Comparative Analysis of Internal and External Financing Sources and Entrepreneurial Performance in South East, Nigeria

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Abstract: *This study examines the comparative effects of internal and external financing sources on entrepreneurial performance in Nigeria. Entrepreneurial ventures require adequate financing for establishment, growth, innovation, and sustainability. However, many Nigerian entrepreneurs face severe financing challenges due to limited access to credit, high interest rates, inadequate collateral, and unstable economic conditions. The study comparatively evaluates internal financing sources such as personal savings, retained earnings, family contributions, and cooperative funding against external financing sources including bank loans, venture capital, government grants, trade credit, and microfinance loans. The study adopts a descriptive survey research design and relies on secondary and empirical literature relevant to entrepreneurial finance in Nigeria. The population of the study comprised of 21320 SME in the studied states. The sample size of 392 was drawn from the population of the study using Taro Yamani sample size determination method Findings reveal that internal financing sources promote managerial independence, flexibility, and reduced financial risk, while external financing sources enhance expansion, innovation, and business scalability. However, external financing often exposes entrepreneurs to repayment burdens and financial constraints due to high interest rates and strict lending conditions. The study concludes that a balanced financing structure combining internal and external sources significantly improves entrepreneurial performance in Nigeria. Based on the findings and conclusion of the study, we, therefore, recommended improved access to affordable credit facilities, government support policies, financial literacy programs and the strengthening of financial institutions to support entrepreneurial development.*

Keywords: Comparative analysis, internal financing sources, external financing sources, entrepreneurial performance, SMEs, innovation, sustainability, South-East

INTRODUCTION

Entrepreneurship plays a critical role in economic growth, employment generation, innovation, poverty reduction, and industrial development in Nigeria (Emovon et al, 2023). Entrepreneurs establish businesses that contribute significantly to national income and socio-economic transformation. Despite the importance of entrepreneurship, one of the greatest challenges confronting entrepreneurs in Nigeria is inadequate access to finance (Fatoki, 2025; Eniola, 2024). Finance is regarded as the lifeblood of any business organization because it facilitates production, expansion, innovation, and operational continuity. Entrepreneurial ventures depend on various financing sources to initiate and sustain business operations. These financing sources are broadly categorized into internal and external financing sources (Onoh et al, 2026; Ibidunni et al, 2025). Internal financing sources refer to funds generated within the business or provided by the entrepreneur and close associates. They include personal savings, retained earnings, contributions from family and friends, cooperative societies, and business profits. Internal financing is commonly preferred by many Nigerian entrepreneurs because it offers independence, lower financial risk, and minimal repayment obligations. External financing sources involve obtaining funds from outside the business. These sources include commercial bank loans, venture capital, government intervention funds, trade credit, equity financing, microfinance banks, crowd funding, and development finance institutions. External financing enables entrepreneurs to undertake large-scale investments, expand operations, adopt modern technology, and improve productivity. In Nigeria, many entrepreneurs rely heavily on internal financing due to difficulties associated with obtaining external finance (Ogege et al, 2024). Financial institutions often impose stringent collateral requirements, high interest rates, and complex application procedures. Consequently, entrepreneurial performance is affected by the availability or inadequacy of financing options. Previous studies have shown that financing decisions significantly influence entrepreneurial growth, profitability, innovation, and sustainability (Akerlof, 2023). Internal financing enhances flexibility and managerial control, while external financing promotes expansion and competitiveness (Okoye et al, 2022). However, excessive dependence on either source may negatively affect entrepreneurial performance. This study therefore seeks to comparatively analyze internal and external financing sources and examine their effects on entrepreneurial performance in Nigeria.

Statement of the Problem

Entrepreneurs in Nigeria face persistent financing challenges that hinder business growth and sustainability. Many small and medium enterprises (SMEs) fail within the first few years of operation due to inadequate funding and poor financial management (Frank & Goyal, 2024; Myers & Mailuf, 2023). Although internal financing sources are easily accessible and less risky, they are often insufficient to support business expansion and technological advancement. On the other hand, external financing sources provide larger capital opportunities but are associated with high borrowing costs, collateral requirements, and repayment pressures (Adegboye et al, 2018).

Commercial banks in Nigeria are often reluctant to lend to entrepreneurs due to perceived business risks and poor creditworthiness. Government financing programs also suffer from bureaucratic bottlenecks, corruption, and limited accessibility (Berger & Udell, 2024). Consequently, entrepreneurs struggle to achieve optimal business performance. The inability to identify the most effective financing structure has continued to affect entrepreneurial productivity, profitability, innovation, and competitiveness in Nigeria. Therefore, there is a need for a comparative analysis of internal and external financing sources and their effects on entrepreneurial performance.

Objectives of the Study

The broad objective of the study is to comparatively analyze internal and external financing sources and their effects on entrepreneurial performance in South-East, Nigeria. The specific objectives are to:
i).examine the internal financing sources available to entrepreneurs in Nigeria.
ii).identify the external financing sources accessible to entrepreneurs in Nigeria.
iii).compare the effectiveness of internal and external financing sources on entrepreneurial growth and sustainability.

Research Questions.

The research questions raised to guide the conduct of the research are;
i).What are the major internal financing sources available to entrepreneurs in Nigeria?
ii).What are the major external financing sources accessible to entrepreneurs in Nigeria?
iii).Which financing source contributes more significantly to entrepreneurial growth and sustainability?

Research Hypothesis,

The null hypothesis formulated for the study is;
H01: There is no significant difference between the effects of internal and external financing sources on entrepreneurial performance.

Significance of the Study

The study will benefit entrepreneurs by helping them understand suitable financing options for business growth and sustainability. It will guide policymakers in developing supportive financial policies for SMEs and entrepreneurial ventures. Financial institutions will benefit by understanding the financing needs and challenges of entrepreneurs. Researchers and academics will also find the study useful as a reference material for future studies on entrepreneurial finance.

Scope of the Study

The study focuses on internal and external financing sources and their effects on entrepreneurial performance in Nigeria. It covers SMEs and entrepreneurial ventures operating in South-East region within different sectors of the Nigerian economy.

Definition of Terms
Internal Financing- Funds generated internally by entrepreneurs through personal savings, retained earnings, and family support (Afolabi et al, 2018).
External Financing- Funds obtained from external institutions such as banks, investors, and government agencies (Ajah & Ononiwu, 2021).
Entrepreneurial Performance- The extent to which entrepreneurial ventures achieve profitability, growth, innovation, and sustainability (Carpenter & Petersen, 2023).
SMEs- Small and Medium Enterprises operating within the Nigerian economy (NBS/SMEDAN, 2023).

LITERATURE REVIEW

Conceptual Review

a).Concept of Entrepreneurial Finance
Entrepreneurial finance refers to the financial resources required for the establishment, operation, and expansion of entrepreneurial ventures (Yusuf & Dansu, 2025; World Bank, 2023). It includes capital acquisition, investment decisions, and financial management practices. The internal financing sources include Personal savings, Retained earnings, Contributions from family and friends, Cooperative society funds Informal savings schemes. Advantages include flexibility, low financial risk, and managerial independence. However, internal financing may be insufficient for large-scale expansion. The external financing sources include, Commercial bank loans, Venture capital, Angel investors Government grants, Microfinance loans, Trade credit and Equity financing. These sources provide larger capital but may involve repayment burdens and loss of control.

b).Entrepreneurial Performance
Entrepreneurial performance measures business success using indicators such as (Carpenter & Petersen, 2023): Profitability, Sales growth, Market expansion, Innovation, Customer satisfaction and Sustainability

c).SMEs in South-East, Nigeria.
Small and Medium Enterprises (SMEs) in South-East Nigeria play a vital role in economic development, employment generation, poverty reduction, and industrial growth. The South-East region of Nigeria consists of states such as Abia, Anambra, Ebonyi, Enugu, and Imo (NBS/SMEDAN, 2023). The region is widely recognized for its entrepreneurial culture, commercial activities, and strong participation in trade and manufacturing. SMEs in South-East Nigeria operate in sectors such as (Jensen & Meckling, 2024; Kaaminski et al, 2023)):

i).Wholesale and Retail Trade-
Wholesale and retail trade involves the buying and selling of goods to consumers or businesses. Wholesale trade refers to purchasing goods in large quantities from manufacturers and selling them

to retailers or other businesses at lower prices. Retail trade involves selling goods directly to final consumers in small quantities through shops, supermarkets, online stores, or markets. This sector creates employment, facilitates the distribution of goods, and contributes significantly to economic growth.

ii).Manufacturing-
Manufacturing is the process of converting raw materials or semi-finished products into finished goods using labor, machinery, and technology. Examples include the production of textiles, beverages, pharmaceuticals, cement, and automobiles. Manufacturing adds value to raw materials, promotes industrialization, creates jobs, increases exports, and supports national economic development.

iii).Agriculture-
Agriculture is the cultivation of crops and the rearing of animals for food, raw materials, and income generation. It includes farming, livestock production, fisheries, forestry, and horticulture. Agriculture provides food security, supplies raw materials to industries, creates employment, and contributes to foreign exchange earnings through exports.

iv).Transportation-
Transportation is the movement of people, goods, and services from one location to another. Major modes include road, rail, air, water, and pipelines. An efficient transportation system facilitates trade, reduces distribution costs, improves market access, and enhances economic development.

v). Hospitality-
The hospitality industry provides accommodation, food, beverages, and entertainment services to customers and tourists. It includes hotels, restaurants, resorts, event centers, catering services, and tourism businesses. Hospitality promotes tourism, creates employment, generates government revenue, and contributes to national economic growth through quality customer service.

vi).Information Technology (IT)-
Information Technology involves the use of computers, software, telecommunications, and digital systems to collect, process, store, and transmit information. IT supports businesses through e-commerce, online banking, cloud computing, cybersecurity, and digital communication. It improves productivity, enhances innovation, creates employment opportunities, and drives digital transformation.

vii). Fashion and Tailoring-
Fashion and tailoring involve designing, producing, altering, and marketing clothing and fashion accessories. Fashion businesses include garment production, tailoring, embroidery, shoe making, and fashion merchandising. The industry promotes creativity, entrepreneurship, employment, cultural identity, and income generation through local and international markets.

viii).Food Processing-
Food processing is the transformation of agricultural products into consumable food products through cleaning, preservation, packaging, and manufacturing. Examples include the production of flour, fruit juice, dairy products, canned foods, vegetable oil, and packaged snacks. Food processing reduces post-harvest losses, improves food quality and shelf life, adds value to agricultural products, and supports food security and industrial development.

SMEs in South-East Nigeria have the following characteristics (Myers & Mailuf, 2023):
i.Mostly privately owned businesses.
ii.Small capital base.
iii.High dependence on family labor.
iv.Limited access to finance.
v.Flexible operational structure.
vi.Strong entrepreneurial orientation.

Oni and Daniya (2023) maintain that SMEs contributes significantly to:
a. Employment Generation - SMEs provide jobs for millions of people, especially youths and low-income earners.
b. Economic Growth - They contribute significantly to Nigeria's Gross Domestic Product (GDP) through production and commercial activities.
c. Poverty Reduction- SMEs improve income levels and living standards within local communities.
d. Industrial Development- Many SMEs engage in local manufacturing and value addition activities.
e. Innovation and Entrepreneurship- SMEs encourage creativity, innovation, and business development. Continuing, they opine that in spite of the contributions of SMEs in South-East Nigeria, these SMEs face various challenges ranging from poor infrastructure, inadequate electricity supply, limited access to credit facilities, high taxation and multiple levies, insecurity and economic instability, poor technological adoption to intense market competition. They state further that SMEs in South-East, Nigeria can be improved through the following strategies:

i. Government financial support programs.
ii.Improved infrastructure development.
iii.Digital transformation and technological training.
iv.Access to low-interest loans.
v.Entrepreneurial education and capacity building.
vi. Improved security and stable economic policies.

SMEs remain the backbone of commercial activities in South-East Nigeria and are critical to regional and national economic development

Entrepreneurship Financing.

Financing is a central issue in entrepreneurship because it determines how a business is started, sustained, and expanded. Broadly, sources of finance are classified into internal (inside the business or owner) and external (outside providers of capital). Each has its own structure, advantages, risks, and implications for control (Umeaku et al, 2024; BFEDN, 2021):

Internal Sources of Financing

Internal financing refers to funds generated within the business or by the entrepreneur personally, without involving outside investors or lenders which include (Eniola, 2024):

a. Personal Savings- This is the most common source for startups. The entrepreneur uses their own money (savings, salary, or personal assets). The features possessed by personal savings is there is no interest payments but there is full ownership and control and limited amount of capital The advantages: include easy and quick access, no repayment obligation and builds credibility when seeking external funding but the disadvantages are that the financial risk is borne entirely by the entrepreneur and it may be insufficient for large-scale ventures

b. Retained Earnings- Profits made by the business that are reinvested instead of being distributed to owners. The features include that it is generated internally over time and common in growing businesses rather than startups. The advantages are that there is no dilution of ownership, no interest or repayment and encourages sustainable growth but has the disadvantages of being limited by profitability and may slow down expansion if profits are small c. Sale of Assets- Selling unused or underutilized assets (e.g., equipment, land, vehicles) to raise funds. The advantages include immediate cash inflow and no debt or equity obligations but the disadvantages includes reduces asset base and may affect future operations.

d. Bootstrapping- A strategy where entrepreneurs minimize expenses and rely on internally generated cash flow. Examples include operating from home and using personal tools or shared resources. The advantages include high financial discipline and maintains full control but has disadvantages of slower growth and limited scalability.

e. Owner’s Equity (Sweat Equity)- Non-cash contributions such as skills, expertise, or time invested in the business. Advantages include that it reduces need for cash and builds strong commitment but hard to quantify value and may not meet financial needs directly.

External Sources of Financing.

External financing comes from outside the business, involving investors, lenders, or institutions which include (Ogege et al, 2024):

a.Bank Loans- Funds borrowed from financial institutions such as First Bank of Nigeria or Access Bank Plc, which has fixed repayment schedule and the interest is charged for services rendered. The advantages include large sums available and retain ownership but requires collateral, strict repayment terms and risk of insolvency if business fails

b. Microfinance Institutions- Small loans provided by institutions like LAPO Microfinance Bank targeted at small entrepreneurs. The advantages are that ti is accessible to low-income entrepreneurs and requires less stringent requirements but has higher interest rates and smaller loan sizes.

c. Venture Capital- Investment from firms that finance high-growth startups in exchange for equity. The features of venture capital is that investors become part-owners and it focus on scalable businesses. The advantages include access to large capital and strategic support and mentorship but there is loss of control and high expectations for growth and returns

d.Angel Investors- Wealthy individuals who invest in startups at early stages. The advantages include flexible funding terms and mentorship and business networks but there is equity dilution and possible interference in decisions

e. Trade Credit- Suppliers allow businesses to buy now and pay later. The advantages include that it improves cash flow and there is no immediate cash payment but it requires limited credit period and may affect supplier relationships if unpaid

f. Government Grants and Programs- Funding provided by government bodies such as Bank of Industry. The advantages include that it is often low or no interest. The and supports SMEs and innovation but it requires competitive application process and there is bureaucratic delays

g. Crowd funding- Raising small amounts of money from many people via online platform. The advantage include no need for traditional lenders and builds customer base but requires strong marketing and there is not guaranteed success

h. Equity Financing (Shares)- Selling ownership stakes to investors. The advantages include that there is no repayment obligation and it is suitable for expansion but there is loss of control and profit sharing

i. Leasing and Hire Purchase- Acquiring assets by paying in installments rather than outright purchase. The advantages include that it reduces upfront cost and has access to modern equipment but the total cost may be higher and ownership may come later or not at all

Akerlof (2023) states that the key differences between internal and external financing are:

Basis	Internal Financing	External Financing
Source	Within the business	Outside investors/lenders
Cost	Usually low or no cost	Interest, dividends, or equity loss
Control	Full control retained	May involve shared control
Risk	Personal financial risk	Risk shared but with obligations
Availability	Limited	Potentially large

Theoretical Framework

(A) Pecking Order Theory.

The Pecking Order Theory is one of the major theories of corporate finance that explains how firms choose among different sources of financing. The theory was developed by Stewart Myers and Nicolas Majluf in 1984. It argues that firms prefer financing methods according to a hierarchical order because of information asymmetry between managers and external investors. The theory suggests that businesses do not select financing sources randomly. Instead, they follow a financing preference sequence based on cost, risk, and availability of information. The Pecking Order Theory states that firms prefer internal financing (retained earnings), debt financing and external equity financing (issuing shares). This order exists because internal funds are cheaper and easier to access, while external financing introduces higher transaction costs and information problems. Managers possess more information about the firm's actual value and future prospects than outside investors. Because of this information gap, investors may undervalue newly issued securities, making external financing more expensive. The theory is based on several assumptions:

i.Information asymmetry- Managers know more about the company than outside investors. Investors may suspect that managers issue shares when the company is overvalued.
ii.Preference for internal funds- Companies prefer retained profits because they involve no flotation costs, no interest payments, and no ownership dilution.
iii.Debt before equity- When internal funds are insufficient, firms prefer borrowing because debt is less sensitive to information asymmetry than equity.
iv.Equity as last resort- Issuing new shares is considered the least preferred option because it may reduce existing owners' control and send negative signals to investors.

The theory can be represented as: First Choice (Internal Financing)-Retained earnings, Owner's savings, Depreciation reserves; Second Choice (Debt Financing)-Bank loans Bonds, Trade credit Overdrafts and Third Choice (Equity Financing)- Issuing ordinary shares, Venture capital and Public offerings

Explanation of Financing Preferences.
Internal Financing- Internal funds are preferred because they are readily available, they do not require collateral, they avoid interest obligations and they preserve ownership control. For example, an entrepreneur in Nigeria may reinvest profits into expanding a retail business rather than obtaining a bank loan.

i).Debt Financing- If internal resources are inadequate, firms seek debt because interest payments may be tax-deductible, Ownership remains unchanged and Debt is cheaper than equity in many cases. However, excessive borrowing may increase financial risk.

ii).Equity Financing- Equity financing is least preferred because it dilutes ownership, Investors may undervalue shares, Issuing shares involves legal and administrative costs and it may signal financial weakness.

The theory is highly relevant to small and medium-sized enterprises (SMEs) and entrepreneurial businesses because many startups face difficulties accessing external finance. Entrepreneurs usually begin with Personal savings, Family contributions, and Retained profits and as the business grows, they may seek bank loans, microfinance and venture capital. This financing sequence aligns with the Pecking Order Theory. The advantages of the Theory are (Emovon et al, 2023 :

1. Realistic explanation- The theory reflects actual financing behavior of many firms.
2. Explains SME financing- It effectively explains why SMEs rely heavily on retained earnings.
3. Reduces information problems- Preference for internal funds minimizes information asymmetry.
4. Preserves ownership- Entrepreneurs maintain managerial control.

Criticisms of the Theory/
The Perking Order theory has the following criticisms (Okoye et al, 2022);
1. No optimal capital structure- The theory does not explain the ideal debt-equity mix.
2. Not applicable to all firms- Some firms issue equity even when internal funds are available.
3. Ignores market conditions- Financing decisions may depend on interest rates and stock market performance.
4. Limited applicability in developing economies- In countries like Nigeria, weak financial systems may distort financing preferences.

Application to Nigerian Entrepreneurship.
In Nigeria, many entrepreneurs follow the pecking order pattern because access to bank credit is difficult, interest rates are high, capital markets are underdeveloped and entrepreneurs prefer maintaining ownership control. Thus, businesses often depend first on retained earnings before considering loans or external investors.

(**B)Financial Growth Cycle Theory**
The Financial Growth Cycle Theory explains how the financing needs and financing sources of a business change as the firm grows and develops over time. The theory was popularized by Allen Berger and Gregory Udell. It emphasizes that firms move through different growth stages, and each stage requires different financing arrangements. The Financial Growth Cycle Theory states that the type of finance available to a firm depends largely on its age, size, information transparency, asset structure, and stage of development. As businesses grow their financing requirements increase, their risk profile changes and their access to financial markets improves. Thus, financing evolves from informal sources to more formal and sophisticated sources.
Stages of the Financial Growth Cycle

1. Startup Stage- This stage has the following characteristics; Business is newly established and there is high uncertainty and risk, little or no credit history and limited assets for collateral. The sources of finance at this stage include personal savings, family and friends, informal lenders and cooperative societies. At this stage, external investors are reluctant to provide funds because of high risk and lack of information.
2. Survival Stage- The characteristics at this stage is that business begins operations, revenue generation starts and cash flow may still be unstable while the sources of finance include retained earnings, trade credit, microfinance loans and small bank overdrafts. The firm gradually builds credibility and may access limited external financing.
3. Growth or Expansion Stage- The characteristics at this stage is that there is increasing sales and customer base, improved financial records and greater capital requirements.while the sources of Finance are commercial bank loans, venture capital, leasing and equity participation. The business becomes more attractive to lenders and investors due to improved performance.
4. Maturity Stage- The characteristics at this stage there is stable operations, strong profitability and established market position. The sources of finance are public equity, corporate bonds, institutional investors and large-scale bank financing. Mature firms have easier access to capital markets because of lower risk and greater transparency.
5. Decline or Restructuring Stage- The characteristics at this stage there is falling sales or profitability, increased competition and financial difficulties. The sources of finance are debt restructuring, asset sales and turnaround financing. Firms may seek rescue financing or restructuring arrangements.

Key Components of the Theory.

The key components of Perking Order theory are(Oni and Daniya, 2023):
1. Information Availability- As firms mature, more financial information becomes available, reducing uncertainty.
2. Risk Reduction- Business risk declines with growth and experience.
3. Asset Accumulation- Older firms accumulate assets that can serve as collateral.
4. Improved Reputation- Established firms gain trust from lenders and investors.

Importance of the Theory.

The theory shows why financing patterns change over time. It explains why small firms depend heavily on informal finance initially. Governments can design financial support programs for firms at different stages and Entrepreneurs understand when and how to seek various funding sources..

Criticisms of the Theory.

1. Stages May Overlap- Businesses may not follow a strict sequence.
2. Industry Differences- Financing patterns vary across industries.
3. Economic Conditions Matter- Macroeconomic instability can affect financing access.
4. Limited Access in Developing Countries= Even mature firms in developing economies may struggle to obtain finance.

.Relevance to Nigeria's SMEs
The theory is highly applicable in Nigeria because most SMEs begin with personal savings. Access to formal credit improves gradually. Many firms face financing constraints during early stages. Informal financing remains important for startups. For example: A trader in Aba may start with family funds. Later, the business may obtain microfinance support. As the firm grows, it may access commercial bank loans.

Empirical Review
Eniola''S (2024) studies indicate that Nigerian entrepreneurs rely heavily on internal financing due to limited access to formal credit facilities. Research also shows that external financing contributes significantly to business expansion and innovation when accessible under favorable conditions (Carpenter & Petersen, 2023). Research further reveals that high interest rates and collateral requirements negatively affect entrepreneurial growth in Nigeria. Entrepreneurs with access to diverse financing options tend to perform better than those relying solely on personal savings (Ajah & Ononiwu, 2021)

METHODOLOGY

The study adopted a descriptive survey research design. The population of the study comprised registered SME operators in selected South-East States in Nigeria

Table 1: Population distribution of the SMEs in selected industrial clusters in South-East, Nigeria

S/N	Location/Address	Approx. Number of Producers/Shops	Approx. Minimum Number of Employees	Total Number
	ABA LEATHER CLUSTER(Abia State)			
1	Power line	650 shops	5	3250
2	Shoe plaza	1290 shope	3	3870
3	Bakassi	200 Producers	3	600
4	Nwaogu	300 shops	3	900
	ABA GARMENT CLUSTER (Abia State)			
5	Garment Village	600	5	3000
6	Ekeoha shopping center	1000	3	3000
	ONITSHA PLASTIC CLUSTER (Anambra State)			
7	Osakwe Industrial Cluster, Awada	85 firms	20	1700
	NNEWI AUTOMOBILE CLUSTER (Anambra State)			
8	Nkwo Nnewi Spare Parts Market	200 firms	25	5000
	Grand Total			21320

Source: Development Facility Phase 11, (Ihediora, (2018); Onwuchekwa(2017).

The population of the study comprised of 21320 SME in the studied states. The sample size of 392 was drawn from the population of the study using Taro Yamani sample size determination method:

$n = N / 1+N (e^{2)}$

where n = sample
N = population
1 = constant
e = margin of tolerable error

Thus: n = 21320 / 1+ 21320 (0.05 X 0.05)
n= 21320 / 1+ 21320 (0.0025)
n= 21320 / 1+ 53.30
n= 21320 / 54.30 = 392.

The Bowley's proportional allocation formula is given as;
nh = nNh / N
Therefore, the SMEs are allocated questionnaires as follows:

Power line = 3250 X 392 / 21320 = 60

Shoe plaza = 3870 X 392 / 21320 =71

Bakassi = 600 X 392 / 21320 =11

Nwaogu = 900 X 392 / 21320 = 17

Garment village = 300 X 392 / 21320 = 55

Ekeoha = 3000 X 392 / 21320 = 55

Osakwe = 1700 X 392 / 21320 = 31

Nkwo Nnewi =5000 X 392 / 21320 = 92

Total = 392

A sample size of 392 formed the basis for data analysis and was determined using an appropriate sampling technique such as simple random sampling and stratified sampling methods to ensure fair representation of respondents across different categories of SMEs. Primary data were collected through the administration of structured questionnaires, while secondary data were obtained from textbooks and academic journals, The questionnaire were divided into two sections covering the respondents demographics and the research variables Responses were measured using a Likert-scale format ranging from strongly agree(5) to strongly disagree (1). The validity of the research instrument was ensured through expert review and content validation by specialists in business management and marketing. Reliability of the instrument was tested using the test-retest method and Cronbach Alpha reliability technique which showed a value of 0.78 and ensured consistency of responses. Data collected from respondents were analyzed using descriptive statistical tools such as frequency tables and percentages. Inferential statistical methods such as regression analysis was employed to test the stated hypothesis. The findings were presented in tables and interpreted accordingly to achieve the objectives of the study

FINDINGS AND DISCUSSION

This section presents the findings of the study based on the responses obtained from 392 respondents across different categories of SMEs in South-East, Nigeria. The findings were organized according to internal financing sources, external financing sources, entrepreneurial performance and the regression results used to test the study hypothesis.

Internal financing sources for Entrepreneurial Performance.
This subsection presents respondents' views on the internal financing sources for Entrepreneurial performance. The items focused on reduction in financial risks, reduction in dependence on lenders, quick business growth and long-term business sustainability.

Table 1: Respondents' Responses on the internal financing sources for Entrepreneurial performance

S/N	Statement	SA	A	N	D	SD	Total
1	Internal financing reduces financial risks	100 (25%)	240 (61%)	7 (2%)	45 (12%)	-	392 (100%)
2	Internal financing sources reduces dependence on lenders..	140 (36%)	225 (57%)	-	27 (7%)	-	392 (100%)
3	Internal financing enables quick business decisions.	97 (25%)	280 (71%)	-	15 (4%)	-	392 (100%)
4	Internal financing enables long-term business sustainability.	120 (31%)	257 (65%)	-	-	15 (4%)	392 (100%)

Table 1 with regard to reduction in financial risks shows that 100 respondents representing 25% strongly agreed, while 240 respondents representing 61% agreed. This gives a combined agreement level of 86%, meaning that most Entrepreneurs (SMEs) reduce their financial risks through internal financing. Only 2% were at the instance of the research and 12% disagreed, suggesting that weak adoption of internal financing exists among a small proportion of the sampled firms. The results also show that 36% of the respondents strongly agreed and 57% agreed that internal financing sources helped reduce their dependence on lenders, giving a combined

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agreement level of 93% and only a small proportion of 7% disagreed. Regarding the respondents' responses on quick business decisions, 25% strongly agreed and 71% agreed, giving a total agreement level of 96%. This finding suggests that most SMEs are conscious of accessing internal financing sources in their operations while only 4% disagreed. Similarly, 31% strongly agreed and 65% agreed that internal financing sources enhances their long-term business sustainability, giving a total agreement level of 96% while only 4% of the respondents strongly disagreed The high levels of agreement across the four items suggest that internal financing improves operational flexibility, reduces financial obligations, and strengthens entrepreneurial confidence.

External Financing Sources for Entrepreneurial Performance.

This subsection presents respondents' views on the external financing sources for Entrepreneurial performance. The items focused on increase in business competitiveness, purchase of modern equipment, contribution to business growth, and improvement in cash flow management

Table 2: Respondents' Responses on external financing sources for Entrepreneurial Performance.

S/N	Statement	SA	A	N	D	SD	Total
1	External financing increases business competitiveness.	162 (41%)	230 (59%)	-	- -	-	392 (100%)
2	External financing enables the purchase of modern equipment.	150 (38%)	222 (57%)	-	20 (5%)	-	392 (100%)
3	External financing contributes positively to business growth.	100 (25%)	277 (71%	-	15 (4%)	-	392 (100%)
4	Credit facilities improve cash flow management.	127 (32%)	250 (64%)	15 (4%) -	-	--	392 (100%)

In table 2 above relating to increase in business competitiveness, 162 respondents representing 41% strongly agreed, while 230 respondents representing 59% agreed. This gives a combined agreement level of 100%, meaning that the SMEs reported accessing external financing sources in their business operations. The results also show that 38% of the respondents strongly agreed and 57% agreed that external financing enables the purchase of modern equipment, giving a combined agreement level of 95%. A small proportion of 5% disagreed. This indicates that some of the SMEs face challenges in accessing external finances. Regarding the responses to positive contribution to business growth, 25% strongly agreed and 71% agreed, giving a total agreement level of 96%. This finding suggests that most SMEs access external finances in their business operations while only 4% disagreed. Similarly, 32% strongly agreed and 64% agreed that credit facilities improve their cash flow management, giving a total agreement level of 96%, while a small proportion of 4% remained neutral at the instance of the research. The high levels of agreement across the four questionnaire items suggest that external financing promotes business expansion, innovation, and employment generation but increases debt obligations.

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Entrepreneurial Performance

This subsection presents respondents' views on the Entrepreneurial performance. The items focused on improved business profitability, improved customer satisfaction, market growth and improved business productivity.

Table 3: Respondents' Responses on. Entrepreneurial Performance

S/N	Statement	SA	A	N	D	SD	Total
1	Business profitability has improved consistently.	180 (47%)	205 (53%)	-	- -	-	392 (100%)
2	Customer satisfaction has improved.	165 (43%)	200 (52%)	20 (5%)	-	-	392 (100%)
3	My business has achieved significant market growth.	105 (27%)	280 (73%)	-	-	-	392 (100%)
4	Business productivity has improved.	130 (34%)	220 (57%)	15 (4%) -	20 (5%)	--	392 (100%)

Table 3 show that 180 respondents representing 47% strongly agreed, while 205 respondents representing 53% agreed that their business profitability has improved consistently. This gives a combined agreement level of 100%, The results also show that 43% of the respondents strongly agreed and 52% agreed that customer satisfaction has improved business, giving a combined agreement level of 95% while a small proportion of 5% were at the instance of the research. On the issue of market growth, 27% strongly agreed and 73% agreed, giving a total agreement level of 100%. Similarly, 34% strongly agreed and 57% agreed that business productivity has improved, giving a total agreement level of 91%. Only 4% of the respondents remained neutral at the instance of the research and 5% disagreed.. The high levels of agreement across the four questionnaire items suggest that entrepreneurial performance depends largely on both internal and external financing sources

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Hypotheses

This section presents the regression results used to test the stated hypothesis of the study.

H01: There is no significant difference between the effects of internal and external financing sources on entrepreneurial performance. The hypothesis examined the significant difference between the effects of internal and external financing sources on entrepreneurial performance.

The results are summarized in Table 4.

Table 4: Summary of Regression Results for Test of Hypotheses

Hypothesis	Predictor Variable	Dependent Variable	Coefficient	Std. Error	t-value	F-statistic	R	R^2	Decision
H_{01}: There is no significant difference between the effects of internal and external financing sources on entrepreneurial performance.	Internal and External financing sources	Entrepreneurial performance	0.702	0.297	3.235**	35.210	0.646	0.417	Rejected

Table 4 shows that internal and external financing sources have a coefficient of 0.702, a t-value of 3.235 and the R value of 0.646 which indicates a positive relationship, while the R^2 value of 0.417 shows that internal and external financing sources explain 41.7% of the variation in entrepreneurial performance. Since the t-value is significant at the 5% level and the F-statistics confirm that the regression model is statistically meaningful, the null hypothesis is rejected. Therefore, there is significant difference between the effects of internal and external financing sources on entrepreneurial performance. A combination of internal and external financing appears more effective in improving entrepreneurial performance than dependence on a single financing sources.

CONCLUSION

The study comparatively examined internal and external financing sources and their effects on entrepreneurial performance in Nigeria. Internal financing is ideal for startup stages and maintaining control, while external financing is crucial for expansion and scaling. A successful entrepreneur often uses a combination of both, balancing risk, cost, and control to achieve sustainable growth. Internal financing provides stability and independence, while external financing supports growth and expansion. A balanced financing structure is essential for entrepreneurial success in South-East, Nigeria. The Pecking Order Theory explains that firms prioritize internal funds, then debt, and finally equity financing due to information asymmetry and cost considerations. The theory is particularly useful in understanding financing decisions among SMEs and entrepreneurial firms in developing economies such as Nigeria. The Financial Growth Cycle Theory explains how firms' financing needs and financing opportunities evolve as businesses move from startup to maturity. Combined with the Pecking Order Theory, it provides a strong foundation for understanding entrepreneurial financing behavior, especially among SMEs in Nigeria and other developing economies.

Recommendations.

Based on the findings and conclusion of the study, the following recommendations were made;

i).Government should provide low-interest loans for entrepreneurs.
ii).Financial institutions should simplify lending procedures.
iii).Entrepreneurs should diversify financing sources.
iv).Financial literacy programs should be promoted.
v).SMEs should strengthen financial record keeping to improve credit access.

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