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Effect of Income Determination, and Recognition on Financial Performance of Profit-Making Organizations in Nigeria with Focus on MSME

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Abstract

With a focus on MSMEs in Lagos State, Nigeria, this research investigates the impact of income determination and recognition on the financial performance of profit-making organizations in Nigeria. The dual-process hypothesis served as the study's foundation. From a sample of 390 respondents gathered via a well-structured questionnaire, the researcher employed both primary and secondary sources. Basic percentages and descriptive statistics like frequency were used to analyze the data acquired and basic linear regression analysis was used to assess the link between the model's components. The regression analysis's findings show that the third hypothesis was tested at 5% level of significance using the probability value of the regression analysis, and the p-value (0.002) was less than the threshold. This indicates that the alternative hypothesis was accepted and the null hypothesis was rejected. The statistical significance of this finding is 0.002 = 0.05. The second hypothesis, which examined the connection between MSMEs' income determination and their financial performance, yielded a 0.758 correlation value and was rejected along with the null hypothesis because the p-value (0.000) was less than the significance level. The research came to the conclusion that higher levels of education and artisan work increase employment and improve the performance of MSMEs in Lagos, Nigeria. It was suggested, among other things, that MSMEs should get training, that credit sales should include interest, and that financing resource purchases should be avoided. Finally, the government should seek to improve the business climate in Nigeria for international firms and potential company owners so that the number of MSME in Lagos State and Nigeria as a whole will rise.

Subject Areas

Business Management

Keywords

Financial Performance, Income Determination, MSMEs, Profitability, Revenue in Nigeria

1. Introduction

In the field of industrial and strategic management, research on the variables affecting the performance of micro, small, and medium-sized firms (MSMEs) has only recently acquired pace (Emmanuel, Rosemary, and Charity, 2019) [1]. This is because economic transformation and the sustainable development of any country are specifically correlated with the efficacy of micro, small, and medium-sized firms (MSMEs; hereafter referred to as MSMEs) (Soderbom and Teal, 2002) [2]. A thriving MSMEs sector promotes investment and innovation, which in turn aids in the sustainable growth of an economy's gross domestic product (GDP), creates employment, and affects income (Stefan, Mihai, Alexandra, and Liliana, 2020) [3].

MSMEs generate 75% of all new employment and more than 50% of the global GDP (World Bank, 2015) [4]. In developing countries, MSMEs are estimated to produce more than 60% of the employment and contribute around 50% of the GDP (World Bank, 2015) [4]. Regarding developed economies, the story is the same. In industrialized nations, it is credited with producing between 60 and 70 percent of all employment and more than 55 percent of GDP (Evbuomwan and Ikefan, 2016) [5]. Despite the enormous impact that MSMEs have made worldwide, empirical studies have shown that MSMEs in Nigeria have performed relatively lower than their contemporaries in many developing nations (Evbuomwan *et al.*, 2016) [5].

Micro, Small, and Medium-Sized Enterprises (MSMEs) in Nigeria have faced a variety of challenges throughout the years and continue to battle on a daily basis to stay afloat, according to the World Bank Group (2018) [6]. Numerous issues impede their efforts to accomplish their company's set objectives, which are essentially profitability and survival. However, micro, MSMEs firms are thought to be able to reduce in poverty rate by generating employment opportunities for those in need (Getachew, Aradom, and Hossein, 2022) [7]. This is because of their critical role in the economic growth of nations. MSMEs have made significant contributions to the growth of the world economy, the reduction in the poverty rate, and the generation of employment opportunities. Mohammad, Faiza, Longbao, and Qazi-Abdul (2019) [8] argue that MSMEs are essential for boosting development, innovation, and prosperity since they are an integral part of the economic systems of developing nations. According to Okafor, Ejelonua, and Onyekwere (2022) [9], MSMEs have traditionally played a substantial role in domestic economic activity, particularly as employers and as a result of producing main and secondary sources of income for many families. Olowe, Moradeyo and Babalola (2013) [10] assert that a large number of MSMEs in Nigeria do not advance to the development stage of their life cycles due to a lack of capital, and as a result, their impact on the Nigerian economy has not been particularly noticeable. MSMEs have restricted access to financing, particularly when compared to loans given to bigger companies. This is because MSMEs face considerable barriers to obtaining the cash they need to develop and grow, with over half of MSMEs in developing nations-particularly Nigeria-considering financial access to be a major challenge (Chauvet and Jacolin, 2017) [11]. High administrative expenses, stringent collateral requirements, and a lack of expertise working with financial intermediaries are often cited as reasons for their failure to get loans from deposit money banks and microfinance banks. Since individuals or groups of individuals own the majority of MSMEs in developing countries, the more financial players there are, the more options MSMEs will have for financing (Gade, 2018) [12].

Performance is a broad term that describes any or all of a company's operations or actions throughout the course of a certain period of time. According to Ibor, Offiong, and Mendie (2017) [13], performance is particularly related to the use of specific metrics that may indicate how well a corporation generates profits. A company's performance is a formal evaluation of how well and profitably each of the actions it has carried out during a certain time period has gone. When it comes to money, one of them in order to examine the organization's financial performance over a certain period time and define its financial health, a variety of financial analysis approaches may be applied (Bongomin *et al.*, 2017) [14]. Because financial statement data is historical in nature, it cannot be used to evaluate MSMEs business performance in isolation (Kotane Kuzmina-Merlino 2017) [15]. Therefore, predicting a company's financial sustainability only based on financial criteria is difficult.

Analysts prefer it when a sector as a whole uses the same income recognition principles as a single business. Having a uniform set of income recognition standards makes it simpler to compare businesses when analyzing line items on the income statement. A company's income recognition standards also shouldn't alter over time so that past financial data may be checked for seasonal trends or anomalies. The ASC 606 income recognition principle states that revenue must be recorded after the firm receives the promised goods or services in exchange for the payment that the company had anticipated Bahtiar and Saragih (2021) [16].

The accounting method that stipulated that income is identified not on the cash payment has been received, but in the period wherein the transaction took place is known as the accrual accounting method. Realizable situations are those in which a consumer has received goods or services but where payment is still due in the future. The money used to purchase things or provide services is referred to as earned revenue. An income-generating activity must be finished or substantially finished in order for it to be counted as revenue for the applicable accounting period. The payment from the generated revenue must also be guaranteed in some way. The matching concept guarantees that all costs related to revenue realization are reported as they materialize (Agbenyo, Danquah, and Shuangshuang, 2018) [17].

But many studies have been conducted on the financial performance of MSMEs. Olaniyi, Elelu, and Abdulsalam (2015) [18] and Nuradzanni are two examples of such studies conducted in the United States and Europe in 2016. Studies by Foyeke, Olusola, Aderemi, Nwaolisa, Chijindu, Duru, Okpe, and Ugwu (2016) [19], among others, were conducted by Nigerian researchers (2017). The business environment in less developed countries like Nigeria was not covered by studies conducted in developed wealthy economies. The majority of the study, meanwhile, was conducted in poor and developing economies, such as Nigeria, and omitted the recessionary and post-recessionary periods. The current study apparently considered the effect of income determination on SME's financial performance in Nigeria. The objectives of the study are to: investigate the impact of income determination of MSMEs in Nigeria on their financial performance, evaluate the relationship between their accounting methods and financial performance and ascertain if their cost posed any challenge to their profit determination.

2. Literature Review/Theoretical Framework

2.1. Conceptual Review

2.1.1. Conceptualizing Micro, Small and Medium Scale Enterprises (MSMEs)

Micro, small, and medium-sized companies (MSMEs) are several types of businesses that may be found in different economic activities throughout the country, according to Ikpor, Nnadu, and Itumo (2017) [20]. Owners of small to medium-sized auto parts factories, transportation firms, ironworkers, roadside mechanics, smaller engineering or software companies, coffee shops, tailors, agro-allied businesses, cooperative societies, and artists who make local agricultural implements are among them. Some MSMEs produce items for domestic or foreign markets. They may be found in urban, rural, regional, national, and international contexts, and their owners may be rich or poor.

Micro, small, and medium-sized companies (MSMEs) are not uniformly categorized. The definition varies depending on the nation. This has happened as a result of the diverse socioeconomic conditions that exist in various countries. For instance, MSMES were classified as companies with a total capital investment of between 1.5 million and 200 million naira under the Nigerian Small and

Medium Industries Equity Investment Scheme (SMIEIS) of 1998. This comprises operational capital but excludes land expenses. An SME is a company with at least 10 and no more than 300 workers, according to the National Council on Industry of Nigeria (Ufua, Olujobi, Ogbari, Dada, and Edafe, 2020) [21].

According to Vargas, A. (2020) [22], the European Union defines an MSME firm as one with less than 250 people and a turnover of less than €50 million. It also contended that the company's ownership share in other enterprises shouldn't exceed 25%. In 2006, the World Bank classified a medium firm as an organization with a maximum of 300 workers and a maximum annual revenue of $15 million. According to the World Bank, a small firm is one with fewer than 50 workers and annual sales of no more than $3 million. As a result, it determined that small enterprises were those with a maximum of 10 workers and an annual revenue of $100,000.

2.1.2. Financial Performance

The financial performance perspective is the one that is most frequently used, yet there are three ways to judge MSMEs performance. This viewpoint emphasizes the effectiveness of the enterprises. According to the financial viewpoint, a company's ability to grow its assets such as profits, shares outstanding, market share, etc. is the only way for it to succeed. The economy and other social factors also affect business success (Khan *et al.* 2021) [23]. According to Amato *et al.* (2017) [24], factors such as organization years of operation, perceived business success, and MSMEs performance all play a role in the enterprise's ability to generate revenue and maintain profitability (sales, shares, and company size).

2.1.3. Income Determination

A range of metrics, such as the capital adequacy ratio, liquidity, leverage, solvency, and profitability, are used to assess the financial success of a firm during a certain time period, including the amount of money raised and utilized. Although the determinants of the MSMEs in the context of this study is the income determination (Eshna Verma, 2022) [25].

Determination of Ex-Ante and Ex-Post Income

Ex-ante, which means before the event, and ex-post, which means after the occurrence, are two Latin words. When determining income, this refers to forecasting income before an event takes place. As a result, when ex-ante estimates are made, it is unclear how much money a MSMEs will earn. Ex-ante is a forecast, but even so, it can be a useful tool for budgeting future spending based on a prognosis that is as precise as feasible. It is common practice to compare ex-ante variables and outcomes in order to gauge how accurately the MSMEs can predict their income prior time of operation and be able to put some precaution in place Teachoo (2022) [25].

MSMEs owner can invest for more income based on ex-post facts which is the practicality of ex-post income determination. The educational qualification of the MSMEs business owners determine their financial performance and capacity of their possible investment outcomes is provided by the ex-post data. They can, as a result, decide if the investment will be profitable or not. Ex-post data are often used to foresee and project market shocks (Gherghina *et al.*, 2020) [26].

2.2. Theoretical Review

Lusardi and Mitchell (2011) [27] first introduced the dual-process theory. Theoretically, both cognitive and intuitive processes might affect how well MSMEs manage their finances, indicating that financial literacy may not always lead to the wisest decisions for improving MSMEs' financial performances.

Double-Blind Method The balance between a person's intuitive (System 1) and cognitive (System 2) thinking processes may have an impact on their behavior, according to the idea of financial literacy (Lusardi and Mitchell, 2011 [27]; Glaser and Walther, 2013 [28]). Intuition is the ability to acquire information without deduction or logical cognition.

The dual process theory is considered crucial to this study because it demonstrates that people with high cognitive abilities to seek out information and are more likely to accept a message that is pertinent to them. This suggests that the decision-making skills of MSMEs' owners may be enhanced by educating them in financial literacy using simple, clear methods.

In addition, as company owners often depend on intuition when relevant information is lacking, the use of intuition may be reduced by offering pertinent data to support decision-making via financial education earned through academic qualifications.

But when making judgments, company leaders who depend only on their guts may not get the best outcomes.

2.3. Empirical Literature Review

By utilizing a cross sectional Ordinary Least Squares (OLS) with fixed effects, Emmanuel, Rosemary, and Charity (2019) [1] investigated the factors influencing the performance of micro, small, and medium-sized enterprises (MSMEs) in Nigeria. They discovered that high levels of competition, inadequate supply of electricity, high levels of insecurity, and challenges in obtaining financing were the main obstacles to MSMEs' success in Nigeria.

Studies, particularly in Nigeria, are few or far apart, at least to the best of our knowledge, despite the fact that there has been a lot of study on the variables that influence the performance of MSMEs. There hasn't been enough funding for studies on the variables affecting MSMEs' performance or ability to determine their revenue in Nigeria. Okafor (2017) [29] is the only study that has made an effort to look at the variables that influence company success in the Nigerian manufacturing sector. According to his study, the manufacturing industry in Nigeria benefits from skilled labor, capital investment, foreign ownership, and exports opportunities. In contrast, he found that poor power and restricted access to financing had a detrimental influence on Nigerian manufacturing businesses. Our research differs significantly from Okafor's (2017) [29] in that we focused on the variables that impacted MSMEs' performance in Nigeria.

This research excludes big firms in favor of concentrating on the factors that affect small- and medium-sized enterprises' (SME) revenue in Nigeria. This is because, while making up more than 80% of all businesses, MSMEs have contributed less to Nigeria's economy than the average of other emerging and developing countries.

MSMEs have long underperformed in Nigeria despite having made significant contributions to the global economy that has been recognized in the literature. The Nigerian government has made repeated attempts to regulate the business, with varied degrees of success, but little has changed. To help policymakers understand how to revive the MSMEs sector, this study aims to identify the variables that influence MSMEs' performance in Nigeria.

3. Methodology

These methods documentary and survey were used in this study. Oral interviews and a self-administered set of questionnaires were the methods used to collect the data for this study. The researcher designed the questionnaire based on the study requirements and the work of Richard and Emmanuel (2018) [30]. These methods were confirmed by experts in accounting and finance, and they revealed a reliability coefficient of 0.76% when tested twice within two weeks. Micro, Small and Medium Enterprises in Nigeria make up the study's population. MSMEs in Lagos State are the target demographic. The accessible population consists of MSMEs in Lagos state were randomly selected through softcopy questionnaire through the internet application. A sample of 4014 MSMEs was chosen for the study using the purposive selection method. Micro, small and medium enterprises were administered questionnaires in chosen Lagos state local government. The researcher decided to use the chosen local government based on their period of registering their businesses. The MSMEs were chosen based on their cash flow which follows a pattern desirable by the researcher. A set of questionnaires was sent out to 459 individuals, this was based on the fact that these MSMEs were having audited accounts and were also ready to respond to the prepared questionnaires. However, 390 of which were completed and returned by respondents, accounting for 76% of the total questionnaires issued; 69 of the questionnaires were not returned.

4. Results, Data Analysis and Discussion

4.1. Results

The results of research on the effect of income determination, and recognition on financial performance of profit-making organizations in Nigeria with focus on micro, small and medium-sized enterprises (MSMEs) in Lagos state, Nigeria are presented in this section. These facts are presented using tables, frequencies, and percentages. It has been specially organized to address the research questions in the discussion of these findings.

4.1.1. Socio-Demographics of Respondents

Table 1 shows the numbers of respondents that are able to determine their income and those that were unable to determine their income level:

In Table 1, the respondents who were able to determine their income level were considered to be valid respondents, whereas those who were unable to do so or who did not return their questionnaires were considered to be invalid respondents. According to all indications, there were 390 genuine respondents and 69 invalid respondents. This demonstrates that there were fewer invalid respondents and more valid respondents in the study.

Similar results were shown in Table 1, which showed that 76% of the respondents were valid and 24% were not. This suggests that in Lagos state, there are more valid respondents than invalid respondents.

4.1.2. Distribution of Respondents by Reasons Based on the Accounting Record Type

Table 2 shows the accounting record type the MSMEs were using.

Table 2 shows the accounting record type adopted by the respondents. 15% of the respondents were using manual method to carry out their accounting records, while 20% were using semi-automated. Automated accounting records were being used by 41% of the respondents which is the highest proportion of the respondents. 19% and 5% were using rough paper and other types of accounting records which were not captured in this study respectively. The 41% which took the highest figure help in achieving the first objective of this study

Table 1. Characteristics of respondents by income determination.

Loan Accessibility	Frequency	Percent	Cumulative Percent
Yes	390	76.00	76
No/Invalid	69	24.00	100
Total	459	100	

Source: Researcher's Computation.

Table 2. Responses accounting recording type.

Items	Category	Frequency	(%)
Accounting Record Type	Manual	058	15
	Semi-Automated	078	20
	Automated	160	41
	Rough Paper-Work	074	19
	Other (please specify)	020	05
	Total	390	100

Source: Researcher's computation.

which will be discussed in the subsequent part of this section where the hypothesis developed to enhance the achievement of the study objectives will be carried out.

4.1.3. Distribution of the Respondents Level of Education

Table 3 shows the education level of selected MSMEs owners.

In Table 3, 17% of all respondents had a doctorate degree, 18% had an MSc, MBA, or an equivalent degree, 25% had a bachelor's degree, 18% had a diploma, 12% had below diploma and 10% had SSCE.

The majority of people had bachelor's degrees or its equivalent, which suggests that certificate holders in Lagos state of Nigeria had records of their incomes.

4.1.4. Distribution of the Respondents Firms Based on Their Industries

Table 4 shows the categories of businesses based on the industries or firms they were grouped in Lagos state.

Table 3. Responses of respondents educational attainment.

Items	Category	Frequency	(%)
Respondents Highest Level of Education	Below SSCE	039	10
	Below Diploma	047	12
	Diploma or equivalent	070	18
	Bachelor's Degree or equivalent	098	25
	MSc/MBA or equivalent	070	18
	Doctorate Degree	066	17
	Total	390	100

Source: Researcher's computation.

Table 4. Classifications of respondents based on industries or firms.

Items	Category	Frequency	(%)
Respondents Classifications based on Industries	Manufacturing Sector	047	12
	Food and Beverages Industry	066	17
	Small Scale Farming	035	09
	Artisans of Various Capacities	062	16
	Transport System/NURTW	043	11
	Education/Academy	067	17
	Traders	039	10
	Other businesses	031	08
	Total	390	100

Source: Researcher's computation.

In Table 4, 12% of respondents worked in the manufacturing sector, 17% in the food and beverage industry, 9% in small-scale farming, 16% were artisans in various capacities, 11% operate transportation systems/NURTW, 17% are involved in education/academy, 10% are traders, and 8% are owners of businesses in other industries. This means that the respondents that were into academy/education can determine their income levels more than other businesses in micro, small and medium enterprises (MSMEs).

4.2. Screening Questions

4.2.1. Distribution of Respondents That Sell Their Products on Credit

Table 5 shows the numbers of business owners that sell their product on credit.

From Table 5, those that sell their products on credit were 60% of the valid questionnaires, with also the reasons for their credit sales, while those that do not sell their products on credit, the respondents that do not offer credit sales for the reasons best known to them, these respondents were 40% of the valid questionnaires. This shows that the study included more respondents that sell their products on credit.

Similarly, Table 5 indicated that 234 of the respondent's sell their products on credit, while 156 respondents do not. This implies that there are more valid respondents that sell their products on credit.

4.2.2. Distribution of the Reasons Why Respondents Sell on Credit

Table 6 shows the reasons why respondents sale their products on credit in Lagos state.

Table 5. Characteristics of respondents by credit they offer to customers.

Loan Accessibility	Frequency	Percent	Cumulative %
Yes	234	60.00	60.00
No	156	40.00	100
Total	390	100	

Source: Researcher's computation.

Table 6. Responses on reasons for credit sales.

Items	Category	Frequency	Percentage (%)
Reasons for Banks Loans	To make more profit	044	19
	To have more customers	066	28
	To retain your old customers	080	34
	Nature of their businesses	030	13
	Other Specified Reasons	014	06
	Total	234	100

Source: Researcher's computation.

Table 6 indicated that the biggest number of respondents that sell their products on credit to retain their old customers which are represented by 34% of the total respondents, 6% were business owners that sell on credit for other specified reasons, nature of their businesses was 13%, 28% sell on credit to have more customers and those that sell on credit to make more profits were represented by 19% of the total respondents. This implies that businesses that sell on credit to retain their old customers were much.

4.2.3. Distribution of How Often Respondents Make Incomes

Table 7 shows how often businesses owners make money to enhance their financial performances.

In Table 7, the respondents' turnover time frame or how often they made income were as follows: 27% of respondents makes income on daily basis, 23% make income on weekly basis, 18% make income on monthly basis, 13% make income on quarterly basis, 10% bi-annually and 9% of the respondents were able to make income yearly. The majority of the business owners in Lagos state were able to make income on daily basis.

4.3. Distribution of MSMEs Income Determinants

Responses on MSMEs income determination were analyzed using its indicators. These indicators include: accounting methods that they adopted, the educational level of the MSMEs business owners, the types of industry their business is classified, credit sales offer with necessary conditions, access to credit purchase with necessary conditions among others.

4.3.1. Distribution of the Relationship between Income Determination and the Financial Performance of the MSMEs in Lagos State Using a Five Likert-Scale

The distribution of responses on the MSME's financial performance was presented using a 5 Likert-scale to draw summary statistics for 390 respondents under the sampling frame (Table 8).

Table 7. Responses of respondents on how often their income flows.

Items	Category	Fre.	%
How often Business Owner Service their Loans	Daily	105	27
	Weekly	090	23
	Monthly	070	18
	Quarterly	051	13
	Bi-annually	039	10
	Yearly	035	09
	Total	390	100

Source: Researcher's computation.

Table 8. Income determination and financial performance of MSMEs in Lagos State.

Specific Questions to Business Owners	Responses in (%)				
	1	2	3	4	5
Income made by your business affect your financial performance positively.	43	12	-	30	15
Your cost of operation has a negative effect on your financial records.	19	04	02	35	40
Your business is always in need of funds.	40	30	03	07	20
Keeping of your accounting records helps you to determine the amount of income you made.	35	30	20	10	05
Your cost of operation cannot be easily determined.	50	30	-	10	10
Your income cannot be easily determined.	40	40	15	02	03
The cost of running your business is more than the amount of income that you have made.	35	40	05	12	08
You rationalize your business need to ensure that your business has enough liquid assets.	15	20	40	20	05
The amount of profit you made helps your business to perform well financially.	42	32	06	15	05

1 = Strongly Agree, 2 = Agree, 3 = Undecided, 4 = Disagree, 5 = Strongly Disagree; Source: Researcher's computation.

4.3.2. Distribution of the Impact of the of the MSMEs in Lagos State Income Determination on Their Financial Performance Using a Five Likert-Scale

The distribution of responses on the income determination and SME's financial performance was presented using a 5 Likert-scale to draw summary statistics for 390 respondents under the sampling frame (Table 9).

4.4. Hypothesis Testing

4.4.1. Research Hypothesis II

Finding the relationship between MSMEs Income Determination and their Financial Performance in Lagos state.

H0: There is no significant relationship between income determination of MSMEs in Lagos state and their financial performance.

The relationship between Income Determination of MSMEs and their Financial Performance in Lagos State

The result on Table 10 shows the relationship between income determination of MSMEs and their financial performance in Lagos state. Pearson correlation was computed to determine the relationship that may exist between the variables. The result shows that r (390, 0.05) = 0.758, P (0.000) < 0.05, the result obtained shows that there is a strong positive significant relationship between the MSMEs income determination and their financial performance, by extension, it means that the higher the MSMEs income determination, the higher their financial performance. Based on the empirical findings carried out from

Table 9. Relationship between accounting methods adopted by MSME and their financial performance.

Specific Questions to Business Owners	Responses in (%)				
	1	2	3	4	5
Cash sales increases your business financial performance.	40	35	12	08	05
Credit sales increases your business financial performance.	25	30	05	15	25
Cash Purchase increases your business financial performance.	40	30	03	07	20
Credit Purchase increases your business financial performance.	10	10	05	35	40
Credit sales with interest increases your business financial performance.	40	30	10	10	10
Credit Purchase with interest increases your business financial performance.	20	20	25	17	18
Cash sales with discount increases your business financial performance.	25	23	17	15	20
Cash Purchase with discount increases your business financial performance.	15	20	40	20	05
Excess profit is made when you sell on credit with interest.	38	32	-	15	05
Cash sales is preferable to credit sales	40	30	-	20	10
Credit sales is preferable to cash sales	38	28	12	15	07

1 = Strongly Agree, 2 = Agree, 3 = Undecided, 4 = Disagree, 5 = Strongly Disagree; Source: Researcher's computation.

Table 10. Correlations.

		a1	q13
Income Determination of MSMEs	Pearson Correlation	1	0.758**
	Sig. (2-tailed)		0.000
	N	390	240
MSMEs Financial Performance in Lagos state	Pearson Correlation	0.758**	1
	Sig. (2-tailed)	0.000	
	N	390	390

**. Correlation is significant at the 0.01 level (2-tailed). Researcher's computation.

above, there is therefore substantial empirical evidence to reject the null hypothesis that there is no significant relationship between income determination of MSMEs in Lagos state and their financial performance and accept the alternative hypothesis that there is significant relationship between income determination of MSMEs in Lagos state and their financial performance.

4.4.2. Research Hypothesis III

Finding the impact of MSMEs Income Determination on their Financial Performance in Lagos state.

H0: The cost of operating a MSMEs in Nigeria does not pose a significant challenge on their profit determination.

From Tables 11-13, the regression model is:

MSMEs = 2.863 + 1.366 Income Determination of MSMEs

The result on the tables shows the regression analysis conducted to determine the impact of MSMEs income determination on their financial performance in Lagos. The coefficient of MSME's financial performance in Lagos state (1.366) is positive and this means that a unit increases in the MSMEs income determination will lead to 1.366 increases in MSME's financial performance in Lagos state.

The coefficient of determination (r2) = 0.647 this means that 65% of the variation in clients' patronage of MSMEs financial performance in Lagos state can be explained by the MSMEs income determination. The t (1108, 0.05) = 7.157, P (0.000) < 0.05, therefore, the null hypothesis should be rejected, thus there is no significant positive impact of MSMEs income determination on their financial performance in Lagos state. Furthermore, the F-statistic ((1108), 0.05) = 51.225, P (0.002) < 0.05, this implies that the model is statistically significant.

4.5. Discussion of Findings

The questionnaire administered to all categories of people shows that the response rate was representative and satisfied the law of the large sample size required for statistical estimation. The finding shows that most of the respondents belong to the Artisans of Various Capacities that earned between N1,000,000 to

Table 11. Model summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.804[a]	0.647	0.634	0.831

a. Predictors: (Constant), a4.

Table 12. ANOVA[a].

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	35.368	1	35.368	51.225	0.000[b]
	Residual	19.332	28	0.690		
	Total	54.700	29			

a. Dependent Variable: MSME's Financial Performance in Lagos state; b. Predictors: (Constant), MSMEs in Lagos state income determination.

Table 13. Coefficients.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	β	Std. Error	Beta		
(Constant)	2.863[a]	0.847		−3.381	0.002
Income Determination of MSMEs in Lagos state	1.366[a]	0.191	0.804	7.157	0.000

a. Dependent Variable: MSME's Financial Performance in Lagos state.

N5,000,000 average per month without considering whether those goods and services were sold on credit or not. This implies that selling on credit does not have much impact on the businesses of MSMEs in Lagos state coupled with 40% of the business owners that decided to sell on credit. However, the questionnaires were administered to business owners of different industries and it shows that the response rate was successful.

However, if the MSMEs' income determination captured in this study is zero, the financial performance of MSMEs in Lagos state is constant with 2.863 units. But a unit change in MSMEs' income determination leads to an increase in the financial performance of the MSMEs. This implies that when MSMEs' income determination is increased, MSMEs' financial performance will increase. Thus, the financial performances of Micro, Small, and Medium Enterprises in Lagos state increase gradually.

The finding shows that most of the respondents are, Artisans of Various Capacities, and the finding revealed that most of the respondents' average monthly incomes are higher based on their income determination that was captured in this study. Furthermore, the demographic analysis reveals that they fall in the range of business owners. This has significant implications on their ability to deploy to use their income determinations parameters. The average monthly income level of respondents could also have a significant effect on their financial performance.

The results agree with Okafor (2017) [29] that explains that education as a part of the determinants of MSMEs income has a significant positive impact on their financial performance in Lagos state. This study also revealed that the business owners with B.Sc. constituted the majority of the respondents that can determine their income level while those with lesser academic qualifications cannot do so. Similarly, the study also agreed with the work of Esiebugie, Richard and Emmanuel (2018) [30] that financial literacy has a positive impact on the performance of the MSMEs in Lagos state Nigeria.

4.6. Implications of the Study

The implication of the findings made in this study is that it provides aid, solutions and guide to MSMEs business owners, intended business owners, consultants, policymakers, researchers, government parastatals and the public at large on the impact of MSMEs income determination on their financial performance in Lagos state.

The study also gives insight into the significance of this income determination and recognition educational attainment among others and MSME's owners from existing business owners. The findings of the study have significant implications for prospective business owners and those that intended to go into business to take education very important. The findings enlighten the executive arms of government on the existing resources in the financial performance of the MSMEs in Lagos state. It will further enlighten the executive arms of government on the need to ensure adequate policies that will make investable funds available to MSME firms.

5. Conclusions and Recommendation

5.1. Conclusions

The information gathered from 2014 World Bank Enterprise Survey (WBES) for Nigeria were used in this study, the researcher considers the income determinant and recognition of the MSMEs' financial performance in Nigeria using Lagos state as the case study for this article. The straightforward Cobb-Douglas production function serves as the theoretical cornerstone for this investigation.

To evaluate the factors that influence MSMEs' financial performance in Lagos state Nigeria, the researcher incorporated the variables from accounting methods that they adopted, the educational level of the MSMEs business owners, the types of industry their business is classified, credit sales offer with necessary conditions, access to credit purchase with necessary conditions. The financial performance of MSMEs in Lagos state Nigeria was found to be positively impacted by educational attainment, credit offer with interest and received without interest from the respondents' questionnaires responses. On the other hand, the study discovered that MSMEs' financial performance in Lagos state Nigeria is negatively impacted by the degree of credit received from suppliers with certain interest, credit sales without interest, among others.

However, the study found that the financial performance of MSMEs in Lagos state Nigeria was significantly influenced by educational qualification of business owners, funds availability, credit sales with interest and credit sales without interest.

5.2. Recommendations

It is crucial to emphasize some policy recommendations from these findings when examining the role of MSMEs in the generation of employment and the sustainable development of any economy. In order to create a conducive business environment and reduce official red tape, bureaucracy, and the impact of constantly changing government policies on MSMEs, the government should:

i) Implement reliable business reforms at all levels. These measures should, among other things, reduce the burdensome bureaucracy involved in obtaining professional certification, access to resources at no interest or low interest and other funds provisions.

ii) Reduced cost of obtaining raw materials, input cost and financing cost of accessing funds. This will not only draw in more foreign direct investment but also encourage its current investors, who would sooner create more employment.

iii) That Financial institutions should be encouraged to lend money to real MSMEs at affordable interest rates with flexible repayment terms.

iv) That Financial institutions should be encouraged to lend money to real

MSMEs at affordable interest rates with flexible repayment terms.

All levels of government should make significant investments in MSMEs by providing them with soft capital to start with and boost their business for most of them are have less than five million naira to run their businesses.

The government should also work to make Nigeria's business environment more favorable for foreign companies and prospective business owners so that MSME numbers can increase in the Lagos state and Nigeria at large.

The government must exert significant effort at combating the prevalence of other threats that were not covered in this study such as insecurity throughout Nigeria. Regular training of security professionals on the current security issues the nation is experiencing should be given top attention. By addressing these issues, local and international investors' confidence in the security of their personal and corporate operations will be restored.

5.3. Prospect for Future Study

A future study could go in a few different directions, depending on the factors that influence MSMEs' performance in Lagos state Nigeria. Future studies can also investigate the following:

Identify the regional factors that influence MSMEs' performance in Lagos state and Nigeria at larger.

Take into account the variance in aspects like security risks, infrastructural deficit, and availability of constant electricity, among others, a regional analysis should be conducted.

Future studies might split micro, small, and medium-sized enterprises (MSMEs) with large scale firms and look into each one's determinants independently. To figure out how scale affects the success of a business, separate studies will need to be done on each type of business.

6. Contribution to Current and Future Research

This study considering micro, small and medium enterprises in Nigeria particularly Lagos state as a case study within the limited time frame is a plus to the embodiment of knowledge for all the research carried out by other researchers has never gone into this study and those that went only did descriptive analysis because of the difficulties in getting data for those that intended using secondary data for their research work.

Similarly, the determinants and recognition of MSMEs income such as: the educational level of the MSMEs business owners, the types of industry their business is classified, credit sales offer with necessary conditions, and access to credit purchase with necessary terms among others are not common and this is another plus to current and future research.

Finally, recognition of MSMEs income determinants in the questionnaires that was used in generating data for this study is not so common and can also be used for further research work by other researchers in any other field of study.

Conflicts of Interest

The authors declare no conflicts of interest.

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