Quest Journals
Journal of Research in Business and Management
Volume 13 ~ Issue 6 (June 2025) pp: 51-55
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

The Effect of Financing on Social Enterprises' Performance in Lagos State, Nigeria

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Abstract
This study investigates the effect of financing on the performance of social enterprises in Lagos State, Nigeria. The research explores various financial factors, including financial resources, to determine their influence on the success and sustainability of social enterprises. Using a quantitative research design, data were collected from 384 respondents through structured questionnaires. The findings reveal that broader access to financial resources significantly affects social enterprise growth and resilience. Additionally, the study identifies limitations in existing support structures, such as social incubators, which are found to be less effective due to contextual misalignment and a lack of inclusivity. The results suggest the need for tailored financial interventions, improved policy frameworks, and enhanced collaboration between stakeholders to foster a more enabling environment for social enterprises. This research contributes to both academic discourse and practical strategies aimed at strengthening the financial ecosystems supporting social entrepreneurship in Lagos State.

Keywords: *Social Enterprises, Financial Resources, Financial Literacy, Enterprise Performance*

*Received 01 June., 2025; Revised 06 June., 2025; Accepted 08 June., 2025 © The author(s) 2025. Published with open access at **www.questjournas.org***

I. Introduction

Social enterprises have emerged as critical players in addressing complex social issues, particularly in regions grappling with poverty, unemployment, and inadequate access to essential services (Baldin, 2023). These enterprises operate at the intersection of social impact and financial sustainability, aiming to create value for society while maintaining economic viability (Oladimeji, Eze, and Akanni, 2018). In Lagos State, Nigeria's economic hub, social enterprises have become increasingly important as they fill gaps left by the public and private sectors. With a population exceeding 20 million, Lagos faces numerous social and developmental challenges, making it a fertile ground for social innovation (Durowoju & Elegunde, 2018). However, despite their potential, social enterprises in Lagos often struggle with financial constraints that hinder their growth and ability to deliver on their social missions.

The financial ecosystem in which social enterprises operate plays a crucial role in their performance and sustainability. Financial ecosystems encompass the structures, organisations, markets, tools, and policies that facilitate the flow of capital and services within an economy (Leyshon, 2020). In Lagos, the financial ecosystem is predominantly designed to support traditional, profit-driven businesses, leaving social enterprises at a disadvantage. These enterprises often face difficulties in accessing loans, equity, and other financial instruments due to their dual objectives of generating social impact and achieving financial sustainability (Peter, 2021). This misalignment between the financial ecosystem and the needs of social enterprises has led to a reliance on informal funding sources, such as personal savings, family loans, and charitable donations, which are often insufficient and unreliable for scaling operations (Ibidokun and Adegboyega, 2023).

Moreover, the lack of tailored financial products for social enterprises exacerbates their challenges. While conventional small and medium-sized enterprises (SMEs) in Lagos have access to various financial products, including loans, grants, and subsidies, social enterprises are often excluded from these opportunities (Okonji & Amuda, 2023). This exclusion stems from the hybrid nature of social enterprises, which straddle the line between for-profit businesses and non-governmental organisations (NGOs). As a result, they are frequently overlooked by both traditional financial institutions and government incentive programs (Ajala, 2023). Additionally, many social entrepreneurs lack the financial literacy needed to navigate Lagos's complex financial environment, further limiting their ability to secure funding and manage resources effectively (Dodo, Raimi, & Rajah, 2021).

The regulatory environment in Lagos also presents significant challenges for social enterprises. While there has been a growing focus on supporting SMEs and informal businesses, the legal and policy frameworks for social enterprises remain underdeveloped (Maher, 2018). Social enterprises often face bureaucratic hurdles similar to those encountered by traditional businesses but without the corresponding benefits, such as tax incentives or access to microfinance services tailored to their needs (Onuorah, 2022). This lack of regulatory support further marginalises social enterprises, making it difficult for them to achieve financial stability and scale their operations.

Given these challenges, there is a pressing need to explore the relationship between financing and the performance of social enterprises in Lagos State. Understanding how access to financial resources impacts the ability of social enterprises to achieve their social and financial objectives is critical for developing strategies to enhance their sustainability and impact. This study seeks to fill this gap by examining the effect of financing on the performance of social enterprises in Lagos, with a focus on identifying the barriers they face and proposing innovative solutions to improve their financial ecosystems.

Social enterprises in Lagos State play a vital role in addressing some of the region's most pressing social issues, including poverty, unemployment, environmental degradation, and inadequate access to healthcare and education. However, despite their potential to drive social change, these enterprises face significant financial constraints that limit their ability to scale and sustain their operations. The financial ecosystem in Lagos is primarily designed to support traditional, profit-driven businesses, leaving social enterprises with limited access to the capital and resources they need to thrive. The problem is further compounded by the lack of tailored financial products for social enterprises. While conventional SMEs have access to a range of financial instruments, social enterprises are often excluded from these opportunities due to their hybrid nature. This exclusion forces many social entrepreneurs to rely on informal funding sources, such as personal savings, family loans, and charitable donations, which are often insufficient and unreliable for scaling operations. Additionally, many social entrepreneurs lack the financial literacy needed to navigate Lagos's complex financial environment, further limiting their ability to secure funding and manage resources effectively.

The financial regulatory environment in Lagos also presents significant challenges for social enterprises. While there has been a growing focus on supporting SMEs and informal businesses, the legal and policy frameworks for social enterprises remain underdeveloped. Social enterprises often face bureaucratic hurdles similar to those encountered by traditional businesses but without the corresponding benefits, such as tax incentives or access to microfinance services tailored to their needs. This lack of regulatory support further marginalises social enterprises, making it difficult for them to achieve financial stability and scale their operations. Given these challenges, there is a pressing need to explore the relationship between financing and the performance of social enterprises in Lagos State. Understanding how access to financial resources impacts the ability of social enterprises to achieve their social and financial objectives is critical for developing strategies to enhance their sustainability and impact. This study seeks to fill this gap by examining the effect of financing on the performance of social enterprises in Lagos, with a focus on identifying the barriers they face and proposing innovative solutions to improve their financial ecosystems.

II. Methodology

This study employs a descriptive survey research design. A descriptive survey design is a research tool used to gather and analyse data to characterise and summarise the traits or behaviours of a specific population or phenomenon (Stayt & Merriman, 2013). This approach is particularly useful for obtaining data on various issues, including the financial challenges and performance metrics of social enterprises. The descriptive survey design allows for a comprehensive understanding of the relationship between financing and the performance of social enterprises in Lagos State.

Population of Study

The target population for this study comprises social entrepreneurs who operate within Lagos State, Nigeria. The population of the study is not finite. Lagos State is Nigeria's economic hub and has a diverse and active base of social enterprises that address various social issues, such as poverty, unemployment, and access to essential services. These social enterprises play a crucial role in the state's economic and social development. The study focuses on social entrepreneurs because they are at the forefront of addressing social challenges while striving for financial sustainability. This population provides a dynamic snapshot of social entrepreneurial activity in Lagos State, offering valuable insights into the financial challenges and performance of these enterprises.

Sample Size and Sampling Technique

The sample size for this study is determined using Cochran's equation, which ensures that the selected sample size is sufficiently large to provide an accurate representation of the entire population under investigation. Cochran's equation is as follows:

SS= (Z score)^2*p*(1-p)/(E)^2
Where the SS sample size
Z= 1.96 for a 95% confidence level
P= estimated proportion (0.5)
E= margin of error (0.05)
SS= (Z score)^2*p*(1-p)/(margin of error)^2
SS= (1.96)^2*0.5*(1-0.5)/(0.05)^2
SS= 3.8416*0.25/0.0025
SS= 384.16 ≈ 384

The sample size for this study is 384 participants. The study will employ a convenience sampling technique, which allows the researcher to select participants who are readily available and willing to participate in the study. This sampling technique is appropriate for this study due to the accessibility of social entrepreneurs in Lagos State and the need to gather data efficiently.

Research Instrument

The research instrument to be used in this study is a self-developed, structured questionnaire designed to collect data on the effect of financing challenges on social enterprise performance in Lagos State. The questionnaire comprises items specifically created to address the research questions and objectives of the study. The structured nature of the questionnaire ensures consistency in data collection and facilitates analysis. The questionnaire is divided into sections that cover key areas such as sources of financing, financial challenges, performance metrics, and the impact of financing on the growth and sustainability of social enterprises.

Data Collection

Data for this study were collected through **online questionnaires** generated using Google Forms. Copies of the questionnaires will be distributed to Lagos State social entrepreneurs willing to participate in the study. Participants are informed of the study's objectives, and their confidentiality is maintained throughout the process. Respondents are encouraged to provide honest and accurate responses, as there are no right or wrong answers. The online data collection method is chosen for its efficiency and ability to reach various social entrepreneurs across Lagos State.

III. Method of Data Analysis

The data collected will be analysed using regression analysis to evaluate the research hypotheses. Regression analysis is a statistical technique used to examine the effect of independent and dependent variables. In this study, regression analysis is employed to determine the effect of financing (independent variable) on the performance of social enterprises (dependent variable). The Statistical Package for Social Scientists (SPSS) is used to conduct the regression analysis and other statistical tests. The results of the analysis are used to draw conclusions and make recommendations based on the findings.

Data Analysis

H_1: Financial resources have no significant effect on social enterprise performance in Lagos State.

Table 1: Summary of Regression Analysis Showing the Influence of Financial resources on social enterprise performance

Predictor	β	t	p	R	R^2	F	p
Constant	3.148	13.521	0.001	0.033	0.0011	0.283	0.595
Financial Resources	−0.041	−0.532	0.595				

Table 4.3 indicates that financial resources do not have a statistically significant effect on social enterprise performance in Lagos State. The beta coefficient for financial resources is −0.041, with a t -value of −0.532 and a p -p-value of 0.595, which is well above the conventional threshold of 0.05 for significance. This suggests that

changes in financial resources are not meaningfully associated with changes in social enterprise performance. The multiple correlation coefficient (R) is 0.033, indicating a very weak relationship between the predictor and the outcome variable, while the coefficient of determination ($R^2 = 0.0011$) shows that financial resources account for less than 1% of the variance in social enterprise performance. The overall model is also not significant, as reflected by the F -F-statistic of 0.283 and its corresponding p -p-value of 0.595. These findings imply that factors other than financial resources may play a more critical role in influencing the performance of social enterprises in Lagos State.

IV. Discussion

This study explored the effect of financing on the performance of social enterprises in Lagos State, Nigeria. The analysis revealed that financial resources do not have a statistically significant effect on the performance of social enterprises in Lagos State. This finding contradicts a widely held assumption in social enterprise literature, which posits that access to financial capital is a foundational requirement for organisational growth, sustainability, and social impact (Del Giudice et al., 2019). According to the Resource Dependence Theory (RDT), organisations rely heavily on external resources, such as financial capital, for their survival and success. However, the regression result ($\beta = -0.041$, $p = 0.595$) suggests that mere availability or access to financial resources does not automatically translate into improved performance for social enterprises in the Lagos context.

This outcome could be attributed to several contextual factors. First, social enterprises in Lagos might be receiving funds that are misaligned with their operational needs or burdened by restrictive conditions that limit their flexibility. Second, the inefficiencies in fund utilisation, such as poor financial planning or mismanagement, may dilute the potential impact of the financial resources received. Third, some social enterprises may have developed resilience strategies that rely less on formal financial inputs and more on grassroots innovation, community support, or in-kind resources, rendering financial inflows less predictive of performance outcomes. This reflects the findings of Borzaga et al. (2020), who emphasised that for social enterprises, non-financial assets like stakeholder engagement and social capital can often substitute for formal financing.

V. Conclusion

This study examined the factors influencing social enterprise performance in Lagos State, with a particular focus on financial resources. Data collected from 302 respondents were analysed using descriptive statistics, correlation analysis, and regression techniques to test five hypotheses. The findings revealed that financial resources have no statistically significant effect on social enterprise performance. These results suggest that the performance of social enterprises in the study area may be influenced by factors outside the scope of this research, such as leadership qualities, organisational structure, market dynamics, access to networks, or broader socio-economic conditions.

Moreover, the correlation matrix indicated weak relationships among demographic variables and financial factors, suggesting that age, gender, religion, ethnicity, marital status, and educational level do not strongly influence financial outcomes or enterprise performance in this context. The descriptive statistics also highlighted that the sample was relatively young, with moderate levels of financial challenges, financial literacy, and access to opportunities and support. In conclusion, the study implies that while financial and related support mechanisms are important for enterprise development, they may not be the primary determinants of social enterprise performance in Lagos State.

VI. Recommendations

Based on the findings of this study, which indicate that financial resources have no statistically significant impact on the performance of social enterprises in Lagos State, the following recommendations are made for stakeholders, including policymakers, social enterprise practitioners, funding agencies, and future researchers:

1. **Explore Non-Financial Determinants of Performance:** Since financial factors were not found to be significant predictors of social enterprise performance in this study, future research should investigate non-financial variables such as leadership qualities, managerial skills, innovation capabilities, governance structures, and strategic planning practices. These may play a more critical role in determining enterprise success.
2. **Enhance Capacity Building Programs:** While financial literacy was not significantly correlated with performance, this does not diminish its importance. Practitioners and support organisations should continue investing in training and capacity-building programs that improve business and financial knowledge among social entrepreneurs. Tailored mentorship and hands-on workshops could yield better outcomes than general financial education.
3. **Re-evaluate Crowdfunding Mechanism:** The lack of a significant relationship between crowdfunding techniques and performance suggests that current crowdfunding strategies may not be effectively utilised or

accessible to social enterprises in Lagos. There is a need for platforms and policies that better align crowdfunding opportunities with the needs and capacities of social entrepreneurs.

4. **Improve the Ecosystem for Social Enterprises:** Given that social incubators showed no significant effect, there may be inefficiencies or limitations in the quality and relevance of support services provided. Policymakers and development agencies should work toward strengthening the entrepreneurial ecosystem by improving access to markets, networks, and tailored advisory services.
5. **Promote Inclusive and Diverse Support Systems:** Considering the diverse demographic background of respondents (in terms of religion, ethnicity, gender, and educational level), support initiatives should be inclusive and sensitive to cultural and regional differences. Customised interventions can help address specific barriers faced by different groups within the social enterprise sector.

VII. Limitations

Despite the efforts to ensure methodological rigour, this study has several limitations that should be considered when interpreting the results:

1. **Sample Size and Scope:** The study used a sample size of 265 respondents, which, while adequate for preliminary analysis, may not be sufficient to capture the full complexity and diversity of social enterprises across Lagos State. A larger and more geographically diverse sample could yield different or more nuanced findings.
2. **Cross-Sectional Nature:** The data was collected at a single point in time, limiting the ability to establish causal relationships between variables. This cross-sectional design restricts insights into how financial resources, crowdfunding techniques, or other factors influence enterprise performance over time.
3. **Self-Reported Data:** The reliance on self-reported survey responses introduces the potential for response bias. Respondents may have overestimated or underestimated their experiences with financial literacy, crowdfunding, or incubator support due to social desirability or recall bias.

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