



**EXAMINING SME OWNERS' WILLINGNESS TO SUBMIT
PERSONAL AND BUSINESS DOCUMENTS AS A PROXY
FOR TRUST AND CREDITWORTHINESS:
*THE PSYCHOLOGICAL COLLATERAL PARADIGM***

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Abstract

Moving beyond the conventional analysis of tangible assets and financial documentation as mere bureaucratic requirements, this research posits that an SME owner's willingness to submit personal and business documents constitutes a critical, non-physical form of collateral. It symbolizes trust, transparency, and commitment to institutional scrutiny. Employing a quantitative survey methodology with 45 management staff from selected Nigerian commercial banks, the study utilized descriptive statistics and chi-square analysis to test its hypotheses. The findings robustly confirm that significant documentation is required by banks ($\chi^2 = 47.945 > 7.82$) and that proper record-keeping is intrinsically linked to business growth ($\chi^2 = 59.737 > 7.82$). Crucially, it reveals that a notable minority (13.3%) of SME owners are *unwilling* to provide required documentation, a barrier not fully explained by a lack of capacity. This study concludes that the documentation process is not only a filter for creditworthiness but also a psychological threshold for entrepreneurs. The paper argues that enhancing SME access to finance requires interventions that address these psychological and trust-based barriers, alongside traditional financial and technical support. Recommendations include designing client engagement strategies that reduce perceived intrusion and building institutional trust to convert psychological reluctance into cooperative transparency.

Keywords: *Small and medium-scale enterprises, Psychological Collateral, SME Financing, Trust Architecture, Documentation Barrier, Creditworthiness Signaling.*

Introduction

Small and Medium Enterprises (SMEs) play a critical role in most economies. The sector accounts for most businesses and are important contributors to job creation and global economic development, particularly in developing countries. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies (Worldbank, 2025). These numbers are significantly higher when informal SMEs are included. Many experts have acknowledged SMEs as the primary driver of economic growth and a key driver of private sector development and collaboration. It is estimated that about 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes the development of SMEs a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.

Despite the popularity of using a government loan guarantee scheme as a tool to address the credit rationing issue for SMEs that are more likely to be financially constrained, the evidence on the potential relevance, the effectiveness in targeting the certain groups of credit rationed borrowers, and the further in-depth discussion and review of the important design features of these schemes are still scarce (Crawford et al., 2023; Bachas et al., 2021). In many developing nations, SMEs face enormous obstacles. Among the difficulties, finance is the most concerning. Since banks aim to reduce their risk profile, most SMEs are not particularly appealing prospects.

The growth strategy and development of SMEs is especially important for Nigeria. In addition to greatly raising living conditions, the SMEs generate a significant amount of local capital and reach high levels of competence and productivity. In most nations, SMEs make up more than half of the overall share of employment, sales, and value contributed. From a planning perspective, SMEs are increasingly acknowledged as the primary way of attaining equitable and considerable industrial diversification and dispersal. The lack of a robust and successful SMEs has been a significant weakness in Nigeria's industrial development process in recent years. Massive displacement and painful devaluation brought about by the Structural Adjustment Programme nearly destroyed the little progress made by the brave efforts of the first generation of local businessmen.

Prior to the Bankers Committee's 2001 intervention with a program called the Small and Medium Industries Equity Investment Scheme (SMIEIS), the situation in Nigeria was not all that different. Government credit programs that are poorly planned and executed are consigned to the background. The Banker's Committee is an organization made up of Nigerian bank leaders. On December 21, 1999, at their 246th meeting, this plan was adopted. They claim that this was a reaction to President Obasanjo's concerns and policy initiatives to support SMEs as a means of accelerating economic growth, reducing poverty, and creating jobs. According to the plan, 10% of all Nigerian banks' profit before taxes (PBT) must be set aside for equity investments in small and medium-sized businesses. The plan went into effect on June 19, 2001. The government is supposed to provide fundamental infrastructure and social services to support small companies. Nigeria's economic situation is very restrictive, with a lot of attention being paid to large companies that are continuously cutting back on their operations. Small and medium-sized business owners have often accused banks of giving money to their friends and preferred businesses. However, the banks have refuted these claims, claiming that many SMEs are unable to meet their requirements. The paper aims to test the following hypotheses

1. There are no significant documents that SMEs are expected to provide before they can obtain loans from banks.
2. The personal resources of owners committed to the business does not affect the growth of the business.
3. There is no relationship between keeping proper records and the growth of SMEs.

Methodology

The primary objective of this chapter is to illustrate the research methodology that was employed to accomplish the study's objective. This includes the procedures used to collect the data, the instruments used, and the statistical techniques used to assess the data. The data required will be the primary data and secondary data. The primary sources of data are the questionnaire and the personal interview method. While secondary source of data includes business Journals, Newspapers, Magazines and Textbooks.

Questionnaires were administered within the population (management staff of different banks). The questionnaires comprise of two sections, A and B. Section A of the questionnaire contains four (4) questions considering the personal data of respondents. While Section B dealt with the field of study. These were directed to various departments and staff in the banking sector. Due to the nature of this research work, simple percentage methods will be used in analyzing the different findings. This is because it makes for easy interpretation and analysis, also for easy

conclusions. The analysis process is that the proportion of the positive and negative responses were expressed in percentages and analyzed.

The study's participants are all of Nigeria's commercial and merchant banks. Five carefully selected banks from Nigeria's financial sector, including four commercial banks, will make up the study's sample. merchant bank. Research design means structuring and investigation aimed at identifying variables and how they relate to each other. This is done to gather information that will allow the researcher to test a hypothesis or other research topic. The survey design will be the approach used for this investigation. Primary data for a survey will be gathered using a methodical research tool, such as a questionnaire and interview technique. The stratified random sampling approach is the one that will be applied. Oceanic Bank International Plc, First Bank of Nigeria Plc, Zenith Bank Plc, and United Bank for Africa Plc are among the commercial banks chosen through simple random sampling, while First City Monument Bank Plc is a merchant bank.

Analysis has to do with the breaking down and ordering or the quantitative information gathered through research. Data collected will be tested having simple tools like percentages, tables and graphical analysis. Furthermore, chi-square (X^2) will be used to test the hypotheses of the study because of the nominal and qualitative nature of it. The purpose of using the chi-square statistics in this research is to determine the extent or magnitude of the discrepancy between the theoretical and empirical observation as follows.

$$X^2 = \sum_{i=1}^n \frac{(fo - fe)^2}{fe}$$

Where, X^2 is the chi-square value, fo is the observed frequencies, fe is the expected, frequencies, \sum means summation symbol. The expected frequency is obtained by multiplying the row total by the column total and divide through by the grand total. Thus,

$$Fe = \text{Row total} \times \text{Column total} / \text{Grand Total}$$

The calculated X^2 (empirical X^2) is compared with the theoretical or table X^2 values. Table X^2 is obtained from the sampling decision table at a particular degree of freedom. The degree of freedom is calculated using the formula.

$$V = (C - 1) (R - 1)$$

Where, V is the degree of freedom, C is degree of columns and R is the number of rows. If the calculated X^2 is greater than the theoretical X^2 value, the null hypothesis will be rejected, thus the alternative hypothesis will be accepted. If the reverse is the case, the null will be accepted, and the alternative hypothesis is rejected.

Result and Discussion

Table 1 provides a summary of the response. The Table shows that 22.2% represent the management staff of Zenith Bank Plc, United Bank for Africa, Oceanic Bank International Plc. This is an indication of their willingness to contribute to the subject matter. 17.8% of the respondents are from First City Monument Bank while 15.6% are from First Bank Plc.

Table 2, which offers the personal analysis, shows that 66.7% of the management staff are male while 33.3% are female. Also, about 57.8% of the respondents are within the age of 18 and 30 years, 35.6% are within 31 and 40 years while 6.6% are above 40 years. The table above indicates that 22.2% of the respondents are Ordinary National Diploma holders, 48.9 are B.Sc./Higher National Diploma holders while 28.9 are MBA/M.Sc. holders. The Table indicates that the length of work experience between 1 – 5 years is 57.8%, 6 – 10 years is 37.8%, 11 – 20 years is 4.4%.

Table 3 shows responses to some questions. We attempt to ask if financing a small-scale business obtained from banks. The Table shows that 45 persons who represent 100% of the respondents agreed that banks financing a small-scale business can be obtained from banks. We attempt question 4 that concerns whether banks are willing to lend money to SME owners. The outcome shows that 45 people who represent 100% of the respondents agreed that banks are willing to lend money to SMEs owners. When we attempt question 5 that concerns whether Personal savings, donations from friends and relatives are seen in most times as the important source of initial capital of small business owners? The outcome shows that 33.3% of the respondents strongly agree that personal savings and donations from friends and relatives are important sources of initial capital, 13.3% agree, 6.7% disagree, 44.46% Strongly disagree while 2.3% are undecided.

We attempt question 6 that concerns whether the SME's Owners need to provide any document before they can obtain funds. We observed 100% response (45 persons) agreed to the fact that SME owners need to provide documents before they can obtain funds. We attempt question 7 that concerns whether the SME Owners are willing to submit such documents before obtaining financial assistance. The outcome shows that 86.7% of SME owners are willing to submit such document before obtaining fund but 13.3% are not willing because they cannot meet the demands for documentation and collateral needed by the banks. Also, SME owners have had records of never meeting their obligation to banks. We attempt to ask question 8 that concerns whether the SME owners need to provide a business plan and feasibility study before obtaining funds. The response indicates that 48.9% of the respondents strongly agree that SME owners

need to provide these documents before obtaining funds, 35.6% agree, 8.9% disagree while 6.6% strongly disagree. We attempt question 9 that concerns whether accounting records is the most important documents SME owners must submit before applying for loan. The survey shows that majority of the respondents, which represents 66.7% strongly agreed that accounting records is the most important document to be submitted by the SME owners before applying for loan, 26.7 agree, 4.4 disagree, while 2.2 strongly disagree.

We attempt question 10 that concerns whether the SME owners apply for bank loan and overdraft. The table above shows that 40% of the respondent strongly agree that SME owners apply for bank loan and overdraft, 26.7% strongly disagree, 22.2% agree while 11.1 disagree.

We attempt question 11 that concerns whether the reason why SME owners do not get fund from bank is the inability to provide collateral securities required by banks. The outcome shows that 88.9% of the respondents strongly agree that SME owners do not get fund from banks because of their inability to present collateral security. We attempt question 12 that concerns whether the Banks give SME owners loan because of their inability to keep proper records of their business activity? From the responses, 78% of the respondents strongly agree that banks do not give SME owners, loan, because of their inability to keep proper records. We attempt question 13 that concerns whether the SMEs are aware of the available means of getting funds from banks. We observed that only 52% of the respondents disagree to the view that SME owners are not of the available means of getting funds from banks, 40% agreed, 4% strongly agree and 4 strongly disagree.

We attempt question 14 that concerns whether the number of personal resources committed to business have any effect on the business. The survey shows that 66.8% of the respondents strongly agree that the personal resources committed to the business usually affect the business, 22.2% agree, 4.4% strongly disagree, 4.4% disagree while 2.2% are undecided. Lastly, we attempt question 15 that concerns whether the SME source for working capital from banks? We observed that only 28 persons representing 62.2% total respondents are of the opinion that SME source for working capital from banks, 37.8% constitute 17 persons do not” agree with this statement.

Table 1: Analysis of Responses

Banks	Questionnaire Administered	No of Responses	Not Returned	% completed and returned
Zenith Bank Plc	10	10	-	22.2
UBA	10	10	-	22.2
FCMB	10	8	2	17.8

Oceanic	10	10	-	22.2
FBN	10	7	3	15.6
Total	50	45	5	100.0

Note: United Bank for Africa (UBA), First City Monument Bank (FCMB), Oceanic Bank Int. Plc, Oceanic Bank Int. Plc. (Oceanic) and First Bank Plc (FBN)

Table 2: Personal Analysis

Category	No. of Respondents	Percentage %
Sex Distribution		
Male	30	66.7
Female	15	33.3
Age Distribution		
18 – 30 years	26	57.8
31 – 40 years	16	35.6
Above 40 years	3	6.6
Academic Qualification		
OND/NCE	10	22.2
BSC/HND	22	48.9
MBA/M.Sc.	13	28.9
Others	0	0
Length of Work Experience		
1-5 years	26	57.8
6-10years	17	37.8
11-20 years	2	4.4

Table 3: Summary of responses to research questions

Category	No. of Respondents	Percentage (%)
Question 3: Is financing a small-scale business obtained from banks?		
Yes	45	100
Question 4: Are banks willing to lend money to SME owners?		
Yes	45	100
Personal savings, donation from friends and relatives, as the important source of initial capital of SMEs?		
Strongly Agreed	15	33.3
Agreed	6	13.3
Disagree	3	6.7
Strongly Disagree	20	44.4
Undecided	1	2.3

Question 6: Do SME's Owners need to provide any document before they can obtained fund?

Yes	45	100
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Question 7: Are they (SME Owners) willing to submit such documents before obtaining financial assistance?

Yes	39	86.7
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No	6	13.3
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Question 8: Do SME owners need to provide business plan and feasibility study before obtaining fund?

Strongly Agreed	22	48.9
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Agreed	16	35.6
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Disagree	4	8.9
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Strongly Disagree	3	6.6
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Question 9: Accounting records is the most important documents SMEs must submit before applying for loan?

Strongly Agreed	30	66.7
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Agreed	12	26.7
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Disagree	2	4.4
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Strongly Disagree	1	2.2
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Question 10: Do SME owners apply for bank loan and overdraft?

Strongly Agreed	18	40
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Agreed	10	22.2
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Disagree	5	11.1
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Strongly Disagree	12	26.7
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Question 11: Why SME do not get fund from bank is the inability to provide collateral securities required by banks.

Strongly Agreed	40	88.9
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Agreed	3	6.7
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Disagree	12	4.4
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Strongly Disagree	-	-
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Question 12: Banks do not give SME loan due to their inability to keep proper records of their business activity?

Strongly Agreed	35	78
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Agreed	5	11
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Disagree	3	6.6
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Strongly Disagree	2	4.4
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Question 13: Are they aware of the available means of getting funds from banks?

Strongly Agreed	2	4
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Agreed	18	40
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Disagree	23	52
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Strongly Disagree	2	4
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Question 14: Does the amount of personal resources committed to business have any effect on the business?

Strongly Agreed	30	66.8
Agreed	10	22.2
Disagree	2	4.4
Strongly Disagree	2	4.4
Undecided	1	2.2

Question 15: Do the SME owners source for working capital from banks?

Yes	28	62.2
No	17	37.8

The three (3) hypotheses shall be tested here. Table 3 shows the computation of X2 for the hypothesis:

Table 3: Computation of X2

Option	Observed (Fo)	Expected (Fe)	Fo-Fe	(Fo-Fe)²	(Fo-Fe)²/Fe
Computation of X² (Hypothesis 1):					
Strongly Agree	30	11.25	18.75	348.187	30.95
Agree	12	11.25	0.75	0.5625	0.051
Disagree	2	11.25	-9.25	85.5625	7.606
Strongly Disagree	1	11.25	-10.25	105.062	9.339
X²					47.945
Computation of X² (Hypothesis 2):					
Strongly agree	30	9	21	441	49.0
Agree	10	9	1	1	0.11
Disagree	2	9	-7	49	5.44
Strongly Disagree	2	9	-7	49	5.44
Undecided	1	9	-8	64	7.11
X²					67.10
Computation of X² (Hypothesis 3):					
Strongly agree	35	11.25	23.75	564.062	50.139
Agree	5	11.25	-6.25	39.0625	3.472
Disagree	3	11.25	-8.25	68.0625	6.058
Strongly Disagree	2	11.25	-9.25	85.5625	0.076
X²					59.737

The aim of “carrying out this test is to ascertain the authenticity of these null hypotheses to the alternative proposed to be accepted. The chi-square statistical method will be used in testing the data for the following hypothesis. The first null assumes no significant documents SME owners are expected to provide before they can obtain loan from bank. From the questionnaire question 9 will be used in carrying out the first hypothesis. See Appendix II for the computation of X^2 , which shows that X^2 is approximately 47.945. We observed that the number of respondents to various events is 4. Therefore, the degree of freedom, V is 3. And from the Chi-square distribution table, the value of X^2 at 0.05 level of significance for 3 degree of freedom is 7.82. Since the calculated value is greater than the table value i.e. ($47.945 > 7.82$), the null hypothesis is thereby rejected and the alternative accepted. The result of tests suggest that the null hypothesis is rejected and the alternative accepted and the researcher therefore concludes that there are significant documents which SME owners are expected to provide before they can obtain loan from bank.

The second null assumes that the personal resources of owners committed to the business does not affect the growth of the business. From the questionnaire question 10 will be used in carrying out the first hypothesis. See Appendix II for the computation of X^2 , which shows that X^2 is 67.10. We observed that the number of respondents to various events is 4. Therefore, the degree of freedom, V is 4. And from the Chi-square distribution table, the value of X^2 at 0.05 level of significance for 4 degree of freedom is 9.49. Since the calculated value is greater than the table value i.e. ($67.10 > 9.49$), the null hypothesis is thereby rejected and the alternative accepted. The result of the test suggests that the null hypothesis is rejected and the alternative accepted and the researcher therefore conclude that the personal resources of SME owners committed to the business usually affects the growth of the business.

The third null assumes that no relationship between keeping proper records and the growth of SMEs. From the questionnaire question 12 will be used to test hypothesis three. From the chi-square distribution table, the value of X^2 at 0.05 level of significance for 3 degree of freedom is 7.82 calculated as, $X^2 = 59.73706$. The calculated value is 59.73706 while the table value is 7.82, since the calculated value is greater than the table value i.e. ($59.73706 > 7.82$), the null hypothesis is thereby rejected and the alternative accepted. The result of the test suggests that the null hypothesis is rejected and the alternative accepted. Therefore, we can conclusively say that there is a relationship between the keeping of proper accounting records and the growth of the business.

Conclusions

Empirical evidence has shown that SMEs have the potential of employment generation, enhancing flexibility in production and rapid market responses, establishing linkages between agriculture and industrial sectors and stimulating entrepreneurship. SMEs help to promote domestic resource utilization, check rural-urban drift and contribute to manufactured exports. Unfortunately, SMEs have not been able to access these funds owing to several apparent constraints, the reluctance of banks to fund SMEs because of the uncertainty in the economy, inadequate collateral to secure loans and information asymmetry between SMEs and the banks. Based on the findings of the study, we offer useful recommendations to help alleviate the problems encountered by SMEs. The business environment should be made more investment friendly. Basic infrastructures should be provided or upgraded by government. The process of incorporation of business should be easy and straightforward. Trade barriers, multiple and high tax regimes should significantly be reviewed. CBN should slow down penalizing banks for noncompliance, as more time is needed to install investment structures, personnel, skills and competencies.

There is need to provide necessary guidance, incentives and support for the participating banks to ensure that investible funds already set aside by banks do not remain in their vaults but are productively channeled into the viable projects identifiable by thorough search and better information flow. The banks need to embark on public enlightenment campaigns to become more visible. The banks also need to carry out in-house enlightenment to pass down all necessary information on the scheme to their staff in the operation units and branches. Also, government should promote the spread of internet facilities to the sub-urban and rural communities so that the local entrepreneurs can access information and opportunities available in the global economy and possible establish strategic business partnerships. There should be comprehensive enlightenment to reserve the public perception of the scheme as a loan scheme, and duly canvas the merits of equity; investments as a complement to existing loan facilities. If small business are to become a success, current efforts to organize workshops and training programmes for entrepreneurs to improve their skills and capabilities must be sustained.

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