lenders see it as an achievement and many times before their election, they include it on their agenda as part of their campaign promises.

The feeling of insecurity and bias resides not only with formal lenders but with people in general. Similar to SME 8's view, the DFI Expert excerpt agrees to the notion of the feeling of insecurity:

*"I understand that the way people see us being a government institution like a place where people do not come to work as at when due. In some government institutions, people will not come to the office on time. They feel it is business as usual where staff can do what they want. People feel you need to*

*have a Godfather in order to get a loan from us, which is untrue”.*

His account is a testament to the general bias towards SMEs by formal financial lenders. To overcome this, cooperatives (whether registered or not) may bridge the gap caused by bias and feeling of insecurity.

For instance, SME 1 and SME 2 became beneficiaries after they were recommended by their own cooperative. The idea of having a Godfather figure, which matches the role cooperative seems to be playing, has somewhat paved the way for access. Non-compliance can be a result of the general understanding that loan preconditions are too stringent and cannot be met. This is related to the belief common among SMEs that loan preconditions are too hard to meet. Also, some bank officials believe that SMEs are risky ventures, which affects the way they (bank officials) relate with them when a loan is being sought. To reconcile the bias and unwillingness on both sides (formal lenders and SMEs), cooperatives play a significant role to bridge the gap.

Three subordinate themes can be drawn from the narrative above: loan assessment, improved access and transparency.

#### ***5.13.1: Subordinate Theme: Loan Assessment***

Loan assessment emerged from the main study data. It corresponds perfectly under the superordinate theme of the interplay of formal and informal financial lenders because there is reliance between different lenders when it comes to loan assessment. Narratives from participants confirm formal financial lenders are open to considering SMEs who belong to a

group, e.g. cooperative society. The cooperative society would know members and anyone whose past conduct falls short of the requirement of getting a loan and those individuals will not be recommended to formal lenders.

The excerpt below confirms the informal lender's role:

*"In fact, due to that, because we got the loan on the basis of belonging to a cooperative. Because we have a cooperative here and the cooperative was the collateral for the loan" [SME 6].*

From the excerpts, it can be seen that one of the participants observed that loans were obtained from a formal lender as a result of the role the cooperative society played. The cooperative played the role of an intermediary between the cooperative society members and the formal lender. Therefore, there is a likelihood that the membership of a cooperative society enhances one's eligibility for a loan.

However, that may not be enough. The excerpt below would demonstrate the overlap between formal and informal financial lenders. The excerpt captured the discussion that took place between the researcher and the respondent.

Researcher: What are the things you have to provide in addition to coming under cooperative because you said the cooperative was like your guarantor?

*"Respondent: Even before they went to the extent of awarding the loan and all that, they came, they inspected our books, they see what we have been doing, they asked how long we have been in the*



*business, is the business incorporated, things like that are the question they asked us” (SME 6).*

The narrative above shows the formal lenders do not limit their preconditions to the recommendation made by informal financial lenders alone. Also, they use it in addition to their existing personal approaches. This is treated as an additional layer of checks during the loan assessment stage as a way of managing risk.

From the above, the formal lenders rely more on informal lender at the assessment stage when a decision about a loan is to be made.

In summary, drawing from accounts from various participants, it is evident that there is an interplay between formal and informal financial lenders, and this interplay is bidirectional. It is bidirectional because formal financial lenders rely on informal financial lenders such as cooperative society during the loan application assessment stage. In contrast, informal financial lenders rely on formal rules later on in the lending process when a default has occurred. Their reliance on formal rules involves using law enforcement agencies in situations where members have defaulted and all relational mechanisms have failed.

### **5.13.2 Subordinate Theme: Improved Access**

This subordinate theme here emerged from data. The narratives presented below points to how access to loan gets better. However, certain information about SMEs may be concealed and unknown to formal financial lenders. Nevertheless, they can become unveiled through the relationship that exists between some informal financial lenders. This sort of situation where information is concealed is called opaqueness in the literature

(Beck et al., 2014). When opaqueness occurs, it particularly undermines lending from institutions that engage in more impersonal or arms-length financing, which require hard, objective, and transparent information (Augusto de la Torre et al., 2010). By opaqueness, it means that something is not transparent. In context, it is difficult to ascertain which SMEs have the capacity to pay and/or the willingness to pay back the loan. The formal financial lenders lack the capacity to know the right information about their prospective customers, in this case, the SME. Nonetheless, the information can be provided through informal financial lenders because they are closer to the SMEs. This was supported by the SME 8 narrative. According to her experience:

*“The cooperative society is like a cover; they can say that, that person is okay, we know this person, and we know they are working. So, if there is any problem, they can tell you [the bank] this is where you can get him, carry her asset or go to Lagos state, tell them to seal off the place. They will give them information which ordinarily if the cooperative is not there, there is nobody that will give you such information about another person’s factory or business”.*

Similarly, as captured from the above excerpt, informal financial lenders, e.g. cooperative society, keeps a tab on members and make a lending decision based on what they know in relation to information at their disposal about members. In addition to other strategies put in place by formal financial lenders, they still rely on information available to some informal financial lenders, i.e. cooperative society, to sieve prospective loan applicants. Liaising with informal financial lenders seem to be an additional layer of checks and verification before a loan decision can be made about SMEs. Following this approach, formal financial lenders are able to limit the extent of opacity that may be existing

before. Therefore, borrowing elements of the relationship-lending approach from informal financial lenders. Soft information about the business situation, repayment history, and business size can be provided by the cooperative society some SMEs belong to. This is because they must have been obtaining loans in the past from the cooperatives, and their record is readily available to the cooperative society. This may be a good reason for informal financial lenders to continue with their informal practice, and formal financial lenders would have to continue relying on them. SME 8 affirmed the role of the cooperative by stating that:

*“The cooperative was able to stand for us (members) because banks now believe more in cooperative and groups because they believe that if people come into cooperative or groups like this, they believe it will be easier for them to track or to work with their executive in case there is any problem than chasing individuals all over the place”.*

This excerpt above indicates that some banks grant loans to members on the strength of the cooperatives society’s recommendation.

SME 8 belongs to a cooperative society and uses them to complement loans from DFI. He shared his experience regarding the personal relationship aspect of lending that cooperatives leverage on:

*“You must be a member of any cooperative that can guarantee you. Those people must have known you very well”.*

Touching on what has been said from different participants; cooperative society (either registered or not) membership makes access to finance from formal financial lenders easier. Membership alone does not guarantee access. However, what determines access is good to conduct, and abide by the rules and conditions of the cooperative society (See explanation on social capital in section 2.6). Good conduct informs the recommendation from the cooperative society to the formal financial lenders. A cooperative society would only guarantee a trusted member. The relationship between formal and informal financial lenders leads to improved access to formal loan and that increase the credibility of the informal lender. The improved credibility will make cooperative membership to be appealing to others.

### **5.13.3 Subordinate Theme: Transparency**

The relationship that exists between formal and informal lender can create some level of transparency through information sharing previously concealed. This concealment may be termed as opaqueness. Relying on the informal lender has enabled formal financial lenders to find a way to overcome this opaqueness by adopting elements of relationship lending enabled through the information they (cooperative society) possess. It is worthy of note that the issue of information asymmetry is prevalent in both formal and informal lending. However, it is better for informal financial lenders than formal ones (Beck et al., 2014).

Information asymmetries exist when one party has more information than the other. The fact that the cooperatives have members that know each other might make information more accessible to them. Membership is determined by the recommendation of one another, and access to loans is possible

if other existing members guarantee a prospective borrower. Therefore, from this discussion, information appears to be widespread within the cooperative hierarchy. Soft information on the character of members, their conducts and repayment history can be communicated easily. From the accounts of SME 1, SME 2 and SME 6, they both claimed that the cooperative society they belong to selected and recommended them to SEF. Although all other formal loan's preconditions were applied, it all started from the cooperative's recommendation.

If SMEs on their own have gone to the formal financial lenders, they may not have scaled through because the formal lender would not know many things about the SME. Likewise, the SME may not be confident enough to make a good representation for themselves.

Equally, as an individual, the SME may not also be able to get someone to present as a guarantor. A guarantor is someone who knows you. There must be some element of prior knowledge about the person to be guaranteed.

According to excerpts from the SME 6:

*"It was the cooperative that obtains that money, they did not do it on an individual basis, but the cooperative ask each co-operator (cooperative members) to provide his/her guarantors, the cooperative is like a screening body".*

From the account above, cooperative society's recommendation led to access to the loan. They stood as guarantor for the members they recommended. The first criteria SEF requested from the cooperative society whose member was a participant (SME 2) was that they would want them to recommend their best

20, who must have been tested and trusted. Many things about the SME must be transparent to the cooperative society, which would be the origin of their confidence in the SME they guaranteed. These are individuals who are creditworthy and would not default.

In summary, the superordinate theme, the interplay between formal and informal financial lenders, reveals the nature of the relationship existing between lenders. It highlights how they rely on each other. For instance, formal financial lenders rely on informal financial lenders' recommendation at the early stage of the loan application process. This early stage can also be referred to as the loan application/assessment stage, where they sought the recommendation of creditworthy members from informal financial lenders who adopt personal approaches, i.e. cooperative society. Similarly, data shows that informal financial lenders, due to their lack of sufficient financial ability, do rely on formal financial lenders to obtain loan for their members. In the process, they stand as guarantors for such recommended members. On the other hand, drawing from the pilot study data, informal lenders rely on official channels as a last resort for enforcement purposes when social sanctions and other relational enforcement mechanisms have failed.

#### **5.14 Summary**

IPA was used to make sense and capture the lived experiences of participant's narratives. The deployment of thematic analysis allowed for a systematic and orderly flow of idea, which led to the development of themes. These themes emerged from the data that was collected in the main study. Most, if not all, of the findings here are the outcome of the data collected during the main study. In total, six superordinate themes and eight

subordinate themes were developed to provide logical arguments, which is useful for addressing the research questions in the subsequent chapters. The next chapter presents the discussion chapter, which draws heavily from the findings in chapter four and five.

## CHAPTER SIX – DISCUSSION

### 6.0. Overview

This chapter consists of discussions that are chiefly geared towards addressing the research questions. Firstly, the research questions focus on how formal and informal lending affect the growth of SMEs? Secondly, how formal and informal institutions impact routine change. And lastly, nature and the impacts of the interplay between formal and informal financial lenders on SMEs.

### 6.1 Extent to which Formal and Informal Preconditions Impact SMEs Growth

The question regarding the extent to which formal and informal preconditions impact SMEs' growth is explored here. To adequately answer the research question correctly, growth as an impact of access to loan needs to be adequately evaluated. In doing so, the next paragraph explores *what* the impacts are, and followed by an examination of how these impacts were experienced by SMEs.

Firstly, growth is captured as a subordinate theme, and it is an outcome that directly relates to obtaining both or either formal and informal loan. However, the key finding that surfaced from the experience shared by various SMEs that obtained loans shows variation in the growth experienced. Detail explanation of the nature of growth is done in the next paragraphs and the following sections, i.e. 6.2.1 to 6.2.4.

In addressing the first question, it is crucial to start with how access is achieved. The need to borrow would lead an SME to



find out what it takes to get a loan. After knowing what it takes, the best option would be made, and an effort towards satisfaction of loan preconditions would follow. This mirrors the rationality theory of Becker (1993). The decision made would be determined by the behavioural disposition of the SME owners, shaped by history and experiences (Arthur, 1994).

According to participants' narratives, which was captured by the superordinate themes; sacrosanct nature of loan preconditions and the satisfaction of loan precondition and access; they demonstrated how compulsory it is for SMEs to comply with loan preconditions. These themes show that access to a loan is conditional on meeting loans preconditions.

Most SMEs find it hard to adhere to formal financial lenders' loan preconditions as it is adjudged stringent. This sort of belief is historical, and many SMEs are locked into this narrative. To make them deviate from this sort of predisposition, intervention from cooperative society was discovered as an enabler. The cooperative society plays the role of a godfather/intermediary (see section 5.14), using their position to negotiate improved lending terms with formal lenders.

Even in the face of cooperative society's intervention, it must be mentioned here that there could still be a possibility of denial to loan access, as this was captured in the excerpt of the SME representative in the pilot study. This may happen partly due to bias and feeling of insecurity on the part of the formal lenders mentioned in sections 4.10.2 and 4.10.3. The bias might prevent formal financial lenders from offering loans to SMEs based on the belief that they might not payback. Equally, based on the knowledge of this bias, SMEs may feel they can not measure up, or the loan preconditions are not easy to satisfy, and because of

that, they will not attempt to comply. Thus, assess will not be provided if loan preconditions are not met.

From the narratives expressed, some respondents started preparing towards meeting loan's preconditions of formal financial lenders ahead of time. However, no specific time was provided but judging from the context of responses, it takes more than a year, and for some, it takes less than that. Some SMEs got to know what it entails to get a loan due to their educational background or through experience gained as an employee of a bank or past business experience. Therefore, the starting point for applicants is when the need for the loan has been established. This is the point where a prospective SME would start seeking ways to satisfy loan preconditions. Therefore, if SME can satisfy the impersonal based lending mechanism of formal financial lenders, as findings revealed, they would obtain loans and experience growth. Likewise, if SME can satisfy the personal/relational based preconditions of informal lenders, then they can obtain a loan, which could also lead to growth. Similarly, if SMEs are subjected to lending preconditions that have both personal and impersonal mechanisms, they will also experience growth. However, the only difference is that the growth reported by SMEs varies.

The next section will explore what qualifies as growth and the nature of growth experienced by SMEs.

## **6.2 Growth and the Variation Experienced**

What qualifies as growth is informed by the qualitative measure based on SMEs' narratives about items or things they claimed to use their loans for. This is in line with the research philosophy guiding this study in which participant's sense-making would be constructed to represent their reality. Secondly, the qualitative

measurement of growth based on narratives was adopted because the study did not request participants to present their financial statements or books containing figures of how they are performing. This approach was favoured in order to encourage them and make them feel free to express the experiences they have. Many SMEs may not be inclined to open their books as they might see the content as confidential.

The extent of growth SME experience has been found to vary. The variation in growth is expatiated in the next subsections 6.2.1 to 6.2.4. For ease of analysis, loan access from a single source - the formal lender will be explored first, followed by loan access from a single source - informal lender, followed by loan access from more than one lending sources and lastly, a summary on the variation of growth.

### ***6.2.1 Access to a Single Source – Formal Lenders***

The growth experienced by SMEs that accessed loans from only one source, such as a commercial bank, Islamic bank, and microfinance institutions, only appeared to be far lower than those experienced by SMEs that accessed loan from DFIs and SEF. For example, an SME (SME 9) who obtained a loan from an Islamic bank mentioned the ability to buy raw materials in bulk.

He linked this bulk buying to increased productivity and improved product acceptance. Similarly, SME 8 (commercial loan beneficiary) reported growth in the form of an increase in working capital, which led to an increase in productivity. At the time of the interview, the researcher did not see much activity taking place in the participant's factory. As the discussion progressed, it was revealed that the loans she has received came with high interest, and it becomes challenging for her when

repayment reaches 60 to 70%. At this stage, repayment becomes problematic, as she has to dip her hand into the capital she has, which many times made it hard to replenish her stock or do other things.

SME 6 experienced growth through increase profitability, which was linked to bulk buying as a result of access to a loan. The findings correspond with the work of Olutunla and Obamuyi (2008), which demonstrates that there is a relationship between SMEs profitability and loans. Profitability was mentioned in Chelimo and Sophia (2014) and Mañez et al. (2013) as a parameter through which growth can be measured. Therefore, for instance, its inclusion here is very relevant as he (SME 6) was able to achieve profitability due to the reduction in cost resulting from buying raw materials in bulk.

From the narratives, it can be deduced that SMEs that access loans from commercial and microfinance banks seem not to grow at the same pace as those from DFI and SEF (see 5.1). There was an aura of stagnancy around one of the commercial bank beneficiaries, SME 8. This is because there was no visible productive or economic activity ongoing at the factory when the researcher visited. The other beneficiary of a commercial bank, namely SME 7, seemed to be better off. There were ongoing activities in his factory. As noted above, this is likely due to the additional financial assistance he got from his son.

Some of the features of commercial and microfinance bank loans are high-interest rates, short-term loan tenure (one year), and smaller loan size. These may have contributed to the slower growth reported by beneficiaries of such loans. SME 8 complained about high-interest rates and short loan tenure as limitations to profitability. Therefore, one can conclude that high-interest rates of about 30% per annum, short loan tenure of one

year, and smaller loan size, which are characteristics of commercial, Islamic and microfinance banks' loans, constrain beneficiary SMEs' growth.

DFI and SEF have a social and developmental mandate, and this may have manifested in the generous nature of their loans. For example, their interest rate is less than 10% per annum compared to CB and MFI, whose interest rates are about 30% per annum. Participants such as SME 1, SME 2, SME 3, SME 4, and SME 5, who obtained loans from DFI and SEF, confirmed that they experienced growth in more areas such as the ability to employ more staff, asset acquisition, bulk purchasing, increased working capital, market expansion and development. For instance, employment is a parameter for measuring growth both for micro and macro purposes (Birch et al., 1994; Littunen and Tohmo, 2003), as well as an increase in turnover, higher sales volume, increase in market share, expansion into other geographical areas, bulk buying and acquisition of assets. Overall, they all believe the source from which they have obtained a loan has been beneficial. They were specific about things that helped their businesses, including sponsored training, lower interest rates (6%-9% per annum), access to larger sums of money, and longer tenure (minimum of three years).

In summary, drawing from participants' narratives, which has contributed immensely to the higher growth experienced is the generous loan attributes. These generous loan attributes include the low-interest rate of 5% to 9% per annum, longer-term tenure of three years and bigger loan sizes from 5m Naira (equivalent to about £10,465 - Oanda exchange rate of 15<sup>th</sup> of May2020) and above for SMEs.

### **6.2.2 Access to a Single Source - Informal Lenders**

SMEs that obtain loans from lenders who operate on a personal/relational exchange basis such as cooperative society, Ajo, Money Lender reported growth in working capital and bulk buying (raw materials). Working capital and raw materials are current assets. These sorts of assets are used up in production and within a financing year in most cases. The loan attributes such as smaller loan size, lower interest rates and lower loan tenure may have contributed to the limited items that the loan was used for.

What contributed to the smaller loan size of most cooperative societies and Ajo is their limited access to external funds. The only source of fund both have is the financial contributions made by members. In other words, members make contributions into a pool. Any loan they provide to members is drawn from this pool. Beneficiaries are restricted to 200% of the contribution made over a year. The short-term nature of these loans is to allow others to benefit from the loan. Each member has to wait for their turn. This explains why informal financial lenders such as cooperative society or Ajo have limited resources which may restrict the extent to which they can effectively and sustainably satisfy the credit needs of these SMEs. Accessing finance from other sources may help SMEs in need of credit to overcome the limitations they may experience if they are locked into only informal finance.

Stringent loan preconditions of formal financial lenders scare away many SMEs, and as a result, some of them prefer informal lenders as substitutes. SMEs would be satisfied as long as they can obtain loan irrespective of the source. This relates to Helmke and Levitsky's 2004 model on substituting informal institution.

The above analysis has explored how various preconditions of loan could lead to various outcomes. It was observed that access to a single source of finance might lead to lower growth and vice versa.

### ***6.2.3 Loan Access to More Than One Lending Source***

The SMEs with access to loans from multiple sources such as SME 4, SME 5, SME 7 and SME 8 experienced a higher increase in working capital, acquisition of equipment, geographical expansion, new employment, market development, and diversification. This shows access from two or more lenders (irrespective of the type of lender) may result in more dimensions of growth, as recipients would have more financial resources to utilise.

For example, SME 4 and SME 7 experienced more dimensions of growth, such as increased working capital, turnover, and asset acquisition, including factory renovation carried out by SME 4. SME 4 obtained additional financial assistance from friends and family source (specifically from his son, who is based abroad). SME 7 acquired a Van, which was made possible by the loans he received from cooperative and DFI. When each of these SMEs are considered against what they used their loans for, it is evident that they experienced more growth than those who had only one source, such as SME 1, SME 2, SME 3, SME 6, SME 9 and SME 10.

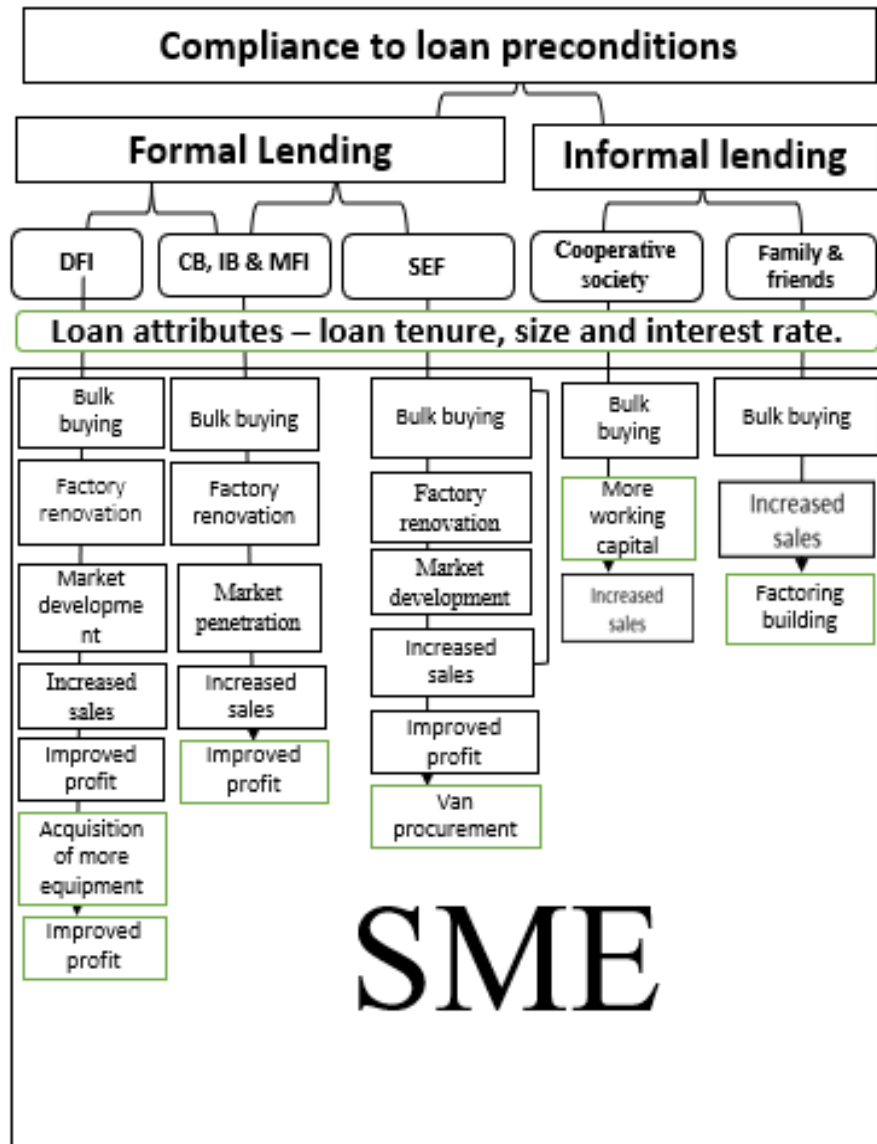
### ***6.2.4 Summary of Variation in Growth***

The result shows that growth experienced varies among the beneficiaries of loans. Borrowing from Generalised Darwin based on its principle of selection, Hull (1988: 409–410), stated: that “the interplay of among replicators and interactors can occur

in such a way that the differential success of interactors causes differential survival on the part of the relevant replicators”. This is relevant to the variation/differential in the growth experienced, as SMEs experienced differences in growth based on the sources of loans. The comparison of growth based on narratives shows beneficiaries of loans from formal lenders experienced more growth in comparison to informal lenders. Diagram 6.1 show the key thematic connections between formal lending and informal lending and how growth occurred.



Diagram 6.1 – Variation in growth



The growth experienced by SMEs that obtained loans vary. Some experienced more growth dimensions, while others experienced less. As shown in diagram 6.1, the theme compliance with loan preconditions is the precursor to access. The outcome of access was captured by the superordinate theme impact of access (see 4.8 and 5.10 for details): growth and routine change. When access happens, SMEs will be at liberty to use the loan for several things associated with their businesses. From the narratives, the attributes of these loans play a role in determining the growth they experienced.

The underlining reason for this variation is the loan attribute of various lenders. Specifically, narratives show beneficiaries from single formal sources such as CB, IB, and MFI experienced more diminutive growth dimensions compared to those that benefitted from DFI and SEF loans. On the other hand, they experienced more growth than those SME that obtained a loan from cooperative societies who only experienced growth in working capital and stock purchases.

A comparison between those who had access to multiple sources and single sources shows that having access to more financing sources could lead to improved growth. Among those who had obtained access from multiple sources, some SMEs stood out based on the kind of growth they experienced. For example, SME 4, SME 5 seems to experience more growth dimension than SME 8. The reason for this may not be far from the fact that, in addition to formal and informal lenders, both had access to DFI and SEF loans, respectively. While SME 8 had access to formal loans such as CB and Friends and Families.

Therefore, the more the loan you get, the more growth you achieve. The findings of Degryse et al. (2016) corroborates these findings through their study on co-funding. They provide supporting evidence for the benefits of co-funding, which they attributed to the information and incentive advantages of informal finance versus the scalability and cost advantages of formal finance. Furthermore, they suggested that beneficiaries of loans from multiple sources demonstrated more growth dimensions than those who obtained a loan from only one source. Similarly, Jain (1999), Lee and Persson(2016) and Allen et al. (2005) affirmed formal and informal financial lenders complement each other for small firms. This finding adds more to the debate about the logic of governmental efforts in some developing countries such as India to “repress” informal credit

and “promote” formal bank lending to the private sector (Bell, 1990). It opens up the question of the benefit the informal sector can add to SMEs’ growth.

Accordingly, from participant’s experiences, it can be established that in exception of those who benefited from co-funding, there is higher growth in DFI and SEF-financed SMEs, followed by Islamic bank-financed SMEs, followed by commercial and microfinance and cooperatives. The disparity evident in their growth patterns can be explained by the attributes of the loans offered by each source an SME could obtain loan from, e.g., a source with generous attributes such as lower interest rates, longer loan tenure, higher loan amount, as shown in the case of DFI and SEF, facilitates more growth dimensions and indicates more substantial growth in SMEs. This is in contrast to the higher interest rates, lower loan sizes, and lower loan tenure, which characterised CB, MFI, and IB loans. These findings add to Emenalo (2014:182) “At the firm level, growth responds to access to credit and to the conditions that favour such access”. Therefore, what sets DFI and SEF apart is the fact that they offer better loan attributes, such as longer tenure, bigger loan size, lower interest rate.

Conclusively, in answering the question to what extent formal and informal financial lenders impact SMEs growth. One could argue that having access to more than one sources of loan and the variation recorded is determined by loan attribute specific to the source from where the loan was obtained. A more generous loan attribute such as lower interest rate, large loan size and longer loan tenure will lead to more growth dimension than less generous loan attributes such as higher loan interest, smaller loan size and shorter loan tenure.

### **6.3 Extent to which Formal and Informal Preconditions Impact Routine Change**

From the respondents' narratives, the sacrosanct nature of loan preconditions, coupled with the no waiver policy of both formal and informal financial lenders, it could be argued that there are no alternatives, other than putting in place what will be required for SMEs to qualify for a loan.

Therefore, SMEs would be constrained to finding ways to adapt. The decision to adapt will be influenced by what source they believe will lead to better access. The theory of reasoned action (Ajzen and Fishbein, 1980; Ajzen, 1996), also termed the Fishbein's Behavioural Intentions Model or the Theory of Planned Behaviour suggest that people consider the implications of their actions before they decide to engage or not engage in a given behaviour. Its fundamental assumption is that any specific set of behaviours reflect not only the influence of underlying individual factors (i.e., traits and personality) but also the influence of other external factors unique to the situation in question (Fu et al., 2004). When confronted with the need to decide on a course of action, people consider their beliefs and past experiences. Additionally, they consider the likely consequences of available alternatives, beliefs about the normative expectations of important individuals or groups, and the required resources and potential impediments characterising the world in which they function. These beliefs result, respectively, in attitudes toward the behaviour, subjective norms with respect to the behaviour, and perceived behavioural control, which in turn influence behavioural intentions and actual behaviour (Fu et al., 2004). The continuation of this process permeates the whole organisation and make their routines reflective of the change that has taken place.

Based on the narratives expressed in the study, the preconditions of loan from each lender are external impositions that dictate the organisational routines of these beneficiaries. All beneficiaries of formal financial lenders must have these routines in place due to compliance with loan preconditions. The argument on the external influence of organisational routine was also corroborated in the empirical studies by Szulanski and Jensen (2004) and Dollimore (2016).

The manifestation of the external impact is processed and felt internally when the organisation complies with the external trigger, such as loan preconditions. Compliance is a function of adaptation involving loan preconditions, which rest on managers or SME owners. Their ability to adapt faster or slower is a product of their capabilities, i.e. experience, and expertise. Therefore, the preconditions are extrinsically influenced. The knowledge of how to adapt is intrinsic and must have been learnt from past experience or acquired newly. Drawing from the findings of this study, both external and internal environment play a role in shaping the development of organisational routine. The external environmental trigger does elicit change and but the adaptation of the internal components such as people, tools, systems are determined intrinsically by the type of knowledge existing within the organisation.

The RBV of the firm challenged the idea of environmental determinism. In an organisational variant of the nurture-versus-nature debate, Data suggest that firms were not just products of their external circumstances. However, by the history and the path-dependent choices made by their managers, they were intrinsically heterogeneous (Penrose, 1959; Child, 1972; and Porter, 1991). Nevertheless, as indicated by findings here, the decision to change routines results from both internal and external influence, triggered by loan preconditions from lenders.

Drawing from evolutionary economic theory as argued by Nelson (1995:69), the routine of the firm can be explained using three models: first, those that might be called standard operating procedures, secondly, those that determine the investment behaviour of the firm, the equations that govern its growth or decline (measured in terms of its capital stock) as a function of its profits, and perhaps other variables. Third, the deliberative processes of the firm, involving the search for better ways of doing things. All three models are relevant to routine within the context of this study. Preconditions attached to obtaining a loan are analogous to the standard operating procedures guiding loan processes. The second part of the model analogous to financing being judged as very important to SMEs' growth and the researchers' findings support the investment behaviour of the firm's model that support growth or decline, depending on if access was achieved or not. Moreover, the third one, which is search for better ways of doing things which speaks to the expected initial or background work SMEs adopt in their quest toward seeking a loan. Before making a decision and choose what best suits their needs/interest, they would have evaluated the available options.

The basis of the decision to borrow and where to borrow would be determined by the need and ease of the loan application process. According to Hodgson (2009:12), an agent makes decisions through weighted combinations of 'rational deliberation' on current information and habitual dispositions. An example of a driver, driving a car was made by Hodgson (2009:13) where he relates the decision to drive on one side rather than on the other. Driving on the right side in the UK is conventional and institutionalised, likewise in Nigeria, where driving is on the left. The decision about buying a car would involve considering the environment where the car would be

used and any attempt to drive a car that uses the wrong side of the road may lead to arrest or traffic contravention and the satisfaction that comes from owning and driving one's car would not be achieved.

Hence, the concept of rational choice applies here. Theoretically, the rational choice theory is defined in terms of maximisation of utility (Becker, 1993; Coleman, 1990). Generally, the human problem-solving capacity that rational choice theory attributes to 'rationality', and Marxism to informed deliberation is explained in Darwinian terms by the knowledge of the world that is incorporated in rules or programs that guide behaviour (Hodgson, 2009). In current sociological theory, Ermakoff (2017:162–163) restated that rational choice theory is geared towards utility maximisation (Zafirovski, 2018:195).

The outcome of this study justifies the rational utility maximisers, 100% of SMEs who claimed they gained access to loans through formal lenders, as well as the various experts, confirmed the adoption of new routines and retaining them to enjoy future access to finance. The decision to adhere to loan preconditions is based on the motivation that adherence will lead to the reward of getting access to finance. This is likened to an investment decision, where monies are usually put into the business to explore future growth opportunities. Hence, the outcome here contradicts Hodgson, (1993) that decision may not always be determined by profit maximisation as the case seems to represent here. The goal of getting further loans that are investment inclined is still related to profit, as profit is the ultimate goal of every business investment.

In this regard, the formal financial lenders greatly influence SMEs interested in obtaining unhindered access to finance. Symbolically, finance is the bait to make SME act towards the

regulator's goal. Campbell (1974:180) states that every single process that can be found on the lower levels of the hierarchy are curtailed and shaped in a manner harmonious with the laws of higher levels. In this context, the higher levels of authority are the formal financial lenders. The SMEs' new behaviour is a product of what has been fostered down by the institutional structure external to the SMEs. This corroborates, Fu et al. (2004) assertion about adopting assertive strategy; which consists of persistence (repeated pleading with the target to carry out a request), pressure (using demands, threats, or persistent reminders to push the target), and upward appeal (seeking help from someone with higher authority). A formal lender may indirectly persuasively coerce or influence prospective SMEs desirous of gaining access to a loan. This is the sort of coercion to influence suggested by Fu et al. (2004) as a persuasive strategy. This includes rational persuasion (using logical arguments and factual evidence to persuade the target), inspirational appeal (making an emotional appeal to the target's values or ideals), and consultation (seeking the target's input or participation in a task). When influencing the target, the manager using this strategy focuses on the merits of the request, provides logical arguments, or connects the request to the larger good (Fu et al., 2004). The larger good mentioned here is analogous to the benefits access loan brings as a consequence of adherence to formal rules. This is one of the major findings of this study because institutions simultaneously "depend upon the activities of individuals and constrain and mould them. Through this positive feedback, they have strong self-reinforcing and self-perpetuating characteristics" (Hodgson, 2007). Institutions are "perpetuated not merely through the coordination rules that they offer, but because they confine and mould individual aspirations and create a foundation for their existence" (pg. 108).



Sperry (1992) notion of downward causation was criticised and modified by Hodgson (2007) as reconstitutive downward causation; he further expanded on this concept by likening institutions to “social structures acting to some degree upon individual habits of thought and action” (Hodgson 2006:23). This resonates with the statement made by SME 4. He knew that getting a loan will require putting certain things in place. When the aspiration of starting a business became evident, he easily restricted his actions so that they are focused on getting necessary preconditions satisfied. Doing this makes his goal of getting a loan from formal financial lenders achievable.

The existence of preconditions may be similar to a sort of bureaucracy; Weber (1952), contended that it was so efficient and a powerful means of controlling men and women that, once established. This study shows that as long as the SME is interested in a future loan, they would likely retain these new routines they have developed and abide by whatever the lender dictates. For instance, this was supported by MFI expert’s accounts: we have seen that the promise of a future loan makes a customer maintain consistent payment.

Hence, prevailing higher-order level authority, in this case, is the formal lenders’ rule. It manifested its influence on SMEs by regulating their activities via preconditions expected when seeking a loan. This, in turn, shaped their practices and activities. Scott (1995) suggested in their work on how institutions shape behaviour by categorising the three main types of institutions: regulatory, normative, and cognitive. The regulatory pillar of an institutional system gives incentive and sanction to organisations and individuals from a government or other authoritative body that regulates individual and organisational action (Scott, 2007). Likewise, the normative and cognitive institutional pillars are socially constructed over time

and come to be “perceived as objective and external to the actors: not as man-made but a natural and factual order” (Scott ,1995:xvii).

Similarly, Powell and DiMaggio (1991:77) came up with their version of the three types of actions that affects behaviour which they describe using the term “institutional isomorphism”: coercive (external actors compel conformity mainly through law or regulation); mimetic (uncertainty motivates organisations to adopt the practices of their most successful competitors), and normative (strong professional interests drive the adoption of specific values and beliefs by all organisations in the field. Institutional isomorphism in simple terms is what makes organisations so similar (DiMaggio and Powell, 1983:147). The role culture played was emphasised as the means by which both normative and cognitive structures are transmitted (DiMaggio and Powell, 1991; Jepperson, 1991).

Within the context of this study, it is apparent SMEs experience some form of coercive change, which is extrinsically motivated (Schunk, 2012:389). Similarly, the capabilities and resources that make that adaption possible are intrinsically enabled. The decision made and coupled with the choice of lender may have implications on the nature of routine change experienced.

Therefore, the adoption of new routines or the adoption of good practices would be influenced by what constitute preconditions from the financing source and the genuineness of what was presented for loan application assessment. This means that if a business is expected to be registered, the SME will become registered because it is a requirement from the lender. Similarly, if payment of tax is expected to be in place, the prospective SME will start paying tax to get access to a loan because it is a compulsory requirement from the lender, and it cannot be

counterfeited. The extent to which routine change in relation to lenders is captured below.

### ***6.3.1 Routines Linked to Formal Lenders – CB, MFIs and IB***

According to the data, beneficiaries of the commercial bank, microfinance and Islamic bank appeared not to have engaged in the practice of tax payment. However, from their accounts, they took the first step by registering with the government through the corporate affairs commission and obtained tax identification numbers from the Federal Inland Revenue Service (FIRS). However, they did not start tax payment because the lenders they patronise never asked them to present evidence of tax payment as part of loan preconditions. They also, amongst other things, imbibed the routine of recording keeping, stock taking, the opening of bank accounts. Therefore, they only develop routines that mirror those preconditions they satisfied before the loan was given. These routines are possession of Tax Identification Number (TIN), recording keeping, stock taking, the opening of bank accounts, and company registration.

### ***6.3.2 Routines Linked to Formal Lenders – DFIs and SEF***

As reflected in 4.8.1 and 5.10.1, DFI and SEF require record-keeping, auditing, the opening of bank accounts, possession of evidence of tax payments, payment of tax, evidence of a business plan, amongst others, as part of their loan preconditions. As a result, these are the routines beneficiaries of these lenders would have developed.

### **6.3.3 Informal Loan Preconditions and Non-Routine change**

As shown in the narratives, there are various ways in which routines are developed or changed. For instance, if the lender from where the loan was obtained had, as part of the preconditions, required beneficiaries to be registered with the corporate affairs commission, this means the SME will become registered. If tax payment is expected to be in place, the prospective SME must start paying tax to get access to the loan. For example, in the current study, unlike SMEs, who obtained loans from formal financial lenders, only the SME that obtained a loan from a cooperative society (SME 10) was an unregistered business. Another example is record keeping; all participants except this participant, SME 10, kept proper records.

Therefore, for informal financial lenders, no specific routines or practices such as the opening of bank accounts, business registration, possession of tax identification number, evidence of tax payment are required except meeting attendance and regular contribution. SMEs that accessed loan from informal financial lenders did not make reference to having adopted any routine similar to what formal financial lenders have promoted and made mandatory. However, the only SME among participants who had obtained informal loan was also in receipt of a DFI loan, experienced routine change. He was not paying tax and had no reason to keep records when he used to access loan from money lenders and friends and family. This is because informal financial sources never cared about such practices. Instead, they are more concerned about personal approaches/relational mechanisms; this was confirmed by SME 10 who does not have her business registered, nor was she in possession of a tax identification number; she had no evidence of tax payment and no proper records. From the above, it is

evident that informal lending preconditions cannot enable routine change in SME.

The only exception to this is when the business owner has a future plan to obtain a loan from a formal lender. Hence, he may want to use the loan from informal sources to put necessary things in place. This is an interesting finding that concurs with the literature on entrepreneurship and Holland et al. (2006)'s work on intentions, which is that not all enterprises would grow beyond the owner's particular income level and this 'disposition'. This was recognised as a limiting factor for some business owners. This is the case of SME 5, who observed that there was no requirement under informal loan preconditions that require anything relating to routines to be put in place. There was no requirement to adhere to any specific good practices and the intention to change the existing routine is missing. As mentioned in section 4.7.1, what is expected is trust built through relationship. Equally, the relationship is built through meeting attendance and regular contributions. There is no expectation of record-keeping, business registration, auditing before a loan can be accessed. Therefore, informal lending may not directly lead to a change in routines or the development of new routines.

#### ***6.3.4 Superficial or Partial Compliance and Partial Routine Change***

Lack of sincerity on the part of SME may lead them to loosely or partially copy or comply with formal rules. The likelihood of this is higher when there are inadequate monitoring and enforcement. In formal lending, i.e., CB, MFI, IB, DFI and SEF, some routines such as the opening of a bank account, business registration and possession of tax identification number appear unavoidable. They are the first steps toward compliance. The

likelihood of doctoring these documents is less compared to other routines which are continuously expected to be replicated over time. For instance, tax payment, auditing, record keeping are not one-off routines but are continuously expected to be adhered to for future loan access. These documents could be doctored if proper monitoring and validation are not carried out, for example, cross-checking with the relevant agencies.

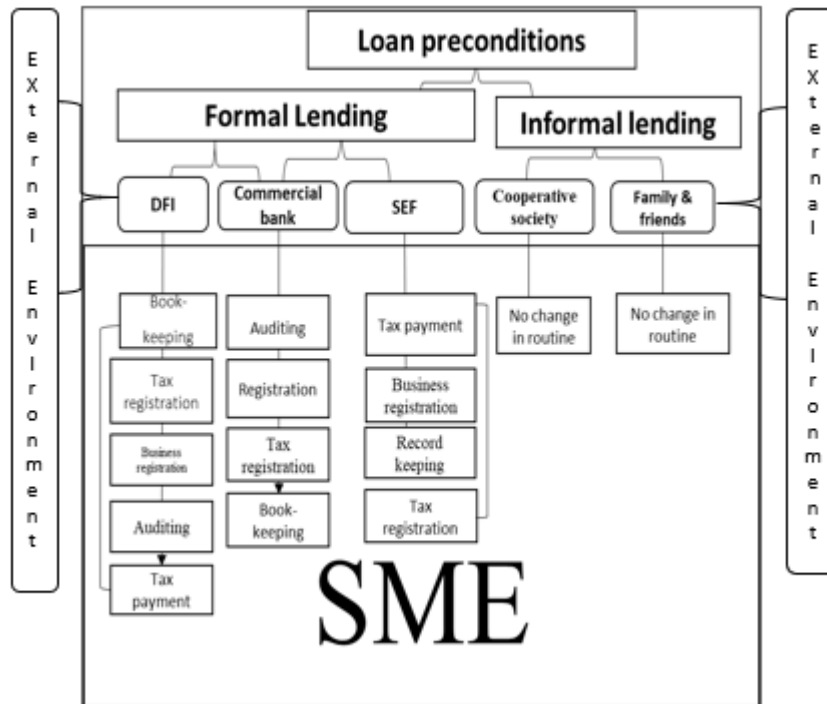
When loose/partial routine change is experienced, the sort of routines affected are those that require one-off compliance, which mirrors best practices. An example of such a routine is business registration and possession of Tax Identification Number (TIN) SME representative corroborated this by stating that SMEs may not experience a routine change in many areas, because they might present deceptive documentation, to superficially evidence routine compliance. This affirms Scott (2008) suggestion on regulatory manipulation and decoupling. For example, financial records can be doctored to deceive bank officials. Therefore, the findings of this study suggest a similar trend. The deceptions usually come in the form of presenting a very good statement that shows a fantastic financial health. In contrast, accurate financial records that show the true state of the business will be hidden or non-existent. They may also pretend to engage in auditing, but this may be done to get the loan.

However, superficial or partial compliance/adherence is not general to all SMEs; there are genuine cases of compliance. Based on the narratives of participants, what constitute new routines adopted is based on what lenders required. As a result, this contributes to the variation and diversity of organisation routine change.

### **6.3.5 Variation in Routine Change**

The variations in routine change experience are associated with the various loan preconditions of different lenders. For those who source loans from formal financial lenders, the sort of routine change they experience varies. Change in routine only applies to those who genuinely comply with loan preconditions. The result is new routines exactly mirrors the loan precondition of the source of their loans. Diagram 6.2 below show the key thematic connections between formal lending and informal lending and the nature of routine change that occurred.

**Diagram 6.2 – Depiction of Variation in Routine**



The external influence on SMEs, as claimed by literature, is depicted in the diagram above. The lenders and their various loan preconditions are analogous to external environmental influence that shapes SMEs' routine development. The nature of the external influence has been captured by the sacrosanct nature of loan preconditions. This indicates that compliance with loan preconditions cannot be avoided. These conditions are associated with all the lenders. However, all the lenders have various loan preconditions, and some are similar to others. For instance, DFI and SEF have similar loan conditions: this may be because they are both owned by the government. Informal lenders have similar loan preconditions: meeting attendance, reputation.

The variation in routines noticed from the participants' narratives indicates the routine experienced by beneficiary SMEs are determined by the loan preconditions associated with each lender. For instance, the SMEs that obtain loan from DFI developed the routines listed above, i.e. bookkeeping, tax



registration, business registration, auditing and tax payment. In comparison, SMEs that obtain loans from informal sources developed no routines. This is because their loan preconditions are more reputation and social relationship-based and do not entail any practical routine that mirrors good practice.

### ***6.3.6 Implication of Routine Change on SME Growth***

Routine change may lead to good outcomes for SMEs who have adopted some good practices, as shown by accounts from the participants that genuine adoption of new routines impacts favourably on SMEs. This may explain how organisations reject old rules, learn new routines, and develop new capabilities (Baum and Oliver, 1996). According to this study, the need for survival and finance plays an important role to make this possible. This finding mirrors Hawley's (1968) theory on the process of homogenisation or isomorphism. According to Hawley's (1968) description, isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. The new behaviour adopted is analogous to what is obtainable in big organisations. This will be expanded further in the next section.

### ***6.3.7 Development of Good Business Practices as a Result of Routine Change***

Some practices that were developed suggest good business practices were adopted as a result of satisfying loan preconditions. This is not a concept directly mentioned by participants but was constructed through inductive reasoning, emanating from data. For example, record keeping was mentioned by participants as means through which they are abreast of the current state of their businesses. For example, knowing the periodic stock levels helps prevents pilfering from

staff. The practice of keeping accurate records of the business inventory makes it easier to record products and also enable the business owner to be aware of what is sold periodically (Chelimo and Sopia, 2014:434). As succinctly mentioned by one of the respondents, it is crucial to keep business records because without them, you would not know if you break even, or even how each different product is performing. Effective and efficient record-keeping practices secure your business against internal theft and dishonest employees. Additionally, tracking the transfer of money is important as it helps businesses keep track of their finances. Keeping accurate records is highly fundamental for a successful business to stay organised and profitable. Auditing is another factor mentioned which also helps to keep unaccountability of employees in check, and payment of tax which make SMEs more responsible and alive to their civic duties.

According to SME 4, recording keeping help SMEs helps to be aware of the true worth of a business and informs computation of tax payment. For instance, when SMEs have no records, the calculation for payment of taxes will not be based on the profit made by the business but will be arbitrarily apportioned by tax officials. This is an unfair method adopted by the tax authorities in establishing tax figures. This encourages the extortion and exploitation of such SMEs by tax officials. This may be the case with many SMEs in Nigeria, and that might be why Ojeka (2011:9) found that “taxes are more harmful than beneficial to the growth of SMEs as they increase running costs and slow down growth”. He asserts further that there is a significant negative relationship between taxes and an enterprise’s ability to sustain itself (Ojeka, 2011). However, this notion was not supported by the current study as participant claimed the adoption of record-keeping and good accounting practice was made possible through the employment of skilled personnel.

This led to the creation of an entire account department, and subsequent payment of taxes were reduced because they were calculated based on the profit realised. Unlike before, taxes are apportioned by tax officials because there was no record.

Since SMEs are examples of social interactors (Hodgson and Knudsen, 2006) and individual habits and organisational routines, qualify as replicators (Aldrich et al., 2008). The copying of routines by staff in an SME would be influenced by SME owners or managers through diffusion. Because SMEs are the interactor that “interacts as a cohesive whole with their environment in such a way that this interaction leads to the adoption of the new routines across the whole organisation” (Hodgson and Knudsen, 2006:33). In other words, the new routine may reside in the memory of the SME owner or managers or even the employees, and it can easily be translated to physical behaviour at some point within the organisation .

For replication to take place, it might take the form of training. When training is not possible as a result of high cost, or no one within the organisation has the capacity to learn the required practise, a new employee who has the expected skill, can be employed. For instance, as claimed by SME 4 - the creation of an accounting department led to the acquisition of accounting skill as part of the organisation routines. Which helped expose prior tax payments was wrongly and unfairly calculated. Armed with this, the participant was able to challenge the tax authority’s arbitrary computation and won. This led to a reduced tax rate based on actual figures from the new business record they keep. This was made possible by the acquisition of the right skills. Consequently, when the tax payment is reduced as a result of the improved routine, cost reduction and more savings may lead to improved profit.

### **6.3.8 Efficiency as an Outcome of Routine Change**

Another interesting finding is the reduction in wastage. This reduction was achieved through the ability to employ efficient and effective workers who are skilled and possess relevant expertise that improves productivity. Respondents claimed the increase in efficiency was brought about by cost-cutting measures; others used different connotations to represent efficiency. The achievement of efficiency was described as employing skilled personnel, acquiring production equipment, and attendance to training, all of which reduced the incidence of wastage, improved expertise in production and reduction in defective products. Beneficiaries are now able to meet demand and improve the quality of their products. As noted by one respondent, "when customers are satisfied with your product, they will want to buy more, and that will increase your sales" (SME 5). This assertion is in line with Gupta et al. (2013:2) that qualified SMEs' growth using qualitative features like the quality of the product and the goodwill of the customers. One hundred per cent (100%) of DFI and SEF's beneficiaries claimed they experienced more sales because of better product quality and reduction in defective products. There are narratives about customers giving good reviews/rating on SMEs' products and also widespread word of mouth regarding the quality of products. This made it possible for them to reach more markets and develop new ones. Thus, it can be concluded that routine change enables growth through improved production, reduction in wastage and acquisition of skilled labour. This support Solow's(1957) finding that "technical change was responsible for 80 (or 85 or 75) per cent of experienced productivity growth (Nelson and Winter, 1982:197). Nelson and Winter (1982) likened efficiency to "total factor productivity" and explained that they could be seen as variables, not constants, within the system, which is a function of past investments.

To summarise, the impact reported by participants could be attributed to their access to loans and access to loans can be linked to the satisfaction of loan preconditions, and by satisfying loan preconditions, new routines and practices would be put in place which improves efficiency and productivity. Thereby, it can be said that getting access to a loan as a result of the meeting of loan preconditions may lead beneficiaries to imbibe new ways of doing things and improving their growth potentials through an improved level of efficiency.

### ***6.3.9 Development of Formalisation***

This development of new routines such as business registration, tax identification registration and payment, facilitates a shift from the shadow economy to the formal economy for SMEs. Business registration would make their status official and make them known to the official channels. Coincidentally, “in recent times, the focus of reforms in the developing countries has evolved from getting prices right to getting institutions right” (Rodrik, 2008: 100), grounded on the expectation that developmental policies would help SMEs “formalise” their processes” (Gindis, 2013:210). The policy of having preconditions in place has led to accelerating formality. Compliance with regulations leads to a reduction in the size of the shadow economy (Vasak, 2008). SMEs whose activities have been formalised would be compliant with tax payment, business incorporation or registration, tax identification number acquisition, and record keeping.

Therefore, complying with formal rule enables formality. Such practices increase the visibility of SMEs, meaning they will not remain in the informal sector anymore but instead within the formal economy. This will be the point in which the full benefits of formality will be accessible to them and the government. The

full benefit of formality for the government is an increase in GDP as a result of additional tax revenue coming in. While for SMEs, it may lead to access to more funds as a result of more loans from formal lenders and make them qualify for government subsidies (Distinguin et al., 2016). This corresponds with Harvie, and Lee (2005), affirming the relationship between government intervention, i.e. subsidies and the growth of SMEs. Formality is one of the key requirements for SMEs to attract government support, and that support could enable growth.

In summary, drawing from results, formal loan preconditions enable routine change, and when routines are genuinely changed, formality is achieved.

#### **6.4 Interplay between Formal and Informal Lenders and their Impact**

This section evaluates the nature and the implication of the interplay that exists between formal and informal lenders. Before exploring the implications, an introduction of the nature of formal and informal lending and some interplay in their operations is done below.

As captured during the study, the Islamic, microfinance, commercial banks and registered cooperative represent the formal financial lenders. The formal loan preconditions are instituted, interpreted, enforced and administered by the government regulators, i.e. Central Bank of Nigeria, the court of law, police force, financial institutions (such as commercial banks, microfinance banks, development banks), respectively. The unregistered cooperative society represents the informal institution because their activities are governed by a group of private individuals, and they have not registered with the government. However, if they were registered, it is important to

note that there will be an element of government intervention in their activities because they are mandated to accommodate a government official from the Ministry of Commerce to be present in their meetings. This government official is expected to keep details of every meeting.

Irrespective of whether a cooperative is registered or not, their activities, especially lending decisions, are primarily based on relational or personal mechanisms. While formal financial lenders' decisions are based on both impersonal and impersonal approaches, this goes to reinforce Ostrom (1990), view that no market could exist for long without some form of governmental support. Therefore, in reality, formal and informal sectors are intermeshed and depend on each other rather than existing in isolation (p.15).

The effect of the interplay that exists between formal and informal lenders may lead to various outcomes. These are as follows; improved access, enforcement, savings and disbursement, helps banks to meet their lending target, ease the challenges of trust and quality relationships.

#### ***6.4.1 Improved Access***

In diving into the discussion about the nature of the interplay between formal and informal preconditions and their impacts, references will be drawn from the superordinate theme: 'the interplay between formal and informal financial lenders on the growth of SMEs', which was explained in sections 4.11 and 5.10 and other relevant aspects of the findings. All financial exchanges are conducted formally, relying on hard information such as financial statements, business registration, tax identification number possession, amongst others. All exchanges under informal lending practices are finalised based

on social affiliation, reputation, and trust. Informal financial lenders rely on soft information as it is easy to obtain as a result of prior relationships. Specifically, literature has identified soft information as synonymous with “relationship lending” and hard information with “transaction-based lending” (Berger and Udell, 2002; Stein, 2002; Berger et al., 2005).

In contrast to hard information, soft information is not easily codified and quantified. The knowledge of what we know about ourselves determines the level of trust we share. Polanyi takes an example from face - recognition: if we know a person’s face, then we can recognise it among thousands, even if we usually cannot explain how the recognition happens. The example of face recognition is analogous to tacit knowledge. Tacit knowledge can be described as the knowledge that people ; therefore, it is difficult to access and share. Consequently, most tacit knowledge cannot be articulated appropriately (Polanyi, 1966). It consists of information gathered over time through contact with the individual, firm, the firm’s management/ entrepreneur, the firm’s suppliers and customers, and other local sources. Accordingly, societies where the relational approach is prevalent are such that possess a culture of collectivism, which allows for interactions and the spirit of ‘WE’ (see section 2.5 for more on culture). They attend social functions together and play together. Through this interaction, relevant information will be shared. This makes people who deal with each other to be knowledgeable about themselves. Therefore, groups within those societies acquire knowledge about each other in like manner (Puusa and Eerikäinen, 2008), and this qualifies as a way of life, which in other words represent their culture.

Culture implies some level of shared meaning in the way in which behaviour is appraised. However, an individual’s behaviour at any given moment ‘may or may not be congruent



with 'shared' cultural meanings, and personal desires may be incompatible with cultural norms' (Rohner, 1984: 124). The beliefs held by individuals regardless of their "cultural backgrounds might, therefore, be among other factors that affect behaviour more directly than cultural values" (Fu et al., 2004:285). A formal lender would subject a prospective lender to certain loan preconditions which are based on impersonal exchanges. In contrast, every prospective SME seeking a loan from an informal lender would be subjected to personal exchanges which are based on knowledge built over time, reflecting on the nature of relationships that have existed. This sort of personal exchanges is linked to informal lenders in general, while transactions based on impersonal exchanges are known to be the characteristics of formal financial lenders.

Nevertheless, from the evidence gathered, some SMEs do have less belief in the formal financial lenders than the informal ones. Furthermore, the strategy that seems to be changing that pattern of distrust is the activities of cooperative societies who have been acting as intermediaries and working towards securing more credit for their members who were hitherto not able to access loans from formal financial lenders (Sønderskov and Dinesen, 2014).

As a result, SMEs who are members now have confidence in formal financial lenders, and as a result, they enjoy better access to loan than before. In the same breath, there is an element of accommodation, as suggested by Helme and Levisky (2004), when formal financial lenders rely on informal rules. This is necessary due to the nature of the environment in which formal financial lenders operate, where the culture of "WE" is prevalent. Formal financial lenders have to incorporate informal approaches synonymous with relational exchanges. This may involve allowing loan officers to maintain a cordial relationship

with customers and gather soft information for the formal lenders' lending decision making. This soft information is used in combination with the hard information in their possession. Another approach is that some formal lenders deal directly with cooperative societies to gain access to their members.

When SMEs achieve a similar outcome as those patronising formal lenders even when they are members of cooperative societies, then it can be said that convergence has occurred. The outcome referred to here is access to a loan. A convergence outcome typifies when similar outcomes like those subjected to formal rules are experienced by those subjected to informal rules (Helmke and Levitsky, 2004). For example, in the case of social capital where membership of the cooperative society makes it easy to access formal loans via negotiation conducted by informal financial lenders, i.e. cooperative society. Therefore, when informal financial lenders are organised and playing the role of an intermediary, they can use the strength in their numbers to negotiate with banks, and they can act as guarantors for trusted and tested SMEs.

From the findings, making a clear distinction between formal and informal institutions is not as straightforward as one might expect. However, what stands out is that there are overlaps and close interaction between the two. Thus, in summary, the impact of the interplay between formal and informal financial lenders speaks to the research question three by affirming that informal financial lenders influence formal financial lenders by making its operation more effective to meet its duty of providing more access to customers.

### **6.4.2 Enforcement**

Formal lenders may borrow or adopt some relational approaches of informal lenders, and informal lenders at times rely on formal lender's enforcement mechanisms when dealing with defaulting members. This usually happens when all social sanctions and relational approaches have failed. The reason why informal financial lenders may rely on the same process formal lenders adopt in the case of default is that the state may not permit private parties to use force (Polinsky and Shavell, 2007:406). Thus, cooperative societies are subjected to relying on the state for such enforcement. When proceeding to enforce this, the assistance of the police is always sought. By using the police, it means an agent of the state is used as part of the enforcement process. It helps in the event of default, as erring members can be subjected to the state law which will constitute an additional debt recovery layer. Therefore, there is an overlap here as informal institutions rely on formal enforcement agencies to enforce repayments, particularly when defaults occur among members. As a result, this finding agrees with (Grzymala-Busse, 2010:312) that while "informal institutions can be very effective at structuring expectations and behaviour", their impact in most situations is not independent of formal institutions. This is another evidence of the interplay associated with the influence of formal lenders on the informal ones.

### **6.4.3 Savings and Disbursement**

Informal financial lenders may rely on formal lenders to keep custody of their society's money. In other words, a bank account will be opened with the formal financial lenders, and the money will be deposited for safekeeping. This is usually common with big cooperative societies. Again, at a later stage of the lending relationship, when loans are to be disbursed to beneficiaries,

informal lenders, i.e. cooperative may rely on formal lenders, i.e. commercial or microfinance banks to pay such monies into the beneficiary's bank account. There is an exception to this: a small cooperative may distribute loans directly to SMEs by handing cash to their hands. Going by this finding, this service provided by formal financial lenders has nothing to do with the lending decisions of the informal financial lenders.

In summary, formal lenders rely on informal mechanisms at the early stages of the lending process, and the purpose is to attract creditworthy cooperative members. While informal lender at a later stage for savings and disbursement.

#### ***6.4.4 Helps Bank to Meet the Lending Target***

In response to the Federal Government's concerns and policy measures for the promotion of Small and Medium Enterprises (SMEs) as vehicles for rapid industrialisation, sustainable economic development, poverty alleviation and employment generation, a scheme called Small and Medium Enterprises Equity Investment scheme was voluntarily set up to assist the government in meeting SMEs needs. Under the scheme, ten per cent (10%) of the funds were set aside for lending to microfinance enterprises (Cbn.gov.ng 2020).

The incorporation of cooperatives societies may have helped to open up more access to more SMEs. At the same time, the cooperation between the formal financial lenders and the cooperative societies have led to the advancing of loans to recommended cooperative SMEs. This speaks to the complementary role played by informal financial lenders, particularly cooperative societies. Hence, this kind of relationship corresponds with Helmke and Levitsky (2004:726), Lee and Persson (2016) and Allen et al. (2005) argument that

complementary informal institutions may serve as a foundation for formal institutions by creating a strengthening motivation for SMEs to comply with formal rules.

The interplay between formal and informal lenders here is that customers that come through the cooperative must have been subjected to the relational mechanisms typical of the informal financial lenders. This interplay manifests as a form of relationship that eases exchanges of ideas that lead to positive outcomes for SMEs.

Drawing from the social capital theory, membership of a group such as a cooperative society will improve the welfare of members; this is what social capital represents. Social capital has been defined as generalised trust, and it offers access to various types of networks, and norms of reciprocity (Rothstein and Stolle, 2008). This has led many SMEs to gain access, and their confidence to always seek access from formal lenders has grown. This study adds to the social capital argument of Rothstein and Stolle, 2008:457) regarding how it leads businesses into transitioning from seeking loans from informal lenders to seeking them from formal financial lenders.

As depicted in the narrative of the cooperative society funded SME, before a loan request is granted to any member, they (the member) must be known to the cooperative society. Before they are known to the cooperative, two members must have introduced them. Equally, when a new member is seeking a loan, two cooperative members must stand as guarantors for them. This sort of process makes it easy for soft information to be transferred. This transfer also takes place between formal and informal financial lenders, and it is one-way: i.e. from informal lender to the formal ones. Many formal financial lenders also require the membership of cooperatives as part of the loan

preconditions for SMEs. SMEs that belong to a group, such as cooperative societies, find it easier to scale through the hurdle of meeting loan preconditions.

As depicted by participants, informal lenders rarely rely on formal financial lenders to evaluate or seek recommendation about the suitability of members (SMEs) before reaching a lending decision. Instead, they base their decisions on the relationship that has been built over time, reflecting on conduct during meetings, consistency in payments, and duration of the membership. However, formal financial lenders rely on informal lenders, for instance, according to the narrative from some participants. It was observed that SEF requested from a cooperative society representing SMEs in manufacturing to provide names of their best members, who are SMEs. This is because they know the cooperative society possess soft information on their members, which in other words, means cooperative societies have information about their members as a result of the relationship they share. Through the information formal lenders get from informal lenders, they could provide loans to more SMEs.

Conclusively, formal lenders rely on informal lenders and their approaches when they accept their recommendation on the tested and trusted members. This motivated the SMEs, and with the cooperative society's support, they all work together towards meeting loan preconditions. This opens up the opportunity for more SMEs to gain access to formal loans. In the process, helping formal lenders meet the target set by the government.

#### ***6.4.5 Ease the Challenges of Trust***

The expectation that the borrower will not default based on previous knowledge informed by the existing relationship will

make the lender lend again. This place the identity of the lender in the centre of this approach. The prospect of a future loan with a borrower who defaulted in the past is not feasible; notwithstanding the inherent profit that could emanate from the exchange because the identity of that particular borrower is established (Greif, 1998). For this reason, the relationship between a lender and borrower will determine the nature of trust that exists among them.

For example, the cooperative expert in his narrative insisted that SMEs can access loan only if they satisfy the laid down preconditions. There was no aspect of the narrative that suggests that there was any feeling of insecurity and feeling of distrust among SMEs towards informal financial lenders. SMEs believe they will gain access as long as they meet the preconditions of loans of informal financial lenders. Whereas, for formal lenders, the feeling is otherwise, as excerpt confirms the likelihood of denial even in the face of meeting preconditions. This has been attributed to bias and insecurity. Unlike cooperative societies and other informal lenders whom SMEs find easy to believe and trust for their loan needs. The reason for this might be because of the procedural fairness of the informal institution, which influences members' institutional trust. More specifically, actors (i.e. SMEs and informal lenders) experience feelings of safety and protection and how they make inferences from the group based on the relationship they share (Rothstein and Teorell, 2008).

The cooperative society is managed based on rules and guidelines that are rooted in personal relationships between members. Exchanges are conducted based on social affiliation, reputation and trust. For example, before a loan request is granted to any member, they must be known to the cooperative; before they are known to the cooperative, two members must

have introduced them. When a new member is seeking a loan, two members of the cooperative must stand as guarantors for him. Inability to be recommended by two existing members of the cooperative society may hamper the member's chances of landing credit from the cooperative. Furthermore, periodic meetings provide members with an opportunity to communicate and network, demonstrating their relational and face-to-face nature. This type of relationship-based financing enables lenders to build trust and fund a narrow circle of close businesses without incurring too much cost (Giannetti and Yu, 2008).

Through the experiences of the cooperative expert, we see how new entrants become members of a cooperative society and how they qualify for loans. A cooperative society itself is similar to a network of close individuals who share something in common on a democratically agreed basis (Barry and Tacneng, 2014). The role of networks was of great importance in understanding the initial recruitment processes experienced by SMEs (Nappo and Huddleston, 1993). There is much emphasis on a relationship through which the character and integrity of members are known. In informal lending, this sort of relational approach is valuable.

Formal access to resources such as finance is less difficult for SMEs with established relations because past performance 'itself' often provides <sup>17</sup>legitimacy and access to resources (Bruton et al., 2010). There will be more trust and satisfaction amongst members of cooperative society if they (Cooperative society) can leverage their goodwill with members to gain more

---

<sup>17</sup> Legitimacy confers the right to exist on an individual organisation and its activities (Stillman, 1974). It is important that entrepreneurial firms legitimize their activities if they are to secure resources and support from stakeholders and society (Bruton, Ahlstrom and Li, 2010).



loan access from formal lenders for their members' sake. This will further shape a new disposition that can overcome the insecurity that once existed among SMEs. The confidence gained as a result of access made possible by the intermediary role of the cooperative society may lead SMEs to a belief that they are now good enough to be granted access by the formal financial lenders. Newton and Norris (1999) elaborate this causal flow when they found a strong positive correlation at the aggregate level in analysing the World Value Surveys in seventeen trilateral democracies. They interpret their findings as evidence that social capital "can help build effective social and political institutions, which can help governments perform effectively, and this, in turn, encourages confidence in civic institutions. If this is the case, social capital can help build up the confidence of SME in formal lenders. Furthermore, the findings suggest that SMEs can overcome pre-existing bias and distrust.

The findings have contributed to understanding the roots of social trust, underpinned by the cultural dimension typical of a developing economy like Nigeria. Contrary to the cultural account, which argues that social trust is a deep-founded dispositional trait; the result of Rothstein and Stolle (2003) suggest that social trust is likely to change over time, and that experiences that shape trust in state institutions play an important part in most institutional context (Serritzlew et al., 2014). This is good news in the sense that it testifies to levels of social trust not being set in stone, but rather something that can be built up by means of combatting corruption and other institutional malfunctions that lead citizens to distrust institutions and, subsequently, other people (Sønderskov and Dinesen, 2014). From this study's findings, it is surprising that there is no element of corruption that could be linked to the lending process of both formal and informal financial lenders. The question that should be asked is: has corruption been finally combatted? May

be lending practises have become so standardised that no lending precondition can be treated with levity. The overcoming of bias and change in the disposition of SMEs towards formal lending shows the accommodating role informal lenders play, and this echo the model of Helmke and Levistky (2004).

In summary, the first super-ordinate theme (Sacrosanct nature of loan precondition) points to the importance of the various loan preconditions every SME must meet to qualify for a loan. The superordinate theme (which is the sacrosanct nature of loan precondition) led to the superordinate theme (satisfaction of loan preconditions). Similarly, the first subordinate theme led to the second subordinate theme (granting access to finance). It captures the narratives surrounding the uncompromising nature of each lender and what the lenders expect of them before access is granted. The understanding that gaining access after loan preconditions are satisfied, coupled with the support SME gets from their cooperative societies, the feeling of confidence that eases the bias and distrust justify the critical role of the interplay. This conforms with Grzymala-Busse (2010:331) who claimed that the effectiveness of formal lenders is an outcome, not a precondition, of formal-informal lender's interactions.

#### ***6.4.6 Quality Relationships***

Narratives from participants regarding formal financial lenders reflect account opening, operating a bank account for at least six months and membership of a cooperative or cluster, amongst others, as part of their preconditions. The underlying idea behind requiring SMEs to open a bank account and maintain it for six months before they can qualify for formal lending is to create a relationship that allows the banks to get to know them. The usual way is for the banks to advise them to ensure regular deposit of daily sales into their accounts; after that, the size of the deposit

and the turnover on their accounts will be used as the basis for calculating the amount of loan they (SME) qualify for. This is the way a formal lender obtains hard information, and the cooperative or cluster membership part is to get soft information. The soft information part is mostly done via a loan or relationship officer: who is a key figure in the formal lenders' interface with borrowers and their groups. This is more like copying the personal exchange mechanism used by informal lenders.

A cooperative society will expect a prospective member to be introduced by an existing member, who will give a recommendation about their character. Also, they must spend at least six months before qualifying for a loan. This period creates an opportunity for other members to get to know the new member. Through this means, a relationship is created. From the narratives recorded during the pilot and the main study, it can be established that various accounts show commonalities between formal and informal financial lenders. There are adoptions of some practices that were traditionally seen as personal or relationship-based which have found their way into the loan requirements of the formal lender. Formal financial lenders at times liaise with informal financial lenders such as cooperatives to get names of trusted members. When this happens, a formal lender may not have to subject the SME to another round of relationship creation phase, which may involve opening and maintaining an account for more than six months and making a deposit into that account. In some cases, they may go-ahead to issue a loan if all other conditions are satisfied. Other conditions here refer, the registration of the business, evidence of payment of tax, evidence of tax identification number, possession of bank account.

As mentioned in the previous paragraph, cooperatives can be approached by a formal lender requesting their best five to

twenty members who are both trustworthy and creditworthy. This type of relationship between formal and informal financial lenders helps SMEs that do not have faith in formal financial lenders to overcome the feeling of insecurity they may previously have and result in helping them get onto the lending ladder of formal financial lenders.

Amongst others, they use soft information from the informal financial lenders to evaluate the suitability of a loan request from SMEs who are their members. This will help to reduce the incidence of information asymmetry. Information asymmetry problems may be severe in situations whereby new SMEs are not known to formal lenders, and collateral may simply not be available. Cooperatives societies that have existing SME members with whom they have lending relationships, and know their track record may be in a better position to get recommended to formal lenders (Contessi and De Nicola, 2012:24). Similarly, as one of the participants affirmed, cooperatives know their members and can make judgments about who is of good behaviour and the nature of their repayment history.

Therefore, by adopting approaches used by the informal lender, the formal lender can overcome opaqueness. "By opaqueness, the literature means that it is difficult to ascertain if SMEs can pay and have the willingness to pay, which can be linked to moral hazard." Moral hazard occurs basically because projects have identical mean returns but different degrees of risk, and lenders are unable to discern the borrowers' actions (Stiglitz and Weiss, 1981; Besley, 1994). The opaque nature of SMEs means information is hidden, which if available, may aid informed lending decisions. Consequently, by seeking the recommendations of cooperatives executives, in addition to other transaction-based and hard information they already

possess, formal financial lenders may have found a way to overcome opaqueness. This is achieved by relying on the direct information they provide while adopting some relational and reputational lending approaches that are synonymous with informal financial lenders, which they do through the relationship officers that relate with SMEs and other prospective lenders. This finding is in agreement with (Uchida, 2011) who opined that formal lenders rely on subjective soft information and might use third-party information as a reference.

From the aggregate perspective, it would be expected that in circumstances where people generally trust each other more, the supply of credit would be enhanced. Through informal finance, many SMEs have the opportunity to build “reputational collateral” by way of a proven repayment history (International Finance Corporation, 2010:72). The existence of a credit relationship may vest the custody of such information with the cooperatives, who may share such information about the business situation, repayment history, and business size with the banks. This is a role that informal financial lenders play to complement the formal ones.

#### **6.4.7 Summary**

The nature and implication of the interplay were explored in this chapter. The implications include improved access, enforcement, savings and disbursement, helping banks to meet their lending target, easing of challenges of trust and quality relationships.

## CHAPTER SEVEN - CONCLUSION

### 7.0 Overview

This chapter summarises the findings and conclusions reached in this study. It presents the main insights of the study and points to the practical and policy implications drawn from it. To achieve the goal of providing answers to the research questions, a qualitative methodology was employed. It deployed a purposive and snowballing sampling technique, which led to the interviewing of eighteen respondents. Out of the eighteen interviews, only seventeen were made sense of, and analysed using Interpretative Phenomenological Analysis (IPA) and Thematic Analysis (TA). Explanation of the rationale to exclude one of the interview transcripts is indicated in the first paragraph of section 5.2.

The primary concern here is to substantiate a novel conceptualisation of narratives within the context of the participants' explanations of their lived experiences instead of a predetermined theoretical view. This choice was informed by the desire to bridge the study gap identified in the introduction. It was established that there is advancement in the literature on the comparative importance of formal and informal financial institutional arrangement. However, an empirical investigation of the impact of formal and informal lending on SMEs' growth and routine change (SMEs) remain vague.

The gap was bridged by uncovering the extent to which formal and informal preconditions impact SME growth and routine change. Thus, the findings expose the variation both in growth and routine change experienced by beneficiaries SMEs as a

result of loan attributes and loan preconditions, respectively. Furthermore, the findings on the implications of the interplay between formal and informal financial lenders suggest that it leads to improved access to loans, better enforcement, savings and disbursement. Also, it helps the government to achieve its lending target and alleviates the challenges of trust and quality relationships.

A summary of the findings, the significance of the study, practice and policy implications, research limitations and suggestions for future research are presented below.

## **7.1 Summary of the Findings**

The summary of findings captures the outcomes in relation to the research aim and objectives. The aim of this research is to investigate the impact of formal and informal financial institutions on SMEs' growth and routine change. The research objectives that were developed to attain the aim of the research are: firstly, the exploration of how formal and informal lenders affect SME growth through lending preconditions. Secondly, the examination of how formal and informal lenders affect SMEs' routine change. Thirdly, the investigation into the nature and impact of the interplay between formal and informal financial lenders on SMEs.

### ***7.1.1 Impact of Loan Preconditions on SME Growth***

The satisfaction of the first research objective was achieved through sense-making and analysis of the respondent's reality. Accordingly, findings show every SME that gained access complied with the loan preconditions associated with the type of lender they patronise. As the findings revealed, the variation in

growth experienced by SMEs in relation to the formal and informal preconditions they were subjected to, was influenced by three main determinants. These include loan tenure<sup>18</sup>, loan size<sup>19</sup> and loan interest. Therefore, the longer the tenure, the higher the growth dimension experienced. Similarly, the higher the loan size, the better the growth experienced; and the lower the interest rate, the higher the dimension of growth experienced.

This is a fundamental contribution of the study as it provides an explanation about SME growth through the amplification of the variations in outcomes experienced by SMEs in the Nigerian manufacturing sector. Thus, the presence of legitimate and recognised institutions defines and oversee business behaviour is critical for the long-term benefit (Kostova and Zaheer, 1999). In this respect, institutions not only impose constraints but also provide opportunities (Oliver, 1997). This contrasts with other studies such as Demirguc-Kunt and Maksimovic (1998), Beck et al. (2005), Okpara (2011:167), Jibrilla (2013:125), Taiwo et al. (2016) that link growth to financing. However, did not explain how growth and routine change are linked and achieved within the loan preconditions and attributes context in a manufacturing setting of South-West Nigeria. This study has successfully achieved this by unveiling the underlying mechanism of growth and change in routines, using the loan precondition and attributes lenses within the Nigerian manufacturing context.

### **7.1.2 The Extent and Variation in Routine Change.**

The finding which addresses the second research objective underscores the importance of compliance. The compliance to

---

<sup>18</sup> Loan tenure is the duration of a loan. For example: it can be 6 months, one year or even five years.

<sup>19</sup> Loan size is the size of the loan. For example: a loan of 200,000 naira (£452) can be the amount given out to an SME, and that represents the loan size.



formal lending preconditions is the result of adherence. It shapes the routines of SMEs by helping them inculcate new skills, practice and behaviour, which according to data, has led to efficiency in their operations, i.e. reduction of wastages, including improved bookkeeping. From narratives, it can be established that it has also led to better computation of tax. This was explained in the excerpts in section 6.3.7, where a new routine of accounting was developed through the hiring of an accountant.

Formal financial lenders also indirectly impact informal SMEs, usually by making them overcome informality. For example, formal financial lenders would subject prospective SMEs to register their business with the government. This allows them to become known to the formal system and their activities may become regulated by the government. This is simply how formality happens. The mechanism involved in achieving formality is explored more in subsequent paragraphs.

The nature of routine change experienced is not identical but varies according to the preconditions beneficiaries are subjected to. It is important to note that SMEs that obtain loan from the same lenders experience similar changes. Thus, the variation in routine change and the type of routine change (i.e., one-off routines or continuous routines - see 5.11.1) experienced by SMEs are determined by the source from where the loan was obtained. This mirrors Kostova and Roth (2002) suggestion that organisation that share the same environment will engage in similar practices and thus become 'isomorphic' with each other. This is in line with the process of homogenisation, which Hawley's (1968) referred to as isomorphism. According to him, at the population level, organisational features are altered to increase comparability with environmental characteristics.

As mentioned above, another outcome of routine changes this research found is that getting a loan from formal financial lenders enables beneficiary SMEs to be formalised (see 6.3.9). This is as a result of new routines they have been motivated or forced to imbibe. An example of such routines is business registered with the government agency in charge of company registration (Corporate Affairs Commission). Business registration makes payment of tax possible. Practice like this automatically moves businesses out of the shadow economy into the formal economy. Nevertheless, this is a crucial part of the research, as it demonstrates the transitioning from informality to formality. Understanding the transitioning, as revealed by narratives, was aided by cognitive psychology theory, and shows the mechanisms of learning, acquisition of new habits and routine. More details on learning can be found in sections 2.8 and 2.9.

Furthermore, in the case of formal lending - it was revealed from the findings, that the occurrence of routine change commences as soon as an SME decides to access a loan. This relates to the disposition of the SME owner. Some are more predisposed to seek informal finance, while some are predisposed to formal finance. That is the moment they start to put things in place, which may involve changing the way they operate. Knowing what is required is based on past educational background, experience in business and past relationships with lenders. To be compliant to lending precondition, the SME owner would pass this knowledge to members of staff directly or by hiring someone that has the skill needed. For example, the hiring of an accountant mentioned in the paragraph above is an example of how an organisation can develop new knowledge. They regard the process of adaptation as something that must be replicated across different levels of hierarchy within the organisation.

Furthermore, it provides a useful perspective on the dynamics of organisational routines. Especially concerning the process of learning, there are some movements between the individual agent's level and the group to which the individual belongs. Before the new routine is developed and replicated across the organisation, the SME owner's habit must have changed. This translates to the fact that a change at the individual level represents a habit. When this change is replicated within the whole group or the organisation, i.e. the SMEs, represents a routine change. This is reflected in this research.

For adaptation to happen, individual habits need to change. The concept of habit is crucial in learning and skill development (Dewey, 1922). Their persistence means that organisational development often inflexibly resists corporate or government initiatives. In this study, resistance to change was not a choice for most SME desirous of formal lending. If they resist change, they will not adapt to the preconditions of the loan. Moreover, that will prevent them from gaining access to formal loan and will constrain their ability to grow, but access to informal lenders will still be open to them.

The idea about the mechanism of routine is synonymous with Dollimore (2016), which draw on cognitive psychology by contextualising behavioural dispositions as a result of either, personal challenges (goals and targets), bad experiences (failed business or failed strategy in current business) formal training, such as education, and the placed emphasis on intentions as it relates to the importance of change in the habitual behaviour of a business owner. According to Dollimore (2016), for an entrepreneur to change their habit, specific intentions need to be defined and implemented. New cues or 'triggers' would help establish new behaviours. Moreover, it provides similar findings

made in this study about SME lending decision being influenced by past work experiences and education.

The institutional arrangement that defines the framework of how lenders operate entails a lot of social interactions, such as lender vs borrower and formal lender vs informal lenders. Furthermore, this adds to the theory on behaviour (Williamson et al., 1998) and organisational routines (Nelson and Winter, 1982, 1995), by unravelling the endogenous manifestation of the effects of the external environment such as the higher-level order of loan precondition originating from lenders and how it leads to the alteration of internal processes. This was reflected in the narratives captured in the theme “impact of access”, which was linked to the external influence of rules (See section 2.8, 2.9, 4.8, 5.10, and 6.1).

Equally, the finding of this study echoes arguments from the literature on theoretical debates, reflecting on the routine theories of Feldman and Pentland (2003), Cohen and Backdayn, (1994), and Szulanski and Jensen (2004); downward causation of Sperry (1992); and finally, the reconstitutive downward causation of Hodgson (2007), as explained in Subsection 2.7 and Section 6.3 - where it was argued that routines could be impacted from a higher level authority. The lenders are higher-level authority, under whose rule SMEs are subjected.

Hence, this study believes learning aids new routines development, which occurs as a result of the social interaction within the organisation, which enables new habits to become new routines. SMEs’ acquire new routines because of their interaction and the relationships they share with others as defined by the existing institutional arrangements. As a result of the routine change, the structure of the organisation is transformed. As mentioned in the last two paragraphs, new roles

emerged, such as the role of an accountant who keeps records for the organisation (see excerpt in section 5.11.2). The latter echoes what Miner and Estler (1985) referred to as the redefinition of jobs. Prior to the hiring of an accountant, for instance; record-keeping responsibilities are performed by the owner. When the need for a loan becomes apparent, tax computation became an area of expertise that must be addressed. The hiring of an accountant addressed this need by combining record keeping with other technical areas such as tax computation. This is making changes to a particular existing routine. This has a profound effect on the structure of the organisation as the owner have more time to focus on more important things that may improve growth and manage other areas of work more efficiently and effectively.

However, due to the nature of informal financial lenders, whose exchange mechanism is based on reputation, none of the SMEs who obtained loans from the informal lenders experienced routine change. Regardless of whether the level of compliance is partial or complete, beneficiaries of formal financial lenders would still experience routine change. This is because formal financial lenders hardly provide a loan if they do not see that all preconditions are met. Although untruthful SMEs might present superficial documents, it is essential to note that this may not be the case for all. As most SMEs would present valid and authentic documents. For those SMEs who genuinely satisfy loan precondition, their respective routine would change. Consequently, as captured in sections 6.3.4, and 6.3.5, the variation in routine change experienced, is often due to the preconditions relating to the source of the loan.

### ***7.1.3 The Interplay Between Formal and Informal Lenders***

The third research objective, i.e., the implication of the interplay of formal and informal preconditions on SMEs, was addressed through participants' narratives. This enabled analysis to be focused on the shared social contexts involving formal lenders relying on the personal exchange mechanism of informal financial lenders whilst retaining their impersonal approaches. Equally, the findings revealed that informal lenders also rely on the mechanism of formal lenders, especially when it comes to using law enforcement agents to seek repayments from defaulting customers. This was extensively explored in sections 4.11.1, 6.4.2 and 6.4.4.

The reliance of formal financial lenders on informal financial lenders help SMEs to overcome the feeling of insecurity, distrust they have about formal financial lenders and opaqueness respectively. This was explored extensively in sections 5.13.2, 5.13.3 and 6.4.6. Where it was shown that willing formal financial lenders rely on the informal financial lenders, to tap from the soft information in informal lender's possession, which is facilitated by the social capital ideologies existing among them, this helps them to reduce the issues of opaqueness and information asymmetry that may exist. This resulted in the identification of credit worthy SMEs. Informal financial lenders were also found to rely on formal financial lenders for safekeeping the contribution of their members.

The importance of the interplay was emphasised by Ayyagari et al. (2012). They highlighted the dominance of the relationship between formal financial lenders and informal financial lenders, especially in sub-Saharan Africa, where they are serving the high end of the market. They also suggested the need for the strengthening of the linkage and relationships that exist between

formal and informal financial lenders and deepening it further. However, Ayyagari et al. (2013) did not consider SMEs in the manufacturing sector, as the authors were more interested in the high end of the market.

Therefore, as revealed by the findings, it is important for formal financial lenders and informal financial lenders to tap into each other's resources. This is evident in the effects of the interplay that exists between the two. More importantly, this study revealed that the formal sector is not in short supply of capital, and its reluctance to provide loan to SMEs is not hidden from the policymakers, as there have been policies to address this situation. If the relationship that encourages the sharing of information is prevalent between the two types of lenders, it is likely that more SMEs would be served.

Conclusively, this study has been able to unravel the intervening role played by informal financial lenders in making formal financial lenders play their lending role better. In other words, the study has revealed how informal financial lenders' roles influence the role of formal financial lenders. This is partly consistent with Helme and Levitsky (2004), who claim that informal financial lending complements formal lending by filling the gaps for formal institutions and making them efficient. This is indicated in the findings, which revealed the capacity of relational mechanism to ease the challenges of trust, insecurity, quality relationships, the incidence of information asymmetry and opaqueness that may exist especially between SMEs and formal financial lenders. The reliance of informal financial lenders on the formal enforcement channel, such as police, may improve default from their borrowers.

Similarly, informal financial lenders' relationship with formal financial lenders improves their ability to manage members'

funds better. This is because members' contribution kept in the bank is safer than when it is kept in another member's house. When money is kept in the bank, the risk of theft is reduced. Furthermore, the safe keep of members' contribution and efficient and effective disbursements of loans to beneficiaries can be linked to the effect of the interplay between formal and informal financial lenders.

## **7.2 Significance of the Study**

The findings reveal the influence of loan preconditions and loan attributes. Indeed, adherence to loan preconditions makes access possible. Likewise, loan attributes associated with those loans were found to influence the growth of SMEs that gained access. Furthermore, adherence to loan preconditions leads to access to loans and the adoption of new routines. This shapes new practices and behaviours and ultimately make access to future loan possible. These findings offer useful empirical insights consistent with routine change literature in two ways: first, by showing how higher and lower organisational levels influence each other within the lens of lending preconditions, and reveals how new, existing and old routines are influenced and shaped by owners' past knowledge and experience. Secondly, it identifies and explains the mechanism involved in routine change. In contrast with prior research on routine transfer and replication, with the use of templates adopted by top management and passed down to the various units within the organisation, and replication by the replicator, i.e. franchisee at various sites and amongst different organisations. Instead, this study focuses on the change in a routine within an organisational setting, which was expressed - using three dimensions; (a) changing a routine by operating (possibly dormant) routine X instead of former routine Y, (b) making changes to a particular



existing routine, and (c) developing and operating an entirely new routine. All these could be described as “routine change”.

Lastly, findings reveal the nature of the interplay between formal and informal financial lenders and its consequence. By uncovering the underpinnings of the interplay between formal and informal lending and illuminating the reliance of commercial banks on recommendations of cooperative societies’ tested and trusted members. Equally, the role of formal lenders such as the provision of banking services to the cooperative members as a whole and helping them to allocate loans approved by the cooperative management. Due to these overlaps, the implication that was revealed, include improved access to loans, better enforcement, savings and disbursement, while also helping the banks to achieve its lending target and easing the challenges of trust and quality relationships.

Overall, these results contribute to the theoretical debate regarding routines origin, mechanisms and change, SME financing, institutional economics literature, particularly the dualistic, and inseparable nature of formal and informal institutions. They also point in directions that further quantitative studies would need to explore to be relevant for policy.

It presents the result of an original piece of empirical research on formal and informal financing of SMEs in the Nigerian manufacturing sector, while at the same time addresses the research objectives. This study offers appropriate coverage of the evolutionary framework in the literature review and improved handling of routines with a more suitable definition and categorisation of routine change. It drew on the modern institutional theory (North, 1990; Hodgson, 2007), for the definition of key terms and conceptual framework, evolutionary approach (Hodgson and Knudsen, 2010; Hodgson, 2012b) and

routines literature (Feldman and Pentland, 2003; Becker et al., 2005; D'Adderio, 2008; Dollimore, 2016), which amplifies the place of learning and the information-carrying and adaptive role of routines in organisations, institutional economics (Williamson, 2009; Hodgson, 2006) where the distinction between formal and informal institutions was laid bare and cognitive psychology studies (Mayer, 1977 Cohen and Bacdayan, 1994) magnify the role of language in cognitive processes and transfer of knowledge transfer. The insight gathered include the role of external triggers, in the form of formal lenders' loan preconditions, which SMEs have to adhere to if they desire to access loans.

Starting from the first objective, it identified how different types of lenders impact growth. By relating it to variation, which is linked to loan attributes. The SMEs that show more growth are those that gained access to longer tenure loan, bigger loan size and lower interest rate. Based on the reviewed literature, the research findings and the researcher's knowledge; this is the only study that has investigated this phenomenon in this context. Also, it has pushed forward the argument on SMEs' growth within the loan attributes lens.

It was also discovered that co-funding enables SMEs to experience higher growth than when the loan was obtained from a single source. This result corresponds with Degryse et al. (2016) findings on co-funding, which concludes it is an optimal choice for small firms.

The second objective of this study relating to examining how formal and informal financial lenders' preconditions impact routine change was met, as findings obtained revealed the exogenous influence of rules from various types of lenders as triggers for change in routines and growth. This echoes

Dollimore (2016:2), whose study concludes that the influence of environmental pressure serves as a trigger that alters behavioural responses. This study may not appear to cover or include most of the areas her study covered as her work was interested in how entrepreneurs' historical and acquired habits play a significant role in shaping routines in new and fledging organisations. However, this study was interested in the effect of present and past SMEs' borrowing/lending efforts but found that historical and acquired experiences help SMEs make sense of the preconditions they have to meet. Similarly, it exposes the issue of trigger for change by specifically identifying SMEs' need for a loan, the reward, sanction and outcomes that come with compliance/adherence, and non-compliance/non-adherence to loan preconditions. An elaborate explanation is provided in subsections 4.7, 4.10 and 6.3.3 on the reward for compliance, which is access to loan, and the sanction for non-compliance is access denial.

Additionally, this study has unveiled the way SME owners and managers act towards compliance and choosing to adhere to loan preconditions of formal financial lenders. Their decision is influenced by their experience and prior knowledge. An example was the respondent who mentioned he knew about loan precondition as a result of his education.

Likewise, the findings of this study reinforce the conclusion that routine change occurs through conscious intervention, echoing the findings of Holland et al. (2006). This is because the need for a loan would require deliberate steps towards approaching a lender of choice and acting towards abiding by its stipulated preconditions. As Wood and Neal (2009:579) explain, "habits are learned largely as people pursue goals in daily life, and habits are the basis of strategic deployment of effortful self-

control". When this is replicated across the organisation, resulting in routine change.

The type of routine change identified includes those that entail changes to a particular existing routine and those that involve the development and operation of an entirely new routine. Furthermore, another crucial finding is that routine change can lead to formality. This may aid developmental policies, which, according to Rodrik (2008:100) is meaningful for both the historical and contemporary perspectives because it contributes towards answering the reform questions in the developing world where the focus has moved "from getting prices right to getting institutions right". This is hinged on the belief that development policies should facilitate the formalisation of enterprises. Therefore, the route to formalisation has been made more apparent with information that helps illuminate the type of reliable obligations required. The exposition on the social relationship between loan preconditions as a crucial determinant for routine change for SMEs. This advances evolutionary theory in the field of socio-economics .

Findings that address the third research objective improves the understanding of the interplay. This was done by the thorough investigation conducted on the interplay between formal and informal financial lenders and their impact on SMEs. The outcome reveals the behavioural impact the interplay has on SME; which confirms the confidence, financial advantage and improved knowledge it bestows about how and what is required to meet loan preconditions of formal financial lenders. The interplay between formal and informal lenders results in improved access as a result of informal lenders stepping-in to negotiate and stand as guarantors on behalf of their members. This outcome adds to the social capital argument of Rothstein and Stolle (2003) on how it leads businesses into transitioning

from seeking a loan from an informal lender to seeking a loan from formal financial lenders.

Furthermore, it unravels the role of informal financial lenders as complementary to formal financial lenders in a clear (Helmke and Levitsky, 2004), systematic, and comprehensive manner. By exposing how formal financial lenders rely on informal financial lenders to gain access to informal financial lenders' members. This outcome mirrors Madestam's (2014:158) assertion on informal finance being complementary to the formal financial lenders. This addresses the question raised by Zhou et al. (2003:365), which suggested that it is not clear whether formal institutions substitute or complement informal institutions. To play the complementary role, as shown by the result, meaningful engagement of formal financial lenders with informal financial lenders is required, which will necessitate a considerable amount of social skill for the informal lenders' representatives to negotiate and achieve access for members of their cooperative societies. With this, they can inspire cooperation with other players by giving them common meanings, confidence and identities in which actions can be undertaken and rewarded.

Equally, the study goes a step beyond Fainshmidt et al. (2018), who only observed the role of wealthy families in shaping economic context by incorporating families and friends, cooperatives societies and money lender contexts. It unravelled the role they play individually and the interplay that exist in enabling and constraining beneficiary SMEs to ascend the formal and informal lending ladder.

The findings on differentials in growth and routine change satisfy the spirit of Darwinian principles. Because it recognises survival as crucial in the argument on the growth experienced by the

SMEs. Also, the findings suggest that growth is associated with business survival as a result of adaptation. This is the type of lesson that shed light on the nature and implication of adaptation, and it is beneficial to evolutionary researchers, businesses and policymakers. This study relates evolutionary thinking to social and economic study. This has helped enrich the study's outcomes by unravelling the benefit of adherence to loan preconditions of various lenders and type of lender. Also, the occurrence of variations found across each SME has helped to reveal the role sources of lending play.

Lenders are analogous to external triggers. Therefore, from an evolutionary perspective, the nature and implication of the dispositions of SMEs can be determined by their past experiences and will inform their adaptation pattern. This guides SMEs on where to go for loans based on what they believe in representing their best interest. This finding, with the help of the qualitative research method adopted, has enabled the uncovering of the underlying causes of routine change and growth and the associated variations, which would have been missed if a quantitative method was used. Equally, it demonstrated the nature and the implication of formal and informal lending and their interplay and has brought about clarity by exposing the underlying causes and mechanisms of interplay and their implications on SME.

### **7.3 Practice Implications and Recommendations**

The current research highlights the experiences of SMEs in the Nigerian manufacturing sector, touching on their (SME) relationship/interaction with formal and informal lenders. The experiences described by participants on how growth was achieved as a result of access and the variation that was revealed shows that loan attributes play a significant role in the

dimension of growth experienced. In line with this, banking professionals should consider how these loan attributes work in a broader context. Formal financial lenders should also consider the effect they have and how they can be managed by accommodating the needs of manufacturing SMEs which have been noted to be different from SMEs who are involved in trading. This is because, in manufacturing, it takes a longer time to procure raw material, process it into finish goods and make it available to the final consumer. However, in trading, it is different as it takes less time to make goods available to the consumer, and it does not involve the processing of raw material; therefore, turnover is usually fast. Also, depending on the nature of manufacturing, incentives like moratorium that consider the peculiarity of the prospective SME such that they do not have to start paying back immediately until when they started generating income should be provided.

Furthermore, from the participants' narratives, the power of social capital was explored, and the place of trust and insecurity within it was analysed and presented in sub section 5.14.2, 6.4.1, 6.4.4 and 6.4.5. These concepts are essential for any lending relationship, most especially in informal lending. Hence, it is advisable that SME owners should be open enough to seek membership in informal groups such that they can come under the umbrella of cooperative societies. This will permit them to leverage the group's strength and harness the advantage they bring to bear on formal lenders. SMEs may also rely on the advice from other members who had obtained a loan from formal lenders and use their experience as a basis for putting the right things in place. The information gained would go a long way in putting SMEs in a better position to overcome any form of bias or insecurity.

Given the relatively abundant financial resources of formal lenders compared to informal lenders, there is a need for policy measures to increase access to informal SMEs by channelling such financial resources through informal lenders. An attempt should also be made to expand the capacity of informal financial lenders to enable them to increase their potential to lend to SMEs. The kind of capacity expansion and regulation recommended will require direct government funding, and the fund would be best managed and administered by developmental banks that are not solely profit-driven.

#### **7.4 Policy Implications and Recommendations**

Policymakers should endeavour to create policies that value soft information that emanates from trust and relationships, and formally recognise it as part of the substantial loan preconditions that can count towards access to a loan. This can be done if a method of codification is introduced. Therefore, instead of the increased focus on reduction or elimination of the informal sector, it will be more beneficial to make the sector an equal partner towards achieving a progressive development in the economy. This may take the form of creating a point-based system that recognises the historical borrowing and the repayments behaviour of informal SMEs, and recommendation from reliable people in their network. These actions will reflect the collectivism orientation embedded in those SMEs' culture and other forms of registration. For example, registration with clusters, cooperative societies and ROSCAs should be valued and recognised for lending purposes irrespective of the lender.

Valuing and incorporating relational mechanism strategies as a replacement to some of the impersonal mechanisms, would lead to more financial liberalisation. It would intensify financial flow.



By improving efficiency, lower spreads between borrowing and lending rates, improved the flow of funds between sectors, enabling improved access to formal finance for those formerly marginalised and embolden all SMEs to play their developmental roles without fear.

Most federal government policies designed to increase SMEs' loan access are intended only to cater to formal SMEs. Osuji and Nwani (2020) confirm that the government's monetary policy actions do not sufficiently accommodate SMEs in general. However, current policies such as the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) has brought about a shift. Still, the shift does not extend to address the needs of those in the informal sector. For instance, through the CBN, the federal government of Nigeria has established a N200 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) for promoting access to credit by SMEs in Nigeria. The preconditions employed by banks administering the loan has no provision to recognise the trust and social capital associated with informal lenders. For instance, to qualify for a loan under this scheme and other schemes, currently, in operation to address financial inclusion, interested SMEs are still expected to be registered with CAC, possess a bank account, provide collateral before access to a reasonable amount of money, amongst others. These preconditions are targeted at formal lending whilst the informal SMEs are left out.

To cater to the need of informal SMEs and to emphasise the relevance of the study in the context of the dual nature of the Nigerian economy, rather than giving prominence to increasing formalisation of informal SMEs and discouraging informal lending practices, emphasis should be given to initiatives that could maximise outcomes from best practices (e.g., trust, relationships) relating to informal and formal lending. The so-

called informal lending practices can be normalised and standardised for access to formal lending, thereby helping and supporting more SMEs (whether formal or informal) to grow their businesses.

The findings on formal and informal lenders interplay demonstrate how important it is for policymakers to take into account some aspect of informal rules when creating formal financial policies. This includes both cultural values that are prevalent within the Nigerian society and norms and customs guiding social network, i.e. cooperative society. What this means is that, culturally, African societies have a collectivism spirit, which advocates and promotes a 'We' attitude. This ought to be represented in any future lending policy. This representation can be achieved by promoting and recognising the importance of groups, networks or clusters. In crafting such policies, similar recognition accorded impersonal preconditions such as business registration, tax identification and payment, should be extended to personal mechanism approaches such as recommendation made by members of registered or recognised groups. Good business practice routines which are analogous to impersonal mechanisms such as record keeping and auditing should be encouraged. Regulators and policy makers should provide appropriate training to SMEs and their groups on how best to apply these good practices. Also, access to government subsidies, contract and additional future loan opportunities should be made open to beneficiaries, in order to motivate and encourage them to retain routines which they have developed.

Regulation should be less burdensome for meaningful economic growth to be realised. Having a burdensome regulation regime breeds restriction and makes procedural regime, time-consuming and costly for businesses (Etim and Daramola, 2020). Accordingly, SMEs would be less likely to abide by them,

and the shadow economy would remain desirable to them. As a result, the government lose out on potential revenues when levels of informality are high (Doingbusiness.org 2018). To soften preconditions, outright relational approaches should be permitted, but it must be accompanied by one or two impersonal mechanisms such as business registration, bank account opening and auditing. For instance, the opening of an account would permit hard information to be built for prospective borrowers. Equally, as a way of softening regulations, elements of relational mechanism, especially recommendation from tested and trusted groups, i.e. registered cooperative societies, should replace preconditions such as the need for bank guarantees and collateral. The reason for suggesting the removal of collateral in place of some relational approaches such as group recommendation is because many SMEs would be locked out of getting access as they will always find it hard to get collateral for loan purposes. If this is implemented, it will reduce transaction costs associated with gathering hard information, i.e. the cost of working hours used in verifying collateral.

To this end, the government should seize the opportunity for comprehensive and high-impact reforms through the strengthening of informal lending, for example, cooperatives society by enabling it to safeguard the soft information at its disposal.

The government should make it a matter of urgency to incentivise formal financial lenders to engage more with informal financial lenders. The increased collaboration will address the existing trust issues. More openness will be created between formal and informal financial lenders, which will trickle down to SMEs who belong to informal lending groups. For example, a special fund could be created for formal financial lenders who engage with SMEs through informal groups.

## 7.5 Future Research

This chapter proposes an alternative approach for future research that can shed more light on lending, using different methods and approaches, which can lead to better analyses and policy recommendations that could translate to better lending outcomes for SMEs.

Further research is needed to confirm the novel findings on variation in growth, routine change and the extent of the influence of the interplay between formal and informal lending. Especially if a different research method, such as a quantitative method, is applied, this could provide a good starting point for discussion and further research.

Donors, investors and policymakers would be able to make informed decisions if they know which type of lender guarantees better returns. The occurrence of default may threaten donors and investors. However, when the default level is known, donors and governments will be informed of the best way to channel resources appropriately and provide proper support to counter defaults. However, this study did not investigate the default rate of SMEs in relation to the lenders, a study that investigates the impact of the relationship between formal and informal lending on default and repayment rate may bridge that gap.

Furthermore, variables such as business registration, auditing, and tax payment can be evaluated to determine their effect on SME within the manufacturing sector. Though the study evaluated the effect of adoption and adherence to loan precondition on SMEs, it did not exclusively look at how each element of loan preconditions impacts growth. Although, some of the aspects of business routines were explored in the literature review, for example, tax payment. Ojeka (2011), in his

study conducted in Nigeria, found that taxes are more harmful than beneficial to the growth of SMEs as they increase running costs and slow down SME growth. This is because SMEs are subjected to the same tax rate and similar regulatory conditions as bigger businesses. He asserts further that there is a significant negative relationship between taxes and the business' ability to sustain itself and to expand. However, this notion was countered by the findings of this research in 6.4.1. The subsection argued that changes in routine brought about better computation of tax payment, which resulted in reduced tax payment. However, a detailed study can be done to assess a large sample size of SMEs who have been paying tax and explore how it impacts them.

Above all, since this study is focused on unravelling the underling impact of formal and informal lending on SMEs in the Nigerian manufacturing sector, it must be stressed that the results found, may not be generalisable to other contexts, such as different sectors, i.e. services, mining and big scale enterprises. Generalisation was not the aim of this research but to uncover the impact of formal and informal lending on SMEs' growth and routine change. The adoption of a qualitative methodology made that possible. Equally, previous chapters have discussed in detail its efficacy in doing so (see especially Chapter 3). This qualitative study offers firm foundations for future quantitative studies, especially if larger samples, different sectors, across regions, are incorporated.

## BIBLIOGRAPHY

- Achua, J.K., (2011). Anti-corruption in public procurement in Nigeria: Challenges and competency strategies. *Journal of Public Procurement*, 11(3), pp.323-333.
- Adams, D.W. and Fitchett, D.A., (1992). *Informal finance in low-income countries*.
- Adair, P., 2020. The Non-Observed Economy vs. the Shadow Economy in the European Union: concepts, measurements methods and estimates revisited. In *Research Handbook on Development and the Informal Economy*. Edward Elgar Publishing.
- Adeusi, S.O., Azeez, B.A. and Olanrewaju, H.A., (2012). The effect of financial liberalization on the performance of informal capital market. *Research Journal of Finance and Accounting*, 3(6), pp.1-16.
- Adigwe, P., Okaro, C., Emejulu, I. and Ananwude, A., (2018). Banking Sector Operations and Foreign Direct Investment in Nigeria: A Causality Analysis. *Asian Themes in Social Sciences Research*, 1(2), pp.60-75.
- Adeyemi, A.D., (2008). The impact of Poverty on Economic Development. *Journal of Finance*, 12, pp.222-240.
- Adeyemi, K.S., (2008). Institutional reforms for efficient micro finance operations in Nigeria. *Publication of the Central Bank of Nigeria*, p.26.
- Acemoglu, D. and Robinson, J.A., (2005). *Economic origins of dictatorship and democracy*. Cambridge University Press.
- Acemoglu, D. and Robinson, J., (2012). Why nations fail: The origins of power. *Prosperity, and Poverty*, 2.
- Aidara, S., Mamun, A.A., Nasir, N.A.M., Mohiuddin, M., Nawi, N.C. and Zainol, N.R., (2021). Competitive Advantages of the Relationship between Entrepreneurial Competencies and Economic Sustainability Performance. *Sustainability*, 13(2), p.864.

- Ajzen, I. (1996) 'The Directive Influence of Attitudes on Behavior', in P.M. Gollwitzer and J.A. Bargh (eds.) *The Psychology of Action: Linking Motivation and Cognition to Behavior*, Guilford Press: New York pp: 385–403.
- Ajzen, I. and Fishbein, M., (1980). *Understanding attitudes and predicting social behaviour*.
- Akerlof, G.A., (1970). The Market for "Lemons": Quality Uncertainty and the Market Mechanism, 84Q. *J. ECON*, 488, pp.489-90.
- Akinboade, O.A., (2014). Regulation, SMEs' growth and performance in Cameroon's central and littoral provinces' manufacturing and retail sectors. *African Development Review*, 26(4), pp.597-609.
- Akpan, I. (2009). *Fundamentals of Finance* (3rd ed.), pp. 22-28. Uyo: Abaam Publishing Co.
- Akunyumu, S., Fugar, F.D., Adinyira, E. and Danku, J.C., (2020). A review of models for assessing readiness of construction organisations to innovate. *Construction Innovation*.
- Aldrich, H.E., Hodgson, G.M., Hull, D.L., Knudsen, T., Mokyr, J. and Vanberg, V.J., (2008). In defence of generalized Darwinism. *Journal of Evolutionary Economics*, 18(5), pp.577-596.
- Aldrich, H.E., (1979). 1979 Organizations and environments. Englewood Cliffs, NJ: Prentice-Hall.
- Aleem, I., (1990). Imperfect information, screening, and the costs of informal lending: a study of a rural credit market in Pakistan. *The World Bank Economic Review*, 4(3), pp.329-349.
- Allen, F. and Qian, J., (2009). *Comparing legal and alternative institutions in finance and commerce*.
- Allen, F., Qian, J. and Qian, M., (2005). Law, finance, and economic growth in China. *Journal of Financial Economics*, 77(1), pp.57-116.
- Anosike, P., Ehrich, L.C. and Ahmed, P., (2012). Phenomenology as a method for exploring management practice. *International Journal of Management Practice (IJMP)*, 5(3), pp.205-224.

- Anthony, S. and Jack, S., (2009). Qualitative case study methodology in nursing research: an integrative review. *Journal of Advanced Nursing*, 65(6), pp.1171-1181.
- Ahmed, W., Pasha, F., Rehman, M. (2016). *Optimal monetary policy in the presence of sizable informal sector and firm level credit constraint (No.72)*. State Bank of Pakistan, Research Department; 2016.
- Aoki, M., Oaki, M.A., Greif, A. and Milgrom, P., (2001). *Toward a comparative institutional analysis*. MIT press.
- Aoki, M. (2007), 'Endogenizing Institutions and Institutional Change', *Journal of Institutional Economics*, 3: 1–31.
- Aoki, M. (2011), 'Institutions as Cognitive Media between Strategic Interactions and Individual Beliefs', *Journal of Economic Behavior and Organization*, 79: 20–34
- Aparicio, G., (2014). *Does Formality Improve Firm Performance? Evidence From a Quasi-Experiment in Mexico*. Boston University Working Paper. Boston, MA: Boston University.
- Argote, L. and McGrath, J.E., (1993). Group processes in organizations: Continuity and change. *International Review of Industrial and Organizational Psychology*, 8(1993), pp.333-389.
- Argote, L. and Ingram, P., (2000). Knowledge transfer: A basis for competitive advantage in firms. *Organizational Behavior and Human Decision Processes*, 82(1), pp.150-169.
- Aronson, J., (1994). A pragmatic view of thematic analysis: The qualitative report. Secondary A pragmatic view of thematic analysis. *The Qualitative Report*.
- Arruñada, B., (2016). How Rome enabled impersonal markets. *Explorations in Economic History*, 61, pp.68-84.
- Aryeetey, E and Hyuna M. (1991). *The Informal Financial Sector and Markets in Africa: An Economic Reform in Sub-Saharan Africa* edited by Chibber A. and S. Fischer, The World Bank: Washington D.C



- Aryeetey, E. and Udry, C., (1995). The characteristics of informal financial markets in Africa. *African Economic Research Consortium, Nairobi, Kenya*.
- Aryeetey, E., Hettige, H., Nissanke, M. and Steel, W., (1997). Financial market fragmentation and reforms in Ghana, Malawi, Nigeria, and Tanzania. *The World Bank Economic Review*, 11(2), pp.195-218.
- Atawodi, O.W. and Ojeka, S., (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International Journal of Business and Management*, 7(12).
- Atieno, R., (2001). Formal and informal institutions' lending policies and access to credit by small-scale enterprises in Kenya: An empirical assessment.
- Attride-Stirling, J., (2001). Thematic networks: an analytic tool for qualitative research. *Qualitative Research*, 1(3), pp.385-405.
- Augier, M. and Teece, D.J., (2007). Dynamic capabilities and multinational enterprise: Penrosean insights and omissions. *Management International Review*, 47(2), pp.175-192.
- Axelrod, R., (1986). An evolutionary approach to norms. *American political science review*, 80(4), pp.1095-1111.
- Ayres, I. and Braithwaite, J., (1992). *Responsive regulation: Transcending the deregulation debate*. Oxford University Press, USA.
- Ayyagari, M., Demirguc-Kunt, A. and Maksimovic, V., (2007). *Firm innovation in emerging markets: The roles of governance and finance*. The World Bank.
- Ayyagari, M., Demirgüç-Kunt, A. and Maksimovic, V., (2010). Formal versus informal finance: Evidence from China. *The Review of Financial Studies*, 23(8), pp.3048-3097.
- Ayyagari, M., Demirguc-Kunt, A. and Maksimovic, V., (2012). *Financing of firms in developing countries: lessons from research*. The World Bank.

- Ayyagari, M., Beck, T. and Hoseini, M., (2013). Finance and poverty: Evidence from India.
- Babafemi, I. D. and Adesheyeye, I. M. and Zenith. B. (2015). ' *Small and Medium Scale Enterprises Financing and Development in Nigeria: A Critical Assessment*', 3(1), pp. 190–198.
- Bagehot, W., (1872). *Physics and Politics, or, Thoughts on the Application of the Principles of 'Natural Selection' and 'Inheritance' to Political Society* (London: Henry King).
- Bank of Industry, (2018) *Economic Development through the Nigerian Informal Sector*. A BOI perspective.
- Baporikar, N., Nambira, G. and Gomxos, G., (2016). Exploring factors hindering SMEs' growth: evidence from Namibia. *Journal of Science and Technology Policy Management*, 7(2), pp.190-211.
- Bailey, D.M. and Jackson, J.M., (2003). Qualitative data analysis: Challenges and dilemmas related to theory and method. *American Journal of Occupational Therapy*, 57(1), pp.57-65.
- Barley, S.R., (1986). Technology as an occasion for structuring: Evidence from observations of CT scanners and the social order of radiology departments. *Administrative Science Quarterly*, pp.78-108.
- Barney, J.B., (1986a). Strategic factor markets: Expectations, luck, and business strategy. *Management Science*, 32(10), pp.1231-1241.
- Barney, J.B., (1986b). Organizational culture: can it be a source of sustained competitive advantage? *Academy of Management Review*, 11(3), pp.656-665.
- Barney, J., (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), pp.99-120.
- Barr, P. S., Stimpert, J. L. and Huff, A. S. (1992). 'Cognitive change, strategic action, and organizational renewal'. *Strategic Management Journal*, 13, 15–36.

- Barry, T.A. and Tacneng, R., (2014). The impact of governance and institutional quality on MFI outreach and financial performance in Sub-Saharan Africa. *World Development*, 58, pp.1-20.
- Barth, J.R., Gan, J. and Nolle, D.E., (2009). *Global Banking Regulation and Supervision: What are the Issues and what are the Practices?* (p. 111). New York: Nova Science Publishers.
- Bartoli, F., Ferri, G., Murro, P. and Rotondi, Z., (2013). SME financing and the choice of lending technology in Italy: Complementarity or substitutability. *Journal of Banking & Finance*, 37(12), pp.5476-5485.
- Baum, J.A., Calabrese, T. and Silverman, B.S., (2000). Don't go it alone: Alliance network composition and startups' performance in Canadian biotechnology. *Strategic Management Journal*, 21(3), pp.267-294.
- Baum, J.A. and Oliver, C., (1996). Toward an institutional ecology of organizational founding. *Academy of Management Journal*, 39(5), pp.1378-1427.
- Baum, J.A. and Singh, J.V. eds., (1994). *Evolutionary dynamics of organizations*. Oxford University Press.
- Baumol, W.J., (1990). Entrepreneurship: Productive, unproductive and destructive. 98 *J. Pol. Econ*, 893.
- Baxter, P. and Jack, S., (2008). Qualitative case study methodology: Study design and implementation for novice researchers. *The Qualitative Report*, 13(4), pp.544-559.
- Beck, T. and Levine, R., (2005). Legal institutions and financial development. In *Handbook of New Institutional Economics* (pp. 251-278). Springer, Boston, MA.
- Beck, T., Demirgüç-Kunt, A.S.L.I. and Maksimovic, V., (2005). Financial and legal constraints to growth: does firm size matter? *The Journal of Finance*, 60(1), pp.137-177
- Beck, T. and Demirguc-Kunt, A., (2006). Small and medium-size enterprises: Access to finance as a growth constraint. *Journal of Banking & Finance*, 30(11), pp.2931-2943.

- Beck, T., Demirgüç-Kunt, A. and Maksimovic, V., (2008). Financing patterns around the world: Are small firms different?. *Journal of Financial Economics*, 89(3), pp.467-487.
- Beck, T., Degryse, H., De Haas, R. and Van Horen, N., (2014). *When arm's length is too far. Relationship banking over the business cycle.*
- Becker, G.S., (1993). Nobel lecture: The economic way of looking at behavior. *Journal of political economy*, 101(3), pp.385-409.
- Becky, K. F. (2004). *The informal economy fact finding study.* SIDA
- Bell, D., (1973). *The Coming of the Post-Industrial Society: A Venture in Social Forecasting.* New York.
- Bell, C., (1990). Interactions between institutional and informal credit agencies in rural India. *The World Bank Economic Review*, 4(3), pp.297-327.
- Besley, T., (1994). How do market failures justify interventions in rural credit markets?. *The World Bank Research Observer*, 9(1), pp.27-47.
- Benhassine, N., McKenzie, D., Pouliquen, V. and Santini, M., (2018). Does inducing informal firms to formalize make sense? Experimental evidence from Benin. *Journal of Public Economics*, 157, pp.1-14.
- Ben-Ner, A. and Van Hoomissen, T., (1991). Nonprofit organizations in the mixed economy. *Annals of Public and cCooperative Economics*, 62(4), pp.519-550.
- Berger, A.N. and Udell, G.F., (2006). A more complete conceptual framework for SME finance. *Journal of Banking & Finance*, 30(11), pp.2945-2966.
- Berger Peter, L. and Luckmann, T., (1966). The social construction of reality. *A Treatise in the Sociology of Knowledge.*
- Bevir, M., Rhodes, R.A. and Weller, P., (2003). Traditions of governance: interpreting the changing role of the public sector. *Public Administration*, 81(1), pp.1-17.

- Binswanger, H.P. and Rosenzweig, M.R., (1986). Behavioural and material determinants of production relations in agriculture. *The Journal of Development Studies*, 22(3), pp.503-539.
- Biggart, N.W. and Delbridge, R., (2004). Systems of exchange. *Academy of management review*, 29(1), pp.28-49.
- Biggs, T. and Shah, M.K., (2006). *African small and medium enterprises, networks, and manufacturing performance*. The World Bank.
- Birch, D., Haggerty, A. and Parsons, W., (1994). Gazelle jobs. Corporate almanac.
- Bjørnskov, C., (2009). Social trust and the growth of schooling. *Economics of Education Review*, 28(2), pp.249-257.
- Blau, P.M., (1968). Social exchange. *International encyclopedia of the social sciences*, 7, pp.452-457.
- Blažić, H., (2004). *Tax compliance costs of small business in Croatia*. Institute of Public Finance.
- Blossfeld, H.P., Gotz Rohwer. (1995). Techniques of Event History Modeling: New Approaches to Causal Analysis.
- Blois, K., (2002). Business to business exchanges: A rich descriptive apparatus derived from Macneil's and Menger's analyses. *Journal of Management Studies*, 39(4), pp.523-551.
- Blumer, H., (1936). Social attitudes and nonsymbolic interaction. *The Journal of Educational Sociology*, 9(9), pp.515-523.
- Blute, M., (1997). History versus science: The evolutionary solution. *Canadian Journal of Sociology/Cahiers canadiens de sociologie*, pp.345-364.
- Boas, F., (1995). *A wealth of thought: Franz Boas on Native American art*. University of Washington Press.
- Boettke, P.J. and Coyne, C.J., (2003). Entrepreneurship and development: Cause or consequence?. *Advances in Austrian Economics*, 6(1), pp.67-87.
- Boly, A (2012), 'Industrial Development in Least Developed Countries', United Nations Industrial Development Organization,

- Development Policy, Statistics and Research Branch Working Paper 5/2012. Available from: [http://www.unido.org/fileadmin/user\\_media/Publications/Research\\_and\\_statistics/Branchpublications/Research\\_and\\_Policy/Files/Working\\_Papers/2012/WP052012\\_Ebook.pdf](http://www.unido.org/fileadmin/user_media/Publications/Research_and_statistics/Branchpublications/Research_and_Policy/Files/Working_Papers/2012/WP052012_Ebook.pdf).
- Boisot, M. and Child, J., (1996). From fiefs to clans and network capitalism: Explaining China's emerging economic order. *Administrative Science Quarterly*, pp.600-628.
- Boisot, M. and Li, Y., (2005). Codification, abstraction, and firm differences: A cognitive information-based perspective. *Journal of Bioeconomics*, 7(3), pp.309-334.
- Bonini, S., Dell'Acqua, A., Fungo, M. and Kysucky, V., (2016). Credit market concentration, relationship lending and the cost of debt. *International Review of Financial Analysis*, 45, pp.172-179.
- Bouman, F.J. and Houtman, R., (1988). Pawnbroking as an instrument of rural banking in the Third World. *Economic Development and Cultural Change*, 37(1), pp.69-89.
- Bourdieu, P., (1986). The forms of capital.
- Bowen, H.P. and De Clercq, D., (2008). Institutional context and the allocation of entrepreneurial effort. *Journal of International Business Studies*, 39(4), pp.747-767.
- Boyatzis, R.E., (1998). Thematic analysis and code development: Transforming qualitative information. *London and New Delhi: Sage Publications*.
- Bransbourg, G., (2012). Rome and the economic integration of empire. *ISAW Papers*.
- Braun, V. and Clarke, V., (2006). Using thematic analysis in psychology. *Qualitative research in psychology. Qualitative Research in Psychology*, 3(2), pp.77-101.
- Brett, J.M., Tinsley, C.H., Janssens, M., Barsness, Z.I. and Lytle, A.L., (1997). New approaches to the study of culture in industrial/organizational psychology.

- Brinkley, A., (1996). Liberty, community, and the national idea. *American Prospect*, pp.53-59.
- Brickley, J.A., Linck, J.S. and Smith Jr, C.W., 2003. Boundaries of the firm: evidence from the banking industry. *Journal of Financial Economics*, 70(3), pp.351-383.
- Brodbeck, F.C., Frese, M. and Javidan, M., (2002). Leadership made in Germany: Low on compassion, high on performance. *Academy of Management Perspectives*, 16(1), pp.16-29.
- Bruhn, M., (2008). *License to sell: the effect of business registration reform on entrepreneurial activity in Mexico*. The World Bank.
- Bruhn, M. and McKenzie, D., (2014). Entry regulation and the formalization of microenterprises in developing countries. *The World Bank Research Observer*, 29(2), pp.186-201.
- Brunnée, J. and Toope, S.J., (2010). *Legitimacy and legality in international law: an interactional account* (Vol. 67). Cambridge University Press.
- Bruton, G.D., Ahlstrom, D. and Li, H.L., (2010). Institutional theory and entrepreneurship: where are we now and where do we need to move in the future?. *Entrepreneurship Theory and Practice*, 34(3), pp.421-440.
- Buckley, W., (1967). Sociology and modern systems theory.
- Burgelman, R.A., (1994). Fading memories: A process theory of strategic business exit in dynamic environments. *Administrative Science Quarterly*, 39(1).
- Burns, L. R., & Wholey, D. R. (1993). Adoption and abandonment of matrix management programs: Effects of organizational characteristics and interorganizational networks. *Academy of Management Journal*, 36: 106-138.
- Burt, R.S., (1997). The contingent value of social capital. *Administrative science quarterly*, pp.339-365.
- Bushman, Robert M. and Abbie J. Smith, (2003) "Transparency, Financial Accounting Information, and Corporate Governance."

- Economic Policy Review*, Federal Reserve Bank of New York 9, Special Issue (April): 65-90.
- Campbell, D.T., (1974). *Evolutionary epistemology* (Vol. 1, pp. 413-63).
- Campbell, D.T., (1974b). 'Downward causation' in hierarchically organised biological systems. In *Studies in the Philosophy of Biology* (pp. 179-186). Palgrave, London.
- Caprio, G. and Levine, R., (2002). Corporate governance in finance: Concepts and international observations. *Financial sector governance: The roles of the public and private sectors*, pp.17-50.
- Carpenter, S.B., (1999). Informal credit markets and the transmission of monetary policy: evidence from South Korea. *Review of Development Economics*, 3(3), pp.323-335.
- Castillo, P. and Montoro, C., (2012). Inflation dynamics in the presence of informal labour markets.
- Casson, M., (1991). *Global research strategy and international competitiveness*. B. Blackwell.
- Cbn.gov.ng. (2020). [online] *Central Bank Of Nigeria Microfinance Policy Framework For Nigeria*. Available at: <<https://www.cbn.gov.ng/out/2011/pressrelease/gvd/revised%20microfinance%20policy%20july%2012%202011.pdf>> [Accessed 12 March 2020].
- Central Bank, (2019) 'Central Bank of Nigeria 1', Central Bank, 48(4), pp. 0–11. Available at: <https://www.cbn.gov.ng/Supervision/Inst-DM.asp>.
- Chandavarkar, A. G. (1985). The non-institutional financial sector in developing countries: Macroeconomic implication for savings policies", *Savings and Development*, pp.129-141.
- Chandavarkar, A.G., (1989). Informal credit markets in support of microbusiness. In *Microenterprises in Developing Countries* (Vol. 77, No. 96, pp. 77-96). Practical Action Publishing in association with GSE Research.



- Chan, J., To, H.P. and Chan, E., (2006). Reconsidering social cohesion: Developing a definition and analytical framework for empirical research. *Social Indicators Research*, 75(2), pp.273-302.
- Chavance, B., (2008). Formal and informal institutional change: the experience of postsocialist transformation. *European Journal of Comparative Economics*, 5(1).
- Chelimo, J.K. and Sopia, I.O., (2014). Effects of bookkeeping on growth of small and medium business enterprises in Kabarnet town, Baringo County, Kenya. *International Journal of Science and Research*, 3(12), pp.432-437.
- Chen, M.A., (2003), November. Rethinking the informal economy. In *SEMINAR-NEW DELHI*- (pp. 14-20). MALYIKA SINGH.
- Chen, C.C., Peng, M.W. and Saporito, P.A., (2002). Individualism, collectivism, and opportunism: A cultural perspective on transaction cost economics. *Journal of Management*, 28(4), pp.567-583.
- Cheng, X., Degryse, H., (2010). The impact of bank and non-bank financial institutions on local economic growth in China. *J. Financial Serv. Res.* 37, 179–199.
- Chen, X., (2010). How does downward causation exist?—A comment on Kim's elimination of downward causation. *Frontiers of Philosophy in China*, 5(4), pp.652-665.
- Child, J., (1972). Organizational structure, environment and performance: The role of strategic choice. *Sociology*, 6(1), pp.1-22.
- Chilosi, A., (2001). Entrepreneurship and transition. *MOST: Economic Policy in Transitional Economies*, 11(4), pp.327-357.
- Chipeta, C. and Mkandawire, M.L.C., (1991). The informal financial sector and macroeconomic adjustment in Malawi.
- Clemens, E.S. and Cook, J.M., (1999). Politics and institutionalism: Explaining durability and change. *Annual Review of Sociology*, 25(1), pp.441-466.

- Cohen, M. D., Bacdayan, P., (1994). Organizational routines stored as procedural memory: Evidence from a laboratory study, *Organization Science*. 5(4), pp.554-568.
- Cohen, M. D., Burkhart, R. Dosi, Giovanni. Egidi, M. Marengo L. Warglien, M. and Winter, S. G., (1996). Routines and other recurring action patterns of organizations: Contemporary research issues. *Industrial and Corporate Change*. 5(3), pp.635-698
- Coleman, J.S., (1988). Social capital in the creation of human capital. *American journal of sociology*, 94, pp.S95-S120.
- Coleman, J.S., (1990). The emergence of norms. *HECHTER M. et alii*.
- Coleman, J.S. and Fararo, T.J., (1992). Rational choice theory. *Nueva York: Sage*.
- Coli, A. and Tartamella, F., (2012). Analyzing the Distribution of Income: How to Account for the Underground Economy in the Household Income Micro Datasets. IARIW 2012 Conference. <http://www.iariw.org/papers/2012/TartamellaPaper.pdf>.
- Collier, P. and Gunning, J.W., (1999). Explaining African economic performance. *Journal of economic literature*, 37(1), pp.64-111.
- Contessi, S. and De Nicola, F., (2012). What do we know about the relationship between access to finance and international trade?. *FRB of St. Louis Working Paper No.*
- Cooper, D.R. and Schindler, P.S., (2013). Business research methods.
- Crabtree, B.F. and Miller, W.L. eds., (1999). *Doing qualitative research*. Sage Publications.
- Crook, J.A., (1967). *Law and life of Rome*. Cornell University Press.
- Crotty, M., (1998). *The foundations of social research: Meaning and perspective in the research process*. Sage.
- Cusmano, L., (2015). New approaches to SME and entrepreneurship financing: Broadening the range of instruments. *Pariz: OECD Centre for Entrepreneurship, SMEs and Local Development*.

- Dabla-Norris, E., Gradstein, M. and Inchauste, G., (2008). What causes firms to hide output? The determinants of informality. *Journal of Development Economics*, 85(1-2), pp.1-27.
- D'adderio, L., (2008). The performativity of routines: Theorising the influence of artefacts and distributed agencies on routines dynamics. *Research Policy*, 37(5), pp.769-789.
- D'Adderio, L., (2014). The replication dilemma unravelled: How organizations enact multiple goals in routine transfer. *Organization Science*, 25(5), pp.1325-1350.
- Daft, R.L. and Weick, K.E., (1984). Toward a model of organizations as interpretation systems. *Academy of Management Review*, 9(2), pp.284-295.
- Darwin, C. R., (1859). On the origin of species by means of natural selection, or the preservation of favoured races in the struggle for life. J. Murray, London, 502 pp.
- Darwin, C., (1871). 1871The descent of man, and selection in relation to sex. *London: Murray*, 415.
- Davis, G.F. and Marquis, C., (2005). Prospects for organization theory in the early twenty-first century: Institutional fields and mechanisms. *Organization Science*, 16(4), pp.332-343.
- Davis, Gerald F. and E. Han Kim (2007). 'Business Ties and Proxy Voting by Mutual Funds', *Journal of Financial Economics* 85: 552–70.
- Davis, G.F. and Marquis, C., (2005). and Convergence in Corporate Governance. *The Economic Sociology of Capitalism*, p.352.
- Dasgupta, P., (2000). Trust as a commodity. *Trust: Making and breaking cooperative relations*, 4, pp.49-72.
- Degryse, H., Lu, L. and Ongena, S., (2013). Informal or formal financing? Or both. *First Evidence on the Co-Funding of Chinese Firms*, Mimeo Tilburg University.
- Degryse, C., (2016). Digitalisation of the economy and its impact on labour markets. *ETUI Research Paper-Working Paper*.

- Degryse, H., Lu, L. and Ongena, S., (2016). Informal or formal financing? Evidence on the co-funding of Chinese firms. *Journal of Financial Intermediation*, 27, pp.31-50.
- Dell'Anno, R. and Adu, O., (2020). The size of the informal economy in Nigeria: a structural equation approach. *International Journal of Social Economics*.
- De Benedetto, M., (2018). Effective Law from a Regulatory and Administrative Law Perspective. *European Journal of Risk Regulation: EJRR*, 9(3), pp.391-415.
- De Mel, S., McKenzie, D. and Woodruff, C., (2011). What is the Cost of Formality? Experimentally estimating the demand for formalization. *American Economic Journal: Applied Economics*, 5(2), pp.1221-50.
- De Andrade, G.H., Bruhn, M. and McKenzie, D., (2013). *A helping hand or the long arm of the law? Experimental evidence on what governments can do to formalize firms*. The World Bank.
- Demirguc-Kunt, A., (2006). *Finance and economic development: policy choices for developing countries*. The World Bank.
- Demirguc-Kunt, A., Detragiache, E. and Tressel, T., (2006). *Banking on the principles: Compliance with Basel Core Principles and bank soundness*. The World Bank.
- Demirgüç-Kunt, A. and Maksimovic, V., (1998). Law, finance, and firm growth. *the Journal of Finance*, 53(6), pp.2107-2137.
- De Paula, A. and Scheinkman, J.A., (2007). *The informal sector*(No. w13486). National Bureau of Economic Research.
- Dewey, J., (1894). The theory of emotion: I: Emotional attitudes. *Psychological Review*, 1(6), p.553.
- Dewey, J., 1922. *Human Nature and Conduct: An Introduction to Social Psychology*, 1st edn (New York: Holt).
- Dictionary.cambridge.org. 2020. *MANUSCRIPT | Meaning In The Cambridge English Dictionary*. [online] Available at: <<https://dictionary.cambridge.org/dictionary/english/manuscript>> [Accessed 5 April 2020].

- Dictionary.cambridge.org. (2021). *Fragmentation*. [online] Available at: <<https://dictionary.cambridge.org/dictionary/english/fragmentation>> [Accessed 6 February 2021].
- Dietz, T., Ostrom, E. and Stern, P.C., (2003). The struggle to govern the commons. *Science*, 302(5652), pp.1907-1912.
- DiMaggio, P.J. and Powell, W.W., (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American sociological review*, pp.147-160.
- DiMaggio, Paul J. and Walter W. Powell, (1991). 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organization Fields', in *The New Institutionalism in Organizational Analysis*, eds. Walter W. Powell and Paul J. DiMaggio, (Chicago, IL: University of Chicago Press), pp. 63–82.
- Distinguin, I., Rugemintwari, C. and Tacneng, R., (2016). Can Informal Firms Hurt Registered SMEs' Access to Credit?. *World Development*, 84, pp.18-40.
- Dixit, A.K., (2011). *Lawlessness and economics: alternative modes of governance*. Princeton University Press.
- Djankov, S., McLiesh, C. and Ramalho, R.M., (2006). Regulation and growth. *Economics Letters*, 92(3), pp.395-401.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A., (2008). The law and economics of self-dealing. *Journal of Financial Economics*, 88(3), pp.430-465.
- Dobbin, F., Edelman, L.B., Meyer, J.W. and Swidler, A., (1988). The expansion of due process in organizations. *Institutional patterns and organizations: Culture and environment*.
- Dollimore, D., (2016). The Origin of Organisational Routines: Dispositions of Founding Entrepreneurs. *Available at SSRN 2711014*.
- Doingbusiness.org. 2018. [online] Available at: <<https://www.doingbusiness.org/content/dam/doingBusiness/m>

edia/Subnational-Reports/DB\_in\_Nigeria\_2018\_w-bookmarks.pdf> [Accessed 23 May 2020].

- Dosi, G., Nelson, R.R. and Winter, S.G. eds., (2000). *The nature and dynamics of organizational capabilities*. Oxford University Press.
- Durkheim, É., (1895). L'état actuel des études sociologiques en France. *E. Durkheim. Textes*, 1, pp.73-108.
- Durkheim, E., (1895). On the normality of crime. *Sociological Theory/ed. LA Cos*.
- Durkheim, E., (1982). The Contribution of Sociology to Psychology and Philosophy (1909). In *The rules of sociological method* (pp. 236-240). Palgrave, London.
- Durkheim, E., (1982). What is a social fact? In *The rules of sociological method* (pp. 50-59). Palgrave, London.
- Durkheim, E., (1938). The Rules of Sociological Method, trans. G. Catlin (*Glencoe, Illinois: Free Press, 1938*), 18.
- Dyer, J.H., (1996). Specialized supplier networks as a source of competitive advantage: Evidence from the auto industry. *Strategic Management Journal*, 17(4), pp.271-291.
- Dyer, J.H. and Singh, H., (1998). The relational view: Cooperative strategy and sources of interorganizational competitive advantage. *Academy of Management rReview*, 23(4), pp.660-679.
- Dyer, J.H. and Nobeoka, K., (2000). Creating and managing a high performance knowledge-sharing network: the Toyota case. *Strategic Management Journal*, 21(3), pp.345-367.
- Easterly, W., (2002). The cartel of good intentions: the problem of bureaucracy in foreign aid. *The Journal of Policy Reform*, 5(4), pp.223-250.
- Easterby-Smith, M., Thorpe, R. and Lowe, A., (2002). 2nd. *Management Research: An Introduction*. London, Sage Publications

- Eatough, V. and Smith, J.A., (2008). Interpretative phenomenological analysis. *The Sage Handbook of Qualitative Research in Psychology*, 179, p.194.
- Eilat, Y. and Zinnes, C., (2002). The shadow economy in transition countries: Friend or foe? A policy perspective. *World Development*, 30(7), pp.1233-1254.
- Edelman, L.B., (1990). Legal environments and organizational governance: The expansion of due process in the American workplace. *American Journal of Sociology*, 95(6), pp.1401-1440.
- Ekpenyong, D.B.E. and Nyong, M.O., (1992), April. Small and medium scale enterprises development in Nigeria. In *Seminar Paper on Economic Policy Research for Policy Design and Management In Nigeria* (pp. 24-25).
- Emery, A. and Anderman, L.H., 2020. Using interpretive phenomenological analysis to advance theory and research in educational psychology. *Educational Psychologist*, 55(4), pp.220-231.
- El-Hani, C.N., (2005). Downward determination. *Abstracta*, 1(2), pp.162-192.
- Elliott, R., Fischer, C.T. and Rennie, D.L., (1999). Evolving guidelines for publication of qualitative research studies in psychology and related fields. *British Journal of Clinical Psychology*, 38(3), pp.215-229.
- Ermakoff, I., (2017). Shadow plays: theory's perennial challenges. *Sociological Theory*, 35(2), pp.128-137.
- Emenalo, C.O.O., (2014). Institutions and Financial System Development in Africa.
- Eniola, A.A. and Entebang, H., (2015). SME firm performance-financial innovation and challenges. *Procedia-Social and Behavioral Sciences*, 195, pp.334-342.
- Enquobahrie, A., (1997). Promoting Entrepreneurship and Small Business in Cameroon. *Fadahunsi Olu and Tunji Daodu eds., Small and Medium Enterprises*

*Development: Policies, Programmes and Prospects. West African Management Development Institutes Network (W AMDEVN)*, pp.82-108.

- Erdkamp, P., (2005). *The grain market in the Roman Empire: a social, political and economic study*. Cambridge University Press.
- Etienne, J., (2010). *The impact of regulatory policy on individual behaviour: a goal framing theory approach* (No. DP 59). Centre for Analysis of Risk and Regulation, London School of Economics and Political Science.
- Estrin, S., Meyer, K.E. and Bychkova, M., (2006). Entrepreneurship in transition economies. *The Oxford Handbook of Entrepreneurship*, pp.693-725.
- Fainshmidt, S., Judge, W.Q., Aguilera, R.V. and Smith, A., (2018). Varieties of institutional systems: A contextual taxonomy of understudied countries. *Journal of World Business*, 53(3), pp.307-322.
- Fajnzylber, P., Maloney, W.F. and Montes-Rojas, G.V., (2011). Does formality improve micro-firm performance? Evidence from the Brazilian SIMPLES program. *Journal of Development Economics*, 94(2), pp.262-276.
- Fanning, B., (2013). Immigration and social cohesion in the Republic of Ireland.
- Farquhar, J.D., (2012). *Case study research for business*. Sage.
- Feldman, M.S. and Pentland, B.T., (2003). Reconceptualizing organizational routines as a source of flexibility and change. *Administrative Science Quarterly*, 48(1), pp.94-118.
- Freeman, J. and Hannan, M.T., (1987). The population ecology of restaurants revisited: reply to Herriott.
- Felin, T. and Foss, N.J., (2005). Strategic organization: A field in search of micro-foundations.
- Felin, T., Foss, N.J., Heimeriks, K.H. and Madsen, T.L., (2012). Microfoundations of routines and capabilities: Individuals, processes, and structure. *Journal of Management Studies*, 49(8), pp.1351-1374.
- Fereday, J. and Muir-Cochrane, E., (2006). Demonstrating rigor using thematic analysis: A hybrid approach of inductive and deductive coding and theme development. *International Journal of Qualitative Methods*, 5(1), pp.80-92.
- Finlay, L., (2008). A dance between the reduction and reflexivity: Explicating the "phenomenological psychological attitude". *Journal of Phenomenological Psychology*, 39(1), pp.1-32.



- Finlay, S., (2011). Errors upon errors: a reply to joyce. *Australasian Journal of Philosophy*, 89(3), pp.535-547.
- Fligstein, N., (1990). Organizational, demographic, and economic determinants of the growth patterns of large firms. *Comparative Social Research*, 12, pp.19-44.
- Fondevila, G. and Quintana-Navarrete, M., (2019). Economic informality as a national project. *Review of Social Economy*, 77(4), pp.523-554.
- Foucault, M., (1972). Body/power. *Power/knowledge: Selected interviews and other writings, 1977*, pp.55-62.
- Freixas, X. and Rochet, J.C., (2008). *Microeconomics of banking*. MIT press.
- Friesl, M. and Larty, J., (2013). Replication of routines in organizations: Existing literature and new perspectives. *International Journal of Management Reviews*, 15(1), pp.106-122.
- Friesl, M. and Larty, J., (2018). The exploration phase of replication strategies: the role of autonomous action for reverse knowledge flows. *British Journal of Management*, 29(3), pp.411-427.
- Fu, P.P., Kennedy, J., Tata, J., Yukl, G., Bond, M.H., Peng, T.K., Srinivas, E.S., Howell, J.P., Prieto, L., Koopman, P. and Boonstra, J.J., (2004). The impact of societal cultural values and individual social beliefs on the perceived effectiveness of managerial influence strategies: A meso approach. *Journal of International Business Studies*, 35(4), pp.284-305.
- Fukuyama, F., (1995). Trust: The social virtues and the creation of prosperity.
- Fukuyama, F., (1996). Trust Still Counts in a Virtual World" This disembodied organization exists without institutions, without loyalties, without face-to-face interaction.". *Forbes*, 158, pp.33-35.
- Fukuyama, F., (2002). Social capital and development: The coming agenda. *SAIS review*, 22(1), pp.23-37.
- Fuller, S.R., Edelman, L.B. and Matusik, S.F., (2000). Legal readings: Employee interpretation and mobilization of law. *Academy of Management Review*, 25(1), pp.200-216.
- Gbandi, E.C. and Amisah, G., (2014). Financing options for small and medium enterprises (SMEs) in Nigeria. *European Scientific Journal, ESJ*, 10(1).

- Geertz, C., (1962). The rotating credit association: A "middle rung" in development. *Economic development and cultural change*, 10(3), pp.241-263.
- Geniusas, S. and Fairfield, P. eds., (2018). *Hermeneutics and Phenomenology: Figures and Themes*. Bloomsbury Publishing.
- Germidis, D.A., Kessler, D. and Meghir, R., (1991). *Financial systems and development what role for the formal and informal financial sectors?*. OECD.
- Gersick, C.J. and Hackman, J.R., (1990). Habitual routines in task-performing groups. *Organizational behavior and human decision processes*, 47(1), pp.65-97.
- Ghate, P., (1992). *Informal finance: some findings from Asia*. Oxford University Press.
- Ghosh, P., Mookherjee, D. and Ray, D., (2000). Credit rationing in developing countries: an overview of the theory. *Readings in the theory of economic development*, pp.383-401.
- Ghosh, P. and Ray, D., (2015) *Information and enforcement in informal credit markets* (p. 14). Boston University, Institute for Economic Development.
- Gherghina, Ş.C., Botezatu, M.A., Hosszu, A. and Simionescu, L.N., (2020). Small and Medium-Sized Enterprises (SMEs): The Engine of Economic Growth through Investments and Innovation. *Sustainability*, 12(1), p.347.
- Glisczinski, D., (2018). Thematic analysis. *Journal of Transformative Education*, 16(3), pp.175-175.
- Giannetti, M. and Yu, X., (2015). Economic development and relationship-based financing. *The Review of Corporate Finance Studies*, 4(1), pp.69-107.
- Giddens, A., (1984). *The constitution of society*. Berkeley.
- Gindis, D., (2013). *The Nexus Paradox: Legal Personality and the Theory of the Firm*.
- Ginsberg, B. and Lowi, T.J., (1992). *American government*.
- Glaser, B.G., (1992). *Basics of grounded theory analysis: Emergence vs forcing*. Sociology press.
- Godfrey, P., (2017). *Toward a theory of the informal economy*. [online] Taylor & Francis. Available at: <<https://www.tandfonline.com/doi/abs/10.1080/19416520.2011.585818>> [Accessed 2 November 2020].

- Godfrey, P.C., (2011). Toward a theory of the informal economy. *The Academy of Management Annals*, 5(1), pp.231-277.
- de la Rocha, M.G., (2001). From the resources of poverty to the poverty of resources? The erosion of a survival model. *Latin American Perspectives*, 28(4), pp.72-100.
- Gowdy, J.M., Dollimore, D.E., Wilson, D.S. and Witt, U., (2013). Economic cosmology and the evolutionary challenge. *Journal of Economic Behavior & Organization*, 90, pp.S11-S20.
- Granovetter, M., (1985). Economic action and social structure: The problem of embeddedness. *American journal of sociology*, 91(3), pp.481-510.
- Granovetter, M., (2000). A theoretical agenda for economic sociology.
- Grant, R.M. and Jordan, J.J., (2015). *Foundations of strategy*. John Wiley & Sons.
- Greenwood, J. and Jovanovic, B., (1990). Financial development, growth, and the distribution of income. *Journal of Political Economy*, 98(5, Part 1), pp.1076-1107.
- Green, J., Willis, K., Hughes, E., Small, R., Welch, N., Gibbs, L. and Daly, J., (2007). Generating best evidence from qualitative research: the role of data analysis. *Australian and New Zealand Journal of Public Health*, 31(6), pp.545-550.
- Greif, A. 1994. Cultural beliefs and the organization of society: A historical and theoretical reflection on collectivist and individualist societies. *Journal of Political Economy*, 102: 912-950.
- Greif, A., (1998). Historical and comparative institutional analysis. *The American Economic Review*, 88(2), pp.80-84.
- Greif, A., (2006). Family structure, institutions, and growth: the origins and implications of western corporations. *American Economic Review*, 96(2), pp.308-312.
- Greif, A. and Laitin, D.D., (2004). A theory of endogenous institutional change. *American Political Science Review*, 98(4), pp.633-652.
- Grzymala-Busse, A., (2010). The best laid plans: the impact of informal rules on formal institutions in transitional regimes. *Studies in Comparative International Development*, 45(3), pp.311-333.
- Guba, E.G. and Lincoln, Y.S., (1994). Competing paradigms in qualitative research. *Handbook of Qualitative Research*, 2(163-194), p.105.
- Guest, G., MacQueen, K.M. and Namey, E.E., (2011). *Applied thematic analysis*. Sage Publications.

- Gupta, A.K. and Govindarajan, V., (2000). Knowledge flows within multinational corporations. *Strategic Management Journal*, 21(4), pp.473-496.
- Gupta, P.D., Guha, S. and Krishnaswami, S.S., (2013). Firm growth and its determinants. *Journal of Innovation and Entrepreneurship*, 2(1), p.15.
- Gunningham, N. and Grabosky, P., (1998). 2004. *Smart regulation: Designing environmental policy*.
- Halpern, E. S. (1983). Auditing Naturalistic Inquiries: The Development and Application of a Model. Unpublished doctoral dissertation, Indiana University.
- Hallett, T. and Ventresca, M.J., (2006). How institutions form: Loose coupling as mechanism in Gouldner's patterns of industrial bureaucracy. *American Behavioral Scientist*, 49(7), pp.908-924.
- Hamel, G. and Prahalad, C.K., (1993). Strategy as stretch and leverage. *Harvard business Review*, 71(2), pp.75-84.
- Hamel, G. and Prahalad, C.K., (1996). *Competing for the Future*. Harvard Business Press.
- Hannan, M.T. and Freeman, J., (1977). The population ecology of organizations. *American Journal of Sociology*, 82(5), pp.929-964.
- Hannan, M.T. and Freeman, J., (1984). Structural inertia and organizational change. *American Sociological Review*, pp.149-164.
- Hannan, M.T. and Freeman, J., (1989). *Organizational ecology*. Harvard university press.
- Hanson, S.G., Kashyap, A.K. and Stein, J.C., (2011). A macroprudential approach to financial regulation. *Journal of Economic Perspectives*, 25(1), pp.3-28.
- Harabi, N., (2005). Determinants of firm growth: an empirical analysis from Morocco.
- Harriss-White, B., (2003). *India working: Essays on society and economy* (Vol. 8). Cambridge University Press.
- Harriss-White, B. (2012). Capitalism and the common man: Peasants and petty production in Africa and South Asia. *Agrarian South: Journal of Political Economy*, 1(2), 109–160.
- Harriss-White, B. (2017). Rethinking institutions: Innovation and institutional change in India's informal economy. *Modern Asian Studies*, 51(6), 1727–1755.
- Harriss-White, B., & Gooptu, N. (2001). Mapping India's world of unorganised labour. In L. Panitch & C. Leys (Eds.), *Socialist Register 2001: Working classes*. Global realities. Canada: Merlin.

- Harvie, C. and Lee, B.C., (2005). Introduction: the role of small and medium-sized enterprises in achieving and sustaining growth and performance.
- Hawley, A.H., (1968). a: 1950. *Human Ecology*. New York: Ronald Press
- Hazama, H., (1978). Characteristics of Japanese-style management. *Japanese Economic Studies*, 6(3-4), pp.110-173.
- Haunschild, P. R. (1993). Interorganizational imitation: The impact of interlocks on corporate acquisition activity. *Administrative Science Quarterly*, 38: 564-592.
- Haveman, H. A. (1993). Follow the leader: Mimetic isomorphism and entry into new markets. *Administrative Science Quarterly*, 38: 564-592.
- Hay, C., (2011). Interpreting interpretivism interpreting interpretations: The new hermeneutics of public administration. *Public administration*, 89(1), pp.167-182.
- Hayden, F.G. (1988) 'Values, beliefs, and attitudes in a socio- technical setting', *Journal of Economic Issues* 22(2): 415–427.
- Hayek, F., 1944. A.(1944) *The Road to Serfdom*. Dymock's Book Arcade.
- Hayek, F.A., 1960. v.(1960): *The constitution of liberty*. Chicago: University of Chicago.
- Heikkilä, A., Kalmi, P. and Ruuskanen, O.P., (2016). Social capital and access to credit: Evidence from Uganda. *The Journal of Development Studies*, 52(9), pp.1273-1288.
- Heidegger, M., (1962). *Being and time* Harper and Row. New York.
- Helfat, C.E. and Peteraf, M.A., (2003). The dynamic resource-based view: Capability lifecycles. *Strategic Management Journal*, 24(10), pp.997-1010.
- Helmke, G. and Levitsky, S., (2004). Informal institutions and comparative politics: A research agenda. *Perspectives on Politics*, 2(4), pp.725-740.
- Heron, J. and Reason, P., (1997). A participatory inquiry paradigm. *Qualitative inquiry*, 3(3), pp.274-294.
- Hill, T., (1995). *Manufacturing strategy: text and cases*. Macmillan International Higher Education.
- Hindriks, F. and Guala, F., (2015). Institutions, rules, and equilibria: a unified theory. *Journal of Institutional Economics*, 11(3), pp.459-480.
- Hillman, A. and Keim, G., (1995). International variation in the business-government interface: Institutional and organizational considerations. *Academy of Management Review*, 20(1), pp.193-214.
- Hindess, B., (1989). *Political choice and social structure*. Books.

- Hinings, C.R., Brown, J.L. and Greenwood, R., (1991). Change in an autonomous professional organization. *Journal of Management Studies*, 28(4), pp.375-393.
- Hodgson, G.M., (1993). *Economics and Institutions: A Manifesto for a Modern Institutional Economics*. Polity.
- Hodgson, G.M., (1998). Competence and contract in the theory of the firm. *Journal of Economic Behavior & Organization*, 35(2), pp.179-201.
- Hodgson, G.M., (2001). *How economics forgot history: The problem of historical specificity in social science*. Routledge. London/New York
- Hodgson, G.M., (2003a). The hidden persuaders: institutions and individuals in economic theory. *Cambridge Journal of Economics*, 27(2), pp.159-175.
- Hodgson, G.M., (2003b). John R. Commons and the foundations of institutional economics. *Journal of Economic Issues*, 37(3), pp.547-576.
- Hodgson, G.M., (2004). *The evolution of institutional economics*. Routledge.
- Hodgson, G.M., (2006). What are institutions?. *Journal of Economic Issues*, 40(1), pp.1-25.
- Hodgson, G.M., (2007). Institutions and individuals: interaction and evolution. *Organization Studies*, 28(1), pp.95-116.
- Hodgson, Geoffrey M. and Knudsen, Thorbjørn (2004b) „The Firm as an Interactor: Firms as Vehicles for Habits and Routines“, *Journal of Evolutionary Economics*, 14(3), July, pp. 281-307.
- Hodgson, G.M. and Knudsen, T., (2006a). Dismantling Lamarckism: why descriptions of socio-economic evolution as Lamarckian are misleading. *Journal of Evolutionary Economics*, 16(4), pp.343-366.
- Hodgson, G.M. and Knudsen, T., (2006b). The nature and units of social selection. *Journal of Evolutionary Economics*, 16(5), pp.477-489.
- Hodgson GM, Knudsen T., (2006c) Why we need a generalized Darwinism, and why generalized Darwinism is not enough. *Journal of Evolutionary Economics*, 61, pp1–19
- Hodgson, G.M. and Knudsen, T., (2007). Evolutionary theorizing beyond Lamarckism: a reply to Richard Nelson. *Journal of Evolutionary Economics*, 17(3), pp.353-359.
- Hodgson, G. M., and Knudsen. T., (2010). *Darwin's Conjecture: The Search for General Principles of Social and Economic Evolution*. Chicago: University of Chicago Press.

- Hodgson, G.M. and Knudsen, T., (2012a). Agreeing on generalised Darwinism: a response to Pavel Pelikan. *Journal of Evolutionary Economics*, 22(1), pp.9-18.
- Hodgson, G.M. and Knudsen, T., (2012b). Underqualified—maximal generality in Darwinian explanation: a response to Matt Gers. *Biology & Philosophy*, 27(4), pp.607-614.
- Hodgson, G.M., (2017). Institutions, Democracy and Economic Development: On Not Throwing out the Liberal Baby with the Neoliberal Bathwater. In *Democracy and an Open-Economy World Order* (pp. 51-63). Springer, Cham.
- Hoff, K. and Stiglitz, J.E., (1990). Introduction: Imperfect information and rural credit markets: Puzzles and policy perspectives. *The world bank economic review*, 4(3), pp.235-250.
- Hofstede, G., (1996). Riding the waves of commerce: A test of trompenaars' "model" of national culture differences. *International Journal of Intercultural Relations*, 20(2), pp.189-198.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage Publications.
- Hofstede, G. (1980a). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage.
- Hofstede, G., (1980b). Culture and organizations. *International Studies of Management & Organization*, 10(4), pp.15-41.
- Hofstede, G. (1980). *Culture's consequences: International differences in work-related values*. Beverly Hills, CA: Sage Publications.
- Hofstede, G. (1991). *Cultures and organizations: Software of the mind*. London: McGraw Hill.
- Hofstede, G., (2010). Geert Hofstede. *National cultural dimensions*, pp.2-7.
- Holloway, I. and Todres, L., (2003). The status of method: flexibility, consistency and coherence. *Qualitative Research*, 3(3), pp.345-357.
- Holland, R. W., Aarts, H., Langendam, D., (2006). Breaking and creating habits on the working floor: A field-experiment on the power of implementation intentions. *Journal of Experimental Social Psychology*. 42, pp.776-783.

- Holmes Jr, R.M., Miller, T., Hitt, M.A. and Salmador, M.P., (2013). The interrelationships among informal institutions, formal institutions, and inward foreign direct investment. *Journal of Management*, 39(2), pp.531-566.
- Honohan, P., (2004). *Financial sector policy and the poor: Selected findings and issues*. The World Bank.
- Honohan, P. and Beck, T., (2007). *Making finance work for Africa*. The World Bank.
- Houghton, C.E., Casey, D., Shaw, D. and Murphy, K., (2010). Ethical challenges in qualitative research: examples from practice. *Nurse Researcher*, 18(1).
- Huff, L. and Kelley, L., (2003). Levels of organizational trust in individualist versus collectivist societies: A seven-nation study. *Organization Science*, 14(1), pp.81-90.
- Hugon, P., (1990). *The informal sector revisited (in Africa)* (pp. 70-87). Paris: OECD.
- Hull, D.L., (1988). *Science as a Process: An Evolutionary Account of the Social and Conceptual Development of Science*. Chicago: Univ.
- Hull, D.L., (1989). *The Metaphysics of Evolution: Naqshbandis in the Ottoman World, 1450-1700*. SUNY Press.
- Hull, D.L., (2001). In search of epistemological warrant. *Selection theory and social construction: The evolutionary naturalistic epistemology of Donald T. Campbell*, pp.155-168.
- Hulswit, M., (2005). How causal is downward causation?. *Journal for General Philosophy of Science*, 36(2), pp.261-287.
- Husserl, E., (1970). *The crisis of European sciences and transcendental phenomenology: An introduction to phenomenological philosophy*. Northwestern University Press.
- Huvila, I., (2013). Preferences for formal and informal sources in corporate finance.
- Idewele, I.O., 2020. Effect of Business Performance on Taxation of Small and Medium Enterprises Scale in Bwari Area Council FCT Abuja, Nigeria. *SIASAT*, 5(1), pp.47-58.
- Ilegbinosa, I.A. and Jumbo, E., (2015). Small and medium scale enterprises and economic growth in Nigeria: 1975-2012. *International Journal of Business and Management*, 10(3), p.203.
- Iganiga, B.O. and Asemota, A., (2008). The Nigerian unorganized rural financial institutions and operations: A framework for improved rural credit schemes in a fragile environment. *Journal of Social Sciences*, 17(1), pp.63-71.



- Imoughele, L.E. and Ismaila, M., (2014). Empirical investigation of the impact of monetary policy on manufacturing sector performance in Nigeria (1986-2012). *International journal of education and research*, 2(1), pp.1-20.
- Inkpen, A.C. and Tsang, E.W., (2016). Reflections on the 2015 decade award—Social Capital, networks, and knowledge transfer: An emergent stream of research.
- International Finance Corporation, (2010). *Scaling-Up SME Access to Financial Services in the Developing World*. Washington.
- Isern, J., Agbakoba, A., Flaming, M., Mantilla, J., Pellegrini, G. and Tarazi, M., (2009). Access to finance in Nigeria: Microfinance, branchless banking, and SME finance. *The World Bank, The Consultive Group to Assist the Poor*.
- Itzigsohn, J., (2006). Neoliberalism, Markets, And Informal Grassroots. *Out Of The Shadows: Political Action And The Informal Economy In Latin America*, p.81.
- Jackson, C., Vaughan, D.R. and Brown, L., (2018). Discovering lived experiences through descriptive phenomenology. *International Journal of Contemporary Hospitality Management*.
- Jackson, G., 2010. Actors and institutions.
- Jain, S. and Mansuri, G., (2003). A little at a time: the use of regularly scheduled repayments in microfinance programs. *Journal of Development Economics*, 72(1), pp.253-279.
- Järvensivu, T. and Törnroos, J.Å., (2010). Case study research with moderate constructionism: Conceptualization and practical illustration. *Industrial Marketing Management*, 39(1), pp.100-108.
- Jensen, Michael C. and William H. Meckling (1976), "Theory of the Firm: Managerial Behavior, Agency Costs and Capital Structure," *Journal of Financial Economics*, 3(4): 305-360.
- Jensen, Michael C. and William H. Meckling (1978), "Can the Corporation Survive?" *Financial Analysis Journal*, 34(1): 31-37.
- Jensen, Michael C. (1983), "Organization Theory and Methodology," *Accounting Review*, 58(2): 319-339
- Jensen, M.C., (2003). *A theory of the firm: governance, residual claims, and organizational forms*. Harvard University Press.

- Jensen, R. and Szulanski, G., (2004). Stickiness and the adaptation of organizational practices in cross-border knowledge transfers. *Journal of International Business Studies*, 35(6), pp.508-523.
- Jepperson, R., (1991). Institutions, institutional effects, and institutionalism. *The New Institutionalism in Organizational Analysis*, pp.143-163.
- Jensen, R.J. and Szulanski, G., (2007). Template use and the effectiveness of knowledge transfer. *Management Science*, 53(11), pp.1716-1730.
- Jibrilla, A.A., (2013). Impact of government interventions on small scale enterprises in Mubi North local government area, Adamawa state, Nigeria. *Journal of Economics and Sustainable Development*, 4(17), pp.121-129.
- Jones, C., Hesterly, W.S. and Borgatti, S.P., (1997). A general theory of network governance: Exchange conditions and social mechanisms. *Academy of Management Review*, 22(4), pp.911-945.
- Johnson, S., McMillan, J. and Woodruff, C., (2002). Property rights and finance. *American Economic Review*, 92(5), pp.1335-1356.
- Johnson, P., Buehring, A., Cassell, C. and Symon, G., (2006). Evaluating qualitative management research: Towards a contingent criteriology. *International Journal of Management Reviews*, 8(3), pp.131-156.
- Johnson Jr, B.L., (2008). Exploring multiple meanings and pursuits of social justice: A reflection on modern, interpretive, and postmodern possibilities. *Teacher Development*, 12(4), pp.301-318.
- Kagan, R. and Scholz, J., (1984). The "criminology of the corporation" and regulatory enforcement strategies' in K. Hawkins and P. Keith/Thomas, John (Hrsg.), *Enforcing Regulation, Boston*.
- Kahneman, D. and Tversky, A., (1986). Rational choice and the framing of decisions. *Journal of Business*, 59(4), pp.251-278.
- Kauffman, S.A., (1993). *The origins of order: Self-organization and selection in evolution*. Oxford University Press, USA.
- Kauffman, S., (1996). *At home in the universe: The search for the laws of self-organization and complexity*. Oxford University Press.
- Karklins, R., (2005). *The System Made Me Do It: Corruption in Post-Communist Societies* (Armonk, NY: ME Sharpe).

- Kasozi, A.S., (2009). *The Role and Influence of Institutions in Economic Development in Uganda: Evidence and Insights from the Development of the Uganda Coffee Sector 1900-2004* (Doctoral dissertation).
- Kathuria, V. and Raj, S. N. R. (2016). Do informal sector wages explain rural poverty? Evidence from India. *Journal of Poverty*, 20(1), 73–101.
- Khanna, T. and Palepu, K., (1997). Why focused strategies may be wrong for emerging markets. *Harvard Business Review*, 75(4), pp.41-43.
- Khan, S., (2015). Impact of sources of finance on the growth of SMEs: evidence from Pakistan. *Decision*, 42(1), pp.3-10.
- Khwaja, A.I. and Mian, A., (2005). Do lenders favor politically connected firms? Rent provision in an emerging financial market. *The Quarterly Journal of Economics*, 120(4), pp.1371-1411.
- Kilpinen, E., (1999). What is Rationality? A New Reading of Veblen's Critique of Utilitarian Hedonism. *International Journal of Politics, Culture, and Society*, pp.187-206.
- King, N., (2004). 21——Using Templates in the Thematic Analysis of Text——. *Essential guide to qualitative methods in organizational research*, p.256.
- King, R.G. and Levine, R., (1993). Finance and growth: Schumpeter might be right. *The quarterly journal of economics*, 108(3), pp.717-737.
- Kim, J., (1992). 'Downward causation' in emergentism and nonreductive physicalism. *Emergence or reduction? Essays on the prospects of nonreductive physicalism*, pp.119-38.
- Kirchler, E., Hoelzl, E. and Wahl, I., (2008). Enforced versus voluntary tax compliance: The “slippery slope” framework. *Journal of Economic Psychology*, 29(2), pp.210-225.
- Kloep, M., Hendry, L. and Saunders, D., (2009). A new perspective on human development. In *Conference of the International Journal of Arts and Sciences* (Vol. 1, No. 6, pp. 332-343).
- Knack, S. and Keefer, P., (1997). Does social capital have an economic payoff? A cross-country investigation. *The Quarterly journal of economics*, 112(4), pp.1251-1288.
- Knack, S., (2002). Social capital, growth and poverty: A survey of cross-country evidence. *The role of social capital in development: An empirical assessment*, pp.42-82.

- Knorr-Cetina, K., von Savigny, E. and Schatzki, T.R. eds., (2001). *The practice turn in contemporary theory*. Routledge.
- Knudsen, T., (2008). Organizational routines in evolutionary theory. *Handbook of organizational routines*, 125, p.151.
- Kostova, T. and Zaheer, S., (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, 24(1), pp.64-81.
- Kostova, T. and Roth, K., (2002). Adoption of an organizational practice by subsidiaries of multinational corporations: Institutional and relational effects. *Academy of management journal*, 45(1), pp.215-233.
- Kostova, T. and Roth, K., (2003). Social capital in multinational corporations and a micro-macro model of its formation. *Academy of Management Review*, 28(2), pp.297-317.
- Koufopoulou, P., Williams, C.C., Vozikis, A. and Souliotis, K., (2019). Shadow Economy: Definitions, terms & theoretical considerations. *Advances in Management and Applied Economics*, 9(5), pp.35-57.
- Ksoll, C., Lilleør, H.B., Lønborg, J.H. and Rasmussen, O.D., (2016). Impact of Village Savings and Loan Associations: Evidence from a cluster randomized trial. *Journal of Development Economics*, 120, pp.70-85.
- Kyazze, L.M., Nkote, I.N. and Wakaisuka-Isingoma, J., (2017). Cooperative governance and social performance of cooperative societies. *Cogent Business & Management*, 4(1), p.1284391.
- La Porta, R., Lopez-de-Silanes, F. and Shleifer, A., (2008). The economic consequences of legal origins. *Journal of Economic Literature*, 46(2), pp.285-332.
- La Porta, R. and Shleifer, A., (2014). Informality and development. *Journal of Economic Perspectives*, 28(3), pp.109-26.
- Iannacci, F. and Resca, A., (2021). What Accounts for the Emergence of a New Interaction Pattern? On Generative Mechanisms, Constitutive Rules and Charging Routines. *European Management Review*.
- Lant, T.K., Milliken, F.J. and Batra, B., (1992). The role of managerial learning and interpretation in strategic persistence and reorientation: An empirical exploration. *Strategic Management Journal*, 13(8), pp.585-608.

- Laverty, S.M., (2003). Hermeneutic phenomenology and phenomenology: A comparison of historical and methodological considerations. *International Journal of Qualitative Methods*, 2(3), pp.21-35.
- Larkin, M., Watts, S. and Clifton, E., (2006). Giving voice and making sense in interpretative phenomenological analysis. *Qualitative Research in Psychology*, 3(2), pp.102-120.
- Lastra, R.M., (2005). A taxonomy on banking regulation The renaming of this journal: From the JIBR to the JBR.
- Lee, S. and Persson, P., (2016). Financing from family and friends. *The Review of Financial Studies*, 29(9), pp.2341-2386.
- Levitsky, J. and Prasad, R.N., (1987). *Credit guarantee schemes for small and medium enterprises*. Washington, DC: World Bank.
- Leyshon, A., Signoretta, P., Knights, D., Alferoff, C. and Burton, D., (2006). Walking with moneylenders: the ecology of the UK home-collected credit industry. *Urban Studies*, 43(1), pp.161-186.
- Li, F., (1999). *Foreign investment in China*. Springer.
- Liberti, J.M. and Petersen, M.A., (2019). Information: Hard and soft. *Review of Corporate Finance Studies*, 8(1), pp.1-41.
- Littunen, H. and Tohmo, T., (2003). The high growth in new metal-based manufacturing and business service firms in Finland. *Small Business Economics*, 21(2), pp.187-200.
- Liu, C. and Stolle, D., (2017). Social capital, civic culture and political trust. In *Handbook on political trust*. Edward Elgar Publishing.
- Lipsey, R.G., Carlaw, K.I. and Bekar, C.T., (2005). *Economic transformations: general purpose technologies and long-term economic growth*. OUP Oxford.
- Linares, L.A., (2018). The paradoxes of informalizing street trade in the Latin American city. *International Journal of Sociology and Social Policy*, 38(7-8), pp.651-672.
- Liu, W. and Spanjers, W., (2005). Social capital and credit constraints in informal finance.
- Logan, G.D. and Cowan, W.B., (1984). On the ability to inhibit thought and action: A theory of an act of control. *Psychological Review*, 91(3), p.295.
- Lukka, K. and Modell, S., (2010). Validation in interpretive management accounting research. *Accounting, Organizations and Society*, 35(4), pp.462-477.

- Lsetf.ng. (2020). *Home | LSETF | Lagos State Employment Trust Fund*. [online] Available at: <<https://lsetf.ng/>> [Accessed 24 May 2020].
- MacDonald, P.K., (2003). Useful fiction or miracle maker: The competing epistemological foundations of rational choice theory. *American Political Science Review*, 97(4), pp.551-565.
- Macey, J.R. and O'hara, M., (2003). The corporate governance of banks. *Economic policy review*, 9(1).
- Macneil, I.R., (1983). Values in Contract: Internal and External, 78 Nw. *UL Rv*, 340.
- Macneil, I.R., (2000). Contracting worlds and essential contract theory. *Social & Legal Studies*, 9(3), pp.431-438.
- Madestam, A., (2014). Informal finance: A theory of moneylenders. *Journal of Development Economics*, 107, pp.157-174.
- Mañez, J.A., Rochina-Barrachina, M.E., Sanchis, A. and Sanchis, J.A., (2013). Do process innovations boost SMEs productivity growth?. *Empirical Economics*, 44(3), pp.1373-1405.
- Maloney W (2004) Informality revisited. *World Dev* 32(7):1159–1178.
- Mahmoud, D. (2005) "Private Sector Development and Poverty Reduction in Nigeria: Mainstreaming the Small Medium Enterprises Sector." *The Nigerian Economic Submit Group (NESG) Economic Indicators*, 11 (1), January -March: pp. 18 – 23.
- Maloney, W.F., (2004). Informality revisited. *World Development*, 32(7), pp.1159-1178.
- March, J.G. and Simon, H.A., (1958). Organizations.
- Martin, R., (2007a). How successful leaders think. *Harvard Business Review*, 85(6), p.60.
- Martin, R., (2007b). *The Opposable Mind*. Harvard Business Press. Michaelides.
- Mathias, B.D., Lux, S., Crook, T.R., Autry, C. and Zaretzki, R., (2015). Competing against the unknown: the impact of enabling and constraining institutions on the informal economy. *Journal of Business Ethics*, 127(2), pp.251-264.
- Matua, G.A. and Van Der Wal, D.M., (2015). Differentiating between descriptive and interpretive phenomenological research approaches. *Nurse researcher*, 22(6).
- Mayer, R.E., (1977). *Thinking and problem solving: An introduction to human cognition and learning*. Glenview, IL: Scott, Foresman.

- Mayer, R.C., Davis, J.H. and Schoorman, F.D. (1995) "An Integrative Model of Organizational Trust", *Academy of Management Review*, Vol. 20 No. 3, pp. 709–734.
- Mazhar, U. and Méon, P.G., (2017). Taxing the unobservable: The impact of the shadow economy on inflation and taxation. *World Development*, 90, pp.89-103.
- McEvily, B., Jaffee, J. and Tortoriello, M., (2012). Not all bridging ties are equal: Network imprinting and firm growth in the Nashville legal industry, 1933–1978. *Organization Science*, 23(2), pp.547-563.
- McGrath, R. G., MacMillan, I. C., Yang, E. A., & Tsai, W. (1992). Does culture endure, or is it malleable: Issues for entrepreneurial economic development. *Journal of Business Venturing*, 7: 441-458. McSweeney, B. 2002.
- McGrath, J.L. and Argote, L., (2004). Group Processes in Organizational Contexts.
- McKelvey, B. and Aldrich, H., (1983). Populations, natural selection, and applied organizational science. *Administrative Science Quarterly*, pp.101-128.
- McKenzie, D. and Sakho, Y.S., (2008). *Does it pay firms to register for taxes? The impact of formality on firm profitability*. The World Bank.
- McNeil, I., Values in Contract: Internal and External' (1983). *Northwestern University Law Review*, 78, p.340.
- Mead, G. H. (1912). The Mechanism of Social Consciousness. *The Journal of Philosophy, Psychology and Scientific Methods*. 9 (15). pp 401-406
- Mead, G.H., (1934). *Mind, self and society* (Vol. 111). University of Chicago Press.: Chicago.
- Mead, G. H. (1938). *The Philosophy of the Act*. Chicago: The University of Chicago Press
- Metcalfe, J.S., (1998). *Evolutionary economics and creative destruction* (Vol. 1). Psychology Press.
- Menard, C., and Shirley, M. M. (2008). *Handbook of new institutional economics* (1st paperback ed.). Verlag Berlin Heidelberg: Springer
- Ménard, C. and Shirley, M.M., (2014). The contribution of Douglass North to new institutional economics. *Institutions, property rights, and economic growth: the legacy of Douglass North*. Cambridge University Press, Cambridge, pp.11-29.
- Méndez, F. and Sepúlveda, F., (2006). Corruption, growth and political regimes: Cross country evidence. *European Journal of political economy*, 22(1), pp.82-98.

- Mendoza, E.G., (2010). Sudden stops, financial crises, and leverage. *American Economic Review*, 100(5), pp.1941-66.
- Mendoza, E.G. and Quadrini, V., (2010). Financial globalization, financial crises and contagion. *Journal of Monetary Economics*, 57(1), pp.24-39.
- Méndez, F. and Sepúlveda, F., (2006). Corruption, growth and political regimes: Cross country evidence. *European Journal of Political Economy*, 22(1), pp.82-98
- Meyer, J.W. and Rowan, B., (1977). Institutional organizations: Formal Structure as myth and Ceremony. I PJ DiMaggio. *The new institutionalism in organizational analysis*, pp.41-62.
- Meyer, J.S. and Scott, W.R., W. (1983): Organizational environments. Ritual and rationality. Beverly-Hills.
- Meyer, J., Rowan, B. and Scott, W.R., 1983. Organizational Environments. Beverly Hills.
- Meyer, J.W. and Rowan, B., (1991). Institutionalized organizations. and Robert Wuthnow, *Meaning and Moral Order*.
- Merriam, S.B., (1998). *Qualitative Research and Case Study Applications in Education. Revised and Expanded from " Case Study Research in Education."*. Jossey-Bass Publishers, 350 Sansome St, San Francisco, CA 94104.
- Merriam, S.B., (2009). Qualitative data analysis: an expanded sourcebook.
- Michael, C.J., (1998). Foundations of Organizational Strategy. *Journal of Finance*, pp.598-616.
- Mitchell, R.B., 2007. Compliance theory: compliance, effectiveness, and behavior change in international environmental law. *Oxford Handbook of International Environmental Law (Oxford University Press, 2007)*.
- Miller, R.M., Chan, C.D. and Farmer, L.B., (2018). Interpretative phenomenological analysis: A contemporary qualitative approach. *Counselor Education and Supervision*, 57(4), pp.240-254.
- Mills, J., Bonner, A. and Francis, K., (2006). The development of constructivist grounded theory. *International Journal of Qualitative Methods*, 5(1), pp.25-35.
- Miner, A. S. (1987). Idiosyncratic jobs in formalized organizations. *Ad- min. Sci. Quart.* 32 327-52.
- Miner, A.S., (1990). Structural evolution through idiosyncratic jobs: The potential for unplanned learning. *Organization Science*, 1(2), pp.195-210.



- Miner, A.S (1991). Organizational evolution and the social ecology of jobs. *Amer. Soc. Rev.* 56 772-85.
- Miner, A.S. and Estler, S.E., (1985). Accrual mobility: Job mobility in higher education through responsibility accrual. *The Journal of Higher Education*, 56(2), pp.121-143.
- Moen, T., (2006). Reflections on the narrative research approach. *International Journal of Qualitative Methods*, 5(4), pp.56-69.
- Mohammed, Y., Abdullahi, H., Abdullahi, Y.Z. and Omonoyi, A.E., (2015). Socio-Economic Impact of Informal Financial Sector and Inclusive Growth: Empirical Evidence from North Central-Nigeria. *Applied Economics and Finance*, 2(4), pp.126-136.
- Mohammed, D. and Teru, P., (2020). Manufacturing micro, small and medium enterprises and gross domestic product in Nigeria. *International Journal of Financial Management and Economics* 2020; 3(2): 24-29.
- Morse, J.M., (2016). *Mixed method design: Principles and procedures* (Vol. 4). Routledge.
- Moorman, C., Zaltman, G. and Deshpande, R., (1992). Relationships between providers and users of market research: the dynamics of trust within and between organizations. *Journal of Marketing Research*, 29(3), pp.314-328.
- Mrak, M., (1989). Role Of The Informal Financial Sector In The Mobilization And Allocation Of Household Savings: The Case Of Zambia/Le Rôle Du Secteur Financier Informel Dans La Mobilisation Et L'allocation De L'épargne Des Ménages: Le Cas De La Zambie. *Savings and Development*, pp.65-85.
- Nappon, D. and Huddlestone, B., (1993). Rural infrastructure priorities for food security and sustainable development: The case of Central Africa. *Regional Food Security and Rural Infrastructure*, 2.
- Neal, D. T. Wood, W. Quinn, J. M. (2006). Habits - a repeat performance. *Current Directions in Psychological Science*. Vol. 15(4), pp. 198-202.
- Neisser, U., (2014). *Cognitive psychology: Classic edition*. Psychology Press.
- Nelson, R.R. and Winter, S.G., (1982). The Schumpeterian tradeoff revisited. *The American Economic Review*, 72(1), pp.114-132.
- Nelson, R.R., (1991). Why do firms differ, and how does it matter? *Strategic Management Journal*, 12(S2), pp.61-74.

- Nelson, R.R., (1995). Recent evolutionary theorizing about economic change. *Journal of Economic Literature*.
- Nelson, R.R. and Winter, S.G., (2002). Evolutionary theorizing in economics. *Journal of Economic Perspectives*, 16(2), pp.23-46.
- Nelson, R. and Winter, S., (2014). 11. The Nature and Replication of Routines. *Economics in the Shadows of Darwin and Marx*, p.202.
- Nenova, T. and Niang, C.T., (2009). *Bringing Finance to Pakistan's poor: Access to Finance for Small enterprises and the Underserved*. The World Bank.
- Neville, L., (2012). Do economic equality and generalized trust inhibit academic dishonesty? Evidence from state-level search-engine queries. *Psychological Science*, 23(4), pp.339-345.
- Newbury, W. and Yakova, N., (2006). Standardization preferences: A function of national culture, work interdependence and local embeddedness. *Journal of International Business Studies*, 37(1), pp.44-60.
- Newman, K. L. (2000). Organizational transformation during institutional upheaval. *Academy of Management Review*, 25: 602-619.
- Newton, K., (1999). Social capital and democracy in modern Europe. *Social capital and European democracy*, 3, p.24.
- Newton, K. and Norris, P., (1999). Social and Political Trust in Established Societies. *Critical citizens: global support for democratic governance*.
- Newton, K., Stolle, D. and Zmerli, S., (2018). Social and political trust. *The Oxford Handbook of Social and Political Trust*, pp.37-56.
- National Bureau of Statistics, (2019). [online] Available at: <<https://www.nigerianstat.gov.ng/>> [Accessed 23 May 2020].
- Nishiguchi, T., (1994). *Strategic industrial sourcing: The Japanese advantage*. Oxford University Press on Demand.
- Nölke, A., (2012). The Rise of the 'B (R) IC Variety of Capitalism' -Towards a New Phase of Organized Capitalism?. In *Neoliberalism in crisis* (pp. 117-137). Palgrave Macmillan, London.
- Nooteboom, B., (1993). Firm size effects on transaction costs. *Small Business Economics*, 5(4), pp.283-295.

- North, D.C. and R.P. Thomas (1973). *The rise of the western world: A new economic history*. Cambridge: Cambridge University Press.
- North, D.C., (1990). A transaction cost theory of politics. *Journal of Theoretical Politics*, 2(4), pp.355-367.
- North, D.C., 1991. Institutions. *Journal of economic perspectives*, 5(1), pp.97-112.
- North, D.C., (1994). Economic performance through time. *The American Economic Review*, 84(3), pp.359-368.
- North, D. C. (1990). *Institutions, Institutional Change and Eco-nomic Performance*. New York: Cambridge University Press.
- North, D.C., (1990). A transaction cost theory of politics. *Journal of Theoretical Politics*, 2(4), pp.355-367.
- North, D.C., (2005). Institutions and the process of economic change. *Management International*, 9(3), p.1.
- North, D.C., Wallis, J.J. and Weingast, B.R., (2009). *Violence and social orders: A conceptual framework for interpreting recorded human history*. Cambridge University Press.
- Nowell, L.S., Norris, J.M., White, D.E. and Moules, N.J., (2017). Thematic analysis: Striving to meet the trustworthiness criteria. *International Journal of Qualitative Methods*, 16(1), p.1609406917733847.
- Ocasio, W. and Joseph, J., (2005). Cultural adaptation and institutional change: The evolution of vocabularies of corporate governance, 1972–2003. *Poetics*, 33(3-4), pp.163-178.
- Oecd.org. (2021). Improving the business environment for SMEs through effective regulation [online] Available at: <<https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Parallel-Session-1.pdf>> [Accessed 9 February 2021].
- OECD/ILO (2019), "Definitions of informal economy, informal sector and informal employment", in *Tackling Vulnerability in the Informal Economy*, OECD Publishing, Paris. Available @ <https://doi.org/10.1787/103bf23e-en>. Accessed on the 30/10/2020.
- Oladele, P.O., Oloowokere, B.A. and Akinruwa, T.E., (2014). Sources of finance and small and medium scale enterprises' performance in Ado-Ekiti metropolis. *European*

- Centre for Research Training and Development UK (*Www. Ea-Journals. Org*), 2(1), pp.59-78.
- Ogilvie, S. and Carus, A.W., (2014). Institutions and economic growth in historical perspective. In *Handbook of Economic Growth* (Vol. 2, pp. 403-513). Elsevier.
- Ojeka, S., (2011). Tax policy and the growth of SMEs: Implications for the Nigerian economy. *Research Journal of Finance and Accounting*, 2(2).
- Okpara, G.C., (2010). Microfinance banks and poverty alleviation in Nigeria. *Journal of Sustainable Development in Africa*, 12(6), pp.177-191.
- Okpara, J.O., (2011). Factors constraining the growth and survival of SMEs in Nigeria. *Management Research Review*.
- Okpara, J.O. and Wynn, P. (2007). Determinants of Small Business Growth Constraints in a Sub-Saharan African Economy. *SAM Advanced Management Journal*, 72, 24-35.
- Oliver, C., (1991). Strategic responses to institutional processes. *Academy of Management Review*, 16(1), pp.145-179.
- Oliveira, J. and Quinn, M., (2015). Interactions of rules and routines: re-thinking rules. *Journal of Accounting & Organizational Change*.
- Oliver, C., (1997). The influence of institutional and task environment relationships on organizational performance: The Canadian construction industry. *Journal of Management Studies*, 34(1), pp.99-124.
- Olutunla, G.T. and Obamuyi, T.M., (2008). An empirical analysis of factors associated with the profitability of Small and medium-enterprises in Nigeria. *African Journal of Business Management*, 2(11), p.195.
- Olujobi O. J. (2017) Legal framework for combating corruption in Nigeria—the upstream Petroleum Sector in perspective. *J Adv Res Law Econ VIII* 3(25).
- Olson, M., (1982). *Rise and Decline of Nations: Economic Growth*.
- Onwe, O.J., (2013). Role of the informal sector in development of the Nigerian economy: Output and employment approach. *Journal of Economics and Development Studies*, 1(1), pp.60-74.
- Orlikowski, W.J., (1992). The duality of technology: Rethinking the concept of technology in organizations. *Organization science*, 3(3), pp.398-427.

- Orlikowski, W.J. and Baroudi, J.J., (1991). Studying information technology in organizations: Research approaches and assumptions. *Information Systems Research*, 2(1), pp.1-28.
- O'Reilly III, C.A., Chatman, J. and Caldwell, D.F., (1991). People and organizational culture: A profile comparison approach to assessing person-organization fit. *Academy of Management Journal*, 34(3), pp.487-516.
- Ostrom, E., (1986). An agenda for the study of institutions. *Public Choice*, 48(1), pp.3-25.
- Ostrom, E., (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge University Press.
- Ostrom, E., (2000). Collective action and the evolution of social norms. *Journal of Economic Perspectives*, 14(3), pp.137-158.
- Ostrom, E., Dasgupta, P. and Serageldin, I., (2000). Social capital: a multi-faceted perspective. *Social capital: a fad or a fundamental concept*, 172, p.214.
- Ostrom, E. and Ahn, T.K., (2003). A social science perspective on social capital: social capital and collective action. *Revista Mexicana De Sociologia*, 65(1), pp.155-233.
- Osuji, E. and Nwani, S.E., (2020). Informal Sector's Structural and Demographic Fundamentals against the Efficacy of Monetary Policy in Nigeria. *Asian Journal of Economics, Business and Accounting*, pp.1-18.
- Ouchi, W.G., (1980). Markets, bureaucracies, and clans. *Administrative Science Quarterly*, pp.129-141.
- Ouchi, W.G., (1981). Organizational paradigms: A commentary on Japanese management and Theory Z organizations. *Organizational Dynamics*, 9(4), pp.36-43.
- Oyelaran-Oyeyinka, B., (2010). FSS 2020 international conference SME: Issues, challenges and prospects. Retrieved 12th of January from <http://www.cenbank.org/fss/wed/sme>.
- Peacock, R. W., (2008). Small Business Bankruptcy, *Accounting Forum*, 1 (3), 51-52.
- Peng, M.W. and Heath, P.S., (1996). The growth of the firm in planned economies in transition: Institutions, organizations, and strategic choice. *Academy of Management Review*, 21(2), pp.492-528.
- Peng, M.W., (2003). Institutional transitions and strategic choices. *Academy of Management Review*, 28(2), pp.275-296.

- Peng, M.W. and Zhou, J.Q., (2005). How network strategies and institutional transitions evolve in Asia. *Asia Pacific Journal of Management*, 22(4), pp.321-336.
- Peng, M.W., Wang, D.Y. and Jiang, Y., (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5), pp.920-936.
- Perkmann, M. and Spicer, A., (2007). Healing the scars of history': Projects, skills and field strategies in institutional entrepreneurship. *Organization Studies*, 28(7), pp.1101-1122.
- Penrose, E., 1959. T.(1959) The Theory of the Growth of the Firm.
- Pentland, B.T. and Rueter, H.H., (1994). Organizational routines as grammars of action. *Administrative Science Quarterly*, pp.484-510.
- Pentland, B.T., Feldman, M.S., (2005a). Organizational routines as a unit of analysis. *Industrial and Corporate Change* 14 (5), 793– 815.
- Pentland, B.T., Feldman, M.S., (2005b). Designing routines: artifacts in support of generative systems. Presented in Sofia Antipolis, France, January 21–22.
- Pentland, B.T. and Feldman, M.S., (2008). Designing routines: On the folly of designing artifacts, while hoping for patterns of action. *Information and Organization*, 18(4), pp.235-250.
- Perry, G.E., Arias, O., Fajnzylber, P., Maloney, W.F., Mason, A. and Saavedra-Chanduvi, J., (2007). *Informality: Exit and Exclusion*. The World Bank.
- Peteraf, M.A., (1993). The cornerstones of competitive advantage: a resource-based view. *Strategic Management Journal*, 14(3), pp.179-191.
- Pettigrew, A. (1985). *The awakening giant*. Oxford, England: Basil Blackwell.
- Pettigrew, A. (1987). Context and action in the transformation of the firm. *Journal of Management Studies*, 24: 649-670.
- Pietkiewicz, I. and Smith, J.A., (2014). A practical guide to using interpretative phenomenological analysis in qualitative research psychology. *Psychological Journal*, 20(1), pp.7-14.
- Pike, A., Marlow, D., McCarthy, A., O'Brien, P. and Tomaney, J., (2015). Local institutions and local economic development: the Local Enterprise Partnerships in England, 2010–. *Cambridge Journal of Regions, Economy and Society*, 8(2), pp.185-204.

- Piabuo, S.M., Baye, F.M. and Tieguhong, J., (2015). Effects of credit constraints on the productivity of small and medium-sized enterprises in Cameroon.
- Polanyi, M., (2015). *Personal knowledge: Towards a post-critical philosophy*. University of Chicago Press.
- Polinsky, A.M. and Shavell, S., (2007). The theory of public enforcement of law. *Handbook of Law and Economics*, 1, pp.403-454.
- Porter, M.E., (1991). Towards a dynamic theory of strategy. *Strategic Management Journal*, 12(S2), pp.95-117.
- Porter, M.E., (1980). Industry structure and competitive strategy: Keys to profitability. *Financial Analysts Journal*, 36(4), pp.30-41.
- Portes, A. (1998). Social capital: Its origins and applications in modern sociology. *Annual Review of Sociology*, 24: 1-24.
- Potter, J., (1996). Discourse analysis and constructionist approaches: Theoretical background. British Psychological Society.
- Powell, W.W. and DiMaggio, P.J. eds., (2012). *The new institutionalism in organizational analysis*. University of Chicago Press.
- Powell, W. W. (1991). Expanding the scope of institutional analysis. In W. W. Powell & P. J. DiMaggio (Eds.), *The new institutionalism in organizational analysis*: 183-203. Chicago: University of Chicago Press. Prasad.
- Pratap, S. and Quintin, E. (2006), *The Informal Sector in Developing Countries*, UNU-WIDER, Helsinki.
- Putnam, R., (1993). The prosperous community: social capital and public life. *The American Prospect*, 13(Spring), Vol. 4. Available online: <http://www.prospect.org/print/vol/13> (accessed 7 April 2003).
- Qu, S.Q. and Dumay, J., (2011). The qualitative research interview. *Qualitative Research in Accounting & Management*.
- Rajan, R.G., (1992). Insiders and outsiders: The choice between informed and arm's-length debt. *The Journal of Finance*, 47(4), pp.1367-1400.
- Rajan, R. and Zingales, L., (1998). Financial development and growth. *American Economic Review*, 88(3), pp.559-586.

- Rajan, R.G. and Zingales, L., (2003). The great reversals: the politics of financial development in the twentieth century. *Journal of Financial Economics*, 69(1), pp.5-50.
- Rand, J. and Torm, N., (2012a). The benefits of formalization: Evidence from Vietnamese manufacturing SMEs. *World Development*, 40(5), pp.983-998.
- Rand, J. and Torm, N., (2012b). The informal sector wage gap among Vietnamese micro-firms. *Journal of the Asia Pacific Economy*, 17(4), pp.560-57
- Richerson PJ, Boyd R (2001). Built for speed, not for comfort: Darwinian theory and human culture. *Hist Philos Life Sci* 23(3/4):423–463.
- Ritchie, D.G., (1896). Social evolution. *The International Journal of Ethics*, 6(2), pp.165-181.
- Ritchie, J., Lewis, J., Nicholls, C.M. and Ormston, R. eds., (2013). *Qualitative research practice: A guide for social science students and researchers*. sage.
- Ring, P.S., Bigley, G.A., D'anno, T. and Khanna, T., (2005). Introduction to special topic forum: perspectives on how governments matter. *Academy of Management Review*, 30(2), pp.308-320.
- Robinson, J. and Acemoglu, R., (2012). *Why nations fail*. Crown Publishing Group.
- Robertson, I., (1978) *Sociology: an introduction*. Worth, New York
- Rock, R. and Otero, M., (1997). From margin to mainstream: The regulation and supervision of microfinance. *ACCION International Monograph Series*, (11).
- Rodrik, D., (2008). Second-best institutions. *American Economic Review*, 98(2), pp.100-104.
- Rogers, E.M., (1995). Diffusion of Innovations: modifications of a model for telecommunications. In *Die diffusion von innovationen in der telekommunikation* (pp. 25-38). Springer, Berlin, Heidelberg.
- Rohner, R. P. (1984). Toward a conception of culture for cross-cultural psychology. *Journal of Cross-Cultural Psychology*, 15: 111-138.
- Rotich, I., Lagat, C. and Kogei, J., (2015). Effects of microfinance services on the performance of small and medium enterprises in Kenya. *African Journal of Business Management*, 9(5), pp.206-211.



- Rose-Ackerman, S., (2017). A Review of Geoffrey M. Hodgson, *Conceptualizing Capitalism: Institutions, Evolution, Future*. *Journal of Economic Literature*, 55(1), pp.182-90.
- Rothstein, B. and Stolle, D., (2003). Introduction: social capital in Scandinavia. *Scandinavian Political Studies*, 26(1), pp.1-26.
- Rothstein, B. and Stolle, D., (2008). The state and social capital: An institutional theory of generalized trust. *Comparative Politics*, 40(4), pp.441-459.
- Rothstein, B.O. and Teorell, J.A., (2008). What is quality of government? A theory of impartial government institutions. *Governance*, 21(2), pp.165-190.
- Rothstein, B. and Varraich, A., (2017). *Making sense of corruption*. Cambridge University Press.
- Roy, D., Munasib, A. and Chen, X., (2014). Social trust and international trade: the interplay between social trust and formal finance. *Review of World Economics*, 150(4), pp.693-714.
- Ruben, R., & Heras, J. (2012). Social capital, governance and performance of Ethiopian coffee cooperatives. *Annals of Public and Cooperative Economics*, 83, 463–484.
- Sacerdoti, M.E., (2005). *Access to bank credit in sub-Saharan Africa: key issues and reform strategies* (No. 5-166). International Monetary Fund.
- Saeed, A., (2009). Formality Of Financial Sources And Firm Growth: Empirical Evidence From Brazilian Smes 1990-2005. *Journal of Academic Research in Economics*, 1(2 (October)), pp.129-140.
- Sagie, A. and Elizur, D., (1996). The structure of personal values: A conical representation of multiple life areas. *Journal of Organizational Behavior*, 17(S1), pp.573-586.
- Saldaña, J., (2015). *The coding manual for qualitative researchers*. Sage.
- Salta S. (2003). Microfinance institution support for entrepreneurship and business Development training and capacity building. Pp. 2.
- Safavi, M., Omidvar, O. and Glaser, V., (2020). Dynamic Inertia: How Organizations Avoid Adapting to Changes in the Environment. In *Academy of Management Proceedings* (Vol. 2020, No. 1, p. 17662). Briarcliff Manor, NY 10510: Academy of Management.

- Sandelowski, M. and Barroso, J., (2003). Classifying the findings in qualitative studies. *Qualitative Health Research*, 13(7), pp.905-923.
- Sandelowski, M., (2010). What's in a name? Qualitative description revisited. *Research in nursing & health*, 33(1), pp.77-84.
- Sauder, M. and Espeland, W.N., (2009). The discipline of rankings: Tight coupling and organizational change. *American Sociological Review*, 74(1), pp.63-82.
- Saunders, M.N., (2012). Choosing research participants. *Qualitative organizational research: Core methods and current challenges*, pp.35-52.
- Saunders, M., Lewis, P. and Thornhill, A., (2009). Research methods for business students 5th edition. *Prentice Hall*.
- Savage, M., (2000). *Class analysis and social transformation*. Open University Press.
- Savage, M., Li, Y. and Tampubolon, G., (2012). Rethinking the politics of social capital: challenging Tocquevillian perspectives. In *Assessing Social Capital: Concept, Policy and Practice* (Vol. 70, No. 94, pp. 70-94). Cambridge Scholars Publishing in association with GSE Research.
- Saviotti, P.P., (1996). Technological evolution, variety and the economy. *Books*.
- Schneider, F. and Enste, D., (2002). *Hiding in the shadows: the growth of the underground economy* (Vol. 30). International Monetary Fund.
- Schneider, F., (2005). Shadow economies around the world: what do we really know?. *European Journal of Political Economy*, 21(3), pp.598-642.
- Scholz, J.T., (1984). Cooperation, deterrence, and the ecology of regulatory enforcement. *Law and Society Review*, pp.179-224.
- Schiffer, M. and Weder, B., (2001). *Firm size and the business environment: Worldwide survey results*. The World Bank.
- Schunk, D.H., (2012). *Learning theories an educational perspective sixth edition*. Pearson.
- Schulz, F., Ernst, W. and Ernst, W., (1951). *Classical Roman Law* (pp. 142-61). Oxford: Clarendon Press.
- Schubert, C., (2014). "Generalized Darwinism" and the quest for an evolutionary theory of policy-making. *Journal of Evolutionary Economics*, 24(3), pp.479-513.
- Scott, W.R. and Dornbusch, S.M., (1975). *Evaluation and the Exercise of Authority*. San Francisco: Jossey-Bass Publishers.

- Scott, W.R., (1987). The adolescence of institutional theory. *Administrative Science Quarterly*, pp.493-511.
- Scott, S.M., (1995). Institutions and organizations.
- Scott, W. R. (2001). *Institutions and Organisations*, Sage, London.
- Scott, D.H., (2007). *Strengthening the governance and performance of state-owned financial institutions*. The World Bank.
- Scott, W.R., (2008). Approaching adulthood: the maturing of institutional theory. *Theory and Society*, 37(5), p.427.
- Scott, W.R., (2013). *Institutions and organizations: Ideas, interests, and identities*. Sage publications.
- Selznick, P., (1949). *TVA and the grass roots: A study in the sociology of formal organization* (Vol. 3). Univ of California Press.
- Selznick, P., (1957). Leadership in administration. New York: Harper & Row.
- Serritzlew, S., Sønderskov, K.M. and Svendsen, G.T., (2014). Do corruption and social trust affect economic growth? A review. *Journal of Comparative Policy Analysis: Research and Practice*, 16(2), pp.121-139.
- Shatkay, H. and Wilbur, W.J., (2000). Finding Themes in MedLine Documents. In *Proceedings of the IEEE Conference on Advances in Digital Libraries (ADL2000)*.
- Sheppard, B.H., Hartwick, J. and Warshaw, P.R. (1988) 'The theory of reasoned action: a meta-analysis of past research', *Journal of Consumer Research* 15: 325–343.
- Shepsle, A.K. and Bonchek, M.S., (1997). Analyzing politics: rationality, behavior, and institutions.
- Shinebourne, P., (2011). The Theoretical Underpinnings of Interpretative Phenomenological Analysis (IPA). *Existential Analysis: Journal of the Society for Existential Analysis*, 22(1).
- Shirley, M. M. (2008). Institutions and development. Cheltenham, United Kingdom: Edward Elgar Publishing Limited
- Shotter, J., (1993). *Conversational realities: Constructing life through language* (Vol. 11). Sage.
- Shuaibu, M. and Nchake, M., (2021). Impact of credit market conditions on agriculture productivity in Sub-Saharan Africa. *Agricultural Finance Review*.

- Siamwalla, A., Pinthong, C., Poapongsakorn, N., Satsanguan, P., Nettayarak, P., Mingmaneeakin, W. and Tubpun, Y., (1990). The Thai rural credit system: public subsidies, private information, and segmented markets. *The world bank economic review*, 4(3), pp.271-295.
- Silbey, S.S., (1981). Making sense of the lower courts. *Just. Sys. J.*, 6, p.13.
- Silbey, S., (1984). The consequences of responsive regulation. *Enforcing Regulation*, pp.147-170.
- Sleuwaegen, L. and Goedhuys, M., (2002). Growth of firms in developing countries, evidence from Cote d'Ivoire. *Journal of Development Economics*, 68(1), pp.117-135.
- Silva, L., (2007). Epistemological and theoretical challenges for studying power and politics in information systems. *Information Systems Journal*, 17(2), pp.165-183.
- Smedan.gov.ng. (2019). *SMEDAN– Small and Medium Enterprises Development Agency of Nigeria*. [online] Available at: <https://smedan.gov.ng/> [Accessed 1 May 2019].
- Smith, A., (1776). *The Wealth of nations*. Bantam Classics, New York. Reprint edition.
- Smith, A., (1937). *The Wealth of Nations*. Modern Library. New York, 423.
- Smith, J.A., (1995). Semi-structured interviewing and qualitative analysis.
- Smith, J.A., Harré, R. and Van Langenhove, L. eds., (1995). *Rethinking Psychology* (Vol. 3). Sage.
- Smith, J. A., Flowers, P., & Larkin, M. (2009). *Interpretative phenomenological analysis: Theory, method and research*. Los Angeles, CA: SAGE
- Smith, J.A. and Shinebourne, P., (2012). *Interpretative phenomenological analysis*. American Psychological Association.
- Smith, J.A. and Osborn, M., (2015). Interpretative phenomenological analysis as a useful methodology for research on the lived experience of pain. *British Journal of Pain*, 9(1), pp.41-42.
- Smith, J.A., (2017). Interpretative phenomenological analysis: Getting at lived experience. *The Journal of Positive Psychology*.
- Soldatos, G., (2016). An anti-austerity policy recipe against debt accumulation in the presence of hidden economy. *Asian Economic and Financial Review*, 6(2), pp.90-99.

- Soini, H., Kronqvist, E.L., Huber, G.L., Maxwell, J., Kiegelmann, M., Gento, S., Medina, A., Pina, J., Domínguez, M.C., Schweizer, K. and Korte, P., (2011.) *Qualitative Psychology Nexus Vol. VIII: Epistemologies for Qualitative Research*.
- Solow, R.M., (1957). Technical change and the aggregate production function. *The review of Economics and Statistics*, pp.312-320.
- Sønderskov, K.M. and Dinesen, P.T., (2014). Danish exceptionalism: Explaining the unique increase in social trust over the past 30 years. *European Sociological Review*, 30(6), pp.782-795.
- Sønderskov, K.M. and Dinesen, P.T., (2016). Trusting the state, trusting each other? The effect of institutional trust on social trust. *Political Behavior*, 38(1), pp.179-202.
- Soyibo, A., (1996). Financial linkage and development in Sub-Saharan Africa: the role of formal financial institutions in Nigeria. *ODI Working Paper (United Kingdom)*.
- Spender, J.C., (1989). What do Managers Really do for their Organizations?. *European Management Journal*, 7(1), pp.10-22.
- Sperry, R., 1987. Downward causation: The consciousness revolution in science. *Noetic Sciences Review*, 4, pp.18-21.
- Sperry, R.W., 1969. A modified concept of consciousness. *Psychological Review*, 76(6), p.532.
- Sperry, R.W., (1991). In defense of mentalism and emergent interaction. *The Journal of Mind and Behavior*, pp.221-245.
- Steier, L.P., 2009. Familial capitalism in global institutional contexts: Implications for corporate governance and entrepreneurship in East Asia. *Asia Pacific Journal of Management*, 26(3), p.513.
- Stein, J.C., (2002). Information production and capital allocation: Decentralized versus hierarchical firms. *The Journal of Finance*, 57(5), pp.1891-1921.
- Stern, R.E. and Barbour, P.A., (2005). Designing a small business tax system that enhances growth: Lessons from Africa. *Washington, DC: World Bank, Foreign Investment Advisory Service*.
- Stigler, G.J. and Becker, G.S., 1977. De gustibus non est disputandum. *The American Economic Review*, 67(2), pp.76-90.
- Stieglitz, N., Knudsen, T. and Becker, M., (2016). Adaptation And Inertia In Dynamic Environments. [online] Ideas.repec.org. Available at:

<<https://ideas.repec.org/a/bla/stratm/v37y2016i9p1854-1864.html>> [Accessed 23 October 2020].

- Stinchcombe, A. L., (1965). *Social Structure and Organizations*. In James March, ed., *Handbook of Organizations*. Chicago: Rand McNally
- Stinchcombe, A.L., (2000). Social structure and organizations. In *Economics meets sociology in strategic management*(pp. 229-259). Emerald Group Publishing Limited.
- Stolle, D. and Rochon, T.R., (2001). Are all associations alike?. *Beyond Tocqueville: Civil society and the social capital debate in comparative perspective*, pp.143-156.
- Strauss, A. and Corbin, J., (1998). *Basics of qualitative research techniques*. Thousand Oaks, CA: Sage Publications.
- Streeck, W., (1992). National diversity, regime competition and institutional deadlock: problems in forming a European industrial relations system. *Journal of Public Policy*, 12(4), pp.301-330.
- Sugden, R., (1989). Spontaneous order. *Journal of Economic Perspectives*, 3(4), pp.85-97.
- Sullivan, J., Peterson, R.B., Kameda, N. and Shimada, J., (1981). The relationship between conflict resolution approaches and trust—A cross-cultural study. *Academy of Management Journal*, 24(4), pp.803-815.
- Sullivan, J. and Peterson, R.B., (1982). Factors associated with trust in Japanese-American joint ventures. *Management International Review*, pp.30-40.
- Schwandt, T.A., (1994). Constructivist, interpretivist approaches to human inquiry. *Handbook of Qualitative Research*, 1, pp.118-137.
- Schwandt, T.A., (2007). Interpretivism.
- Szulanski, G., (1996). Exploring internal stickiness: Impediments to the transfer of best practice within the firm. *Strategic Management Journal* 17(Winter Special Issue) 27-43.
- Szulanski, G., (2000). The process of knowledge transfer: A diachronic analysis of stickiness. *Organizational behavior and human decision processes*, 82(1), pp.9-27.
- Szulanski, G., (2001). Appropriability and the Challenge of Scope: Banc One Routinizes 25. *The Nature and Dynamics of Organizational Capabilities*, p.69.

- Szulanski, G. and Jensen, R.J., (2004). Overcoming stickiness: An empirical investigation of the role of the template in the replication of organizational routines. *Managerial and Decision Economics*, 25(6-7), pp.347-363.
- Szulanski, G. and Jensen, R.J., (2008). Growing through copying: The negative consequences of innovation on franchise network growth. *Research Policy*, 37(10), pp.1732-1741.
- Taiwo, J.N., Falohun, T.O. and Agwu, E., (2016). SMEs financing and its effects on Nigerian economic growth. *European Journal of Business, Economics and Accountancy*, 4(4).
- Tavits, M., (2006). Making democracy work more? Exploring the linkage between social capital and government performance. *Political Research Quarterly*, 59(2), pp.211-225.
- Tanaka, A., (2020). *Power of Chowa: Finding Your Inner Strength Through the Japanese Concept of Balance and Harmony*. HarperCollins.
- Taylor, F.W., (1911). *The principles of scientific management* New York. NY: *Harper & Brothers*.
- Teece, D.J., (2012). Dynamic capabilities: Routines versus entrepreneurial action. *Journal of Management Studies*, 49(8), pp.1395-1401.
- Teece, D.J., Pisano, G. and Shuen, A., (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 18(7), pp.509-533.
- Temin, P., (2012). *The contribution of economics*. In: Scheidel, W. (Ed.), *The Cambridge Companion to the Roman Economy*. Cambridge University Press, Cambridge, pp. 45–70.
- Temin, P., (2013). *The Roman Market Economy*. Princeton University Press, Princeton.
- Thorne, S., (2000). Data analysis in qualitative research. *Evidence-Based Nursing*, 3(3), pp.68-70.
- Thomas, J.J., (1992). *Informal Economic Activity*, LSE Handbooks in Economics. Harvester Wheatsheaf, London.
- Thyfault, C., (1996). Developing New Generation Co-ops. *Rural Cooperatives*, 63(4).
- Tolbert, P.S. and Zucker, L.G., (1983). Institutional sources of change in the formal structure of organizations: The diffusion of civil service reform, 1880-1935.

- Tolbert, P.S. and Zucker, L.G., (1999). The institutionalization of institutional theory. *Studying Organization. Theory & Method. London, Thousand Oaks, New Delhi*, pp.169-184.
- Tomlin, B., (2008). Clearing hurdles: key reforms to make small businesses more successful. (Commentary No. 264). Toronto, Ontario CD Howe Institute.
- Triandis, H.C., (1989). The self and social behavior in differing cultural contexts. *Psychological Review*, 96(3), p.506.
- Triandis, H.C., (2005), March. Issues in individualism and collectivism research. In *Cultural and social behavior: The Ontario symposium* (Vol. 10, pp. 207-225). Mahwah, NJ: Lawrence Erlbaum Associates.
- Tsui, A. S., Nifadkar, S. S., & Ou, A. Y. (2007). Cross-national, cross-cultural organizational behavior research: Advances, gaps, and recommendations. *Journal of Management*, 33: 426-478
- Tsoukas, H., (1996). The firm as a distributed knowledge system: A constructionist approach. *Strategic Management Journal*, 17(S2), pp.11-25.
- Tulving, E. and Schacter, D.L., (1990). Priming and human memory systems. *Science*, 247(4940), pp.301-306.
- Tushman, M.L., Smith, W.K. and Binns, A., (2011). The ambidextrous CEO. *Harvard Business Review*, 89(6), pp.74-80.
- Tversky, A. and Kahneman, D., (1981). The framing of decisions and the psychology of choice. *Science*, 211(4481), pp.453-458.
- Tyler, T.R., (1990). *Why People Obey the Law* Yale University Press New Haven.
- Uchida, H., Udell, G.F. and Yamori, N., (2006). SME financing and the choice of lending technology. *Research Institute of Economy, Trade, and Industry (REITI) working paper*, 6.
- Uchida, H., (2011). What do banks evaluate when they screen borrowers? Soft information, hard information and collateral. *Journal of Financial Services Research*, 40(1-2), pp.29-48.
- Udry, C., (1990). Credit markets in Northern Nigeria: Credit as insurance in a rural economy. *The World Bank Economic Review*, 4(3), pp.251-269.



- United Nations Development Programme (ND). About Africa. Available at <https://www.africa.undp.org/content/rba/en/home/regioninfo.html>. Accessed on 17<sup>th</sup> January 2021.
- Van De Mierop, M., (2005). The invention of interest. Sumerian loans. *The origins of value*. Oxford University Press, Oxford, pp.17-30.
- Vaismoradi, M., Jones, J., Turunen, H. and Snelgrove, S., (2016). Theme development in qualitative content analysis and thematic analysis.
- Van Manen, M., 2016. *Phenomenology of practice: Meaning-giving methods in phenomenological research and writing*. Routledge.
- Vasilescu, L. (2014). Accessing finance for innovative EU SMEs –key drivers and challenges. *Journal of Economics and Business*, 12, pp. 35-47.
- Vasak, S., (2008). Small, medium, and large enterprises. *USAID Business Climate Reform*.
- Veblen, T., (1899). The Theory of the Leisure. *Class (New York: The New American Library, 1953)*.
- Veblen, T., (1898). Why is economics not an evolutionary science? *The Quarterly Journal of Economics*, 12(4), pp.373-397.
- Veblen, T., (1909). Fisher's rate of interest. *Political Science Quarterly*, 24(2), pp.296-303.
- Veblen, T.B., (1918). *The Instinct of Workmanship, and the State of the Industrial Arts* (Augustus Kelley, New York).
- Vogel, R. and Güttel, W.H., 2013. The dynamic capability view in strategic management: A bibliometric review. *International Journal of Management Reviews*, 15(4), pp.426-446.
- Von Pischke, J.D., Adams, D.V. and Donald, G., (1983). Rural financial markets in developing countries; their use and abuse.
- Watanabe, S. and Kanazawa, Y., (2021). Trust Building in the Globalizing Workplace of Japan. In *Trust and Trustworthiness across Cultures* (pp. 139-161). Springer, Cham.
- Walsham, G., (1993). „Interpreting Information Systems in Organizations“ Wiley Series on IS.

- Walsham, G., (1995). Interpretive case studies in IS research: nature and method. *European Journal of Information Systems*, 4(2), pp.74-81.
- Walsham, G., (2005). Learning about being critical. *Information Systems Journal*, 15(2), pp.111-117.
- Walsham, G., (2006). Doing interpretive research. *European Journal of Information Systems*, 15(3), pp.320-330.
- Wang, Y. and You, J., (2012). Corruption and firm growth: Evidence from China. *China Economic Review*, 23(2), pp.415-433.
- Weber, M., (2009). *The theory of social and economic organization*. Simon and Schuster.
- Wells, A.F., (1970). *Social institutions*. Heinemann Educational Publishers.
- Welter, F. and Smallbone, D., (2012). Institutional perspectives on entrepreneurship. In *Handbook on Organisational Entrepreneurship*. Edward Elgar Publishing.
- Wernerfelt, B., (1984). A resource-based view of the firm. *Strategic Management Journal*, 5(2), pp.171-180.
- White, H.C., (2008). *Identity and control: How social formations emerge*. Princeton University Press.
- Whitley, R., (1984). The scientific status of management research as a practically-oriented social science. *Journal of Management Studies*, 21(4), pp.369-390.
- Williams, C.C. and Schneider, F., (2013). *The shadow economy*. London, Institute of Economic Affairs.
- Williamson, C.R., (2009). Informal institutions rule: institutional arrangements and economic performance. *Public Choice*, 139(3-4), pp.371-387.
- Williamson, O.E., Brousseau, E. and Glachant, J.M., (2008). *The New Institutional Economics Guidebook*. *New Institutional Economics*.
- Willig, C., (2013). *Introducing qualitative research in psychology*. McGraw-Hill Education (UK).
- Winter, S. G., & Szulanski, G. (2001). Replication as strategy. *Organization Science*, 12(6), 730–743. <https://doi.org/10.1287/orsc.12.6.730.10084>
- Winter, S.G., (2013). Habit, deliberation, and action: Strengthening the microfoundations of routines and capabilities. *Academy of Management Perspectives*, 27(2), pp.120-137.

- Wittgenstein, L. (1958). *Philosophical Investigations*. Translation by: G.E.M. Anscombe. New York: Macmillan.
- Wholey, D.R. and Brittain, J.W., (1986). Organizational ecology: Findings and implications. *Academy of Management Review*, 11(3), pp.513-533.
- Wojnar, D.M. and Swanson, K.M., (2007). Phenomenology: an exploration. *Journal of Holistic Nursing*, 25(3), pp.172-180.
- Wood, W. and Neal, D.T., (2007). A new look at habits and the habit-goal interface. *Psychological Review*, 114(4), p.843.
- Wood, W. and Neal, D.T., (2009). The habitual consumer. *Journal of Consumer Psychology*, 19(4), pg.579-592.
- World Bank, (2009). Bringing finance to Pakistan's poor, a study on access to finance by the underserved and small enterprises.
- Yardley, L., (2000). Dilemmas in qualitative health research. *Psychology and health*, 15(2), pg.215-228.
- Yelwa, M. and Adam, A.J., (2017). Informality and economic growth in Nigeria: 1980-2014. *Journal of Economics and Public Finance*, 3(3), pp.405-417.
- Yusuf, S.A. (2008) 'Social Capital and Household Welfare in Kwara State, Nigeria', *Journal of Human Ecology*, 23(3), pp. 219–229. Doi: 10.1080/09709274.2008.11906074.
- Zanchi, V.V., Ehrl, P. and Maciel, D.T., (2020). Direct and Indirect Effects of Individualism and Institutions on Homicides. *Social Indicators Research*, pp.1-29.
- Zhao, Y. and Wang, X., (2020). Organisational unlearning, relearning and strategic flexibility: from the perspective of updating routines and knowledge. *Technology Analysis & Strategic Management*, pp.1-13.
- Zafirovski, M., (2018). Rational Choice Theory or Pretense? The Claims, Equivalences, and Analogies of the "Economic Approach to Human Behavior". *Sociological Spectrum*, 38(3), pg.194-222.
- Zeller, M. (1993). "Participation of rural households in informal and formal credit markets in Madagascar". Washington, D.C.: IFPRI.
- Zeller, M. (1994). "Determinants of credit rationing: A study of informal lenders and formal credit groups in Madagascar". *World Development*, vol. 22, no. 12: 1895–1907.

- Zeller, M. (1998). "Determinants of repayment performance in credit groups: The role of programme design, intergroup risk pooling and social cohesion". *Economic Development and Cultural Change*, vol. 46, no. 3: 599–620.
- Zou, Z., Liu, Y., Ahmad, N., Sial, M.S., Badulescu, A., Zia-Ud-Din, M. and Badulescu, D., (2021). What Prompts Small and Medium Enterprises to Implement CSR? A Qualitative Insight from an Emerging Economy. *Sustainability*, 13(2), p.952.
- Zhou, X., Li, Q., Zhao, W. and Cai, H., (2003). Embeddedness and contractual relationships in China's transitional economy. *American Sociological Review*, pg.75-102.
- Zhou, K.Z., Poppo, L. and Yang, Z., (2008). Relational ties or customized contracts? An examination of alternative governance choices in China. *Journal of International Business Studies*, 39(3), pg.526-534.
- Zhou, J.Q. and Peng, M.W., (2010). Relational exchanges versus arm's-length transactions during institutional transitions. *Asia Pacific Journal of Management*, 27(3), pg.355-370.
- Zhou, J.Q. and Peng, M.W., (2012). Does bribery help or hurt firm growth around the world?. *Asia Pacific Journal of Management*, 29(4), pg.907-921.
- Zucker, L.G., (1987). Institutional theories of organization. *Annual Review of Sociology*, 13(1), pg.443-464.
- Zysman, J., (1994). How institutions create historically rooted trajectories of growth. *Industrial and Corporate Change*, 3(1), pg.243-283.

## APPENDICES

**Appendix 1** – Examples of excerpts covering themes such as access denial, level of relationship and Bias (Full excerpts covering all the themes is available on request).

### **Superordinate theme - access denial**

Researcher: Do cooperatives consider factors like religious practises, norms, friends and family factors and code of conducts) when administering loan policies.

Respondent (Coop Expert): *Every member is treated on the basis of the laid down rules guiding the operations of the cooperative. No religion, ethnic, culture or any other factors are considered. The main thing is you must be someone that can be trusted. We used to have two Igbo (Igbos are from the eastern part of Nigeria) friends, one introduced the other, the first one uses to get loan regularly and he was a good payer. For some reasons, he had to move to another part of the country, and he requested that he needs to withdraw from the cooperative. Anyone planning to withdraw their funds will have to give six months' notice. This policy was applied to him and his money was paid back to him in full. It now remained his friend, unfortunately his friend couldn't get anyone to stand as guarantor for him because no one knows him. The only person that knows him had left. He approached other members, requesting if they can stand for him but those ones were scared because they don't know him well. This made it impossible for him to get a loan and he withdrew his membership.*

Researcher: What about those that don't (those that do not adhere to loan preconditions)?

*Respondent (Microfinance Institution - Expert): We cannot advance loan to those that don't imbibe good business practice e.g. keeping of record.*

*Respondent (SME Expert): If SMEs do not meet loan preconditions, they may end up not getting a bank loan. This may affect their performance negatively.*

**Subordinate theme - the level of relationship**

Researcher: Does meeting loan preconditions guarantees getting access to finance?

*Respondent (Commercial Bank-Expert): A customer must have opened an account with the branch for at least three months,*

*Respondent (Microfinance Institution - Expert): The business is also building their credit history which includes capacity building training. We are having forums together. This creates a big opportunity for us to get to know you and your business better.*

*Respondent (SME 10): You must have been contributing into your account and you must be six-month-old in the cooperative, if you enter the society in January, by June ending, you will be able to get.*

*Respondent (SME 8): They may come and may not come, if you have an account with them, they must have done their know your customer KYC, they know that you have an existing established office space, they know your operation is running there, and they know you have been banking with them because commercial banks will say you must be banking with them for like six months for them to know you before they can even give you money.*

### **Subordinate theme – bias**

Researcher: Why formal lenders have hesitation towards lending to SMEs?

Respondent (Islamic Bank-Expert): *SMEs' loan is one of the poor performing loans. Some will take fund and run away.*

Respondent (SME 6): *Somebody like me and some others discovered that they are not sincere with us, although I was the first person to meet up their final payment. Similarly, people are fond of not paying back and they will be feeling comfortable with it.*

**Researcher: Does meeting loan precondition guarantees access?**

Respondent (SME Expert): *In some cases, meeting the preconditions of a loan does not guarantee access, as most SMEs believe that even if they meet loan preconditions, banks may not still give them the loan. They have conditioned their minds that they cannot meet the conditions. They see the preconditions as an excuse for not trying to access a loan, thinking in their minds that it is not achievable.*

*However, the preconditions are achievable. The guidelines are there, anyone that wants to meet it can do so, by putting in place all loans requirements. Most entrepreneur or business owners have the belief that it is impossible to get credit from the bank. So when they now see the guidelines/preconditions they will not want to start the process of obtaining credit.*

## Appendix 2 - Nvivo screenshot

Global Strategy Project(NVivo 12) (NVivo 12) (NVivo 12) (NVivo 12).mvp - NVivo 12 Pro

File Home Import Create Explore Share

Clipboard: Paste, Merge, Cut, Copy  
 Properties, Open, Memo Link, Add To Set, Create As Code, Create As Cases  
 Explore: Query, Visualize  
 Coding: Code, Auto Code, Range Code, Uncode  
 Classification: Case Classification, File Classification  
 Workspace: Detail View, Sort By, Undock, Navigation View, List View, Find

**Files** Search Project

Name	Codes	References	Modified On	Modified By	Class
AJO-Expert (2)		0	0 15/01/2019 00:59	OA	
SME 7		6	7 02/08/2019 15:52	OA	
SME 4		7	7 02/08/2019 15:59	OA	
SME 10		9	13 14/11/2019 06:47	OA	
SME 5		12	15 14/11/2019 03:26	OA	
SME 3		12	19 02/08/2019 07:23	OA	
SME 2		13	14 02/08/2019 07:23	OA	
SME 4.		14	18 02/08/2019 16:03	OA	
SME 1		14	23 02/08/2019 07:23	OA	
SEF - Expert		15	23 22/05/2020 13:11	OA	
CB Expert		16	18 30/11/2019 21:17	OA	
SME 6		19	27 15/11/2019 07:43	OA	
SME 8		21	38 15/11/2019 07:43	OA	
DFI-Expert		21	28 02/08/2019 16:05	OA	
SME 9		21	33 02/08/2019 07:24	OA	
SME Representative		22	27 01/12/2019 10:50	OA	
Coop Expert		23	27 01/12/2019 11:52	OA	
Microfinance Institution - Expert		23	38 15/11/2019 00:24	OA	
IB-Expert		30	38 01/12/2019 00:18	OA	

OA 19 Items

Type here to search



**Appendix 3 – Steps in developing codes, themes and category**

Categories/Themes	Codes	Text/ Narratives
Impact of access	Adoption of new routine	<p><i>&lt;Files\Islamic Bank-Expert&gt; - § 2 references coded [10.14% Coverage]</i></p> <p><i>Reference 1 - 6.91% Coverage</i></p> <p><i>Researcher: If loan preconditions are made mandatory and no waiver is granted, would this in any way affect the way SMEs work and do things?</i></p> <p><i>Respondent: I think to a large extent since they are forced to keep proper books of account, pay attention to their daily operations, get their tax identification number(TIN), keep sales record etc. Therefore, it forces SMEs that are interested in getting a loan to keep those things in place and the expectation to apply for a loan again will make them to retain such practices.</i></p>
Growth	Acquisition of asset	<p><i>&lt;Files\Coop Expert&gt; - § 1 reference coded [2.91% Coverage]</i></p> <p><i>Reference 1 - 2.91% Coverage</i></p> <p><i>Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on the acquisition of asset?</i></p> <p><i>Respondent: Yes, access to a loan may result in SMEs acquiring more infrastructure i.e. motor vehicles, machinery etc.</i></p>

		<p>&lt;Files\DFI-Expert&gt; - § 1 reference coded [0.20% Coverage]  Reference 1 - 0.20% Coverage  We are sure our fund finance equipment for them</p>
Non-conformiy with loan precondition	Non-change in routine	<p>&lt;Files\Coop Expert&gt; - § 1 reference coded [3.55% Coverage]  Reference 1 - 3.55% Coverage  Researcher: Do you think meeting the preconditions of loan can make SMEs change or adopt new ways of doing things?  Respondent: Not sure.  Respondent: why are you not sure of this?  Respondent: because it is not our focus. We are only interested in the growth of our members business.</p> <p>&lt;Files\SME 10&gt; - § 3 references coded [5.96% Coverage]  Reference 1 - 1.82% Coverage  Researcher: So now, because of the need for loan, are you compelled by your cooperative society to have a sales register?  Respondent: No</p>
Precondition	Auditing of account	<p>&lt;Files\SME 4.&gt; - § 1 reference coded [0.23% Coverage]  Reference 1 - 0.23% Coverage  you need to get them audited</p>
The interplay between formal and informal rules	Enforcement	<p>&lt;Files\Coop Expert&gt; - § 1 reference coded [4.40% Coverage]  Reference 1 - 4.40% Coverage  Researcher: What do you do when there is a default?  Respondent: We have the power to close members business premises with police</p>

		<p>support, members would not want other neighbours to know that they are defaulting, this compels them to behave responsibly. If members are not adhering to laid down policies, they can be removed. Even executives can be removed.</p>
--	--	--

## Appendix 4 – Code

Name	Description
<p><b>Does not lead to growth</b></p>	<p>Reference 1 - 3.16% Coverage</p> <p>Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on the number of employees?</p> <p>Respondent: No, access to finance has no impact on the number of employees employed.</p> <p>Reference 2 - 6.58% Coverage</p> <p>Researcher:</p> <p>When SMEs follow a/the bank's laid down loan processes, would there be any effect on geographical expansion?</p> <p>Respondent: No, access to finance has no impact on the geographical expansion of SMEs.</p> <p>Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on diversification?</p> <p>Respondent: Diversification? No, access to finance has no impact on a business ability to diversify.</p>

<p><b>Impact of access</b></p>	<p>This speaks to the effects of access to financing have on beneficiaries.</p>
<p><b>Growth</b></p>	<p>Reference 1 - 2.91% Coverage</p> <p>Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on the acquisition of asset?</p> <p>Respondent: Yes, access to a loan may result in SMEs acquiring more infrastructure i.e. motor vehicles, machinery etc.</p> <p><u>DFI-Expert</u></p> <p>We are sure our fund finance equipment for them.</p> <p><u>Islamic Bank-Expert</u></p> <p>Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on the acquisition of asset?</p> <p>Respondent: Yes, access to a loan may result in SMEs acquiring more infrastructure i.e. motor vehicles, machinery,</p> <p><u>SME 1</u></p> <p>So any time we want to do new packaging, we must get a new cylinder. The cylinder has the capacity to print five colours and it cost #500.</p> <p><u>SME 4</u></p> <p>Researcher: What can you say your</p>

business has enjoyed in terms of growth because of getting a cooperative loan?

Respondent: When I wanted to get the loan from them, I told them I wanted to buy a distribution van. Which I did and that has helped the business tremendously. Anytime I want to take money from them I will tailor it to a project.

SME 5

We were able to acquire new equipment.

SME 8

packaging, a new product line, or new packaging. I will have to go to a proper bank like the Bank of Industry or a bank that can do asset financing, and they will buy the equipment and then I will be paying. The equipment will stand as a backup or guarantee, but I will have to make sure the equipment must be able to generate income; it will give my business a bit of ceiling in customer clientele, turnover and acceptability.

SME 9

We got our showroom upgraded to attract more customers

bought more equipment

SME Expert

Researcher: When SMEs follow a/the bank's laid down loan processes, would there be any effect on acquisition of asset?

Respondent: Yes, access to loan may result in SMEs acquiring more infrastructure i.e. motor vehicles, machinery.

## Appendix 5 – Interview schedule – the pilot study

The following are the typical questions asked, but some were tweaked in order to make them relevant to each respondent:

1. What loan preconditions SMEs must meet before a loan is granted?
2. Is there any flexibility in meeting the preconditions/Is there room for a waiver?
3. What alternative would SMEs adopt, if they do not want to or cannot adopt the bank's laid down condition when seeking a loan?
4. What would make SMEs not to adhere to the bank's laid down processes when seeking a loan?
5. Do you think meeting the precondition of loan can make SMEs change or adopt new ways of doing things?
6. When SMEs follow a/the bank's laid down loan processes, would there be any effect on growth?
7. When SMEs do not follow a/the banks' laid down loan processes, would there be any effect on growth?
8. The parameter used for growth in this study are:
  - a. increase or decrease in the number of employees,
  - b. increase/decrease in turnover,
  - c. increase or decrease in volume of sales,
  - d. increase or decrease in geographical expansion and
  - e. diversification, amongst others.
9. Does your financial institution (i.e. banks, cooperative society) consider regional conditions (i.e. religious practises, norms, friends and family factors and code of conducts) when administering loan policies?
10. Can loan application be granted based on their relationship with family members or friends that work in a bank, or through the payment of kickbacks or any other means that is not official?





## Appendix 6 – Interview schedule – main Study

1. What loan preconditions must you meet before a loan is granted?
2. What sources of financing do you usually adopt when seeking a loan?
  - Esusu collectors or ajo
  - Cooperative society
  - Development banks,
  - Commercial banks
  - Islamic bank
  - Microfinance banks
3. How many times have you been able to obtain a loan, from when you started your business until now?
4. What are the sources of loan you have obtained a loan from in the past?
5. What source(s) of finance did you get your first loan from?
6. What source(s) of the loan (formal and informal financial institution) did you get your second loan from?
7. What source(s) of the loan (formal and informal financial institution) did you get your third loan from... amongst others?
8. What are the preconditions of loan for each of the loans you have obtained to date?
9. Do you think meeting the preconditions of a loan can make you change or adopt new ways of doing things?
10. Did any of the sources of loan offer you any flexibility in meeting the preconditions?
11. What alternatives can you or other manufacturer's adopt, if you do not want to or cannot meet loan preconditions?
12. When you meet loan preconditions, what effect does it has on your enterprise
13. When you / SMEs do not meet loan preconditions, would there be any effect on:

- increase or decrease in the number of employees,
- increase/decrease in turnover,
- increase or decrease in volume of sales,
- increase or decrease in geographical expansion and
- diversification, amongst others.

14. Does meeting loan preconditions guarantees getting access to finance?

15. How does getting access to finance affect your business?

16. What factors have made you to defaults in the past?

17. How were you treated by the financial institution?

18. What effects does it have on your business?

## Appendix 7 – Excerpts coded as preconditions

Researcher: What loan preconditions must SMEs meet before a loan is granted?

Respondents: -

Coop expert:

*They have to become members of the cooperative before they become members, they must be introduced by two old members, two guarantors will be required from you before the loan is provided- and they must be able to stand for them when the loan is being sought, after six months of regular contribution new members will be eligible for the loan, if the loan is paid back within six months, a new loan request will be approved which will be times three of the borrower's deposit, completion of the loan application form, etc.*

SME 5:

*What I have to put in place include the registration as a Limited Liability Company, National Agency for Food and Drug Administration and Control (NAFDAC) registration, employing a biochemist, business plan, a structure that house the factory including its Photocopy of title documents to project site (Statutory Certificate of Occupancy or Deed of Assignment), Collateral Security- Legal mortgage on a landed property. The property must be duly registered with a Certificate of Occupancy.*

*Other requirements include:*

- 1. formal Letter of Application.*
- 3. Photocopies of the Certified True Copy of Forms C02 and C07.*
- 4. Business Plan.*
- 5. Approved Building Plan (If new building).*
- 6. Bill of Quantities or Contractor's Estimate of Cost to be incurred on Factory Building.*

7. Valuation Reports on Factory Building(s) (for existing projects) and property offered as Collateral Security.

8. Quotations for items of plant and machinery (at least 3 quotations from different sources).

9. Three (3) years most recent Audited Accounts of the company (for existing company).

10. Three (3) years most recent Tax Clearance Certificate for the Company and two (2) Directors.

11. Four (4) recent passport photographs of the business owner

12. Evidence of appointment of a Company

Researcher: Why do you need a Biochemist?

Respondent: Operationally, I have to get a Biochemist (this is a NAFDAC condition).

#### SME 9

we gave them our account, statement of account of the bank's guarantors, two guarantors which we were able to provide. They sent a letter, a guarantor needs to state their account details, their net worth of their assets, I think the letter guarantee that we pay a certain sum in case of default".

## Appendix 8 - SME Assigned Names And Sources Of Finance

Participants assigned names)	Lenders	No of sources
SME 1	SEF	1
SME 2	SEF	1
SME 3	SEF	1
SME 4	DFI & Cooperative society	2
SME 5	Money Lender, Friends and Family, & DFI	3
SME 6	MFI	1
SME 7	Commercial Bank	1
SME 8	Commercial Bank and MFI	2
SME 9	Islamic Bank	1
SME 10	Cooperative Society	1

## Appendix 9 - Ethics Approval Letter (Pilot Study)

SOCIAL SCIENCES, ARTS AND HUMANITIES ECDA  
ETHICS APPROVAL NOTIFICATION

**TO** Olajide Ajewole

**CC** Dr Denise Dollimore

**FROM** Dr Tim Parke Social  
Sciences, Arts and  
Humanities ECDA Chair

**DATE** 8<sup>th</sup> August 2017

---

Protocol number: BUS/PGR/UH/03198

Title of study: *The moderating impact of formal and informal financial institutions on the growth of small and medium scale enterprises in the Nigerian manufacturing sector.*

Your application for ethics approval has been accepted and approved by the ECDA for your

School and includes work undertaken for this study by the named additional workers below:

This approval is valid:

**From: 08/08/17**

**To: 31/08/17**

**Additional workers: no additional workers named**

Please note:

If your research involves invasive procedures you are required to complete and submit an EC7 Protocol Monitoring Form, and your completed consent paperwork to this ECDA once your study is complete.

The approval applies specifically to the research study/methodology and timings as detailed in your Form EC1/EC1A. Should you amend any aspect of your research, or wish to apply for an extension to your study, you will need your supervisor's approval and must complete and submit form EC2. In cases where the amendments to the original study are deemed to be substantial, a new Form EC1A may need to be completed prior to the study being undertaken.

Should adverse circumstances arise during this study such as physical reaction/harm, mental/emotional harm, an intrusion of privacy or breach of confidentiality this must be reported to the approving Committee immediately. Failure to report adverse circumstance/s would be considered misconduct.

Ensure you quote the UH protocol number and the name of the approving committee on all paperwork, including recruitment advertisements/online requests, for this study.

Students must include this Approval Notification with their submission.



## Appendix 10 - Ethics Approval Letter (Main Study)

SOCIAL SCIENCES, ARTS AND HUMANITIES ECDA  
ETHICS APPROVAL NOTIFICATION

TO Olajide Timothy Ajewole

CC Dr Denise Dollimore

FROM Dr Timothy H Parke, Social Sciences, Arts and  
Humanities ECDA Chairman

DATE 16/01/18

Protocol number: aBUS/PGR/UH/03376(1)

Title of study: The moderating impact of formal and informal  
financial institutions on the growth of small and medium scale  
enterprises in the Nigerian manufacturing sector

Your application to modify and extend the existing protocol as  
detailed below has been accepted and approved by the ECDA  
for your School and includes work undertaken for this study by  
the named additional workers below:

Modification: Modifications approved as per the request made in  
the EC2

This approval is valid:

From: 16/01/18

To: 30/06/18

Additional workers: no additional workers named

Please note:

If your research involves invasive procedures you are required  
to complete and submit an EC7 Protocol Monitoring Form, and  
your completed consent paperwork to this ECDA once your  
study is complete. You are also required to complete and submit

an EC7 Protocol Monitoring Form if you are a member of staff. This form is available via the Ethics Approval StudyNet Site via the 'Application Forms' page <http://www.studynet1.herts.ac.uk/ptl/common/ethics.nsf/Teaching+Documents?OpenView&count=9999&restrictcategory=Application+Forms>

Any conditions relating to the original protocol approval remain and must be complied with.

Any necessary permissions for the use of premises/location and accessing participants for your study must be obtained in writing prior to any data collection commencing. Failure to obtain adequate permissions may be considered a breach of this protocol.

The approval applies specifically to the research study/methodology and timings as detailed in your Form EC1/EC1A or as detailed in the EC2 request. Should you amend any further aspect of your research, or wish to apply for an extension to your study, you will need

your supervisor's approval (if you are a student) and must complete and submit a further EC2 request. In cases where the amendments to the original study are deemed to be substantial, a new Form EC1A may need to be completed prior to the study being undertaken.

Should adverse circumstances arise during this study such as physical reaction/harm, mental/emotional harm, an intrusion of privacy or breach of confidentiality this must be reported to the approving Committee immediately. Failure to report adverse circumstance/s would be considered misconduct.

Ensure you quote the UH protocol number and the name of the approving committee on all paperwork, including recruitment advertisements/online requests, for this study.

Students must include this Approval Notification with their submission.



**Appendix 11 – Consent Form**

**UNIVERSITY OF HERTFORDSHIRE  
ETHICS COMMITTEE FOR STUDIES INVOLVING THE USE  
OF HUMAN PARTICIPANTS**

**FORM EC3  
CONSENT FORM FOR STUDIES INVOLVING HUMAN  
PARTICIPANTS**

I, the undersigned *[please give your name here, in BLOCK CAPITALS]*

.....  
.....

of *[please give contact details here, sufficient to enable the investigator to get in touch with you, such as a postal or email address]*

.....  
.....

hereby freely agree to take part in the study entitled *[insert name of study here]*

.....  
.....

(UH Protocol number .....) )

- 1 I confirm that I have been given a Participant Information Sheet (a copy of which is attached to this form) giving particulars of the study, including its aim(s), methods and design, the names and

contact details of key people and, as appropriate, the risks and potential benefits, how the information collected will be stored and for how long, and any plans for follow-up studies that might involve further approaches to participants. I have also been informed of how my personal information on this form will be stored and for how long. I have been given details of my involvement in the study. I have been told that in the event of any significant change to the aim(s) or design of the study I will be informed and asked to renew my consent to participate in it.

- 2 I have been assured that I may withdraw from the study at any time without disadvantage or having to give a reason.
- 3 In giving my consent to participate in this study, I understand that voice, video or photo-recording will take place and I have been informed of how/whether this recording will be transmitted/displayed.
- 4 I have been told how information relating to me (data obtained in the course of the study, and data provided by me about myself) will be handled: how it will be kept secure, who will have access to it, and how it will or may be used.
- 5 I understand that if there is any revelation of unlawful activity or circumstances that would or has put others at risk, the University may refer the matter to the appropriate authorities.

Signature \_\_\_\_\_ of  
participant.....Date.....

.....  
Signature \_\_\_\_\_ of \_\_\_\_\_ (principal)  
investigator.....Dat  
e.....

Name of (principal) investigator [in BLOCK CAPITALS please]

.....  
 .....

**Appendix 12 - Underground Economic Activities Typologies**

Activity type	Tax evasion	Tax evasion	Tax evasion	Tax invasion
LEGAL ACTIVITIES	Unreported income from self-employment. Wages, salaries, and assets from unreported work related to legal services and goods	Employee discounts, fringe benefits	Barter of legal services and goods.	All do-it-yourself work and neighbour help.
	Transaction			
	Monetary		Non – Monetary	
ILLEGAL ACTIVITIES	Trade in stolen goods; drug dealing and manufacturing; prostitution; gambling; smuggling; fraud.		Barter of drugs, stolen, or smuggled goods. Producing or growing drugs for own use. Theft for own use.	

Structure of table from Lippert and Walker, *The Underground Economy: Global Evidence of its Size and Impact*. Vancouver, B.C., The Frazer Institute, 1997.

**Appendix 13 - SME participant profiles**

Participants	Profile	Lenders	No of sources
SME 1	Male. CEO Confectionary business. Secretary of Lagos Stare Chapter of	SEF	1

	National Ass of Small-Scale Industrialists		
<b>SME 2</b>	Male. MBA. Home Products business. Member of Lagos State Small Scale Industrialist Association	SEF	1
<b>SME 3</b>	Male. CEO carpet manufacturing & trading Co.	SEF	1
<b>SME 4</b>	Male. PhD. Owner. Pharmaceuticals manufacturing business	Cooperative society & DFI	2
<b>SME 5</b>	Male. BA. (wife joint owner) Process & packaging business	Friends and family, money lenders & DFI	3
<b>SME 6</b>	Male. Owner. Factory equipment manufacturing business.	MFI	1
<b>SME 7</b>	Male. Owner. Beverage manufacturing business	Commercial bank & friends and family	2
<b>SME 8</b>	Female. Owner. Food processing and packaging business	Commercial bank & MFI	2
<b>SME 9</b>	Male. Owner. Floor tiles and marble manufacturing business	Islamic bank	1
<b>SME 10</b>	Female. Retiree. Owner. Nylon Manufacturing business. Member Cooperative Society (15 yrs)	Cooperative society	1

**Appendix 14 - Themes that emerged during the pilot and main study**

<b>Superordinate Themes</b>		<b>Subordinate themes</b>	
<b>Superordinate themes that emerged during the pilot study and the main study</b>	<b>Superordinate themes that emerged during the main study only</b>	<b>Subordinate themes that emerged during the pilot study and the main study</b>	<b>Subordinate themes that emerged during the main study</b>
<b>The sacrosanct nature of precondition</b>			
<b>The satisfaction of loan preconditions and access</b>			
<b>Impact of Access</b>		Routine change	
		Growth	
	Impact of routine change		Becoming formalised
			Efficiency
	Non-compliance to loan preconditions		
	Non-change in routine		



<b>The interplay between formal and informal financial lenders on the growth of SMEs</b>		Improved access
		Loan assessment
		Transparency