Venture Capital as Source of Business Finance: Evaluation of the Awareness Level of Small and Medium Scale Enterprises in Nigeria

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Abstract
This study examined the awareness level of small and medium scale enterprises about venture capital as source of business finance in southwestern Nigeria. The population of study comprised all the 7474 SMEs in southwestern Nigeria that registered with Corporate Affairs Commission. A two-staged sampling technique was employed in selecting the sample size. In the first stage, purposive sampling was used to choose two states, namely Lagos (4535 SMEs) and Oyo (1394 SMEs) that had the largest percentage (79.3%) of registered SMEs in Southwestern Nigeria. In the second stage, Slovin's formula was used to select 374 SMEs in the states using population proportionate to size. The awareness level of SMEs was obtained through the administration of structured questionnaire to SME's operators. Data collected were analysed using descriptive tools such as percentages and mean as well as inferential statistical tools such as ANOVA. The result showed that 304 (84.2%) of the respondents have heard about venture capital while 57 (15.8%) have not heard about venture capital.

Key words: *Venture Capital, Business Finance, Awareness, Small and Medium Scale Enterprises,*

Introduction

Business financing in terms of start-up and working capital for day-to-day operation is often cited as the greatest problem for small business development (Egbon, 2004; Fatai, 2009). As such, in Nigeria, start-up capital is a barrier to entry in most entrepreneurial activities (Elumilade, Asaolu & Oladele, 2006).Small and medium-scale enterprises (SMEs) play a pivotal role in the national economies of countries around the world (Lerner, 2000). In spite of their relevance to Nigeria's economic and industrial development, the sector faces a lot of problems. These problems include those of management, appropriate technological skill acquisition, harsh policy environment, gender bias and finance (Oguntoye, 1987; Oresotu, 1995, Lewis, 1996).

Of all these problems, inadequate financing is the most limiting. This is because finance is strategic to any industrial setup. Finance is the hub around which a business flourishes. Lack of it, through mismanagement or misappropriation, could hinder any business venture. Ideally, before any business is set up, there must be minimum working capital and fixed capital, based on feasibility reports (Asaolu, 2001).

Accessing finance has been identified as a key element for small and medium enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms (Idowu, 2010).

Many SMEs in most developing countries are suffering from a "finance gap"; which is mainly scarcity of debt and equity finance. A finance gap can be the unavailability of either debt or equity finance or both. Such issues do not only exist in developing countries, but also in many developed countries (Quaye, Abrokwah, Sarbah, & Osei, 2014).

Every enterprise is financed either through debt or equity or a combination of both. Both types of financing are usually sourced from either the informal finance sector (IFS) or the formal finance sector (FFS). The two fundamental financing concepts of SMEs, the formal and informal forms of financing, have been identified by previous researchers, scholars and practitioners (Aruwa, 2005).The formal finance sector is made up of formal finance institutions such as commercial banks, microfinance banks, international development agencies etc. The researchers identified commercial banks and development banks in the formal sector as the most popular source of finance for enterprises.

The informal sector which consists of borrowing from friends, relatives and cooperatives are also important source of financing SMEs. Another source of enterprise financing is through personal savings. The informal finance sector consists of informal finance institutions like money lenders, landlords, friends, relations, credit and savings associations (co-operative societies), esusu, also known as ayo among the Yorubas, isusu or atu among the Igbos, osusu among the Edos, adashi among the Hausas, dashi among the Nupes and etibe among the Ibibios (Gbandi & Amissah, 2014).

In Nigeria, the difficult economic environment, absence of the appropriate managerial skills and lack of access to modern technology by the SMEs have all contributed to the commercial banks reluctance to finance the sub-sector. The result of this reluctance is the steady decline in financing of SMEs in the country over the years.

The benefits of a vibrant SME sector include the creation of employment opportunities; the strengthening of industrial linkages; the promotion of flexibility and innovation; and the generation of export revenues (Lerner, 2002; Rangamohan, Candida & Rammohan, 2007).In Nigeria, the importance and contributions of small and medium scale businesses as creators of employment, in particular, those with low skill level, is widely recognized. In 2002, 98% of all businesses in the manufacturing sector were SMEs operating in Nigeria, providing 76% of the workforce and 48% of all industrial output in terms of value added (Odeyemi, 2003; SMEDAN, 2006).SMEs employ 87.9% of the workforce in the private sector (Kadiri, 2012). In agriculture and manufacturing sectors, SMEs employ more than 80% of the total workforce. SMEs represent over 90% of private business in the African continent and contribute to more than 50% of employment and of GDP in most African countries (UNIDO, 1999).

New firms require finance to start up, to do research, to produce new products and to bring the new products to market. While there are banks that support established firms, there is the need for venture capital firms that understand the market and the risk of bringing up a new firm and new product to the market (Gault, 2010). The presence of an institution such as VC serves as a strong mechanism for innovation, by providing early stage equity and strategic support in form of vested interest in the success of Small and Medium Scale Enterprises (Ariyo, 2000). However, the factors that influence VC investment decisions are based on business situations. While some tend to invest in new, disruptive ideas, or fledgling companies, others prefer investing in established companies that need support to go public or grow; others invest solely in certain industries. Some prefer operating locally while others operate nationwide or even globally .Some may want a quicker public sale of the company or expect fast growth.

Literature Review

Venture Capital

Venture capital (VC) is a type of private equity finance involving investments in unquoted companies with growth potential. It is generally medium to long term in nature made in exchange for a stake in a company. The term venture capital is likely to be accepted as the generic term for business angels, mezzanine equity, institutional or any similar investments in early stages of business. In summary, it is "a professionally managed pool of equity capital" (Hisrich & Peters, 1998).Venture capital is money provided by investors to startup firms and small businesses with perceived long-term growth potential. It is a very important source of funding for startups that do not have access to capital markets. It typically entails high risk for the investor, but it has the potential for above-average returns. Venture capital is raised for the sole purpose of making direct equity investments in rapidly growing private businesses (Gompers, 1998; Lerner, 1998).

The operation of venture capital firms has evolved from being a novelty to a level where it is now considered as pivotal for economic development. Development of VC industry in various countries has taken different shapes and forms due to different scales of economic development and the premise upon which each industry has been fashioned. Notwithstanding, institutional transformation in any economy is essential to the formation of a VC industry (Karaömerlioglu & Jacobson, 2000).Venture capital has been used as a tool for economic development in a variety of developing regions. In many of these regions, with less developed financial sectors, venture capital plays a role in facilitating access to finance for small and medium enterprises (SMEs), which in most cases would not qualify for receiving bank loans.

History of Venture Capital in Nigeria

The emergence of Venture Capital firms in Nigeria is preceded by the Development Finance Institutions (DFIs). These were established by the government from colonial era in 1946 to grant loans and participate in company formation through equity contribution and direct investments. They financed industrial and commercial projects, akin to Venture Capital's role to SMEs. In 1964, the Nigerian Industrial Development Bank (NIDB) was formed from a private company, the Investment Company of Nigeria (ICON) which was incorporated in 1959 (Onoh, 2002). NIDB (now Bank of Industry), the only prominent DFI which survived the changes in Nigerian Financial Industry, provides medium and long term loans to industries in the private sector. It is engaged in equity participation, providing technical, managerial and other services to clients.

Another significant milestone to the development of Venture Capital in Nigeria was the Venture Capital (Incentives) Decree No.89 1993 Act. The act provided the incentives, tax relief available to venture capital companies for investing in venture capital projects and criteria for participation in the National Risk Fund. This validated the formation of Nigeria's first Venture

Capital Company, the National Risk Fund Plc. established in 1987 by the federal government of Nigeria (Oyewale, 2010).The National Risk Fund Plc. was established by the Federal Government of Nigeria through the Raw Materials Research Development Council (RMRDC) with participation from other sponsors such as banking institutions and manufacturing companies. The purpose of the company, through the establishing act was to encourage commercialization of research findings with high potential, nurture innovative ideas to fruition and steer the development and growth of indigenous processes and technologies. With the Small and Medium Enterprises Equity Investment Scheme (SMEEIS), a voluntary initiative of the Bankers' Committee (a committee of Commercial Bank CEOs in Nigeria) established in 2001, we witnessed an emergence of venture capital firms in Nigeria. According to Oyekanmi (2005), this led to the formation of over six new players which include Amalgamated Capital, Aureos, First Funds, First SMI, SME Manager, UBA Private Equity and Unique Venture Capital. Oyekanmi (2005) classified the development of Venture Capital industry in Nigeria into three important periods: Pre 1997, 1997–2002 and 2003 – date.

Small and Medium Scale Enterprises

The Central Bank of Nigeria defined SMEs as enterprises with asset base (excluding land) of between N5 million and N500 million and labour force of between 11 and 300.According to NCI (2003), a small-scale industry is an enterprise with total cost (including working capital but excluding cost of land) above N1.5 million but not exceeding N50 million, with a labour size of between 11 and 100 workers, while the medium-scale industry has a total cost (including working capital but excluding cost of land) above N50 million but not exceeding N200million, with a labour size of between 101 and 300 workers. The Organization for Economic Co-operation and Development (OECD) viewed SMEs as firms with fewer than 500 employees. On the other hand, the revised operational guidelines of SMEEIS (2005) defined a small and medium enterprise as an enterprise with a maximum asset base of five hundred million naira (N500m) (excluding land and working capital), and with no lower or upper limit of staff. Small and Medium Industries Equity Investment Scheme (SMIEIS),viewed SME in Nigeria, as enterprises with a total capital employed of not less than N1.5 million, but not exceeding N200million including working capital, but excluding cost of land and/or with a staff strength of not less than 10 and not more than 300.

According to the National Council on Industry, an SME is defined in terms of employment i.e. as one with between 10 and 300 employees (Udechukwu, 2003).

The International Finance Corporation defined SMEs as firms with less than 300 employees and total assets less than US$15 million.

Sources of Finance for Small and Medium Enterprises

Husain (2005) identified two main sources of funds for small businesses. These are the internal and external sources of funds. Internal sources of funds have been the major source of funds for SMEs. This source of funds may be from personal contributions and retained profit. The external funds include bank loans or overdraft, venture capital funds, etc.

Tonge (2001) has also identified the fact that funds from relatives or friends are second to personal savings as the relevant and the major source of start-up capital for small-scaled businesses. According to Kauffmann (2005), Africa's SMEs usually depend on retained earnings, informal savings, among other things as their main source of funds and have little access to external funds, thereby hindering their emergence and eventual growth. Kauffman further pointed out that SMEs do not have adequate access to external funds as a result of the fact that these SMEs cannot meet the conditions set by financial institutions because they see SMEs as a risk-prone business due to poor guarantees and unavailability of information about their capacity to repay the loans.

Methodology

The objective of the study was to ascertain the level of awareness of small and medium scale enterprises about the availability of venture capital, names and addresses, mode of operations and role of venture capital firms in the financing of businesses.

Three hundred and seventy four (374) copies of questionnaire were distributed to owners and managers of small and medium scale enterprises in Southwestern Nigeria.

Percentages and mean were used to analyzed the data collected while ANAOVA was used to test the hypothesis.

Data Presentation and Analysis

Descriptive Statistics of Variables

From Table1, it was observed that 304 (84.2%) of the respondents have heard about venture capital while 57 (15.8%) have not heard about venture capital. This implied that majority of the small and medium scale enterprises had information about venture capital. Out of the 304 respondents, 87 (24.1%), 73 (20.2%), 92 (25.5%) and 52 (14.4%) got the information about venture capital from radio and television, newspapers, handbills and from other small and medium scale enterprises(SMEs) respectively. This implied that the various venture capital firms have used various available media to advertise their activities to SMEs.

In the area of awareness about the names and addresses of venture capital firms, it was observed from table 4.5 that 30 (8.4%), 48 (13.4%), 78 (21.8%), 115 (32.2%) and 86 (24.1%) of the respondents knew the names and addresses of the firms to no extent, little extent, moderate extent, great extent and very great extent respectively. This is an indication that majority of the respondents had enough information that can help them get in touch with venture capital firms when they so desire. Table 4.3 also showed that 30 (8.4%), 44 (12.5%), 123 (34.9%), 111 (31.5%), and 44 (12.5%) of SMEs had information about the role of venture capital firms in financing businesses to no extent, little extent, moderate extent, great extent and very great extent respectively. It implied that majority of the SMEs understood the role of venture capital in their businesses. On the mode of operations of venture capital firms, 38 (10.7%), 61(17.2%), 116 (32.8%), 92 (26.0%) and 47 (13.3%) of the respondents indicated that they were aware of the mode of operations of venture capital to no extent, little extent, moderate extent, great extent and very great extent respectively. This is also an indication that that majority of the SMEs were aware of the mode of operations of venture capital firms. It was also observed that 38 (10.9%), 81 (23.1%), 102 (29.1%), 87 (24.9%) and 42 (12.0%) were aware of the funding arrangements between venture capital firms and SMEs to no extent, little extent, moderate extent, great extent and very great extent respectively. This implied that majority of the respondents were aware of the funding arrangements put in place by venture capital firms to assist SMEs.

The weighted mean was used to determine the level of awareness about venture capital as a source of finance. The scale of measurement was on a 5-point likert scale where the benchmark for agreement was set at weighted mean of greater than or equal to 3.0 and disagreement criterion set at lesser than or equal to 3.0. The result on table 4.6 showed that the weighted mean of awareness about names and addresses of venture capital firms was 3.5, role of venture capital firms was 3.27, mode of operations 3.34, and funding arrangements 3.04. Based on the aggregated mean of 3.29, it was concluded that there was a high and significant level of awareness.

Table 1: Awareness about Venture Capital in Nigeria

		Frequency	Percent	Valid Percent	Cumulative Percent	Mean
Aware Of Venture Capital	YES	304	84.2	84.2	84.2	
	NO	57	15.8	15.8	100.0	
	Total	361	100.0	100.0		
Medium of Information	Radio / TV	87	24.1	28.6	28.6	
	Newspaper	73	20.2	24.0	52.6	
	Handbills	92	25.5	30.3	82.9	
	Other SMEs	52	14.4	17.1	100.0	
	Total	304	84.2	100.0		
Awareness About Names/Addresses Of Venture Capital Firms	Ne	30	8.3	8.4	8.4	3.5
	LE	48	13.3	13.4	21.8	
	ME	78	21.6	21.8	43.7	
	GE	115	31.9	32.2	75.9	
	VGE	86	23.8	24.1	100.0	
	TOTAL	357	98.9	100.0		
Awareness Of The Role Of Venture Capital Firms	NO	30	8.3	8.5	8.5	3.27
	LE	44	12.2	12.5	21.0	
	ME	123	34.1	34.9	56.0	
	GE	111	30.7	31.5	87.5	
	VGE	44	12.2	12.5	100.0	
	Total	352	97.5	100.0		
	Total	361	100.0			
Awareness of mode of operations	NO	38	10.5	10.7	10.7	3.34
	LE	61	16.9	17.2	28.0	
	ME	116	32.1	32.8	60.7	
	GE	92	25.5	26.0	86.7	
	VGE	47	13.0	13.3	100.0	
	TOTAL	354	98.1	100.0		
Awareness of Funding Arrangements	NO	38	10.5	10.9	10.9	3.04
	LE	81	22.4	23.1	34.0	
	ME	102	28.3	29.1	63.1	
	GE	87	24.1	24.9	88.0	
	VGE	42	11.6	12.0	100.0	
	TOTAL	350	97.0	100.0		

Source: Field Survey Data Analysis report 2017

The kendall's W coefficient was also used to assess the level of concordance among the respondents concerning the awareness level of SMEs. The kendall's W coefficient which ranges between 0 (no agreement) and 1 (complete agreement) is a test of the concordance or agreement among raters. The result kendall W= 0.072, sig (0.000) showed that although there was statistical significance, there was a weak agreement among the respondents .This implied that the opinions of the respondents were varied as to their level of awareness about venture capital as a source of finance.

Table 2: Mean Rank and Kendall's W Statistics

	N	Mean Rank	Kendall's W	Chi-Square	Df	Asymp.Sig.
AWARENES OF NAMES	346	3.5				
AWARENESS OF ADDRESS	346	3.5	.072	99.843	4	.000
AWARENESSOF MODE OF OPERATIONS	346	3.34				
AWARENESSOF MODE OF ROLE	346	3.27				
AWARENESS OF FUNDING	346	3.04				

Test of hypothesis

Hypothesis One: There is no significant difference between the mean levels of awareness of SMEs about venture capital as source of finance

The above stated hypothesis was tested through the use of ANOVA statistic because the statistical test was adjudged suitable to examine the significance difference between the means in terms of comparison. The One Way ANOVA was calculated before decisions were made. The decision rule for significance test is, if $p > 0.05$ the means are equal and where $p < 0.05$, then there is unequal means. From table 3, it was discovered that there significant difference between the groups in terms of awareness about the addresses of venture capital firms F = 2.88, P = 0.023, and awareness about funding arrangements F = 4.136, p = 0.003 as determined by the one way ANOVA result. This showed that there were significant differences among the various businesses types in their level of awareness about the addresses and the funding arrangements of venture capital firms. The result also indicated that there was no significant difference between the groups in terms of awareness of the role of venture capital firms F= 1.373, p = 0.243, awareness of the mode of operations F = 0.506, p = 0.731 and awareness of the names of venture capital firms, F = 0.942, p=0.440.This implied that the level of awareness among the various types of businesses about the names, role and mode of operations of venture capital firms do not differ significantly.

Table 3: One way Analysis of Variance

		Sum of Squares	df	Mean Square	F	Sig.
Awareness of Names	Between Groups	5.689	4	1.422	.942	.440
	Within Groups	531.561	352	1.510		
	Total	537.249	356			
Awareness of Address	Between Groups	15.823	4	3.956	2.880	.023
	Within Groups	476.674	347	1.374		
	Total	492.497	351			
Awareness of Role	Between Groups	6.628	4	1.657	1.373	.243
	Within Groups	418.733	347	1.207		
	Total	425.361	351			
Awareness of Mode of Operations	Between Groups	2.805	4	.701	.506	.731
	Within Groups	483.412	349	1.385		
	Total	486.218	353			
Awareness of Funding Arrangements	Between Groups	22.303	4	5.576	4.136	.003
	Within Groups	465.137	345	1.348		
	Total	487.440	349			

Source: Field survey Data Analysis Report 2017

Conclusion

On the basis of the results obtained, it was concluded the SMEs were aware of the existence of venture capital firms in relation to their names, location, mode of operations and funding arrangements.

Recommendations

1. More enlightenment should be carried out by the relevant agencies to reach the remaining segment of the target population of SMEs
2. Venture capital should relax some of their conditions to allow more SMEs to access funding

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