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An Examination of Effectuation Dimension as Financing Practice of Small and Medium Enterprises in Southwestern Nigeria

[1]Afolabi Y.A., [2]Agboola J.O. & [3]Odebunmi A.T.
[1&3]Department of Business Administration, Osun State Polytechnic, Iree. Nigeria
[2]Department of Office Technology and Management Studies, Osun State Polytechnic, Iree. Nigeria

Abstract: *This study examined effectuation framework as alternative source of finance for SMEs in developing nations context. Specifically, the study examined how the framework fit into the traditional ways and culture of local entrepreneurs as against the formal financial institutions with their attendant obstacles or stringent requirements. A mixed method approach of qualitative approach within a dominant quantitative technique was used to analyse data obtained from a total of 748 firms through questionnaire, while four owner-managers, who were purposively selected, were interviewed in-depth. Data obtained were analysed using descriptive statistical tools and inferential statistical tools of independent t-test, logit regression and effectuation logics. Findings revealed entrepreneurs in SMEs engage in internal financing practices with a strong statistical evidence of dependency on internal financing and that they employ effectuation logics in all its dimensions to circumvent stringent institutional financing requirements with a view to achieving their objectives.*
Key Words: *effectuation theory; effectuation logic; entrepreneurship; small business; internal financing; external financing.*

I. Introduction

The increasing interest in business entrepreneur, who sees value in the creation of new products, services, markets, and even processes in the form of transformational change that is mutually beneficial, is giving impetus to the renewed hope that sustainable solutions to persistent economic crises across contemporary economies is in the horizon. Business entrepreneurs pioneer innovative and systematic approaches for improving value propositions of available economic resources that is fundamentally improving people's lives. Accordingly, elements such as socioeconomic improvements and public goods have been recognized as essential outcomes of entrepreneurship. Affirming this view, Martins and Osberg (2007), posits that entrepreneurial outcomes occur when an entrepreneur successfully brings personal characteristics to bear on a suboptimal equilibrium in order to create a new stable equilibrium that provides a meaningfully higher level of satisfaction for the participants in the system. This implies it is the potential outcomes with its attendant ability to drive social and economic change having lasting transformational benefits to the society that make entrepreneurs and their practices outstanding. This become manifests when one considers the fact that entrepreneurial outcomes in terms of Small and Medium Enterprises (SMEs) across economies account for a large portion of the labor force, a large portion of enterprises and also a large portion of national income.

Moreover, a sizeable portion of the population already earn their living in micro or small and medium enterprises, though earning poor wages, most especially in low income developing countries (OECD 2006). Ayyagari, Beck and Demirguc-Kunt (2003) reported that SMES and informal enterprises in low income countries, account for over 60 per cent of Gross Domestic Product (GDP) and 70 per cent of total employment. In Nigeria, SMEs when combined with micro enterprises contributed 46.54 percent to GDP in Nominal terms. A total of 32, 414, 884 persons were employed by the micro enterprises sector as at December 2010. While a total of 39,478 persons were employed in small and medium enterprises, representing 22,139 males (56.08%) and 17,339 females (43.92%) (SMEDAN/NBS, 2012). In spite of these laudable feat, SMEs in many emerging markets and developing countries do not have access to financing (Beck, Demirguc-Kunt, and Maksimovic, 2004; Berger and Udell, 2006 and OECD 2006). Financial institutions, such as commercial banks, usually refuse to serve poor households and micro-enterprises because of the high cost of their nature of transactions, lack of traditional collateral, lack of basic requirements for financing and geographic isolation. By doing so, these institutions ignore the enormous potential in talents and entrepreneurship of this stratum of society.

It is on these premise this study examined the effectuation framework as alternative source of finance for SMEs in developing nations context. Specifically, the study examined how the framework fit into the traditional ways and culture of local entrepreneurs as against the formal financial institutions with their attendant obstacles or stringent requirements

The Entrepreneurship Concept

The diversity of approaches to the study of entrepreneurship is recognized in literatures (Baumol, 1990; Wong et al, 2005; Henreckson, 2007). Henreckson (2007) proposes that the multiplicity of definitions/roles is due to the fact that the subject is studied in virtually all disciplines from social anthropology to mathematical economics. Similar view by Baron and Shane (2008) affirms that entrepreneurship, as a branch of business, has important roots in economics, behavioural science and sociology. From the economics perspective, entrepreneurship is often studied from the occupational approach, behavioural approach and outcomes approach. An individual is usually viewed from the occupational perspective as being in wage employment, self-employed or unemployed. This approach sees entrepreneurs/potential entrepreneurs as the pool of unemployed who tend to eke out a living through the platform of self-help in small and medium enterprises. It is from this perspective the Global Entrepreneurship Monitor (GEM) seek to measure entrepreneurship between necessity and opportunity-driven motives (Wong et al., 2005).

From the behaviuoral perspective, Schumpeter (1934), saw entrepreneur as coordinator of production processes, a change agent (creative destruction) and therefore an innovator. In the same vein, Kizner (1973) view an entrepreneur as an individual who initiates and facilitates adjustment to changes by spotting opportunities for profitable ventures. Similar view expressed by Schultz (1975), saw it as anyone who can perceive an economic disequilibrium, evaluate its attributes and if it is found to be worthwhile, act by reallocating resources in order to exploit opportunities. Whereas these functions often manifest in the form of new firms creation, it is not exclusive. As observed by Schultz (1975), entrepreneurship needs not result in creation of new firms, it can manifest as part of management functions within existing firms, and thus we have the deliberate pursuit of creative solutions to organization problems usually labeled as corporate entrepreneurship, strategic entrepreneurship or intrapreneurship.

It has been observed, however, that not all forms of entrepreneurship are good for economic development (Baumol, 1990; Wong et al, 2005; Henreckson, 2007). From the outcomes perspective, GEM in 2002, using survey data from 37 countries, observed that only high-potential entrepreneurial activity is positively associated with economic growth (Wong et al., 2005). Baumol (1990) also affirms that entrepreneurs are persons who are ingenious and creative in pursuing ways and means that add up to their personal stock of wealth, power and status. Similar view by Henreckson (2007), proposes that entrepreneurship can be seen as a continuous quest for economic rents (i.e. rate of returns that exceed the risk-adjusted market returns). Such rents could be sourced from access to natural resources, patents, and/or tacit knowledge and are obtainable through different means from innovative activities to fraudulent means. By implication, entrepreneurs engage in a process of continuous innovation, creating solutions to socio-economic problems in quest for economic rents. This study is interested particularly in the entrepreneurial processes of financing business enterprises in the face of mounting obstacles, most especially in developing countries. Thus we adopt Adele (2014) definition of entrepreneurship as a social and managerial process by which individuals/groups identify, evaluate and exploit opportunities, and with available resources plan, design, produce and bring to the market products/services that are mutually beneficial.

Small Business Concept

Small businesses are critical component of, and major contributor to the, strength of local economies. They present new employment opportunities and serve as building blocks of US largest corporations (SBA, 2007). They represent 99.7% of all employer firms since 1995, generating 64% of new jobs and account for 44% of the total US private payroll (SBA, 2007). In the same vein, it has been observed that most UK businesses today fall under one-man business category, they constitute important source of employment to the economy. While about 2.5 million of UK workers are self-employed, some 90% of them employ less than 6 people and they constitute important platform through which a plethora of new ideas and innovations are created (SBA, 2007).

One of the most influential conceptual definitions of a small business was provided in the report of Bolton (1971). He stated that the small business had to fulfill the following:

- Be owned and managed by the same individual(s)
- Be legally independent
- Have a small share of the market.

The emphasis placed on to be owned and managed by the same individual(s) is to distinguish small business from large businesses. Large businesses are usually managed by professionals who are quite separate from the owners or shareholders of the business. The emphasis upon legal independence is to make a distinction between a small enterprise and a small establishment. And the emphasis on small share of the market or a large share of a tiny market place is to reflect the lack of market power among small businesses.

The European Union definition for small and medium-sized enterprises (SMEs) includes the following elements (Eurostat, 2008).
1. The use of the term SMEs includes all enterprises with up to 250 employees.
2. The sub-categories of SMEs are Micro businesses with an upper employment threshold of fewer than 10 employees; small businesses with an employment threshold of between 10 and 49 employees; and Medium – sized businesses with 50 and 249 employees.
3. It is not only the number of employees that influences the definition. Other influences include (sales) and assets (balance sheet). In US, thresholds can vary depending on the sector, for example, 'smallness' threshold for US wholesalers is 100 employees, while in the non-goods producing sectors, it is set at annual sales receipts of US$6 million (SBA, 2008).

Table 1: European Union SME definitions

Enterprise Category	**Head Count**	**Turn Over or**	**Balance Sheet**	**Total**
Medium-sized	<250	≤€50 million	≤€43million	
Small	<50	≤€10 million	≤€10 million	
Micro	<10	≤€2 million	≤€2 million	

Source: EU (2008)

Though there is no clear cut definition of SMEs in Nigeria, the WBDR rely on the National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Association of Nigeria (SMEDAN) definitions (Appendix 1) that classify small business to include Micro Scale Enterprises (MSE) and Small Scale Enterprises (SSE). MSE is defined as those with assets value of less than five million naira or of less than ten employees, SSE include those enterprises with assets between five and fifty million naira or paid employees of between ten and forty-nine employees, while MSE are those with between fifty and one hundred and ninety-nine paid employees or with assets value between fifty and five hundred million naira (SMEDAN/NBS, 2012).

Sources of Finance to Small Business

Berger and Udell (2006) identify two broad categories of financing sources available to small enterprises and they are, the external and internal sources of finance while the small enterprises rely on internal sources of financing, such as, retained profits and personal savings, the large enterprises rely on external sources like, private placement of equity and commercial papers. Zoppa and McMahon (2003) buttress the view that SMEs tend to embrace internal financing practices more than external financing. The results of their study (Zoppa and McMahon, 2003) amongst a panel of 871 manufacturing SMEs taken from Australia government's business longitudinal survey provide further empirical evidence, suggesting pecking order financing practices among SMEs, though modified to reflect special circumstances and peculiarities of SMES financing..

Competitive market, in classical economic theory, rests on a number of assumptions, among which is the notion of perfect knowledge of market conditions. The market place of entrepreneurial finance on the other hand, is not so perfect because it only provides us with an understanding of market operations and its efficiency (Storey and Greene 2010). Storey and Greene (2010) point out that, if the market works well, good borrowers will get funds and bad borrowers will be denied. They further explain that the skill to differentiate good borrowers from bad borrowers determines the finance supplier's success in entrepreneurial finance market place.

Han, Fraser and Storey (2009a), identify three characteristics that differentiate entrepreneurial finance from corporate finance (that is associated with large business). These are: entrepreneur's personal characteristics, in terms of his personal wealth role in accessing finance; there is a greater emphasis on the risk associated with business closure that can result into loan default; and lack of information about the business or their owners, referred to as opaque. The identified characteristics are the themes that run through discussion of entrepreneurial finance theories like: agency theory; information asymmetries; failure costs and pecking order hypothesis.

The agency theory is applied in a context where there is mutual beneficent relationship between two parties, the principal and the agent. Storey and Green (2010) explain that the framework is based on three assumptions: (1) that the principal engages in actions that will benefit the agent in which the principal expects a payback; (2) that the principal has an imperfect knowledge on the activities of the agent and that the agent objectives are not congruent with that of the principal; (3) that it is costly for the principal to monitor the activities of the agent and ensure compliance. The theory is relevant to our understanding of the relationship between a small business and its financier. A financier of a business, the principal will expect his agent the small business to spend funds in such a way that will ensure repayment with interests and at the specified time.

Bootstrap finance is another approach hinged upon developing a variety of creative financing techniques by owners of SMEs to meet business financing needs without resort to traditional commitments or market obligations (Bhide, 1992; Winborg and Landstroom, 2001). The bootstrap finance approach is meant to show that a focus on institutional or external market finance solution for SMEs or newer businesses could be misplaced. The contention of researchers in bootstrap finance is that resources acquired through bootstrap finance techniques could meet the needs of such businesses more appropriately in many situations (Bhide, 1992; Winborg and Landstroom, 2001). The bootstrap finance techniques encourage SMEs owners to exploit social or economic transactions that are outside traditional institutional approach to meet financing needs. (Bhide, 1992; Winborg and Landstroom, 2001). The techniques encourage owners of businesses: to exploit personal resources; to utilize personal short-term borrowing; to request funding from relatives; to barter for services; to acquire money through quasi-equity arrangements; to cooperate for better customer access; to negotiate for client-based funds; to manage assets effectively; to lease equipment; to outsource production; and to seek subsidies or incentives or grants (Bhide, 1992; Winborg and Landstroom, 2001).

Myers (1984) and Myers and Majluf (1984) studies develop the pecking order hypothesis in relation to large business. The framework argues that business with good future prospect, will avoid situations where they have to sell share to outsiders for fear of dilution of the ownership and control. They would rather seek alternative sources of financing and the most favoured will be internal financing in that pecking order on the basis that it requires no repayment.

Parker and Storey (2010) study explains that where the owners of business are sure of success, they are unlikely to share ownership with others; they will instead rely on other sources of financing apart from equity participation.

The Theory of Effectuation

The theory of effectuation is a contrast to the current causation theory in entrepreneurship. The predictive causative model 'takes a particular effect as given and focus on selecting between means and how to select possible effects that can be created with the given means (Sarasvathy, 2001).

Sarasvathy (2001) uses a metaphor of preparing a meal, to clearly explain the effectuation theory, so as to draw out the distinction between the linear predictive causative model and the control and contingency oriented effectuation model. The theory is means-driven and not goal-driven and thereby eliminating the assumption of pre-existing goals. The theory suggests, that creation of artifacts is a reflection of the entrepreneur's individual situation, in particular, who you are, what you know and whom you know (Sarasvathy, 2001). These three categories are the "means" or resources that entrepreneurs start with, the combination of which determines what types of idea or opportunities they should pursue. These so-called means reflect the entrepreneur's "own traits, tastes and abilities; the knowledge corridors they are in and the social networks they are part of" (Sarasvathy, 2001).

Effectuation framework offers an alternative to the widely use causation logic, where decision makers start with pre-determined goals and gather resources to achieve the goal (Sarasvathy, 2001). Whereas, in effectuation, entrepreneurs start with the resources that are available to them, without pre-determined goals and as a result, outcome may be just one of many possibilities. Effectuation reasoning can therefore, allow entrepreneurs to change and also shape and reconstruct overtime, thereby making use of contingencies as they arise, hence the ability to control the future rather than predict it (Sarasvathy, 2001).

Effectuation explanation becomes clearer when juxtaposed with the causation logic where causation is based on the logic of prediction that claims "to the extent that we can predict the future, we can control it" effectuation logic on the other hand is based on the logic of control "that is to the extent that you control the future, you do not need to predict it" (Sarasvathy, 2001).

Sarasvathy (2001) put forward four principles upon which the theory is predicated and these are:
Affordable loss, rather than expected returns;
Strategic alliances, rather than competitive analyses;
Exploitation of contingencies, rather than pre-existing knowledge and
Control of an unpredictable future, rather than prediction of an uncertain one

The role of entrepreneur is the creation of endogenous opportunities, this they do by creatively circumventing resource-constraint environment, re-directing pre-existing resources while creating new opportunities through the exploitation of existing resources (Baker, et.al, 2003; Di Domenico, et.al, 2011;

Venkataraman, et.al, 2012). This effectual approach is linked to flexible opportunity creation through the exploitation of contingencies either from external environment or from leveraging on their extant resources (Sarasvathy, 2001; Chandler, et.al, 2011). It seeks to leverage the accumulated resources with emphasis on experimentation, and at the same time identifying possible endogenous opportunities from locally available resources, hence, its approach is associated with action-oriented, community engagement and with resource-constraint as catalyst for the resulting creativity (Chandler, et.al, 2011; Fisher, 2012).

Financing practices of SMES in Nigeria based on SMEDAN/NBS (2012) survey that was conducted in 36 states of the federation including Federal Capital Territory, Abuja, and 300 Micro enterprises per state were surveyed, while 4000 SMES across 12 sectors of the economy were also covered. The findings of the survey show most SMES are operated by personal savings which represents 84.6 percent of their financing. Family source represents 29.8 percent of financing practices. While loan and cooperative/Esusu were other major sources of financing representing, 9.2 percent and 8.0 percent respectively. The financing practices as showing from the survey findings still support the notion that external financing is very negligible for SMES.

Obstacles to Small Business Finance

The access to finance difficulties experienced by SMEs stem from several sources: the domestic financial market may contain an incomplete range of financial products and services; the lack of appropriate financial mechanism in itself may be a function of, regulatory rigidities or gaps in the legal framework; monitoring difficulties such as principal/agent problems and asymmetric information (OECD 2006). Therefore, suppliers of finance may rationally choose to offers range of financial services that leaves significant number of borrowers without access to finance. The group that is mostly going to be affected by this rational offer will be the SMEs because of their operational opacity. The access to finance difficulty will even be made more worst if the business environment lacks transparency, weak legal system, reluctance to fund start-ups, young firms that lack collateral and firms with risky activities (OECD, 2006).

The financial institution and other external sources of finance are reluctant to finance SMEs in Nigeria because they are perceived as high risk borrowers, due to insufficient assets, vulnerability to market fluctuations and high failure rate; information asymmetries due to lack of good financial book-keeping or business plans to assess the viability of their proposals; and high administrative/transaction costs of lending or investing small amounts making SME financing unprofitable (Abereijo and Fayemi, 2005). Mambula (2002) study, lists two other reasons, not included in Abereijo and Fayemi (2005) and these are: judicial system is inefficient, contracts cannot be easily enforced; and the business environment is generally uncertain and risk prone. Therefore, when banks lend to SMEs, they charge more and apply tougher requirements that make it difficult to access external finance (Abereijo and Fayemi, 2005).

The difficulty in accessing finance for SMEs, a very low share of credit (external finance) where available and the situation where majority are often denied any access to formal markets is worrisome because for two reasons:

1. The financial and institutional deficiencies might prevent SMEs from growing to their optimal size and thus explain the lack of an empirical causal link between SMEs and economic development (Beck & Demirguc-Kunt 2006);
2. This might also be related to the development of phenomenon of "informality in emerging markets in which many enterprises operate outside the formal system" (OECD, 2006).

Ayyagari, Demirguc-kunt and Maksimovic (2010) buttress the phenomenon of informal financing with their study. Their study suggests that in fast growing economy like China, SMEs substitute the informal financing for the formal system because the latter can only take care of small fastest growing SMEs. However, there are three factors in favour of this culture of informal financial system and these are:

1. established financial institutions are not interested in dealing with SMEs and hence there is no incentives for them to operate transparently;
2. entrepreneurs in SMEs seek to avoid regulations and taxations associated with the formal sector; and
3. lack of administrative capacity on the part of government to enforce laws and regulations and this particular factor is more germane to most developing and poor countries (OECD, 2006).

The more specific obstacles to access to finance for SMEs from the financial sector, for better understanding of the nature of the difficulties are: (a) Collateral requirements of banks and financial institutions; (b) Bank paperwork and bureaucracy; (c) High interest rates; (d) Need for special connection with banks and financial institutions; (e) Bank lack of money to lend; (f) Access to foreign banks: (g) Access to non-bank equity; (h) Access to financing from leasing equipment; (i) Inadequate credit and financial information on customer; (j) Access to long term loans; (k) Whether corruption of Bank officials creates a problem (Beck, Demirguc-Kunt and Maksimovic 2004).

These identified problems posed by the financial sector to finance access by SMEs are by no means uniform to all SMEs in different economies and regions of the world. Beck, Demirguc-kunt and Maksimovic (2004) study and OECD (2006) report indicate that SMEs in countries with higher levels of, financial intermediary development, stock market development, legal system efficiency, high GDP per capital, and institutional development, report lower financing obstacles.

II. Methodology

A mixed-method approach was used for the purpose of this research. Four firms, two small enterprises and two medium enterprises from the study sample, were purposively selected to be investigated more in-depth, which is exploratory in nature. Another group of seven hundred and forty-eight (748) small and medium enterprises were investigated generally for the purpose of statistical generalisation. This approach affords us the benefit triangulation - of comparing data from the two methods for analytical generalization of this study to the population of SMEs in the study area. Data obtained were analysed through the instrumentality of descriptive statistical tools to describe financing practices of SMEs; independent t-test to determine differences between financial practices of small and medium enterprises; logit regression to analyse data relating to their dependence on either internal or external sources and effectuation logics to determine its relevance to the traditional financing practices within the study area.

The sets of constructs employed to formulate appropriate questions for the achievement of our research objectives were as contained in the principles of effectuation that form the kernel upon which our questionnaire is based. Each construct was defined within the eight dimentions of effectuation logics identified as study variables formulated into structured questions to elicit information on financing practices of respondents. Firstly, the consideration of small business owners of maximum affordable loss. This implies that effectuators embrace strategies that are affordable rather than focusing on maximisation of returns from a new venture. They rely on owner's past business experience; personal savings; soft loans from family and friends – without strict option of repayment or interests; and owners reputation. Secondly, they make use of contingencies rather than extant knowledge. Thus they tend to be flexible with available resources at their disposal as well as the ones they did not possess (i e leverage from pre-payments from customers, credit purchases from suppliers) in order to take advantage of emergent opportunities. Thirdly, they embrace experimentation in their attempt to achieve objectives. This implies that rather than trying to predict an uncertain future to meet a set of pre-determined outcomes, they focus on elements they can either control, with respect to the resources (means) at their disposal or which they can access. This they do by co-opting other stakeholders into joint exploitation of opportunities through credit purchases from suppliers, pre-payments by customers, thereby spreading risks while creating opportunities. And as opined by Bhowmick (2011), they also thinker with available resources to create endogenous opportunities. Lastly, they build strategic alliances by securing pre-commitments from key stakeholders thus sharing business risks. These, as noted by Chandlier et al (2011) they achieve through obtaining credit purchase from suppliers and prepayments from buyers thereby reducing affordable loss while opening up new opportunities. These ensure all stakeholders together determine the future of the new venture.

From the foregoing, the study hereby identify eight (8) dimensions of effectuation logics that are means-driven, based on who you are, what you know and who you know upon which to explore the extent of use of the logics by small and medium enterprises in their financing practices, especially in the study context. these dimensions include: prepayments from customers; credit purchase from suppliers; personal credibility; one's reputation; trade association assistance; experience from previous business activities, assistance from competitors and assistance from family and friends.

III. Results and Discussion

The purpose of this study was to determine the extent of use of effectuation logics in the financing practices of SMEs, especially in developing nation's context. This is predicated on the general presumption that they do not have access to financing, and in an attempt to circumvent this problem, certain strategies are employed among which is an effectuation logic. In order to do justice to this major objective the study first and foremost examined differences (if any) between financing practices of small and medium scale enterprises, while also exploring the extent of dependence of these enterprises on internal financing options that are similar to effectuation approach but dissimilar in the sense that unlike effectuation approach, they are market-based transactions.

The results obtained show that the financing practices of owner-managers of small enterprises are not significantly different from the owner-managers of medium enterprises except in two financing practices of BFML and FFSOB. It is evidenced from table 6 (Appendix 1) that for the entire variables tested except for BBML and FFSOB, the computed p-values are greater than α 0.05 and as a result the financing practices of owner-managers of small enterprises are similar across different sizes of small and medium enterprises (see appendix).

This finding is consistent with Berger and Udell (2006) that small and medium enterprises engage in the same financial practices of reliance on internal financing mainly. Story and Greene (2010) also show comprehensive sources of financing available to SMEs that they share regardless of sizes. It is also in consonance with the World Bank (2009) study and the SMEDAN/NBS (2012) survey that provide evidence that small and medium enterprises share similar financing practices. Udell (2009) also provides evidence that SMEs also use external financing practices that are transaction-based lending technologies such as asset-based financing, asset financing, leasing and real estate lending. Berger and Udell (2006) framework also takes the position that the characterization that internal financing is meant for informational opaque SMEs while external financing is meant for informational transparent borrowers such as large businesses as flawed. The results of these cited studies are all in support of the findings of this study that there is no statistical significant difference in the financing practices of entrepreneurs in small and medium enterprises Southwestern Nigeria. The current financing climate in Nigeria supports this result in the sense that government treats the sector as a distinct group in terms of financing interventions and other institutional supports framework that is envisaged to fast track the growth and development of the sector to fulfill its potentials.

The results are further affirmed with a p-value of 0.000, meaning all the independent variables are jointly statistically significant to the dependent variable - internal financing. The results also reveal that RE, BFF, PS and SLGFF are all individually statistically significant to dependent variable - internal financing, based on two-tail p-values of RE – 0.000, BFF – 0.038, Ps – 0.040 and SLGFF have the strongest relationship with the dependent variable followed by BFF and PS while MH with two-tail p-value of 0.479, as shown in Table 4 (Appendix 1), is not statistically significant to the dependent variable-internal financing. Given the foregoing the study concludes that financing practices of owner-managers of small and medium enterprises are dependent on internal financing. This conclusion dovetails with results of other studies, that show the reliance of small and medium enterprises on internal financing (Berger and Udell, 2006; Storey and Greene, 2009).

Lastly, the exploration of the extent to which effectuation logics explain the financing practices of SMEs owner managers in Southwestern Nigeria is divided into two by this study; the first part is the descriptive statistics on the data gathered from the 748 small and medium enterprises surveyed. The second aspect is on the qualitative data gathered through personal interview conducted on four enterprises. The results from the two aspects are hereby compared for purposes of literal and analytical generalization of the results.

The descriptive statistics on data obtained from the 748 enterprises as related to effectuation logics measured with respect to: prepayment from customers; credit purchase from suppliers; personal credibility of the entrepreneurs; the reputation of the entrepreneurs; trade association assistance; experience from previous business activities; assistance from family and friends as well as assistance from competitors are as presented.

Table 1(Appendix 1) shows that 52.28% of sampled respondents agree/strongly agree they make use of prepayments as a financing strategy for their business. This is a fair evidence of effectuation logic based on who you know, It provides effective alternatives to entrepreneurs who were hitherto prevented from accessing institutional financing by stringent official requirements. The result shows stronger evidence from the 25% rating by the World Bank study of 2009. On the use of credit purchase from suppliers, Table 1 (Appendix 1) shows majority of sampled respondents (62.71%) agree/strongly agree they employ credit purchase as a strategy for financing their business. This is also an alternative approach, a means-driven to finance based on who you know. It is also a strong evidence of effectuatoin logics bearing in mind the fact that about 85% of entrepreneurs, who sought, cannot secure financing through official institutions.

On the use of owner-manager’s personal credibility to secure financing for business, Table 1 indicated that 72.06% of sampled respondents agree/strongly agree they employ this strategy. This is a strong evidence of effectuation logic employed buy entrepreneurs in this clime. As noted by Sarasvathy (2001) it is a means-driven approach based on who you are. Closely related to this is the use of personal reputation of owner-manager. And as shown in Table 4.4, a whopping 71.53% of sampled respondents agree/strongly agree to the use of reputation to secure necessary finance for their business. This is a strong evidence of effectuation logic based on who you are. It is a means-driven approach that provides alternative financing devoid of market transaction costs that saves them from cumbersome institutional requirements. As stated by Sarsvathy (2001), this is one of the strongest pillar upon which effectuation theory is based.

On the use of trade association to garner supports for owner-manager, Table 1 indicates that 55.08% of sampled respondents agree/strongly agree that they rely on membership of trade unions for various supports to their business. This comes in terms of supply of strategic information, trade protection, and every kind of synergy including financing that are necessary for the survival of business. This is a fair evidence that owner-manager in this clime employed effectuation logic as a means of financing their business. And as stated by Sarasvathy (2001), it is an evidence of effectuation logic, mean's-driven based on who you know.

On the use of experience from previous business activities, Table 1 (Appendix 1) shows majority of sampled respondents (60.56%) agree/strongly agree they rely on previous experience to drive their business to success. As noted by Read and Sarasvathy (2005), this is effectuation logic, a mean's-driven approach based on what you know. It is a strong pillar of the theory that enables managers employs their knowledge corridor to navigate the murky waters of business.

Table 1 shows 64.45% of sampled respondents agree/strongly agree that financial assistance from family and friends form high proportion of their financing practices. This is a major aspect of financing practices prevalent in this clime through which owner-managers circumvent ownership dilution as well as financing their business without the rigours of institutional requirements. And as stated by Sarsvathy (2001), this is a means-driven approach based on who you know. A strong pillar of effectuation logic through which entrepreneurs finance their businesses without the rigours of institutional requirements

Assistance from competitors is another aspect of effectuation logic that ensures entrepreneurs leverage on building alliances, cooperating with one another to circumvent obstacles. However, Table 1 shows that a paltry 27.00% of sampled respondents agree/strongly agree they get assistance from competitors to support their business. This is at variance with effectuation theory. It is against the principle of effectuation which is based on cooperation that enables entrepreneur leverage on resources they do not possess.

From the qualitative data generated, through personal interview of the four (4) sampled owner-managers of enterprises, analysis of the textual description is done using effectuation logic along its identified eight (8) dimensions of prepayments from customers; credit purchase from suppliers; personal credibility; one's reputation; trade association assistance; experience from previous business activities, assistance from competitors and assistance from family and friends. Results from descriptive analysis of the 748 surveyed enterprises are hereby compared in triangulation to make this study more robust and overcome the weakness or intrinsic biases of any kind.

As shown in Table 5 all the interviewees are male with ages range from 34 years to 56 years,this age bracket is considered as the middle age group that constitutes the majority of Nigeria population (NPC, 2006), with 60%. The average number of years of business experience of the four interviewees is ten years which is sufficient for them to understand the nature of questions asked and for one to expect accurate in their responses. The owner managers of these small and medium enterprises are well educated. Three out of the four interviewees have tertiary education background with two out of the three possessing a Ph.D. degree. Only one out of the three interviewees has a basic secondary school education.

The ownership structure is 50% sole proprietorship and 50% partnership; this is not out of place with the findings in the ownership structure of the 748 small and medium enterprises surveyed, where the majority of the enterprises are sole proprietorship. The assets value of all the four enterprises falls within #10million to #30million which means they can all be considered as small enterprises based on SMEDAN/NBS (2012) definition of small and medium enterprises. The number of employees also ranges from 15 to 23 employees, based on the SMEDAN/NBS definition of small and medium enterprises, the four owner-managers enterprises can also be classified as small enterprises.

Table 2 shows that only one of the interviewees engaged in the use of prepayments from customers in his financing practices. This result shows that the prepayments from customer which is means-driven approach based on whom you know logic of effectuation theory is not prevalent among the interviewees. The textual description of one of the respondents goes thus:

Participant 4

"It plays a significant role, keeps you on your toes, because if you don't pay back, you might not be granted another credit. Very important and since I started, some credits that I took even before I started are still being recycled gradually on the terms we agreed on".

This result which is 25% of the interviewees admitting to the use of this logic, also shows evidence that the logic is employed by SMEs in Southwestern Nigeria, though not a strong evidence when compared with the 41.85% of the 748 enterprises surveyed in the quantitative analysis. Both figures are evidence but not strong evidence in support of this particular effectuation logic in explaining financing practices of SMEs.

As shown in Table 2, the analysis of data of the interviewees also shows that two of the owner-managers employ use of credit purchase from suppliers in their financing practices. Thus 50% of the interviewees employ this means-driven approach based on who you know to drive their financing practices. This result is not far off from the (62.71%) positive result from the quantitative survey of the 748 small and medium enterprises with 62.71%. The textual descriptions from two of the four participants in the personal interview conducted are as presented below:

Participant 1

"We buy in bulk and always from them, so they grant us the room to buy by credit, their retail price is higher so it is advisable for us to buy at lower price"
Participant 3
"We have lots of credit purchase from different companies, they'll bring in bulk maybe two or three weeks, some a month before we repay for the credit"

The results from both the quantitative and qualitative analysis with 62.71% and 50% respectively are strong evidence that small and medium enterprises in Southwestern Nigeria employ this technique considered as effectuation logic in their financing practices.

The results from Table 2 also show that all the interviewees engage in the use of one's personal credibility in financing practices. This result translates into 100%. This result also confirms the result from the quantitative analysis with 72.06%. Therefore these two results provide strong evidence that small and medium enterprises in this clime make use of this financing logic which is means-driven based on who you are a principle of effectuation theory (Sarasvathy, 2001).

The results from Table 2, based on analysis of data provided by the interviewees, show that 50% engage in the use of one owns reputation in their financing practices. This result and that of 71.53% result of the quantitative analysis of 748 enterprises surveyed in Southwestern Nigeria provide strong evidence that owner-managers of enterprises are making use of this logic. Use of one's own reputation in financing is an effectuation logic based on who you are (Sarasvathy, 2001).

As shown from Table 2, two of the interviewee indicated that trade association assists in their financing. The textual descriptions of the respondents on this question go thus:
Participant 1
"They have been helpful, the union executives do negotiate with government agencies on our behalf. We sometimes get soft loans from cooperatives and it helps
Participant 2
"They give us assistance, at times, they will load petrol for us and later we pay them back".

This can be translated into 50% of the respondents. The figure from the quantitative analysis of 748 small and medium enterprises surveyed with 55.08% is similar and they both provide evidence of these entrepreneurs making use of this effectuation logic based on who you know with emphasis on cooperation and alliances building instead of competition logic of causation theory.

Table 2 also shows that all the interviewees use their experience from previous business activities to drive their financing practices. These results translate into 100% and confirm the 60.56% of the respondents surveyed in the quantitative analysis. The textual descriptions of two respondents on use of experience from previous business activities are expressed as follows:
Participant 3
"No businessman can do without that. I have gone round Nigeria, gathered experience from different states to improve my experience, what they do in Lagos and other places, maybe in Osogbo it's not done, so I acquired all those knowledge and utilize them perfectly".
Participant 4
"The past experience in business world really helped me, but that experience that I first use in getting the structure down and after that educational background then came in, because in consulting with the ministry in registration of the school, in recruiting teachers, so my academic helped along that line".

Use of experience from previous business activities that is means-driven based on what you know, as a result of your knowledge corridor and deliberate practices, are principles of effectuation theory. This is strong evidence that entrepreneurs make use of this effectuation logic that provides an alternative financing technique to fill financing gaps arising from failings of market and institutional financing of SMEs.

As shown from Table 2, only one of the interviewees agrees to the use of assistance from competitors in their financing practices, this result translates into 25%. This result confirms the result from the qualitative analysis of 748 small and medium enterprises with 27.00% of the respondents agree/strongly agree to the use of this effectuation logic. This particular effectuation logic is premised on the principle of cooperation instead of competition preached by causation logic. These two results show evidence that entrepreneurs make use of this logic as an alternative financing practice to fill financing gaps but it is a weak evidence.

IV. Conclusion

Effectuation framework is been carefully examined to a large extent in this study. The study examined differences between financing practices of small and their medium-sized counterpart, while also exploring their dependence on internal financing. Assessment is made of the financing practices of SMEs which to a large extent favours internal financing and that most owner-managers employ effectuation logics of prepayment from customers; credit purchase from suppliers; personal credibility of the entrepreneurs; the reputation of the entrepreneurs; trade association assistance; experience from previous business activities; assistance from family and friends as well as assistance from competitors.

Findings revealed that SMEs across context prefer internal financing, as it prevent ownership dilution which is antithetical to culture and tradition of entrepreneurs in the study area. This makes them rely on the use of internal sources of financing upon which they can leverage freely without the need to meet stringent institutional requirements and sometimes no need for repayment conditionalities.

Furthermore, the study shows relatively strong indications that entrepreneurs in SMEs traditionally make use of means-driven effectuation logics in their financing practices across all its dimensions to the extent the study results indicate use of pre-payment from customers (33.50%); credit purchase from suppliers (51.5%); personal credibility (86.00%); owner-manager reputation (61.00%); experience from previous business activities (80.50%); support from Trade Association (55.08%) and assistance from competitors (27.00%). Thus the study has shown that effectuation theory is a relevant framework to explain the financing practices of entrepreneurs in this study area.

Arising from the above, it could be observed that enterprise funding/financing could be relatively de-emphasised through the general adoption of effectuation logics. And that policy makers should focus more attention on improving every dimension of effectuation logic with a view to improving business environment for entrepreneurship. The example of Banque populaire in France as well as Girozentralen in Germany where deliberate efforts were made to institutionalise cooperative society s financial system into the mainstream monetary system suffices. Apart from the fact that it makes business finance easier for the teaming poor, it affords monetary authorities opportunity to monitor and effectively control their economies. Effectuation framework is suggested should be mainstreamed into the training and education of entrepreneurs in Nigeria. The knowledge of this means-driven approach to achieve entrepreneurial plans when taught particularly to nascent entrepreneurs will go a long way to stimulate the growth and development of small and medium enterprises sector of Nigeria economy.

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APPENDIX 1

Table 1: Sampled Respondents Responses in Percentages (%)

Particulars	Strongly Disagree	Disagree	Don't Know	Agree	Strongly Agree
Prepayment form Customers	17.78	22.06	18.32	33.56	8.26
Credit Purchase from Supplies	11.50	12.83	12.97	49.47	13.24
Personality Credibility	9.63	9.22	9.09	56.15	15.91
One's Reputation	9.22	9.89	9.36	55.35	16.18
Trade Association Assistance	14.17	16.04	14.71	42.78	12.30
Experience from Previous Business Activities	9.63	16.18	13.64	46.26	14.30
Assistance from Competitors	39.57	17.51	15.91	21.39	5.61

Source: Field Survey, 2014.

Table 2: Effectuation Logics Employed by SMEs Entrepreneurs

Effectuation Logics	Participant 1	Participant 2	Participant 3	Participant 4
Prepayments from customers	-	-	-	√
Credit purchase from suppliers	-	√	√	-
Personal credibility	√	√	√	√
One's reputation	-	√	√	-
Trade association assistance	-	√	-	-
Experience from previous business activities	√	√	√	√
Assistance from competitors	-	√	-	-
Assistance from family and friend	-	√	-	√

Source: Field Survey, 2014.

Table 3: Logistic Regression Results of dependency on internal financing

Logistic regression

Number of obs = 748
LR chi2(5) = 106.39
Prob > chi2 = 0.0000
Log likelihood = -279.49829 Pseudo R2 = 0.1599

Variable	Co-eff.	Std. Err.	Z	P>|z|	[95% Conf. Interval]	
RE	.6376994	.0996836	6.40	0.000	.4423232	.8330757
BFF	.2389179	.1151029	2.08	0.038	.0133203	.4645156
PS	.1963086	.0956052	2.05	0.040	.008926	.3836913
MH	.0624687	.088228	0.71	0.479	-.1104551	.2353924
SLGFF	-.3563985	.1002859	-3.55	0.000	-.5529553	-.1598417
_cons	-1.081701	.3656272	-2.96	0.003	-1.798317	-.3650844

Source: Field Survey, 2014.

Table 5:Personal/Business Characteristics of Interviewees

Participants	Gender	Age	Years in Business	Education Level	Ownership Legal Structure	No of Business	No of Employers	Asset Value
1	Male	34	8yrs	Ph.D./MBA	Sole proprietorship	3	23	#12m
2	Male	52	15yrs	High School	Private limited company	3	20	#10m
3	Male	56	15yrs	BA/B.Sc.	Partnership	2	15	#12m
4	Male	51	3	Ph.D.	Partnership	2	18	#30m

Source: Field Survey, 2014.

Table 6: Differences in financing practices between small and medium enterprises

Variable	**Small**	**Medium**	**Difference**	**T-value**	**Significance**
RE	3.876	3.667	0.209	1.310	NS
BFF	2.862	2.759	0.102	0.054	NS
PS	3.850	3.833	0.017	0.091	NS
MH	2.732	2.667	0.653	0.316	NS
SLGFF	2.948	3.093	0.145	0.728	NS
BOFI	3.197	3.370	0.173	0.838	NS
FEBA	2.696	2.944	0.249	1.326	NS
FEVC	2.620	2.833	0.214	1.140	NS
OF	2.918	2.982	0.064	0.326	NS
TL	3.097	2.852	0.245	1.322	NS
ABF	2.594	2.741	0.147	0.768	NS
AF	2.672	2.778	0.106	0.562	NS
BFML	2.699	3.130	0.431	2.190**	S
NBFI	2.997	3.333	0.336	1.636	NS
FFSOB	2.914	3.315	0.401	1.913*	S

Source: Field Survey, 2014.
** significant at 5%
* significant at 10%

ACRONYMS

ABF – Asset-Based Financing
AF – Asset Financing
BFF – Borrowing from Family and Friends
BFML – Borrowing from informal sources
BOFI – Banks and Other Financial Institutions
FEBA – Fresh Equity from Business Angle
FEVC – Fresh Equity from Venture Capitalists
FFSOB – Financing from state owned bank and/or government agency
MH – Mortgage on Home
NBFI – Non-bank financial institution
OF – Overdraft Facility
PS – Personal Savings
RE – Retained Earnings
SLGFF – Soft Loans and Gifts from Family and Friends
TL – Term Loans