Venture Capital and Growth of Small and Medium Scale Enterprises (SMEs) in Lagos, Nigeria

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Abstract

This study evaluates the relationship between venture capital (VC) and growth of SMEs in Lagos, Nigeria. It specifically investigates whether there is significant relationship between: (i) VC and Innovation, (ii) VC and management practice, and (iii) VC and financial management in SMEs. The study adopted the correlational research design with a sample size of 316 based on SMEs population of 1516 that have benefited from venture capital using the prescribed formula of Yamene (1967). A Cross sectional data from primary sources covering a period of 2006 – 2018 were used to answer the research questions while the instrument for data collection was the questionnaire. Tests of validity and reliability were conducted to confirm the suitability of the instrument. The data collected were analysed with SPSS AMOS version 22.0 using the Structural Equation Modeling (SEM) approach. The results showed that VC has a significant positive effect on SMEs growth. The findings specifically suggest that there is significant positive relationship between VC and innovation as well as financial management in SMEs. The study revealed however, that there is no significant relationship between VC and management practice in SMEs. Hence, the study recommends that: Government should encourage innovativeness in SMEs as catalyst for growth by providing policies and incentives such as tax holidays and tax relief; SMEs owners should embrace modern system of management while the venture capital firms in collaboration with SMEs associations should organize training and retraining programmes for their member; and Government should continue to collaborate with relevant accounting bodies to enforce the Standard on financial reporting by SMEs to curb excesses associated with SME financial operations.

Keywords: Venture Capital, SMEs and SMEs' Growth

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Background to the Study
Small and Medium scale Enterprises (SMEs) are vital to the economic growth and development of any nation. They are acknowledged as veritable tools for achieving socio-economic objectives such as job creation and employment, income distribution, capital savings, increased productivity, food security, poverty alleviation, rapid industrialization, rural development, and regional balance among others (Agwu and Emeti, 2014; Akanbi, Akinola, and Ogbari, 2011; Beyene, 2002; Desai, 2008; Nnebe, 2007; Sanusi, 2013). SMEs are also considered as essential tool for research and innovation which could lead to technological breakthroughs and economic growth in this era of globalisation and advances in technology (Mousley, 2007). Thus, SMEs that grow or link international value chains increase technology absorption and create major spill over effect in the economy with the attendant impact on the wellbeing of the people.

In the advanced and emerging economies, the pursuit and achievement of growth in SMEs have significantly influenced the direction of industrial development and contributed to output, income generation and jobs creation. For example, in Australia, SMEs contributed around 60% of industrial value added in 2009-10 while in the enlarged European Union of 27 countries (the EU 27), SMEs accounted for 99.8% of all enterprises, employed 67% of all workers and contributed 58% of gross value added (GVA) (Edinburgh Group, 2012). SMEs equally accounted for 52% of the private work force and 51% of the GDP in the United States of America (Muriithi, 2017) while in China, SMEs provided around 80% of urban employment, contributed 50% of fiscal and tax revenue, and accounted for 60% GDP (Sham & Pang, 2014; Xiao, 2017). In India, the share of Small Scale Industries’ (SSI) in total export was around 35 percent (Desai, 2008) just as the experience of the Asian ‘Tigers’ or ‘Asian Dragons’ (Hong Kong, Singapore, South Korea and Taiwan) suggests that SMEs are not only an important agent for promoting private sector development, partnership and industrialization but also a source of economic empowerment for the citizenry.

In Nigeria, SMEs constitute more than 90 percent of the businesses (Gbandi and Amissah, 2014) and are widespread in the Nigerian economy (SMEDAN and NBS, 2013). This means that SMEs are essential to the achievement of socio-economic objectives and are poised to generate employment, create wealth, and reduce the prevalence of poverty in the country. However, this category of businesses has always faced problems which hinder their growth and contribution to the economy. Some of these problems include lack of finance, unfriendly business environment, inadequate entrepreneurial and managerial skills, financial indiscipline, lack of access to modern technology and weak monitoring mechanism (Gbandi and Amissah, 2014; Sanusi, 2003; SMEDAN and NBS, 2013). Notwithstanding, issue of finance has continued to dominate financial literature as one of the major obstacles to SMEs’ growth. According to Taiwo, Falohun and Agwu (2016), some of the recurrent financing problems of SMEs include cost of capital and shortage of equity capital. It is also argued that accessibility to both short-term and long-term credits from banks has not been easy for SMEs in Nigeria due to poor risk perception which fund providers have towards small firms (Okafor and Onebunne, 2010).
Against this backdrop, successive governments in Nigeria have over the years made efforts to support the growth and development of the SME sub-sector through several policies, programmes and reforms especially in the financial sector to encourage and appropriately energize it to lend to the small business sub-sector to serve as catalyst in industrial development of the country. Unfortunately, there is no significant improvement in SMEs in terms of assets quality, higher sales volume or turnover, high quality employment possibilities, innovation, effective management practice and efficient financial management among others. Hence, many firms have collapsed while the remaining ones have remained small. According to Anudu (2016), about 222 SMEs have shut down within a year while Aroloye (2017) maintained that about 80% of the SMEs are stifled because of monetary policy issues, poor financing and instability in the economy. Some of the reasons why the programmes and reforms have been less effective include funds inadequacy to impact on the expected development of the assisted firms, issue of moral hazards, poor project evaluation and monitoring, inadequate managerial skill and entrepreneurial capacity (Ojo, 2003; Sanusi, 2003; Tumkella, 2003). These recurring gaps encouraged the introduction of venture capital as alternative arrangement to provide financing support to SMEs.

Venture capital (VC), according to Gompers and Lerner (as cited in CVCA, 2009), is an independently managed, dedicated pool of capital that focus on equity or equity-linked investments in privately held, high-growth companies. It is designed to provide medium to long term investment funds to small businesses. Venture capital is particularly necessary as an alternative finance to help SMEs set up and expand their operations, develop new products, invest in new stuff or production facilities and mobilize resources for more productive use including acquisition of technology and fixed assets, and meeting working capital requirements (OECD, 2006). In the developed economies, like the United States of America, United Kingdom, Canada, Australia and Japan, venture capital has been an important contribution in economic development. Thousands of companies in the Information and Communication Technology (ICT) sector like Apple Computers, Microsoft, Intel, Cisco, Genentech, Google, Yahoo and Netscape as well as a number of successful service companies such as eBay, Starbucks and Staples exist today because of the support provided by venture capital (Elsiefy, 2013; Timmons and Spinelli, 2009). Evidence from firm studies has shown that venture capital stimulates innovation (Hellman and Puri, 2002; Kortum and Lerner, 1998; Peneder, 2010; Ueda and Hirukawa, 2003), encourages higher sales productivity (Engel & Keilbach, 2007; Memba, 2011) and allow for effective management and efficient financial management system in SMEs (Brav and Gompers 1997; Huck and McEwen, 1991; Memba, 2011).

Despite this role, available literature suggests that empirical evidence to support the relationship between venture capital and growth of SMEs in Lagos, Nigeria is almost non-existence. Therefore, this study evaluates the relationship between venture capital and growth of SMEs in Lagos, Nigeria by focusing on innovation, management practice and financial management in SMEs considered as critical success factors in SMEs growth.
Statement of the Problem
In Lagos State and indeed Nigeria, small and medium scale enterprises are essential to socio-economic objectives and development. They are widely spread and poised to contribute to the growth of the economy through employment generation, wealth creation, and income distribution, among others. However, there has been no significant growth in the development of these SMEs despite increased funding schemes and programmes targeted at enhancing their growth. Of great concern, is the rate of death or failure of these SMEs. For example, about 222 SMEs have shut down within a year while about 80% of the SMEs are stifled due to monetary policy issues, instability in the economy and poor financing (Anudu, 2016; Aroloye, 2017).

As observed from literature, poor financing or inadequate finance constitutes one of the major obstacles to growth of SMEs in Nigeria. These firms face difficulty in obtaining finance from traditional and formal financial institutions because they are generally perceived as high risk and commercially unviable entities due to inadequate capital, imperfect information, high transaction costs of dealing with small loans and geographical disposition of the SMEs. They are also handicapped in accessing loans from those institutions due to issue of collateral requirements and cost of funds which do not recognise their nature and peculiarities. Even where SMEs have sourced funds from the traditional financial institutions with many of them going from one level of growth to the next, majority of them have fallen prey to debt obligation (Adongo and Stock, 2006; Nyang’Era, 2009).

Consequently, majority of the SMEs are unable to carry out innovation, acquire quality assets, increase sales volume, employ relevant skilled workers, and perform other important obligations. They are also hindered from recording improvement in the quality of management and achieving efficient financial management due to lack of funds to engage the services of professionals such as managers and accountants. This situation affects their growth and survival in the constraining business environment. However, despite the advent of venture capital as an alternative funding measure to improve on the growth and performance of these SMEs, little is known about the outcome. These issues form the focus of this study.

Research Questions
Arising from the enumerated problem, the following questions are raised to guide the study:

i. What is the relationship between venture capital and innovations in small and medium scale enterprises?

ii. What is the relationship between venture capital and management practice in small and medium scale enterprises?

iii. What is the relationship between venture capital and financial management practice in small and medium scale enterprises?

Research Objectives
The main objective of this study is to evaluate whether there is significant relationship between venture capital and growth of small and medium scale enterprises in Lagos State, Nigeria. The specific objectives are:
To evaluate the relationship between venture capital and innovations in small and medium scale enterprises

To examine the relationship between venture capital and management practice in small and medium scale enterprises; and

To examine the relationship between venture capital and financial management in small and medium scale enterprises.

Research Hypotheses
The following hypotheses are formulated for testing in the study based on the research objectives.

Ho1 There is no significant relationship between venture capital and innovations in small and medium scale enterprises.

Ho2 There is no significant relationship between venture capital and effective management practice in small and medium scale enterprises.

Ho3 There is no significant relationship between venture capital and efficient financial management in small and medium scale enterprises.

Literature Review
Conceptual Issues
Venture capital (VC)
There are many definitions of venture capital. However, as observed by Yafengyun (2010), venture capital is somewhat ambiguous and has different meanings in different situations. Hisrich, Peters and Shepherd (2008) argued that venture capital is the least understood area of entrepreneurship as some think that it is confined only to early-stage financing of relatively small, rapidly growing technology companies. According to Ibanez (1989), it would be impossible to provide an all-encompassing definition of venture capital given its wide range of activities. In the opinion of Dagogo and Ollor (2009), venture capital may be accepted as the generic word for business angel, mezzanine equity or institutional investments in early stages of business. However, various studies have indicated that this has not been the case based on the objective and perspective of the investigation. Thus, a classical and generally acceptable definition of venture capital is almost impossible.

According to Abereijo and Fayomi (2005), venture capital involves the provision of investment finance to private or medium companies in the form of equity or quasi-equity instrument not traded on recognized stock exchanges. They argued that it is a long-term risk finance where the primary return to the investor is derived from capital gain rather than capital income. Gompers and Lerner (as cited in CVCA, 2009) defined venture capital as an independently managed, dedicated pool of capital that focus on equity or equity-linked investments in privately held, high-growth companies. Gompers and Lerner (as cited in Yafengyun, 2010) also viewed venture capital as investments in equity or equity-linked securities of private firms with active participation by the fund managers in the management or oversight of the firms.
In Lorenz’s (1989) view, venture capital is a long-term equity-based risk finance where the primary reward for the investor is capital gain. Burgel (2000) described venture capital as one of the mechanisms of financing companies that represent an alternative to raising funds on public equity or debt markets. According to Burgel, this is frequently the case because risk, uncertainty or simply the long-term horizon associated with the investment deter debt providers from funding the firms. In other words, venture capital seeks out and nurtures high growth entrepreneurial companies which are frequently refused finance from conventional sources (Ray, 1993).

Dagogo and Ollor (2009) opined that venture capital is a type of equity finance involving investments in unquoted companies with growth potentials. According to them, it is generally a medium to long term investment in exchange for a stake in a company. As a result, venture capitalist place emphasis on the support they offer start-ups and the controls they might be granted as well as the exit strategy available. However, Guillermo (2002) argued that venture capital is a form of financing in which investors do not purchase a stake in a going concern but support the creation and development of new companies through investments from the very early stages of business development through the launch of a company. Guillermo maintained that venture capital is a subset of "private equity", involving equity investment in companies not listed on a stock market as opposed to equity investment in publicly traded companies, while the venture capital firms act as principals (not as brokers or agents) managing the funds of individuals, institutions and their own money.

For the purpose of this study, venture capital is defined as a business financing model whereby potentially growth-oriented SMEs including start-ups are funded either formally or informally through equity or quasi-equity interest with accompanying managerial and technical capacity as well as networking opportunities by the investors for the purpose of generating higher return on capital investment and safeguarding the investment. The study envisages venture capital to include equity financing agents such as Business Angel and Private Equity (PE) but excludes mezzanine funds. This is primarily because financial literature has made it clear that informal venture capital is mostly discussed in the context of taxonomy (classification) of angels which include the virgin angels, latent angels, wealth maximizing angels, street walking angels, entrepreneur angels, income seeking angels and corporate angels (Seymour and Wetzel, 1981).

Furthermore, there is no clear-cut demarcation between venture capital (VC) and private equity (PE) in developing country like Nigeria where most of the PE and VC firms are fused together while their investments cut across all sectors of the economy except to the extent of their target investment. Thus, those that falls within the classification of SMEs are regarded as venture capital in this study. Indeed, according to Gatauwa and Mwithiga (2014), Private equity is becoming a source of financing to firms with high growth potential where it enhances business entities to achieve their growth objectives and offer strategic advice to businesses in their various stages of development. This is in spite that there is variety of common sources of capital ranging from bank loans, debentures, and share capital, borrowing from family and friends and retained earnings.
Small and Medium Scale Enterprises (SMEs)
SMEs are vital tools for economic growth and development. They are essential in terms of income generation, wealth creation and poverty alleviation, among others. However, there is no universally acceptable definition of SMEs even though the concept is similar and relative. According to some scholars (Adamu, 2005; Akinboyo, 2007; Beyene, 2002; Cheng, 2006; Kolawole, 1992; Nnanna, 2001; Storey, 1994; Ukeje, 2003), the concept of SMEs is relative and varies from one country to another, depending on the scope and range of activities covered by them and the amount of capital required to finance their operations in a particular market economy as well as the structure of the economy they are set up. This limits the generalisation of SMEs definition across the borders of each country.

In Nigeria, various institutions have defined SMEs in their own way depending on the policy objectives or aim of the establishments. For example, in many institutions such as the CBN, NERFUND and SMEDAN and across the sectors of the economy, the definitions of SMEs are not the same. This seemingly lack of uniform definition has posed enormous challenges to policy formulation and academic research in this area. For purpose of this study therefore, SMEs is defined as enterprises operating in any sector of the economy whose total assets (excluding land and building) are above five million naira, but not exceeding five hundred million naira with a minimum workforce of ten and maximum workforce of a hundred and ninety-nine employees.

This definition was adapted from the National Policy on Micro, Small and Medium Enterprises (MSMEs) in Nigeria (SMEDAN, 2006; SMEDAN & NBS, 2013) in view of its inclusiveness and pervasiveness in terms of wider coverage which does not limit it to a particular sector. The definition is also considered more appropriate because the parameters used for the classification are identifiable, measurable, and realistic and can easily be used to identify the category of firms in focus.

SMEs' Growth
This refers to growth in SME in terms of changes or improvement in every aspect of its operations whether quantitative or qualitative. In academic literature, there are many definitions of growth. According to Penrose (as cited in Perenyi, Selvarajah and Muthaly, 2008), growth can be defined from two different angles: (i) as increase of size and other quantifiable measures, and (ii) as a process of changes or improvement. Robbins (as cited in Lu, 2006) also defined growth as improvement in the operation of an organization including more revenue, increase staffing and market share. This implies growth in sales or turnover, earning profits, growth in productivity, avoiding losses, being cost efficient, surviving in the market, or performing well compared to competitor (Jennings and Beaver in Woldie, Leighton and Adesua, 2008).

Delmar (1997) and Wicklund (1999) argued that growth is sometimes the most important, reliable, and easily accessible measure of a firm's performance. However, based on the work of Deakins and Freel, Anwar and Andaleeb (2007) submitted that little is known about the growth process of SMEs emphasizing that what is known is the unplanned management,
Challenges facing SMEs growth in Nigeria
Research findings including Committees' reports in Nigeria (African Peer Review Mechanism [APRM], 2008; Vision 2020 National Technical Working Group on Manufacturing Thematic Area, 2009) have indicated the existence of several challenges facing SMEs with the attendant impact on their performance and survival in the country. These challenges can be categorized into macroeconomic, infrastructural, governance and internal management, education and experience, socio-cultural and financing issues.

Macroeconomic issues relate to economic, monetary, and fiscal policies of government which have in one way or the other affect the performance of SMEs in terms of growth, profitability and survival. The Nigerian macroeconomic environment has been characterized by instability. According to Adebayo (as cited in Ilegbinosa and Jumbo, 2015), the fiscal and monetary policies of the Federal Government as it relates to business issues have been unpredictable, contradictory, inconsistent and from time to time conflicting. The most notable shocks are that of high interest rates, exchange rate disparity, unavailability, and dominance of the government in the economy (Ogujiuba, Ohuche, and Adenuga, 2004).

The state of infrastructure such as power, transport and water also pose serious challenge to SMEs growth and development in Nigeria. Most of these facilities are in a dilapidated state without adequate repairs and regular maintenance. For example, electricity which is a major source of power or energy to SMEs is very epileptic and unreliable. As a result, nearly all SMEs operating in Nigeria have one or more power generating plants as an alternative source of power while the cost of obtaining, maintaining, sustaining, and managing such generating plants are expensive. Roads including highways are equally in bad shape while water supply is very unreliable. Most SMEs improvise for their water needs by sinking boreholes here and there while equally facing the huge cost of transporting their goods in and out of their business premises due to poor state of the roads. This has made cost of production as well as prices of product awfully expensive thereby causing the products to be uncompetitive with the imported equivalent (Ilegbinosa and Jumbo, 2015).
Issue of governance and internal management is another problem to growth and development of SMEs. SMEs lack corporate governance as most businesses are being carried out according to the whims and caprices of the owners without ethical rules or conduct to achieve transparency, accountability and, above all, build trust among the stakeholders. The internal management problems are largely associated with the characteristics and inherent weaknesses of the small business entrepreneurs or the owner-managers. These weaknesses can be explained in terms of poor planning, poor marketing strategy, lack of technical know-how, poor capital base, preponderance of unviable projects, the form of ownerships structure and the low level of education and lack of experience of the owners (Aftab and Rahim 1998; Ubom, 2006).

The standard of education, experience and exposure of the SMEs owners equally act as constraint to the growth and development of SMEs. For example, availability of business information depends on access to high places of net worth individuals and the presence of high calibre of staff with the relevant capacity and technical know-how to transform such information to useful ingredients for the growth of the business. Low level of education, inadequate business experience and skill have resulted in careless or poor financial management and why SMEs have not been quite innovative, creative, and inventive in their business operations in Nigeria. Lack of good education and inadequate business experience can deny an entity the opportunity for survival and growth by hindering quality planning and resources mobilization to achieve desired goals. Added to this, is socio-cultural and political issues which can seriously impede development of the entrepreneurial characteristics necessary for good performance of Nigerian SMEs., For example, diversion of funds for political or social purposes.

Finally, lack of access to finance or poor funding has gravely impeded the growth and development of small and medium scale enterprise in Nigeria. Almost all the studies available indicate that lack of finance is a major obstacle to growth of SMEs in the country. While some scholars (Abdullah, 2004; Odife, 2002) argued that there is dearth of adequate source of funds, others including Abereijo and Fayomi (2005), Ehinomen and Adeleke (2012) and Sanusi (2013) are of the view that lack of access or denial of access is due to the inability of the SMEs to meet the stringent conditions required by the traditional financial institutions. It also argued that even where SMEs have sourced funds from the traditional financial institutions with many of them going from one level of growth to the next, majority of them have fallen prey to debt obligation (Adongo and Stock, 2006; Nyang’Era, 2009). Therefore, it is our opinion that a thriving venture capital industry can make significant contribution to the growth and development of SMEs and the economy.

**Efforts to promote SMEs growth in Nigeria**

Over the years, successive governments in Nigeria have made efforts to support the growth and development of the SME sub-sector through several policies and programmes. These involve funding and setting up of industrial estates to reduce overhead costs of doing business; establishing specialized financial institutions such as the Small Scale Industry Credit Scheme (SSICS) in 1971, the Nigerian Industrial Development Bank (NIDB) in 1964 and the Nigerian
Bank for Commerce and Industry (NBCI) in 1973 to provide long term credit; facilitating and guaranteeing external finance by the World Bank, African Development Bank and other international financial institutions; facilitating the establishment of the National Directorate of Employment (NDE) in 1986; establishment of the National Economic Reconstruction Fund (NERFUND) in 1989 to provide medium to long-term local and foreign loans for small, and medium scale businesses, particularly those located in the rural areas; and providing technical and advisory services through the Industrial Development Centers (Nnanna, 2001; Sanusi, 2003).

The Federal Government has equally undertaken reforms in the financial sector especially since civilian rule in 1999 to encourage and appropriately energize it to lend to the small business sub-sector to serve as catalyst in industrial development of the country. The reforms include the creation of the National Poverty Eradication Programme (NAPEP) in 2001; the introduction of Small and Medium Industries Equity Investment Scheme (SMIEIS) in 2001 to provide equity funding to small and medium-scale enterprises (SMEs); the establishment of the Bank of Industry (BoI) in 2005 to replace the Nigerian Bank for Commerce and Industry, National Economic Reconstruction Fund (NERFUND) and Nigerian Industrial Development Bank (NIDB) with a view to providing cheap financing and business support services to existing and new businesses (Inegbenebor, 2006).

Other reforms include the transmutation of community banks to micro finance banks or institutions in 2005 with the aim of strengthening their capacities for deposit mobilization and onward lending to small businesses; the reinvigoration of the Agricultural Credit Guarantee Scheme Fund (ACGSF) earlier established in 1997 and of course, the consolidation policy in 2005 to increase banks’ share capital in the banking industry. The Federal government has also provided another financing support by recently launching the N220 billion Micro, Small and Medium Enterprises Development Fund (MSMDF) through the CBN to improve access to finance by micro, small and medium scale enterprises (MSMEs) (Sanusi, 2013). The capital market was not left out market by establishing the Second-tier Security Market (SSM) to provide access to public funds for the sub-sector.

Apart from the Federal government, State governments have equally keyed into these initiatives by setting up various schemes and programmes to support and encourage the development of small and medium scale businesses. For example, in Ondo State, the Ondo State Micro Credit Agency (OSMA) was set up to provide financing assistance to small businesses (Ondo State, 2008). In Ekiti State, a programme called Small Scale Industrial Credit Scheme was established among others to foster small business growth in the area (Ekiti State, 2010). In Kano State, the government sealed a deal of N2 billion with the Bank of Industry (BoI) and set up 23 institutes to develop SMEs (BoI, 2013) while in Lagos State, the government has equally established equipment acquisition scheme and partner with microfinance banks among others to aid SMEs in the State (Lagos State Investor Handbook, 2012).
However, the development and growth in the sub-sector is hardly commensurate with these efforts due to funds inadequacy to impact on the expected development of the assisted firms, issue of moral hazards, poor project evaluation and monitoring, inadequate managerial skill and entrepreneurial capacity (Ojo, 2003; Sanusi, 2003; Tumkella, 2003). This poses serious challenge to policy makers and academics in order to enhance the growth and performance of SMEs.

**Role of Venture Capital in SMEs**

Venture capital has emerged since the early 20th century to support small business set up and expansion. It is particularly necessary as an alternative finance to help Small and Medium scale Enterprises (SMEs) set up and expand their operations, develop new products, invest in new stuff or production facilities and mobilize resources for more productive use including acquisition of technology and fixed assets, and meeting working capital requirements (OECD, 2006). The first step towards institutionalising venture capital industry took place in 1946 with the formation of American Research and Development Corporation (ARD) in Boston. Another major step in the development of venture capital in the United States was the passage of the Small Business Investment Act in 1958 which provided the basis for the establishment of the Small Business Investment Companies (SBICs) as vehicle for small businesses financing under the assistance and regulation of the Small Business Administration. The Act married the private capital with government funds to be used by professionally small business investment companies (SBIC firms) to infuse capital into start-ups and growing small businesses. This triggered the formation of small private venture capital firms in the 1960s and since then, venture capital has spread to other clime and countries including Canada, UK, Europe, Japan, China and India with the developing countries like Nigeria gradually embracing the new form of capital.

In Nigeria, venture capital is relatively new and like in other countries in Africa, venture capital funds are often supported by government agencies and multilateral agencies such as Commonwealth Development Cooperation (CDC) and International Finance Corporation (IFC). The source of risk finance and venture capital policy in Nigeria can be traced to the Development Financial Institutions (DFIs) in the 1940s and the Commonwealth Development Corporation (CDC), a British DFI that provided risk finance towards colonial development in all commonwealth states (Onoh, as cited in Daramola, 2012). Although the first venture capital company in Nigeria - the National Risk Fund Plc - was established in 1987 (Oyewale, as cited in Daramola, 2012), the activity of venture capital in the country was not well pronounced until the setting up of the Small and Medium Industries Equity Investment Scheme (SMIEIS) in 2001. The scheme which was later changed to Small and Medium Enterprises Equity Investment Scheme (SMEEIS) became a major impetus to the development of the VC industry in Nigeria as it led to the formation of several venture capital firms including First Fund Limited and Unique Venture Capital Management Company Limited. Other venture capital firms in the industry include Capital Alliance, Cowry Asset Management Limited, CAN/SME, Stanbic IBTC Ventures, ARM Investment Managers, GroFin Nig. Ltd, Actis and Helios Investment Partner.
Venture capital plays significant role in economic development by aiding in the mobilisation and provision of funds for growth and development of small firms and start-ups. It encourages entrepreneurship and helps in creating employment opportunities and promoting effective resource utilization considered critical for poverty reduction (Rothenbush in Okpala, 2012) as well as income redistribution. Another role of venture capital is that the investments boost innovation activities because a large amount of fund flows into companies in their early or later-stage of development and these companies show a great appetite for research and development (Yafengyun, 2010). Kortum and Lerner (1998) asserted that venture capital encourages the transformation of research and development into commercially useful patents. Venture capital is equally instrumental in reducing issues of adverse selection and moral hazard in business. Thus, apart from providing needed capital for growth and expansion, venture capital also offers opportunity by the entrepreneurs to benefit from networking, management and technical support (Okpala, 2012) including marketing, accounting and financial management support that the venture capitalists provide in order to ensure safeguard of their investment and achieve desired result. This motivates the inclusion of venture capitalists' representatives in the Board of portfolio companies while they also participate in the recruitment and selection of key personnel in the company (Agyemen, 2010, Obitayo, 2001; Kaplan and Strasberg, 2004) as part of the deal.

However, venture capital business in Nigeria lacks specific and well-defined regulatory framework as observed from the information gathered from Security Exchange Commission (SEC). There is also no common forum like venture capital association in Nigeria. Consequently, VC firms in Nigeria are linked to the African Venture Capital Association (AVCA) - the pan-African industry body which promotes and enables private investment in Africa (AVCA, 2016). This limits the extent to which data on venture capital can be obtained in Nigeria and pose serious challenge to research.

**Theoretical Framework**

The theoretical framework of this study is anchored on resource-based theory of entrepreneurship. Propounded by Wernerfeit (1984), Resource-based theory is regarded as one of the theories of strategic management that is widely referenced particularly because of its practical relevance to contemporary management practices. The main idea behind the resource-based view is that the possession of strategic resources can provide an organisation with competitive advantages over its rivals. These resources can be exploited by the firm to create strategies that capitalise on opportunities and ward off threats. The resource-based entrepreneurship theory emphasises the importance of resources to the survival and growth of SMEs (Davidson and Honing, 2003).

Arthurs and Busenitz (2006) argued that resource-based weaknesses and external forces pose severe threats to the survival and success of new venture as well as old ones. To address these weaknesses and threats, venture capitalists promote their ventures with greater dynamic capabilities by providing required resources. Alvarez and Barney (2007) suggested that if an entrepreneur has all the resources needed to take advantage of an opportunity, then there is little need for organising, just coordinating and executing. This situation according to them is
akin to arbitrage opportunities created by changes in the environment. In other words, entrepreneurs should take advantage of an arbitrage opportunity or what can be called “swapping phenomenon” when they are lacking one or more key resources. Divakaran, McGinnis and Shariff (2014) observed that the overall market for risk and growth capital available to SMEs remains small and fragmented despite their numbers or size in developing countries. This makes the intervention of VC in SMEs a matter of necessity for entrepreneurs to flourish their businesses.

Accordingly, the theory stresses the importance of financial, social and human resources and that access to resources enhances the individual’s ability to detect and act upon discovered opportunities (Aldrich, 1999; Davidson and Honing, 2003; Kwabena, 2011). The theory also argues that access to resources by the founders is an important predictor of opportunity-based entrepreneurship and new venture growth (Alvarez and Busenitz, 2001). This is underscored by empirical research which has shown that the founding of new firms is more common when people have access to financial capital (Blanchflower et al., 2001; Holtz-Eakin et al., 1994). This theory further suggests that people with financial capital are more capable to acquire resources to effectively exploit entrepreneurial opportunities and set up a firm to do so (Clausen, 2006).

Empirical Studies
Venture Capital and Innovation
Studies have indicated that venture capital has significant relationship with innovation by encouraging the transformation of research and development into commercially useful patents. In a study by Gans and Stern (2003), it was found that venture capital financing strongly impacts on firm’s innovation, patenting processes and the influx of technological opportunities. Da Rin and Penas (2007) studied the role of venture funding in influencing innovation strategies in Detach companies and found that venture financing help companies invest in the build-up of absorptive capacity through permanent in-house R&D and therefore stay actively tuned to exploit the opportunities the scientific and technological advances create.

In another study (Kortum and Lerner, 1998) as documented in Elsiefy (2013), it was found that there is a significant positive relationship between the intensity of venture capital activity in an industry and the rate of patenting. Confirming Kortum and Lerner’s (1998) findings, Hirukawa and Ueda (2008) concluded that the positive impact of venture capital on patents proves to be persistent and even intensified during the unprecedented growth period experienced by the VC industry in late 90s. However, unlike the impact on patent count, they found that total factor productivity (TFP) growth was not influenced by VC investments. Hirukawa and Ueda argued that the TFP originated from the arrival of new technology rather than the long-established positive association between VC investment and labour productivity. Therefore, at industry level, VC investment may not necessarily improve efficiency though it may increase patent propensity. Contrary to Hirukawa and Ueda (2008), Chemmanur, Krishnan and Nandy (2008) proved that the efficiency gain indicated by growth in TFP from VC is significant.
Bertoni, Colombo, D’Adda and Grilli (2010) investigated the impact of VC investments on the innovation activity of European new technology-based firms over the period 1994-2008 and found positive impact of VC investments on firms’ TFP. Bertoni et al. (2010) also analysed the impact of VC funding on the innovation of 191 new Italian technology-based firms in terms of their patenting activity and found that VC investments have a positive impact on successive patenting activity and that prior to receiving VC, the patenting propensity of the investee firms was no higher than other firms. Hall (2011) examined whether innovation by individual firms has an impact on their productivity and found that there is a positive relationship between innovation in firms and their growth in revenue or value-added and that this positive relationship appears to be due primarily to product innovation.

**Venture Capital and Management Practice**

The issue of poor management practice and style of the business owners is one of the problems often cited as major obstacle to SMEs growth. This is made worse by their inability to engage the services of skilled management workers or professionals with the right competences to turn their businesses around. Pandey (1995) emphasized the importance of effective management when he argued that the three most important things in assessing whether to back a project in the venture industry are management, management, and management.

Some authors (Bygrave and Timmons 1992; Gorman and Sahlman 1989; Kaplan and Stromberg 2004; MacMillan et al., 1988; Sapienza 1992; Sapienza et al., 1996) have argued that VC investors perform key coaching functions to the benefit of portfolio firms. This involves advisory services in areas such as strategic planning, marketing, finance and accounting, and human resource management, in which these firms typically lack internal competences. Research showed that the intervention of venture capitalists in start-ups reduced the failure rate from between 70% and 90% down to 15% and 25% (Lindner and Liden, 2007 in Memba, 2011). Furthermore, empirical evidence (Brav and Gompers 1997) confirmed that superior performance by venture capital-backed firms is often attributed to better management teams and corporate governance structures that help these companies to perform better in the long run. Similar evidence has been reported by Huck and McEwen (1991) from a survey of 54 Jamaican entrepreneurs involved in manufacturing and service businesses using venture capital. More specifically, these researchers identified competencies in management, planning and budgeting as most crucial for the efficient operation of a small business. Hellmann and Puri (2002) revealed that once the investor introduces its money in a business, he must devote much of his time in helping the business to succeed, structuring internal organization and appropriate human resources management.

**Venture Capital and Financial Management Practice in SMEs**

According to Korah (2005), good money or financial management is the key factor which determines whether a business will be successful over the long term (or not). Financial management involves planning and controlling of financial resources including accounting and financial reporting, budgeting, collecting accounts receivable for the business, risk management and insurance for the business (Brealey, Myers and Marcua, 2002). However,
careless, or poor financial management practice has been identified as one of the reasons for small business failures (Berryman, 1983; McMahon and Holmes, 1991; Okafor 2012). Potts (1977) opined that the clearest and most startling distinction between successful and failed small businesses lies in their approach to the generation and utilization of accounting information. Empirical studies carried out on financial management practices of small businesses in developed countries, have thrown up two important pieces of information namely that the quality of management accounting information utilized within a small business organization has a positive relationship with the entity’s performance; and that significant efforts and progress have been made in encouraging SME owner-managers to install and apply accounting information systems (McMahon and Holmes, 1991).

Hall and Young (1991), in a study in the United Kingdom of 3 samples of 100 small enterprises that were subject to involuntary liquidation in 1973, 1978 and 1983, found out that of all the reasons given for failure, 49.8% were of financial nature. Wawenu and Ngugi (2014) explored the influence of financial management practices on the performance of micro and small enterprises in Kenya. The study found that financial innovations influence the performance of micro and small enterprises in Kenya to a very great extent and concluded that there is a statistical significant between working capital and firm performance. In Memba (2011)'s study, it was revealed that until the VCs presence, budget preparations, cash planning, debt collection and inventory management and control was poor and almost absent at the firms. But with the emergence of VCs in the firms, there was tremendous improvement in those indicators. Memba (2011)'s study also revealed that for every SME under study, their boards of management had a venture capital member in attendance. This affected strategic planning including sound financial management. The study equally asserted that venture capital participation is far more extensive than that of a traditional banker.

Methodology
Research Design
The study adopted the correlational research design to establish the relationship that exists between venture capital and growth of SMEs in Lagos State, Nigeria.

Study Population
The population of the study is the 1516 SMEs in Lagos State that have benefited from VC. In determining this population, the researcher relied on the information provided by the various SME associations in Lagos State through their leadership due to lack of credible database for VC investment in Nigeria and unwillingness of most VC firms to offer information on investee firms.

Sample Size
The sample size of this study was determined by using the prescribed formula of Yamane (1967) based on 95% confidence level. The formula is given as:

\[ n = \frac{N}{1+N(\alpha^2)} \]  
(Equation 1)
Where
n = Sample size required
N = Population (number of registered SMEs)
α = Level of significance (0.05) i.e. allowable error

From the targeted SMEs population of 1,516, the sample size is determined as follows:

\[ n = \frac{N \alpha}{1 + N \alpha^2} \]

\[ n = 1516 \]

\[ n = \frac{1516}{1 + 1516(0.05^2)} \]

\[ n = 316 \] (rounded). That is, number of sampled SMEs is 316.

**Sampling Technique**

This study made use of both non-probability and probability sampling techniques. Under the non-probability sampling technique, the study used the purposive sampling technique in defining the population and distribution of questionnaire because of the emphasis on SMEs that have benefited from venture capital. Hence, only SMEs that have benefited from venture capital based on the information gathered from the various SME associations/bodies including AMEN, MAN, NASSI and NASME in Lagos State and focus of the study were considered.

With regards to the probability sampling technique, the stratified sampling technique was used in determining the required sample size (n) based on the various associations/bodies of the SMEs. The proportion allocation method by Cockran (1977) was used in selecting the required items from the stratum of the various SMEs associations/institutions to make up the sample size as follows:

\[ n_i = \frac{N_i}{N}(n) \] (Equation 2)

Where
N = Total population of SMEs
N_i = Population of Association/Institution
n = Sample size

**Method of Data Collection and Analysis**

The instrument for data collection in this study was questionnaire using a cross sectional data from primary sources covering a period of 2006 – 2018. Tests of validity and reliability were conducted to confirm the suitability of the instrument. The data collected were analysed with SPSS AMOS version 22.0, using the Structural Equation Modeling (CB-SEM) approach comprising measurement and structural model.

**Validity and Reliability Test**

Both the convergent validity and discriminant validity test were carried out to confirm the suitability of the instrument. The convergent validity test is to determine the extent to which observed variables of the construct share a high proportion of the variance, while the discriminant validity test is to determine the extent to which the latent construct is genuinely distinct from other latent constructs (Hair et al., 2006).
Table 1 shows both the results of the convergent validity test and reliability test. Table 2 shows the result of the discriminant validity test of the instrument.

**Table 1: Convergent Validity**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Constructs</th>
<th>Factor Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Equity Finance - AVE = 0.670, CR = 0.890</td>
<td>EF1 0.871, EF2 0.867, EF3 0.779, EF4 0.751</td>
</tr>
<tr>
<td>2</td>
<td>Management Support - AVE = 0.570, CR = 0.841</td>
<td>MS1 0.727, MS2 0.746, MS3 0.787, MS4 0.759</td>
</tr>
<tr>
<td>3</td>
<td>Technical Support - AVE = 0.518, CR = 0.762</td>
<td>TK1 0.697, TK3 0.668, TK4 0.788</td>
</tr>
<tr>
<td>4</td>
<td>Innovation - AVE = 0.622, CR = 0.867</td>
<td>INN1 0.872, INN2 0.798, INN3 0.781, INN4 0.695</td>
</tr>
<tr>
<td>5</td>
<td>Financial Management Practice - AVE = 0.718, CR = 0.884</td>
<td>FMP1 0.914, FMP2 0.753, FMP3 0.867</td>
</tr>
<tr>
<td>6</td>
<td>Management Practice - AVE = 0.514, CR = 0.752</td>
<td>MPS1 0.644, MPS3 0.904, MPS4 0.557</td>
</tr>
</tbody>
</table>

From table 1, the results of the factor loadings and AVE show that the minimum requirement values of 0.6 for factor loadings and 0.5 for AVE (Hair et al., 2006) were met as all the values are greater than the benchmarks. This suggests that there is convergent validity. Table 1 also shows the result of the composite reliability (CR) estimation for each construct which is greater than 0.7 (Hair et al., 2014) - an indication that the research instrument is reliable.

**Table 2: Discriminant Validity**

<table>
<thead>
<tr>
<th></th>
<th>EF</th>
<th>MS</th>
<th>TK</th>
<th>INN</th>
<th>FMP</th>
<th>MPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>EF</td>
<td>0.8187</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MS</td>
<td>0.707614</td>
<td>0.7550</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TK</td>
<td>0.703578</td>
<td>0.678708</td>
<td>0.7194</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INN</td>
<td>0.672396</td>
<td>0.552312</td>
<td>0.618623</td>
<td>0.7890</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FMP</td>
<td>0.621503</td>
<td>0.695791</td>
<td>0.676871</td>
<td>0.690735</td>
<td>0.8474</td>
<td></td>
</tr>
<tr>
<td>MPS</td>
<td>0.032067</td>
<td>-0.02016</td>
<td>0.046663</td>
<td>0.049419</td>
<td>0.067048</td>
<td>0.7169</td>
</tr>
</tbody>
</table>
From table 2, the result of the discriminant validity test shows that the diagonal values which are bolded are all greater than the correlational values of the latent construct. This confirms the discriminant validity and suitability of the instrument for this study.

**Data Cleaning**
Prior to the test of hypotheses, two pre-analysis tests involving Outlier and Normality were conducted using SPSS 25.0. The Outlier test was carried out to determine whether there are extreme values to render the data non-normal, while the Normality test using histogram was to ensure that the data used are suitable for parametric analysis.

**Figure 1: Boxplot(Outlier)**

![Boxplot(Outlier)](image)

**Source:** SPSS output 25.0

The result of the test in figure 1 shows that there were no outliers as there were no extreme values compared to the rest of the data.
Figure 2 (a, b, and c): Normality test

![Histograms for dependent variables](image)

Source: SPSS output 25.0

The result of the normality test for all the dependent variable in Figures 2 shows that the data follows a normal distribution given that the bell-shaped curve is symmetric— an indication that the data were suitable for the analysis.

Fitness of the Model

Figure 3 relates to observed responses or 'indicators' to latent variables and sometimes to observed covariates (i.e., the CFA model). Table 3 shows the results of the fitness indices for Confirmatory Factor Analysis (CFA) after it was refined and re-specified to improve the fitness of the model (Kline, 2005). The items which shared a high degree of residual variance were constrained after which the measurement model was re-run, as recommended (Byrne, 1998; Kline, 2005; Hair et al., 2006).
Table 3: Fit indices of the Measurement Model

<table>
<thead>
<tr>
<th>Measurement Index</th>
<th>Benchmark</th>
<th>Values Obtained</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\chi^2$</td>
<td></td>
<td>363.519</td>
<td></td>
</tr>
<tr>
<td>Df</td>
<td></td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>$\chi^2$/df</td>
<td>Between 2 and 5</td>
<td>2.177</td>
<td>Good fit</td>
</tr>
<tr>
<td>GFI</td>
<td>$\geq 0.90$</td>
<td>0.890</td>
<td>Fair fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>$\geq 0.90$</td>
<td>0.848</td>
<td>Fair fit</td>
</tr>
<tr>
<td>CFI</td>
<td>$\geq 0.90$</td>
<td>0.947</td>
<td>Good fit</td>
</tr>
<tr>
<td>NFI</td>
<td>$\geq 0.90$</td>
<td>0.907</td>
<td>Good fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>$&lt; 0.05$</td>
<td>0.065</td>
<td>Fair fit</td>
</tr>
<tr>
<td>TLI</td>
<td>$\geq 0.90$</td>
<td>0.933</td>
<td>Good fit</td>
</tr>
</tbody>
</table>

Note: $\chi^2$ = Chi-square; Df = degree of freedom; GFI = Goodness of fit index. RMSEA = Root mean square error of approximation; NFI = Normated fit index; TLI = Tucker Lewis index; CFI = Comparative fit index; AGFI – Adjusted goodness of fit index.

From the result summarised in table 3, there is indication that the model is a good fit as all the values of the indices of the measurement model meet the minimum prescribed benchmarks.
Test of Hypotheses
Below in figure 4, is the structural model showing the relationship among the latent variables and regressions of latent variables on observed variables, while Table 4 presents the regression estimates of latent constructs.

**Figure 4: Structural Model**

![Structural Model Diagram](image)

**Table 4: Regression estimates of latent constructs**

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Construct</th>
<th>Direction</th>
<th>Construct</th>
<th>Standardized Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P-value</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>H₁</td>
<td>INN</td>
<td>&lt;--</td>
<td>VC</td>
<td>1.181</td>
<td>0.061</td>
<td>19.31</td>
<td>0.00</td>
<td>Significant</td>
</tr>
<tr>
<td>H₂</td>
<td>MPS</td>
<td>&lt;--</td>
<td>VC</td>
<td>0.071</td>
<td>0.057</td>
<td>1.252</td>
<td>0.211</td>
<td>Not significant</td>
</tr>
<tr>
<td>H₃</td>
<td>FMP</td>
<td>&lt;--</td>
<td>VC</td>
<td>0.916</td>
<td>0.051</td>
<td>18.14</td>
<td>0.000</td>
<td>Significant</td>
</tr>
</tbody>
</table>

**Source:** AMOS output 23.0

Table 5 presents the values used to test the stated hypotheses followed by decisions.
Results and Discussion

Results

Hypothesis One

$H_0$: There is no significant relationship between venture capital and innovations in small and medium scale enterprises.

From the result of the analysis on the relationship between venture capital and innovation in table 4, venture capital was found to have a positive and significant relationship with innovation given the coefficient values of $\beta=1.181$, CR=19.31 and P-value = 0.000. This is because of the decision rule which states that when the p-value is less than the level of significant 0.05, the null hypothesis should be rejected while the alternate hypothesis is accepted. Therefore, the research failed to accept the null hypothesis which states that there is no significant relationship between venture capital and innovations in small and medium scale enterprises.

Hypothesis Two

$H_0$: There is no significant relationship between venture capital and management practice in small and medium scale enterprises.

From the results in Table 4, the values of the coefficient measuring the relationship between venture capital and management practice show that $\beta=0.071$, CR=1.25 and P-value = 0.211. This is an indication of a positive but not a significant relationship between venture capital and management practice because statistically, the p-value is greater than the level of significance (0.05). Therefore, the research failed to reject the null hypothesis which states that there is no significant positive relationship between venture capital and management practice in small and medium scale enterprises.

Hypothesis Three

$H_0$: There is no significant relationship between venture capital and financial management practice in small and medium scale enterprises.

From Table 4, the coefficient values measuring the relationship between venture capital and financial management practice show that $\beta=0.916$, CR=18.14 and P-value = 0.000. This indicates that there is a significant relationship between venture capital and financial management practice. Based on the decision rule which states that when the p-value is less than the level of significant 0.05, the null hypothesis should be rejected while the alternate hypothesis is accepted, this hypothesis is rejected, the research failed to accept the null hypothesis. Therefore, there is a significant relationship between venture capital and financial management practice in small and medium scale enterprises.

Discussion of Results

The main objective of this study was to evaluate the relationship between venture capital and growth of small and medium scale enterprises in Lagos, Nigeria. It specifically sought to determine whether there is significant relationship between venture capital and innovation in
SMEs and whether venture capital has significant influence on sales of SMEs. Against this backdrop, this section discusses the results of the hypotheses and their implications.

**Hypothesis One ($H_1$): Venture Capital and Innovation**

The objective of hypothesis one was to evaluate the relationship between venture capital and innovation in SMEs. The hypothesis specifically sought to establish whether the presence of venture capitalists in SMEs would boost innovation and production activities since it is their interest to ensure the growth of investee firms in order to safeguard their investment and generate higher returns. The result obtained indicates that there is statistically significant positive relationship between venture capital and innovation in SMEs which implies that investment of appropriate funds in SMEs especially by way of venture capital will boost innovation and impact significantly on growth and performance of the sub-sector.

This result is consistent with Hellmann and Puri (2002)'s study that VC stimulates innovative activities of firms. The study involved a survey of 149 firms in the Silicon Valley. The result also agrees with Ueda and Hirukawa (2003) that venture capital has an impact on innovations and innovation has an impact on venture capital. In the same vein, this result equally aligns with the study by Kortum and Lerner (1998) in the United States that investment in research and development (R&D) could lead to diffusion of technology across the whole economy, increasing productivity and augmenting both the economic and social return on venture capital investment.

**Hypothesis Two ($H_2$): Venture Capital and Management Practice**

Hypothesis two was designed to establish the magnitude of the relationship between venture capital and management practice in small and medium scale enterprises. The objective was to examine the relationship between venture capital and management practice of SMEs. The result of the hypothesis suggests that there is no significant relationship between venture capital and management practice in small and medium scale enterprises. Although, the result also indicates a statistically positive relationship between the two variables, it underscores the need for SMEs to embrace modern management techniques and also implies that the venture capitalists need to show much interest in how investee firm are organised and managed. The result also has vital implication for training and retraining of SMEs owners and personnel on general management if the impact of investment is to be felt significantly in the sub-sector.

This result is inconsistent with the Memba's (2011) work which indicated that there was improvement in management style as a result of venture capital in SMEs. However, the result is in alignment with the findings of Brav and Gompers (1997) that superior performance by venture capital-backed firms is often attributed to better management teams and corporate governance structures that help these companies to perform better in the long run, perhaps due to the environment. Similar evidence was reported by Huck and McEwen (1991) from a survey of 54 Jamaican entrepreneurs involved in manufacturing and service businesses using venture capital. These researchers identified competencies in management, planning and budgeting as most crucial for the efficient operation of a small business. The study further agrees with Hellmann and Puri (2002) that once an investor finances a business, he must devote much of...
his time to helping the business to succeed by structuring internal organization and engaging in appropriate human resources management which facilitate efficient and effective management in SMEs.

**Hypothesis Three (H₃): Venture Capital and Financial Management**

Hypothesis three was formulated to examine the relationship between venture capital and financial management practice in small and medium scale enterprises. As expressed in literature concerning bookkeeping, funds management and maintenance of separate account between the owners and the business, there is general impression that SMEs attitude to financial management is poor. It is therefore a common view that financial management in this subsector can be improved upon if there is effective control and monitoring of financial transactions. From the result of the hypothesis, there is significant relationship between venture capital and financial management practice in small and medium scale enterprises. This is possibly because of the need by venture capitalists to safeguard their investment and achieve their desired objectives by paying attention on how funds are utilised and accounted for. This result is consistent with findings by Memba (2011) which established that access to venture capital by Kenyans SMEs improved the financial management practice of the firms. However, the correlation coefficient (\( \beta \)) which shows a negative value of -0.587 suggests that there is still much to desire in managing finances of SMEs to achieve the desire results probably because of the attitude of SME owners who are already used to ostentatious life.

**Conclusion**

SMEs play significant role in socio-economic development of any country, especially Nigeria. Consequently, it has been agreed that the growth of the sub-sector constitutes one of the major pillars for economic development in the country. In order to determine the possible required changes to improve and sustain the growth of SMEs in Nigeria, it was necessary to uncover how venture capital trigger/influence SMEs. The following conclusions are derived from the findings and discussion in the previous chapters.

On examining the role of venture capital, the study reveals that it has a direct contribution towards innovativeness of SMEs. This implies that venture capital reinforces the way SMEs in Nigeria employ new ideas as well as the methods of producing and offering products/services by encouraging research and development through the provision of appropriate funds and relevant expertise to support the investment. When the venture capitalists realise that opportunity abound to invest their finances, they embrace new technology to grow. This then verifies that venture capital is crucial for SMEs growth.

The study also found that there is no significant positive relationship between venture capital and management practice of SMEs. This implies that SMEs owners, coming from the background of fear of ownership dilution and loosing of control, are still stocked to their old ways of managing the firms including poor organisational structure and lack of corporate governance culture without embracing modern techniques of management which could foster the growth of SMEs. This has implication for growth and development of the sub-sector. Therefore, emphasis must be placed on management training in SMEs by stakeholders to achieve desired results.
The study proved that venture capital is important to SMEs growth in financial management. It reveals that there is significant relationship between venture capital and financial management in SMEs, but the relationship is statistically negative. This implies that although venture capital attracts professional advice/assistance on financial planning, procedures and controls to ensure efficient and effective utilisation of available resources to achieve desired results, financial management in SMEs still remains a major issue which should attract the attention of relevant stakeholders especially the government and academics to avoid high incidence of business failure and achieve growth objective in the sub-sector.

Therefore, based on the results of the hypotheses tested, the study concludes that there is significant relationship between venture capital and growth of small and medium scale enterprises even though management practice and financial management in SMEs continued to be a serious challenge to the business. The implication is that an increase in venture capital or a robust venture capital market will encourage entrepreneurship, boost the growth of SMEs, and foster the growth of the economy. This must however be supported with structures that support low defaults, effective management, legal and regulatory frameworks, availability of market, availability of research and development, extension of technological support services and provision of infrastructure.

**Recommendations**

The need for government to encourage and support the growth and development of SMEs has become apparent given their role in economic growth and development. One of the areas where the Government should have policy focus is provision of appropriate funding and management of the sub-sector. SMEs owners are also expected to benefit from modern system of management in order to foster their businesses. Therefore, based on the findings of the study, the following recommendations are made:

1. Government should encourage innovativeness in SMEs as catalyst for growth by providing policies and incentives such as tax holidays in order to inspire medium to long-term funding or investment in research and development in the sub-sector.

2. Given that the role of management is key to the growth and survival of any firm, Government and other relevant stakeholders such as the SMEs associations, venture capital firms and financial institutions should intensify efforts to bridge the knowledge gap in modern business management among SMEs through training and retraining programmes. Such trainings can be carried out in collaboration with the academia and/or other training institutions such as Nigerian Institute of Management (NIM) on regular basis to enhance the capacity and performance of the firms.

3. Government should collaborate with relevant accounting bodies such as ICAN and ANAN to enforce the Standard on financial reporting by SMEs and make the provision of Finance and Account Department as well as Audit Unit a precondition for registration of SMEs to curb the excesses associated with SME financial operation to improve financial management in SMEs.
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