ISIR Journal of Multidisciplinary (ISIRJM)
ISSN: **3049-3080** (Online)
Frequency: Bimonthly
Published By ISIR Publisher
Journal Homepage Link- https://isirpublisher.com/isirjm/

ONLINE BANKING AND GROWTH OF SMALL AND MEDIUM SCALE FIRMS IN DELTA STATE, NIGERIA

By

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Article History

Received: 05/11/2025
Accepted: 18/11/2025
Published: 20/11/2025

Vol – 1 Issue – 6

PP: -25-30

Abstract

The foundation of Nigeria's economy is made up of small and medium-sized businesses (SMEs), which have contributed more than 50% of all jobs and more than 80% of job growth in recent decades. Determining the substantial impact of financial technology on the expansion of small and medium-sized firms in Delta State is the study's main goal. This study's overarching goals were to ascertain how online banking affected the expansion of small and medium-sized firms. A descriptive research design method was employed in the investigation. A sample size of 105 small and medium-sized firms was determined by using stratified random sampling. Primary data for the study came from a self-administered questionnaire. The Social Science Statistical Package was used to analyse the data. The results revealed that online banking has significant effect on small and medium-sized firms growth. The implication of the result is that online banking is responsible for significant growth of small and medium-sized firms. In order to establish relationships with mobile phone service providers and provide operators flexible financial services, the report advises financial institutions to capitalise on the growing usage of internet and mobile services.

Keywords: *Small and medium firms; SMEs growth; Online banking; Financial technology.*

1. INTRODUCTION

The rapid emergence of financial technology in Nigeria's financial system and in the running of small and medium-sized enterprises has sparked a continuing interest among stakeholders to question the appropriateness of the technologies adopted. It encompasses a rapidly growing industry that serves the interests of both consumers and businesses in many ways to better manage their financial operations, processes, and lives through the aid of specialized software and algorithms that are used on computers and, increasingly, smartphones. From mobile banking and insurance, to cryptocurrency and investment apps, fintech has a seemingly endless array of applications (Julia, 2020). Some stakeholders are enthusiastic about the adoption owing to the enormous benefits obtained, for example, the ease and speed of service delivery operations (Gabriella, 2015). Other stakeholders are worried about the risks involved, associated and anticipated. Their fear is linked to the weak infrastructure and technical knowledge of these technologies.

Oyelaran (2020) defined small and mid-size enterprises (SMEs) as businesses that maintain revenues, assets, or several employees below a certain threshold. Each country has its definition of what constitutes a small and medium-sized enterprise (SME). Certain size criteria must be met and occasionally the industry in which the company operates is taken into account as well. Though small in size, small and mid-size enterprises (SMEs) play an important role in the economy. They outnumber large firms considerably, employ vast numbers of people, and are entrepreneurial, helping to shape innovation (Heinz 2023).

Competitive pressures pose constant challenges for survival to all firms but SMEs face more daunting challenges and how to survive remains uncertain.It is thought that technology-based financial competition may be a useful route to survival or longevity. In the dynamic business landscape, SME's often face significant hurdles especially in managing finances and accessing capital. However, the rise of financial technology is addressing various challenges faced by SME's by improving access to finance, streamlining operations and providing valuable financial management tools.Despite the critical role played by SMEs, they face a myriad of problems. Statistics indicate that the rate of small business failure is high with only 3 out of 5 business surviving 5 months to one year after formation and those that survive 80% of them collapse before the fifth year world bank (2015).

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Majority of the SMEs working in Africa face numerous difficulties that hinder their performance and development (Heniz, 2023). Adoption of technology provides an avenue for SMEs to improve their performance which would reduce the failure rate, Little and Windi (2021) argued out that innovation was key in driving competitiveness, more profits and greater productivity to unlock the potential of many SMEs. In view of the above discuss, this study investigates the effect of online banking on the growth of SMEs in Delta State, Nigeria.

2. REVIEW OF RELATED LITERATURE

2.1. Online Banking

Internet banking also known as online banking or web banking is a service that allows a user to conduct financial transactions via the Internet. Internet banking offers customers almost every service traditionally available through a local branch including deposits, transfers, and online bill payments. It's a method of banking in which transactions are conducted electronically via the Internet. Internet banking extends the opportunity to create another alternative method of banking beyond the bank branch and ATM network through which vast section of the population, including people who live in remote areas, will have easier and faster access to formal financial services (Hang et.al 2021). Thus, internet banking, is simply defined as carrying out banking transactions via mobile devices such as cell phones or personal digital assistant(s).

The offered services may include transaction facilities such as checking account balances, transferring funds and accessing other banking products and services from anywhere, at any time as well as other related services that cater primarily for financial information and communication needs revolving around bank activities . According to World Bank (2020), internet banking refers to a system which enables people to conduct financial transactions using a mobile device against a bank account accessible from their device. Since, compared to traditional banking, with the internet banking system, an account holder can conduct banking transactions without visiting a bank branch, thus it increases the efficiency of the individual account holder by saving time as well as eliminating space shortcomings (Sanusi, 2010; Ahmed, Rayhman, Islam & Mahjabin, 2011).

Internet banking allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or society. It also referred to as on-line banking. Banks increasingly operate websites and transaction portals through which customers are able not only to inquire about account balances, interest and exchange rates but also to conduct a range of transactions. Internet banking however is prone to internet fraudsters and hackers if carried out over an unsafe platform Alabar, (2012).

2.2 Financial Technology (Fintech) and SMEs in Nigeria

The importance of SMEs in the development of national economies makes public policies supporting their development necessary. Public policies facilitating the development of SMEs are usually more microeconomic in their nature, helping SMEs to build up competitiveness and efficiency. Exporting promotion through marketing and providing information is one of the policies conducted by governments to promote development by SMEs. Technology upgrading and technology supplying is also aimed at by public policies. Besides, access to credit, vocational training for workers, specially designed training for entrepreneurs and support for inter-firm cooperation involving SMEs or taking advantage of economies of scale are mostly used by policy-makers worldwide.

The importance of SMEs in the development of national economies also makes researchers pay more attention on their performance. The number of studies on productivity, both total factor productivity and partial productivity of labour, on innovation, growth, technology progress and technical efficiency of SMEs, increases rapidly. Studies on the impact of the operating environment and governmental supporting policies on performance of SMEs are also encouraged and received large attention by researchers. Though African countries are yet to match the developed countries in number of SMEs, their growth and potential, they have continued to play a substantial role in the macro economy. In Nigeria, SMEs have continued to thrive considering the support received from the government, in terms of enabling business environment, marketing for the products (Buy Naija to Make Naira grow initiative), funding through small and medium enterprises authority (SMEA). This has enhanced greater integration into global market, where the SMEs are able to participate in the international value chain and supply chain networks. SMEs that are making use of technology and knowledge to innovate and develop high value added products of good quality, will keep on competing globally as per (Akinboye 2021).

Most governments in developing countries have continued to emphasis on importance of the SMEs in steering economic growth, since large projects in industrial sector which require high capital intensity of output in the sector, are less likely to generate requisite employment.

However, SMEs has continued to face several impediments which threaten their growth especially in developing countries. For instance, Hallberg (1999) established that, strong presence of Asian SMEs in Africa has continued to threaten growth of local SMEs.

Fintechs provide a new method for SMEs to avoid traditional banking and financial management by creating easy-to-use technologies. Fintech can facilitate SME lending, making it easier for SMEs to receive capital investments. More than half of SME credit applications are currently abandoned, either because they are rejected or because they are too complicated. By providing simple business lending for SMEs, fintech can

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help SMEs with the capital investment they need for expansion or to keep their operation afloat. The problems related to traditional business lending for SMEs have only gotten worse during the coronavirus pandemic, but thankfully fintech has stepped up to fill the void. In 2017, fintech companies focused on SMEs provided $6.5 billion worth of loans for small businesses, and that number has only grown since then. According to the International Finance Corporation, there is a $5.2 trillion gap between funding and funding needs for SMEs; thus they offer SME lending in two main ways -facilitating loans and crowd-funding.

2.3 Theoretical Framework

- **Bank-Led Model**

According to Ratha., Sanket and Vijayalakshmi, (2009), this model offers a clear alternative to traditional banking at the branch, since the client carries out financial transactions through a variety of retail agents (or via mobile phones) instead of through bank branches. or bank employees. This model promises the potential to significantly increase the reach of financial services by using a different delivery channel (retail / cell phone), another experienced business partner (telecom / chain) and target market that is different from traditional banks and can be significantly cheaper than banking alternatives. The model operated by a bank can be implemented through correspondence agreements or by creating a partnership between the bank and telecommunications / non-bank companies (Infogile, 2007). In this model, there is a customer account relationship with the bank. Therefore, this model is prone to agent-related risks. However, these agent-related risks can be mitigated by holding banks fully accountable for the actions of their agents and by empowering regulators to review agent records of bank-related transactions.

- **Non- Bank Led Model**

With this model, customers have nothing to do with a bank, nor do they have a bank account. Instead, customers work with a non-bank company, be it a cellular network operator or a prepaid card issuer, and commercial agents act as customer contacts (Infogile, 2007). This is where the bank does not come into play (except possibly as custodian of surplus funds) and the non-bank entity (eg Telco) takes over all functions. Customers exchange their cash for money that is stored in a virtual money account on the server of the non-bank entity that is not linked to a bank account in the person's name. This model is riskier because the regulatory environment in which these non-banks operate does not place reasonable weight on issues related to customer identification, which can create significant risk. Furthermore, non-banking entities are not highly regulated in areas of transparent documentation and records, which are a prerequisite for a secure financial system.

3. METHODOLOGY

Stratified sampling would be ideal for the study because it looked for several homogeneous categories of SMEs in Delta State. The actual sample size was determined when the researcher was able to group the SMEs in Delta State into different sectors, such as lodging, storage, education, general trade, agriculture, and transportation. Information was gathered from the respondent using a structured questionnaire. On a scale of 1 to 5, where 5 indicates strong agreement and 1 indicates severe disagreement, respondents were asked to score a series of statements about how fintech has impacted the expansion of their companies.

Descriptive analysis of the acquired data was used to determine the mean, standard deviation, frequencies, and percentages. The mean, mode, and median ratings were analysed using the Likert rating scale, and the standard deviation was computed to ascertain the degree to which M-banking has contributed to the expansion of SMEs in Delta State. The Statistical Package for Social Sciences (SPSS) version 24 was used to analyse the data using both descriptive and inferential statistics. To determine the extent to which predictor variables influenced dependent variables, a multiple linear regression and correlation analysis were performed on the three fintech service components. The following simple regression model was used:

$Y = \beta_0 + X_1\beta_1 + \varepsilon$

Where: γ is the dependent variable (growth of SMEs); $\beta 0$ is constant; X1 is mobile money X2 is represents online banking ε is error term; $\beta 1$ is coefficient of independent variable

4. RESULTS

Table 1: Respondents' Perceptions on Online Banking

Description	Option	Frequency	Percentage	Mean & SD
Online banking enables me track transactions in my bank	SA	90	90	4.73 (0.90)
	A	6	6	
	U	-	-	
	D	2	2	
	SD	2	2	
Am able to access my account balance through my phone	SA	80	80	4.39 (0.93)
	A	10	10	
	U	2	2	
	D	5	5	
	SD	3	3	
Am able to make deposits direct to my bank account through mobile banking	SA	80	80	4.24 (0.91)
	A	10	10	
	U	2	2	
	D	5	5	
	SD	3	3	
Presence of Online Banking have prevented	SA	80	80	4.12 (0.86)
	A	10	10	
	U	2	2	
	D	5	5	

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theft of money that would have been stored in the premise	SD	3	3	
Online Banking is convenient in terms of time and cost of transaction	SA A U D SD	70 20 2 5 3	70 20 2 5 3	4.31 (0.82)

Source: Field Survey 2025

According to the following statistic, 96% of respondents agreed that they could track transactions in their bank using mobile banking (M=4.73, SD=0.909). Additionally, 90% of respondents said they could view their account balances on their phones (M=4.39, SD=0.934). Additionally, 90% of respondents agreed that they could use mobile banking to make deposits to their bank accounts (M=4.24, SD=0.917). Additionally, 90.0% of respondents stated that the availability of mobile banking has reduced financial theft that results from keeping large amounts of money in the company (M=4.12, SD=0.863).

Last but not least, 90% of respondents believed that internet banking is convenient in terms of transaction cost and time (M=4.31, SD=0.82). According to the results, the majority of SMEs concur that mobile banking is a convenient method of accessing and tracking business accounts because it saves time and requires only a mobile phone. Otisoetal. (2013) concluded their analysis in line with the current study's result that a sizable portion of SMEs have switched from traditional banking to mobile banking since they can access both transactional and informational services on their mobile devices. The study assessed the respondents' perceptions of how fintech has boosted the expansion of small and medium-sized businesses in Delta State. The interviewees were therefore asked to describe how they felt their firms had grown since they began using mobile money. They had to adjust for changes in sales revenue, customer base, sales volumes, operating expenses, and the business's market worth.

Table 2: Respondents' Perceptions on Growth of SMEs

Description	Option	Frequency	Percentage	Mean & SD
Use of fintech services has enhanced growth of sales volume over the last three years	SA A U D SD	38 40 10 10 2	38 40 10 10 2	3.37 (1.43)
Use of fintech services has resulted to increase of customer base in my business	SA A U D SD	70 20 5 4 1	70 20 5 4 1	4.04 (1.13)
My business has experienced increased sales revenue over the last three years	SA A U D SD	80 10 5 3 2	80 10 5 3 2	4.03 (1.12)
Use of fintech in my business has reduced operating costs	SA A U D SD	90 5 - 3 2	90 5 - 3 2	4.03 (1.06)
Use of fintech has resulted to an increase in market value and share of my business	SA A U D SD	80 10 2 5 3	80 10 2 5 3	3.99 (1.08)

Source: Field Survey, 2025

The researcher discovered that 90% of respondents believed that the use of tech services has helped to increase their company's client base (M=4.04, SD=.1.135) and 78% agreed that the usage of tech services has boosted their sales volume growth over the previous three years (M=3.37, SD=1.434). 90% of respondents, on average, agreed that their organisation had seen an increase in sales revenue over the previous three years (M=4.03, SD=1.122). Additionally, 95% of respondents agreed (M=4.03, SD=.1.063) that by the time they began utilising fintech, their companies' operational costs had decreased and that fintech systems had given them access to difficult-to-get alternative sources of bank financing. Lastly, 90% of respondents concurred that their company's market worth and share have increased as a result of adopting technology (M=3.99, SD=1.081).

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These results showed a clear correlation between the growth of SMEs and the impact of technology. As evidenced by the amount of respondents who agree and strongly agree that fintech has had a beneficial influence on their firm, businesses who have adopted the various fintech services have seen some growth in their operations. According to the study by Gok (2007), small and medium-sized enterprises who used technology and expertise to innovate and create high-quality, high-value products were able to compete globally and saw higher growth than those that did not employ technology in their operations.

Table 3: Regression Coefficients

Model		Unstandardized Coefficients B	Standard Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.384	.466	.146	.825	.410
	Online/ mobile banking	.505	.094	.314	5.382	.000

Source: Field Survey, 2025

Table 3 indicates that the regression model, which uses fintech predictors to forecast the growth of SMEs, was significant ($F(3,312)=21.413$, $p=0.000$). However, examining the coefficient, we find that only online banking has a significant impact on the dependent variable (SMEs' growth). The study found a favourable correlation ($r=0.385$, $p<0.001$) between the growth of SMEs and online and mobile banking.

Furthermore, it was shown that mobile banking had a statistically significant ($p<0.001$) impact on Delta State's SMEs' growth. The survey concurred with the findings of Heinz (2023), which found that a sizable portion of SMEs have switched from traditional banking to mobile banking since they can access both transactional and informational services on their mobile devices. The majority of entrepreneurs were able to use their mobile phones to access bank balances and move money between bank accounts, confirming the substantial impact that mobile banking, rather than digital lending and mobile money, has had on the expansion of SMEs in Delta State.

5. CONCLUSION AND RECOMMENDATIONS

SME growth was assessed using five benchmarks described as follows: increased sales volume over the past three years, increased customer base, increased revenue, decreased operating costs and increase in market value and share of activity. Over 78% of those surveyed agreed that the sales volume increase was over 80%which was indicated in an increased customer base, increased revenue, market share increase and operating cost increase due to the use of the fintech platform. However, 22% of respondents are of the opinion against the increase in sales volume resulting from the use of fintech services. Overall, the study determined that SMEs in Delta State have grown through the use of fintech services.

The study also found that mobile banking enabled more than 90% of entrepreneurs to track transactions in their bank, access their account balances, make deposits to their bank accounts and make banking transactions using their own mobile phones. In addition, respondents were convinced that there was a reduction in fraud in the organization due to the reduction in cash flow in the office. Regression analysis indicated that mobile banking services had a positive and significant influence on the growth of SMEs. Finally, fintech service providers should improvise new and effective ways to resolve the delay encountered with incorrect transfer of funds while using mobile phones. This would require fintech service providers to deploy advanced technologies aimed at swiftly correcting incorrect transfer of funds.

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