

VENTURE CAPITAL AND GROWTH OF SMES IN AKWA IBOM STATE

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Abstract

The study investigated the relationship between venture capital and SMEs growth in Akwa Ibom State. The study was prompted by the need to examine the significance of each component of venture capital on the growth of SMEs in Akwa Ibom State. Three components of venture capital – seed capital, start-up capital and development capital were used. A survey research method was used for the study while the sample size of 50 respondents was discretionally obtained from 10 of the 20 identified venture capital financed SMES in the State. Information for the study was obtained from this sample size using structured questionnaire. Regression analysis and ANOVA were used to analyzed the data using Statistical Package for Social Science (SPSS). Findings revealed that seed capital and start-up capital have positive and significant relationship with SMEs growth in the State. In view of the findings, it was recommended that SMEDAN should establish consultancy unit within it to advise SMEs operators on what form of Venture capital is appropriate at a given stage of their businesses.

Keywords: Venture capital; SMEs; ANOVA; Akwa Ibom State; Entrepreneurship

1 Introduction

Venture capital (VC), 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 non-current assets, and meeting working capital requirements. Although venture capital scheme originated in USA to give financial boost to notable companies especially in the information and telecommunication industry, what is noticed in recent time is that other developed economies like United Kingdom, Canada, Australia and Japan have used support from venture capital to promote economic development through the establishment of companies in the Information and Communication Technology (ICT) sector as well as a number of successful service companies such as eBay, Starbucks and Staples.

Evidence from firm studies has shown that venture capital stimulates innovation, encourages higher sales productivity and allow for effective management and efficient financial management system in SMEs. The essence of VC according to Sincerre, Sampaio, Fama and Flores (2019) is to seek emerging companies that have competitive advantages and are inserted in fast-growing markets. The function of these funds precisely is to identify companies that grow arithmetically – due to capital constraints with a view to providing adequate and necessary sources of capital and experience for the exponential growth of these companies. The funds represent a viable alternative to traditional financing, because they are financial agents well adapted to mitigate the characteristic risks associated with the companies that invest. In addition, Venture Capital funds adopt differentiated governance and monitoring practices.

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 socioeconomic 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. 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.

In Nigeria, SMEs constitute more than 90 percent of the businesses. 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 been faced with problems that 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. Among the obstacles to SMEs growth, finance has continued to dominate financial literature as one of the major obstacles to SMEs' growth. According to Adeniken, Oki and Maimako (2020), 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.

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. Studies have shown that about 222 SMEs have shut down within a year while 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. These recurring gaps encouraged the introduction of venture capital as alternative arrangement to provide financing support to SMEs (Achugbu, 2017). Despite this, available literature to the best of the knowledge of the author suggests that empirical evidence to support the relationship between venture capital and growth of SMEs in Akwa Ibom state, Nigeria is almost non-existence. Hence, the need for this study.

Accessibility to finance is of great importance to the growth of Small and Medium scale enterprises. Small and Medium Scale Enterprises are always faced with the challenge of inadequate funding because of their inability to access credit from financial institutions. Since they have limited ways of accessing funds, they rely basically on their retained earnings for their investment, hence difficult to achieve growth and sustainable development.

Venture capital though a new concept in Nigeria has been existing in developed countries for years now, it has been known to add great value to the economic growth. It enhances the growth of SMEs by providing the needed capital for the take-off of the business. However, in Akwa Ibom State, the funding and utilization of venture capital are relatively new and the impact greatly unnoticed.

Observing the growing presence of Venture Capital (VC) firms and Private Equity (PE), most researchers focus on the size of deals, sector, issues of profits and influence on enterprise growth. Others look at cultivation of VC/PE on New Technology Based Firms (NTBF) (Daramola, 2012) while others look at investing behavior of PE/VC firms (Dzienkonski and Ignatiuk, 2015). However, given the diversity in PE/VC financing, it is imperative that the relationship between VC and the development of SMEs in Akwa Ibom be examined despite the novelty of the scheme to the people of the state.

The main objective of this study is to examine the relationship between venture capital and growth of small and medium scale enterprises (SMEs). The specific objectives are to;

- I. Investigate the relationship between seed capital and SMEs growth in Akwa Ibom State.
- ii. Examine the relationship between start-up capital and SMEs growth in Akwa Ibom State.
- iii. Evaluate the relationship between development capital and SMEs growth in Akwa Ibom State.

The following questions guided the study

- i. What relationship exists between seed capital and SMEs growth in Akwa Ibom State?
- ii. What relationship exist between start-up capital SMEs growth in Akwa Ibom State?
- iii. What relationship exist between development capital and SMEs growth in Akwa Ibom State?

The following hypothesis will be tested in the course of this study.

- Ho₁: Seed capital has no significant relationship with SMEs growth in Akwa Ibom State
- Ho₂: There is no significant relationship between start-up capital and SMEs growth in Akwa Ibom State.
- Ho₃: There is no significant relationship between development capital and SMEs growth in Akwa Ibom State.

The study was carried out in Akwa Ibom State. Akwa Ibom State is one of the 36 states of the federal republic of Nigeria. Created out of the former Cross River State on the 23rd September 1987 by the administration of General Badamosi Babangida (Rtd), Akwa Ibom State covers a total area of 7,249 square kilometers(km²). This area does not take into consideration disputed territories. Uyo is the State capital. The State has 31 Local Government Areas, 119 Clans and 2,664 Villages. It is bounded on the East by Rivers State, on the West by Cross River State, on the North by Abia State and the South by the Gulf of Guinea. It is the 10th largest State in Nigeria in terms of landmass. About 128.64km, which is 13.4 percent of the 960km of Nigeria's coastline is in Akwa Ibom State. This stretches from Oron in the East to Ikot Abasi in the West. Various economic activities are carried out in the state. This include farming, trading, fishing, civil service among others. The state boast of sizeable small and medium scale businesses of all kinds.

2 REVIEW OF RELATED LITERATURE

2.1 Conceptual Framework

2.1.1 Small and Medium Scale Enterprises (SMEs) Defined

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.

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.

2.1.2 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 Adeniken, Oki and Maimako, (2020) 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. Growth can also be seen 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.

It has been argued by some scholars that growth is sometimes the most important, reliable, and easily accessible measure of a firm's performance. However, Adeniken, Oki & Maimako, (2020) submitted that little is known about the growth process of SMEs emphasizing that what is known is the unplanned management experienced based approach to daily operations, and a reactive rather than a proactive approach which they (usually) adopt. Thus, growth is regarded as a complex multidimensional phenomenon or construct with no general agreement on how it should be measured.

However, it has been argued that academic scholars and entrepreneurs do not mean the same as to the term firm growth. Consequently, it has been noted that while growth indicators and measures are mainly quantitative in academic literature, growth in entrepreneurial or management practices is generally measured in metrics of internal development and thus more in its qualitative dimension. Therefore, given the logic of enhancing practice with theory, this study focuses on innovation, management practice and financial management considered as critical success factors to SMEs growth.

2.1.3 Concept of Venture Capital

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. It is a long-term risk finance where the primary return to the investor is derived from capital gain rather than capital income (Aberijo and Fayomi, 2007). Africa Venture Capital Association (AVCA) (2019) 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. From this definition, venture capital can be seen 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.

Venture capital funds, commonly known as Venture Capital and Private Equity (PE/VC), seek emerging companies that have competitive advantages and are inserted in fast-growing markets. The function of these funds is precisely to identify companies that grow arithmetically – due to capital constraints – to provide adequate and necessary sources of capital and experience for the exponential growth of these companies. PE/VC funds represent a viable alternative to traditional financing, because they are financial agents well adapted to mitigate the characteristic risks associated with the companies that invest. In addition, PE/VC funds adopt differentiated governance and monitoring practices (Sincerre, Sampaio, Fama & Flores, 2019). The development of the PE/VC industry began in the United States, in which companies such as Microsoft, Compaq, Apple, Sun, Amazon, Lotus, Cisco, Staples, Federal Express and Netscape were invested by PE/VC funds and formed completely new industrial segments.

The aim of private equity and venture capital according to Dzienkonski and Ignatiuk (2015), is to help companies achieve growth by providing finance, strategic advice and information at critical stages of their development. Since the emergence of the venture capital industry in the US, it is today a global phenomenon that exhibits many regional variations (Wright, *et al.* 2004).

Financing is a critical element in the entrepreneurship development process. Recently it has been observed that venture capital has become increasingly important to most advanced economies' innovation systems, as well as to a growing number of

emerging economies (Bruton, Fried & Manigart, 2005; Ahlstrom & Bruton, 2006). Most venture capital comes from groups of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships. This form of raising capital is popular among new companies, or ventures, with a limited operating history that cannot raise capital through a debt issue or equity offering. Often, venture firms will also provide start-ups with managerial or technical expertise. For entrepreneurs, venture capitalists are a vital source of financing, but the cash infusion often comes at a high price. Venture firms often take large equity positions in exchange for funding and may also require representation on the start-up's board.

Results of some research show that venture capital backed firms are typically better in terms of job creation and revenue growth than comparable firms without venture capital support (Peneder, 2010; Davila, *et al.* 2003). The expectation of a positive impact of venture capital on firm performance originates in the idea that venture capitalists are active investors who provide not only finance, but additional services of value to entrepreneurs.

One of the major trends that have occurred in private equity venture capital is that funds are becoming more specialized. The economy has become more diverse, more specialized and less uniform. Therefore, differences are seen in terms of investing objectives, criteria, strategy and focusing on particular stages, sizes or market niches. Venture capital represents a specific type of governance that takes an active part in start-up processes (Walicka, 2014). Experienced investors can provide a wide range of business services for new or growing companies including: market research and strategy, management consulting, contacts with prospective customers or suppliers, assistance in negotiating, help in establishing management and accounting controls, help in employee recruitment, help in risk management, counseling and guidance in complying with legal regulations.

2.1.4 Forms of Venture Capital

Depending upon the stage at which funding is availed of, Venture funds/PE fund according to Kohli (2016) can be classified into various types. These are;

Angel investors: These are typically high-net-worth individuals (HNIs) who have often been successful entrepreneurs themselves. They re-deploy their wealth in next-generation businesses. They invest in new-idea enterprises (that do not yet have external validation), help bring these ideas to market, take significant risks and invest a lot of time and energy in mentoring, management guidance and networking. Angel investors are also governed by considerations other than finance alone, such as belief in Entrepreneurship itself.

Venture capital (VC) funding provides funds for early stage companies. VC investments are traditionally made for scaling up operations (i.e. developing,

launching and expanding new products or services). VCs take lesser degree of risk and invest more money than angel investors. However, a VC is about more than financial support alone. VCs provide entrepreneurial support and partnership-based value-addition, often in the form of providing financial advice, human resources, establishing networks with customers and overall guidance in company strategy.

Private equity players are established investment bankers and typically invest into proven/established businesses. PE funds/players are among the largest sources of funding for enterprises that are relatively secure with an established track record, requiring significantly large funds for expansion and growth.

As such, they take reasonably well-defined risks and their exit strategy is usually up to the stage when the company goes public or gets acquired at high value. PE funds are generally seen to attract huge amount of capital from investors, including pension funds, insurance funds, university foundations and individuals. PE investors can be domestic or foreign private equity firms. Domestic PE firms are either established as trusts, or set up as a company. All Private equity (PE) investments from outside the country are either classified as Foreign Institutional Investment (FII) for investments in listed companies or Foreign Direct Investment (FDI) for investment in unlisted companies.

Irrespective of the forms venture capital may take, Dzienkonski and Ignatiuk, (2015) identify three stages in venture capital financing:

At stage 1, seed stage, financing provided to research, assess and develop an initial concept before a business has reached the start-up phase. These early financing may be directed toward product development, market research, building a management team or developing a business plan.

Stage 2, early stage financing, can be either start-up or first stage financing. Start-up financing provides funds to companies for product development and initial marketing. This type of financing is usually provided to companies just organized or to those that have been in business just a short time but have not yet sold their product on the market. First stage funding is provided for initial commercial production and sales. Most first-stage companies have a product or service in testing or pilot production.

At stage 3 funding, capital is provided for major expansion, for example, for aggressive marketing of its service for awareness and adoption or physical plant expansion.

2.1.5 Impact of Venture Capital on SMEs growth

The Private Equity and Venture Capital industry provides capital for companies with high return potential. From the perspective of the authors Gompers and Lerner (2001), to understand the PE/VC industry, it is paramount to understand the entire

risk cycle, in which it consists basically of four phases: raising funds, investment, monitoring and output. The cycle begins with the survey of the risk fund, the prospection and selection of the proposals through analysis of the projects. In the monitoring phase, it is verified whether the expected results are being achieved; there is also added value as a consequence of shared management.

The cycle ends when PE/VC funds are able to return capital to shareholders by exit mechanisms, and it is renewed when those funds raise additional resources to be reinvested.

There is a broad theoretical field that suggests that the PE/VC industry contributes significantly to the success of start-up companies. PE/VC funds are typically active investors who try to add value through their participation in business management.

Kohli (2016) asserts that there are three main areas where private equity investors add value. These are financial engineering, governance engineering and operational engineering.

Financial engineering refers to steps to add value by making capital structure more efficient - that is, decreasing the cost of capital. Typically, this goal is achieved in buyouts by taking on leverage and bringing in outside capital.

Governance engineering refers to processes that create value by improving incentives and monitoring in the companies that private equity investors finance. These steps can include the imposition of formal monitoring techniques and compensation that links pay to performance.

Operational engineering refers to initiatives by private equity funds to improve the firms they finance through the provision of formal and informal consulting services to boost production processes, working capital management, marketing and product mix, and related areas.

Sincerre, Sampaio, Fama and Flores (2019) state three reasons why PE/VC funded enterprises in the Initial Public Offering (IPO) period may differ from non-funded firms. Firstly, PE/VC funds implement a management structure that assists in the operational performance of companies. In addition, they can use their knowledge in the industry to improve the company's operations, providing valuable information on capital increase. Secondly, PE/VC funds may affect who owns the shares of companies after the IPO. Large investors will acquire shares of companies due to PE/VC funds having contacts with large investment banks. These relationships can lead to future relationships after the IPO. Finally, PE/VC funds hold positions in the board of directors of start-ups and maintain them even after the IPO. The advantage is that these advisors have experiences that can improve the management of these companies, in addition to facilitating the financing. PE/VC funds play separate roles in companies. They are direct funders and monitor business operations indirectly.

Kaplan and Stromberg (2003) note that venture capital investors impose complex control rights when investing in a company, and put in place strong mechanisms of governance and monitoring. In addition, they are often considered strategic investors, and their involvement with corporate strategies is a key value-added activity for these companies.

Overall, PE/VC funds are looking for risky young companies with high growth potential, in which they have high expectations of production of innovative products and services. Thus, these funds tend to make their investments at an early stage of business development, when the prospect of success is far from being achieved. PE/VC funds therefore play an influential and relevant role in the strategic evolution of the investees and in their investment and financing decisions. Therefore, companies financed by PE/VC may be more likely to issue shares than debt, since there would be more sources of capital and equivalents. Consequently, they would have lower levels of leverage compared to companies not financed by PE/VC.

2.1.6 Impact of Venture Capital on the Technological Innovation Ability of SMEs

One of the inherent pursuits of venture capital is to obtain high returns. Improvement in technological innovation can enhance productivity and profit of SMEs, which help to achieve the investment objectives of venture capital. Ueda and Hirukawa (2008) revealed that venture capital has significant positive effect on the number of patents. Venckuviene and Saboniene (2015) pointed out that the value-added services of venture capital can improve the innovation capabilities of enterprises. Wang (2016) found that there is a significant positive correlation between venture capital and technological innovation, which vary among different regions in China. Previous studies indicated that venture capital can provide substantial financial support for technological innovation of SMEs.

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.

2.1.7 Impact of Venture Capital on the Profitability of SMEs.

Profitability is an important indicator to evaluate the development of SMEs, which is also a growing concern for venture capitalists. Chahine, Arthurs, Filatotchev, Hoskisson (2012). found that enterprises supported by venture capital have good profitability and market performance. Audretsch and Lehmann (2004) proposed that

venture capital has a positive effect on enterprise performance, which is complementary to bank loans. Sun (2015) suggested that enterprises supported by venture capital have good performance in the first year after initial public offering, which is better than those of enterprises without venture capital. On the contrary, other researchers concluded that venture capital has a non-positive effect on enterprise performance. For SMEs, the introduction of venture capital can raise the urgently needed capital for promoting the development and improving the performance of enterprises. By raising the share of capital, venture capitalists can exert more influences on the management of SMEs and obtain better returns.

2.1.8 Impact of Venture Capital on the Development Capability of SMEs.

When selecting investment object, the potential growth of enterprises is the focus of venture capitalists. With the support of venture capital, the development capability of SMEs can be greatly improved. Davila, Foster, and Gupta (2003) suggested that the most attractive enterprises to venture capital are SMEs with good development prospects. These enterprises can attract outstanding talents and high-tech to prompt the growth of enterprises. From the perspective of value-added services, Chemmanur and Loutskina (2006) proved that excellent venture capital can bring first-class brokers and institutional investors to enterprises, which plays a positive role in promoting the development of enterprises. Rosenbusch, Brinckmann, and Müller (2013), confirmed that venture capital has a significantly positive impact on the growth ability of enterprises.

2.1.9 Impact of Venture Capital on the Solvency of SMEs.

When investing, venture capitalist can provide intellectual capital, professional relationships, management guidance, business development, and business model consulting for SMEs. Study have found that there is an increase in sales volume and sales growth rate for SMEs with venture capital after being listed. Nahata (2008) concluded that venture capital with higher reputation can significantly improve the solvency of SMEs. Chaopeng, Shinong, Jingya, and. Lu (2012) confirmed that venture capital can suppress excessive investment of the enterprise in free cash, enlarge short-term debt and equity financing, and alleviate the shortage of cash flow to a certain extent. For SMEs with poor solvency, the introduction of venture capital can drive other social capital to invest in enterprises.

2.1.10 Nigerian Perspective of Venture capital and private equity investment

In the last decade, the Nigerian private equity industry has also grown from about three players with approximately US\$75 million under management to 10 indigenous players with about US\$2 billion under management, 15 international funds and about 30 new funds under formation (SEC, 2016). However, the Nigerian private equity industry is still in its infancy stage compared to the developed and other emerging markets.

Private equity investment in Nigeria has been by way of acquisition of significant minority stakes in businesses with good track record of performance and growth potential. There is also an increase in mezzanine financing, i.e., a combination of equity and debt components.

Leveraged buyouts which constitute a major part of private equity deals in advanced economies are also witnessed in Nigeria, for example, GTB Asset Management Ltd/Kakawa Discount House and the acquisition of Conoco Philips Businesses by Oando Plc. However, private equity deals are usually consummated by identifying competent entrepreneurs and management teams with a proven track record of performance with respect to an existing or new business plan. This is because they possess significant understanding of the relevant market as well as required local networks for the business since they are majority owners of the business.

As at 2014, SEC (2016) reports that four (4) Private Equity fund managers made investment in Nigeria, they are, Africa Capital Alliance, Carlyle Group, Helios Investment Partners and Synergy Capital Managers. Notable investments by other Private Equity fund managers in the previous year include Helios, Africinvest Capital Partners (Africinvest), Data Bank Agrifund Manager Limited, Emerging Capital Partners, Africa Capital Alliance, Investec, Assets Management Goodwill West Africa, Alitheia Capital and Abraaj Group. Due to the dearth of data on deal activity within the industry, it was difficult to ascertain the total investment size of the deals concluded in 2013, coupled with the fact that some of the investment amounts in the respective private equity transactions were undisclosed.

Consequently, the sectors attracting significant investments cut across telecoms, oil and gas, consumer goods, information technology, agriculture, manufacturing and financial services. Other sectors like the media and entertainment as well as advertising are gaining the attention of private equity investors in recent times.

Various sectors of the Nigerian economy experienced significant investments by private equity funds in 2013 and 2014. Some of these include:

- Participation of Emerging Capital Partners (ECP) and Investec Management in the US\$1.035 billion equity and debt financing to fund the upgrading of existing towers and the construction and acquisition of new telecoms towers belonging to HIS, an ECP portfolio company headquartered in Lagos.
- Investment by Africinvest in Broron Oil & Gas Ltd, an oil and gas offshore service company providing offshore support services.
- The Carlyle group invested US\$147 million in Diamond Bank;
- IFC, a member of world Bank Group announced a US\$9.5 million investment in Jabi Lake Mall;
- African Capital Alliance invested part of its third fund (CAPE III, a US\$400 million private equity fund, which includes;
- investment in Gas Train Ltd, a gas infrastructure development platform

- operating in Nigeria; and
- Wakanow, a leading Nigerian online travel agency

The Nigerian private equity market may have significant risk, a number of developments/reforms have reduced the risk factors in the market thereby making it the preferred investment destination. Some of these reforms are improvement in Code of Corporate Governance, migration to International Financial Reporting Standard (IFRS) and Risk Based Supervision (RBS), improvement in the legal structure and establishment of investment infrastructure like the Investment and Securities Tribunal (IST) and the enhancement of securities regulation generally.

2.1.11 Venture Capital Firms Activities in Nigeria

Daramola (2012) noted that with the establishment of Small and Medium-Scale Industries Equity Investment Scheme (SMEIS) in 2001 and the liberalization of telecommunication in Nigeria, venture capital activities have expanded leading to a corresponding increase in the presence of VC firms in Nigeria or outside with focus on Nigeria (Sub-Saharan Team often based in London, South Africa or Ghana). The use of ICT in Nigeria is growing in the financial services sector outside the Oil and Gas Industry, a major consumer of technology.

The agriculture business sector (renewable energy, seed production) has equally enjoyed interest from the VCs. The interest to invest in Nigeria over the last ten years by both local and international venture capital funds is attributable to the stable macroeconomic indicators fueled by a continual democratic governance and entrenchment of rule of law and economic policies (Uzonwanne, 2011, Yusuf, 2011).

Isiadinso (2002) identified significant players in the Nigerian Venture Capital industry, including the private equity investment portfolios of government and aid agencies. Examples of these include CDC Capital Partners (previously the Commonwealth Development Corporation) and the International Finance Corporation (a division of the World Bank). According to Oyekanmi (2005), the key players are African Capital Alliance (ACA), Avante Capital, Vectis and Actis.

The VCAN is the industry body for the Venture Capital and Private Equity firms in Nigeria, though it is moribund. The membership number could not be ascertained, though at inception, it represents majority of Nigerian- based or focused private equity and venture capital firms and their advisors (Oyekanmi, 2005). The African Venture Capital Association (AVCA) is a parent association of VC firms and PE professionals in Africa; AVCA covers the Sub-Saharan Africa VC space which has South African funds managing over 80 per cent of total SSA funds followed by Nigeria with 10 per cent (OECD Policy Insights No.60, April 2008).

2.1.12 Factors Affecting the Operations of Venture Capital

Daramola (2012) submits that Policies play a role in setting the parameters within

which actors make decision about learning, investment and innovation. Government drives economic development through policy decisions and incentives. This takes the form of economic, institutional and regulatory frameworks through which market can channel resources to new innovative enterprises. Government support to venture capital can take the form of developing stock markets, encouraging financial institutions (FIs) to provide funding and supporting and facilitating entrepreneurship in the economy. Through the legal and fiscal framework established by governments, the environment to foster Venture Capital is created.

Environment that can affect VC operations can be classified into three elements:

External factors (macroeconomic drivers)

Internal factors (VC firm's strategy, resource and organization)

Industry patterns.

- I. **External factors;** these are macroeconomic and other factors affecting both the supply and the demand for venture capital. Supply side policies refer to government action directly and indirectly to facilitate creation of venture capital as well as provision of finance for small and medium scale enterprises (SMEs). Supply side policy could be direct supply of capital and financial incentives. Direct supply of capital could be in the form of; government equity investments and government loans. Government equity investment requires making direct investments in venture capital firms or SMEs. On the other hand, Government loans require making low-interest, long-term and/or non refundable loans to venture capital firms or SMEs.

Financial incentives could be in the form of tax incentives, loan guarantees, equity guarantee and investors' regulations.

Tax incentives could be in the form of tax credits, particularly to those investing in small firms or venture capital funds. Loan guarantee requires guaranteeing a proportion of bank loans to qualified SMEs operators. Equity guarantee implies guaranteeing a proportion of the losses of high-risk venture capital investment. Investor regulations involves allowing institutions such as pension funds or insurance companies to invest in venture capital.

Demand side policies on the other hand, refer to initiatives designed to improve the financial and management capabilities of entrepreneurs in SMEs. Demand side policies could be viewed from two perspectives; cultural environment and infrastructure and support. The cultural environment consists of personal entrepreneurial characteristics, demographics and educational structures. Personal entrepreneurial characteristics refers to the underpinning characteristics of entrepreneurs in the economy, the need for achievement, personal locus of control and risk taking propensity. Demographics give attention to age, gender and educational background and former work experience as an impact on entrepreneurial intention and endeavor in establishing SMEs. Educational structures entrench

changes in education that encourages training in entrepreneurship and business. Encouraging education in Science, Technology, Engineering, Mathematics and Management as a building block to SMEs creation.

Infrastructure and support could be in the form of Business Incubator (government-funded or private-public partnerships); Technology Parks; Technology Incubators; Clusters; Export Processing Zones (EPZs); Support Agencies.

- ii. **Business incubator requires** a designated area to create and nurture SMEs with physical infrastructure and various services such as business planning, financial advisory, management training, advertising, secretarial, security, intellectual property protection and post incubation support.

Technology park is an environment designated by government, universities or research institutions with incentives such as access to research facilities, technology transfer and spin-off offered to companies to relocate to catalyses the process of growing more TBFs, provide entrepreneurs with access to expertise, networks and business support to make their venture successful. They have strong R&D components in their organizational structure.

Technology incubator: A special type of business incubator that focuses on new ventures that employ technologies, it serves as a market for commercialization and diffusion of technologies.

Export processing zones This is a mechanism employed by economies to acquire and diffuse technology in the local economy by permitting participating firms to acquire their imported inputs free as long as they export 100% of their products. The focus is attracting FDI and providing access to infrastructure and tax incentives leading to increase productivity in host country.

Support Agencies These refers to government ministries, agencies(MDAs) and department established to support the growth of SMEs.

- iii. **Internal Factors** Dias and Macedo (2016) noted that the PE/VC market has three agents: management organizations, investors, and invested companies. Simplifying the dynamic market, investors apply their capital in investment vehicles that are driven by management organizations, which in turn, buy participation in portfolio companies for a specified period of time. At the end of this period, managers undo the long positions and assign the appropriate parties to investors, leaving a residual portion of that amount to pay for the service provided.

According the report by Grant Thornton on 'Top trends in middle-market private equity' there are seven trends that have recently altered the way the private equity community conducts business. These are:

- Private equity firms are returning to the days where they spend substantially

more time looking for quality companies to invest in and are performing a thorough due diligence rather than jumping into an investment headfirst.

- PE firms have adapted to the changing market by opting to do cross-border deals. PE firms are interested in emerging markets.
- PE firms have transformed themselves by hiring operational partners, which is a recent phenomenon. The middle market firms hire partners who don't necessarily have private equity knowledge but possess expert knowledge in a particular sector.
- Emergence of Sovereign Wealth Fund (SWF) is also a recent trend and PEs believe SWFs have an increasing long term impact on marketplace.
- Mega funds have hired more talent to broaden their scope, luring private equity talent away from middle market firms, therefore squeeze on middle market compensation is another significant trend.
- Despite the global credit crisis, certain industry sectors have remained particularly strong. Technology, healthcare and energy sectors continue to present strong investment opportunities and are expected to do so for years to come.
- With lines blurring between PE firms, hedge funds, lenders and bankers, PE firms are emerging as asset managers. This trend has already begun to take place in the larger market and is now emerging in the middle market.

Industry patterns

The emergence of New Technology-Based Firms is hinged on the presence of risk capital, which is hardly available through the conventional financial system, made of commercial banks; the venture capital firms are appropriately designed to support their growth. Avnimelech and Teubal (2002) identified two possible patterns to VCs growth. These are set of conditions to creating a Venture Industry:

- VC-directed policy and
- VC-related policy

VC-directed policy refers to a targeted policy directed to the VC industry. This presupposes VCs emergence after a budding growth of the technological sector. Research and Development (R&D) and innovation capabilities have to be widespread given cognizant to the comparative advantage of the economy.

VC-related policy refers to the promotion of a proactive favourable background for the emergence of VC industry. It offers more entry, experimentation, learning and capacity among both market agents and policy makers (Adebowale, 2010). The United States style Small Business Investment Companies (SBIC) is a case in point (BVCA, NESTA, 2009), while bringing it home to Nigeria, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) is a related policy.

2.2 Theoretical framework

This study was reviewed under two theories; the modern portfolio theory and resource-based theory of entrepreneurship.

2.2.1 The Modern Portfolio Theory (MPT)

Harry Markowitz 1991, an American economist in the 1950s developed a theory of "portfolio choice," which allows investors to analyse risk relative to their expected return. For this work Markowitz, a professor at Baruch College at the City University of New York, shared the 1990 Nobel Memorial Prize in Economic Sciences with William Sharpe and Merton Miller.

Markowitz's theory is today known as the Modern Portfolio Theory, (MPT). The MPT is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although the MPT is widely used in practice in the financial industry, in recent years, the basic assumptions of the MPT have been widely challenged.

The Modern Portfolio Theory, an improvement upon traditional investment models, is an important advance in the mathematical modelling of finance. The theory encourages asset diversification to hedge against market risk as well as risk that is unique to a specific company.

The theory (MPT) is a sophisticated investment decision approach that aids an investor to classify, estimate, and control both the kind and the amount of expected risk and return; also called Portfolio Management Theory. Essential to the portfolio theory are its quantification of the relationship between risk and return and the assumption that investors must be compensated for assuming risk. Portfolio theory departs from traditional security analysis in shifting emphasis from analysing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio (Edwin and Martins 1997).

The MPT mathematically formulates the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. The possibility of this can be seen intuitively because different types of assets often change in value in opposite ways. But diversification lowers risk even if assets' returns are not negatively correlated-indeed, even if they are positively correlated.

2.2.2 Resource Based Theory of Entrepreneurship

Propounded by Wernerfelt (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 organization with competitive advantages over its rivals. These resources can be

exploited by the firm to create strategies that capitalize on opportunities and ward off threats. The resource-based entrepreneurship theory emphasizes the importance of resources to the survival and growth of SMEs (Davidson and Honing, 2003).

It has been 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 organizing, 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 (Davidson and Honing, 2003). 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. 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.

The application of this theory to the study is that venture capitalists have the needed resources to invest in existing ventures which have growth potentials but lack the resources for expansion. Thus, the introduction of venture capital to such businesses is a welcome development and indicates that prospect for development is envisaged.

2.3 Empirical Review

Abereiyo, (2007) examined their attitude with regard to the venture capital financing known as Small and Medium Enterprises Equity Investment Scheme (SMEEIS) introduced by the government in 1999. The data employed were from the database of the survey of manufacturing SME's in Nigeria. The findings provide evidence suggesting Pecking Order financing behavior is prevalent among manufacturing SMEs in Nigeria. A small proportion of SMEs that consider equity financing for both business start-up and expansion is found. Hence, equity financing through venture

capital has not become as popular as other financing alternative in Nigeria. Debt financing appears to dominate their preference, apart from their personal saving and retained earnings. Consequently, the paper suggested policy formulation that will address the mindset of the people and encourage greater commitment of banks to actually undertake promotional activities. Among such activities suggested are the identification, development and packaging of viable industries with enterprising customers, and readiness to provide the complementary services to ensure their success.

Dagogo and Ollor, (2009) examined the use of Venture Capital (VC) financing for small and medium-scale enterprise (SME) development in Nigeria by comparing the economic value added (EVA) of venture capital-backed SMEs and those of non-venture capital-backed SMEs. Three independent variables were specified namely: Equity finance, management support, and technical support, and the following tests were conducted: paired t-tests for significance of the differences in dependent and independent means, f-test for significance of R² and t-test for significance of individual regression coefficients. 120 sets of questionnaire were administered, 60 for each category of SMEs, and a stepwise procedure followed the first response in order to maintain balanced responses between venture capital and non-venture capital-backed SMEs. It was found that VC financed SMEs clearly outperformed non-VC-financed SMEs, and that the distinctive performance is the effect of management support by venture capitalists in their portfolio SMEs. Finally, it was recommended among other things that more incentives for VC investments should be offered to encourage greater participation

In Brazil, Siqueira, Carvalho and Netto (2011) investigated the determinants of the success of PE/VC investments, using data from the period 1999 to 2007. The authors emphasized that the factors influencing the performance of investment vehicles are: volume of capital committed, number of investments made, existence of co-investments, foreign origin and experience of the management organization, focus on private equity firms, intensity of contact between managers and portfolio companies and the number of seats on boards of directors of companies invested by fund manager. Therefore, the success of PE/VC investments depends on the characteristics of the funds, how the investments are structured and the management style of the investments.

Okpala (2012) investigated the effect of VC on emergence and development of entrepreneurship as an aid to employment creation and poverty alleviation in Lagos State. Findings revealed that the venture capital in Lagos State exists but not effective. The study concluded that ineffective VC activity has resulted in the low number entrepreneurship emergence, underdevelopment of the sector, high level of unemployment and huge poverty in the state. It was recommended that Government should pay attention to promoting venture capital in her policy framework.

Minardi, Kanitz and Bassani (2014) investigated the Brazilian performance of private equity and venture capital between 1990 and 2013. The authors concluded that, although Brazilian PE and VC industries are young, players are slow to mature, with 72% of companies operating for 5 years or more. The industry has performed well over the last 20 years, compensating for international Limited Partnerships (LPs) to invest in Brazil. In addition, Brazilian PE/VC funds outpaced US funds between 1990 and 2008. Therefore, international investors were remunerated for assuming the country risk in Brazil. The authors emphasized that there are three explanations for this good performance: i) the Brazilian economic boom between 2004 and 2012; ii) the limited competition for business in Brazil at that time; and iii) the fact that PE/VC managers in Brazil are becoming more experienced, leading the company to better performance.

Carvalho, Pinheiro and Sampaio (2015) analyzed the role of VCs in terms of corporate financial policy and the persistence of (fixed effects of the company) companies invested by PE/VC over time. The main conclusion was that the origin of a joint venture leads to similarities in company policies over a period of time after the IPO. Companies invested by PE/VC choose a different set of policies from companies not invested by PE/VC. The authors found evidence that companies invested by PE/VC imply a higher level of cash reserves than non-invested companies. This effect is permanent for at least 8 years after the IPO. In addition, the authors showed that PE/VC invested companies are associated with lower level of leverage and interest coverage during the first 8 years after IPO.

Dias and Macedo (2016) investigated determinants for the demand and supply for PE/VC funds. To achieve the objective, they separately analyzed the supply and demand sides of transactions. Twenty-five variables were chosen consistent with the existing literature. Using Factor Analysis, they modeled variables that possibly affect the demand of the PE/VC. These factors include macroeconomic, financial, corporate governance, entrepreneurship, social and environmental development variables. They then exploited regressions made up of 25 countries over a six-year period (2006-2011). The results indicated that investments are adversely affected by the depth of the capital market: PE/VC funds search for an exit strategy that the stock market can offer by means of IPOs (Initial Public Offering). Other significant factors were the protection of investors, environmental development and the level of entrepreneurship. Different from expected, the economic activity was negatively significant to demand side.

Achugbu (2017) investigated the impact of venture capital (VC) financing on the growth of innovative start-up companies in Nigeria. Exploratory research design was employed in the study. due to the fact that venture capital is relatively an unknown area in Nigeria. It was found that venture capital financing has an impact on the growth of innovative start-ups. The use of VC financing increased profitability, spurs

employment growth, boosted asset base, and improved the quality of management for VC-backed start-ups. Taking into account this positive trend in enterprise sustainability, it was concluded from the study that Venture capital-backed start-ups will make more meaningful contributions to the society. These contributions could be in form of improvement in productivity, reduction in poverty rate, paying taxes to government and overall growth of the economy. The recommendation from the study was that there should be an enabling environment for VC investments to blossom

Mboto, Amenawo and Udoka, (2018) investigated the impact of venture capital financing on the growth of SMEs in Calabar metropolis Cross River State. The rationale for this study was to determine whether the use of venture capital finance, as one of the new sources of financing options by SMEs in Cross River State could create a significant impact on the growth of SMEs. In carrying out this work, a hypothesis was formulated. The financial contracting theory was adopted by the study. The exploratory research design was utilized. In the study, a non- probability sampling method (purposive) was used. Finding showed that there was a critical effect of investment back on the general development of SMEs in terms of record keeping, volume of business, access to other sources of funding, sales value, and net Assets. etc. Accordingly, the study recommended that awareness be created among SMEs on the existence and operations of venture capital as this could be one of the potent ways of boosting sustainable growth and stability of SMEs in particular and socio economic growth and development of the economy in general.

Sincerre, Sampaio, Fama and Flores (2019) analyzed the legacy and its persistence over time in terms of financing and operational policies and financial performance, of companies invested by Private Equity and Venture Capital funds (PE/VC). Four measures that relate to companies' financial policies and their persistence over time: were used. These were; i) cash & equivalents; ii) leverage; iii) Return on Assets (ROA); and iv) sales growth. The results suggested that PE / VC invested companies imply higher levels of cash & equivalents and are associated with a lower level of leverage during the first 5 years after the IPO. In addition, companies financed by PE/VC funds show higher profitability and higher sales growth compared to non-invested companies in the short term, i.e., in the first 3 years after the IPO.

Atah and Abba, (2020) appraised the role of venture capital (VC) financing on the growth and development of small and medium enterprises (SMEs) in Kano State. The study employed quantitative approach by distributing 50 questionnaires to the existing venture capital firms in Kano State. The simple random sampling technique was used to select 5 venture capitalist organizations in Kano State to participate in the study. The 50 questionnaires collected were analysed using descriptive statistics. Empirical findings demonstrated a substantial growth and development of SMEs through venture capital financing. The study also revealed that the operation of

venture capital is successful, profitable and favoured SMEs in Kano State. Thus, entrepreneurs patronize and prefer venture capital financing to traditional banking loans. Therefore, it was recommended that proper policy framework should be developed to increase the number of venture capital firms in Nigeria. More so, awareness creation and provision of adequate fund were highly recommended.

Emerah, Oyedele and Afobruku, (2020) investigated the effect of venture capital on the various small and medium scale enterprises (smes) that had received assistance from venture capital firms. Primary data were collected through the use of structured questionnaire which were distributed to three hundred and seventy-four smes. Purposive sampling method was used to select the respondents while percentages and linear regression were used to analysed the data collected. The results obtained from the analysis showed that venture capital had a significant positive effect on the performance of small and medium scale enterprises in Nigeria. It was recommended that venture capital firms should shift emphasis from profit making to long terms goals like business size, investor protection and entrepreneurial experience which will ensure the survival of SMEs and benefit all stakeholders.

Adeniken, Oki and Maimako, (2020) evaluated the relationship between venture capital (VC) and growth of SMEs in Lagos, Nigeria. The study specifically investigated 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. The results showed that VC has a significant positive effect on SMEs growth. The findings specifically suggested 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 recommended 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

Du and Cai, (2020) investigated the influence of venture capital on the development of SMEs in agri-food industry. Based on the enterprise growth theory, the study constructed an evaluation model, consisting of technological innovation, profitability, development capability, and solvency, to examine the effect of venture capital on the growth of agricultural SMEs. Using data of 40 agricultural SMEs from the SME and ChiNext boards in China, the empirical analysis using multivariate regression analysis method. showed that venture capital can significantly improve the technology innovation, profitability, and growth ability of SMEs. For the

solvency of SMEs, the promoting role of venture capital is not obvious. The study recommended that a seed fund with government capital as the main body should be established to introduce venture capital into the high-risk and high-yield SMEs.

In all the studies, mention is not made about venture capital and the formation of SMEs. Consequently, no study on venture capital and SMEs growth had been conducted in Akwa Ibom State. This study however fills these gaps.

3 METHODOLOGY

The study adopted survey research design to establish the relationship that exists between venture capital and growth of SMEs in Akwa Ibom State, Nigeria. The use of survey design is informed by the fact that the conclusion can be drawn on the entire population based on the sample which carries the same characteristics as the population.

The population of the study were the Venture Capital financed SMEs in the State. From the information the researcher identified through web search twenty (20) small and medium size businesses financed by Venture Capital spread across the three senatorial districts of the state. These businesses include brokerage services, real estate, microfinancing, medical services, telecommunication, oil and gas, legal services, environmental services and financial among others. The lists of the studied companies are provided in the Appendix.

From the identified Venture Capital financed SMEs in the State, the researcher used discretionary random sampling technique to select 50% of the identified SMEs across different sectors. A total of ten (10) SMEs was therefore discretionarily selected for the study. In each of the SMEs selected, five principal officers of the enterprises from the business development unit, human resource unit, finance and supply unit, procurement/marketing unit and the research and development units of the SMEs were randomly selected to participate in the study. By this arrangement, a total of 50 respondents were involved in the study.

Primary data were obtained with the use of questionnaire while secondary data were obtained from published literature on SMEs and venture capital. The questionnaire was prepared in two sections. The first was design to obtain information on the demographic of the identified firms while the second section was designed to capture information from the respondents based on the objectives of the study. Consequently, the questionnaire was coded on a 4- point scale of strongly agreed- 4 point; agreed – 3 point; disagree- 2 point and strongly disagreed – 1 point.

The study sought to investigate the relationship between venture capital and the growth of SMEs. On this premise, it can be established that the growth of SMEs (smeg) is dependent on venture capital (VC). Mathematically, this can be specified

as;

$$\text{SMEg} = f(\text{VC}) \text{-----} (1)$$

Where SMEg is the small and medium enterprises growth

VC is the venture capital

If venture capital is disaggregated into its various components of seed capital, start-up capital and development capital, then (1) can be rewritten as;

$$\text{SMEg} = f(\text{scap}, \text{sucap}, \text{decap}) \text{-----} (2)$$

Where;

Scap = seed capital

Sucap = start up capital

Decap = development

Expressing (2) explicitly for estimation, becomes;

$$\text{SMEg} = \alpha_0 + \alpha_1 \text{scap} + \alpha_2 \text{sucap} + \alpha_3 \text{decap} + e_i \text{-----} (3)$$

Where α_0 = intercept, $\alpha_1, \alpha_2, \alpha_3$ are parameters, e_i = error term.

The growth of SME is taken as the increase in financial performance of the organization in relation to preceding years' activities.

From the models, Smeg is the dependent variables while venture capital denoted by its various components is the independent variable. The apriori expectation is that all components of venture capital exhibit positive and significant relationship with the dependent variable.

To analyze the data and test hypotheses related to the effects of venture capital on the growth of SMEs, descriptive statistics and multiple linear regression models were employed.

4 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Respondent's Demographics

This section presents the summary of the field data, carries out analysis of those data, and discusses on the inferences made. From the 20 identified venture capital financed SMEs in the state, 10(50%) of them were selected across different industries and at least one (1) selected from each senatorial district to represent senatorial spread.

From each SMEs, five(5) principal officers from different units of the enterprise were discretionally selected as respondents for the study.

Table 1: Distribution of Respondents by SMEs Name and location

Name of Enterprise	Location	No. of respondents
Chinmark	Oron road by udotungubo, Uyo	5
Christo investment	3c ImohObot Road IkotEkpene, AKS	5
Sam Udo-Akagha and Partners	19b Hospital Road, Eket	5
Dyme Hospitals and maternity	EdemUrua street , Uyo	5
Kofana Securities & Investments	Oron road by Udo-otungUbo	5
Metro Hotels	Barracks road, Uyo	5
Paul Usoro& Company	1 Umoren road , Uyo	5
Stanford Microfinance Bank	Abak road, Uyo	5
Iyaksco Multi Business Limited	50, Eda street, Uyo	5
Peria Global Services Ltd	135c EdetAkpan Avenue, uyo	5
	TOTAL	50

Source: Results of field data analysis (2022)

The Table 1 above shows the spatial selection of respondents across different SMEs in the State.

4.2 Analyses of Research Questions

Research Question 1: What relationship exists between seed capital and SMEs growth in Akwa Ibom State?

Table 2: Relationship Between seed capital and SMEs growth

ITEM	Seed capital	SA	A	D	SD	mean	SD
1	Seed capital provides the resource for feasibility study preparatory for commencement of venture	34	16	0	0	3.68	0.471
2	the introduction of seed capital can raise the urgently needed capital for promoting the development and improving the performance of enterprises.	31	14	5	0	3.52	0.677
3	Seed capital look out for profitable venture to invest in	35	9	5	1	3.56	0.760
4	Seed capital replaces interest laden loan in business financing.	26	23	1	0	3.50	0.544
5	Provides a long term investment for start-up companies and growing business that have the potential to develop into significant economic contributor	29	15	6	0	3.46	0.706

Source: Author's Computation using SPSS 23

The Table 2 shows the number of response, mean and standard deviation on each of the items. The mean of 3.68 indicates a very strong agreement among respondents that Seed capital provides the resource for feasibility study preparatory for commencement of venture. The mean of 3.52 also indicates a very strong agreement among respondents that the introduction of seed capital can raise the urgently needed

capital for promoting the development and improving the performance of enterprises. Again the mean of 3.56 equally indicates a strong agreement among respondents that Seed capital look out for profitable venture to invest in. Again, the mean of 3.50 shows a strong agreement among respondents that Seed capital replaces interest laden loan in business financing. Consequently, the mean of 3.46 indicates agreement among respondents that venture capital Provides a long term investment for start-up companies and growing business that have the potential to develop into significant economic contributor. Cumulatively, the mean of 3.544 on the average indicates very strong agreement among respondents that seed capital has relationship with SMEs growth.

Research Question 2:What relationship exist between start-up capital SMEs growth in Akwa Ibom State?

Table 3: Response on the relationship between start-up capital and SMEs growth

ITEM	Start-up capital and SMEs growth	SA	A	D	SD	mean	SD
6	Start-up capital has the prospect and potentialities to reawaken and enhance the uptake of small and medium enterprises.	32	16	2	0	3.60	0.561
7	Start-up capital enhances a ctualization of the growth potentials of high risk and innovative result in substantial wealth formation	31	18	9	0	3.60	0.535
8	Apart from high capital gains that could be made on investment, start-up capital could also drive income from the high returns of the successful investment in the portfolio making.	30	16	4	0	3.52	0.646
9	Start-up capital may attract foreign participation to generate foreign exchange.	45	5	0	0	3.90	0.303
10	In a rising need to achieve high return, start-up capital seek opportunity for growth potential through exploration of finance support technology areas	43	6	1	0	3.84	0.422

Source: Author's Computation using SPSS 23

From the Table 3, the mean of 3.60 shows a very strong agreement among respondents that Start-up capital has the prospect and potentialities to reawaken and enhance the uptake of small and medium enterprises. Following that, the mean of 3.60 equally indicates that Start-up capital enhances actualization of the growth potentials of high risk and innovative result in substantial wealth formation. Again, the mean of 3.52 shows a very strong agreement that Apart from high capital gains that could be made on investment, start-up capital could also drive income from the high returns of the successful investment in the portfolio making. Also of interest is

the mean of 3.90 which indicates a very strong agreement among respondents that Start-up capital may attract foreign participation to generate foreign exchange. Also of interest is the mean of 3.84 which indicates a very strong agreement among respondents that in a rising need to achieve high return, start-up capital seek opportunity for growth potential through exploration of finance support technology areas. The cumulative mean of 3.692 on the average indicates very strong agreement among respondents that start-up capital has a relationship with SMEs growth.

Research Question three: What relationship exist between development capital and SMEs growth in Akwa Ibom State?

Table 4: Response on the relationship between development capital and SMEs growth

ITEM	Development capital and SMEs growth	SA	A	D	SD	mean	SD
11	Development capital provides not only financial capital but also the opportunity to guide these young companies by offering managerial advice and controls	44	4	2	0	3.84	0.468
12	Development capital places the country on a stage with the capacity of creating a high paying jobs there by bringing wealth and prosperity for all.	35	14	1	0	3.68	0.513
13	Development capital helps the small firms to play crucial role in experimentation and innovation that leads to technological change and employment growth	39	9	2	0	3.74	0.527
14	By raising the share of capital, development capitalists can exert more influences on the management of SMEs and obtain better returns.	44	6	0	0	3.88	0.328
15	Excellent development capital can bring first-class brokers and institutional investors to enterprises, which plays a positive role in promoting the development of enterprises	38	12	0	0	3.76	0.431

Source: Author's Computation using SPSS 23

From the Table 4, the mean of 3.84 indicates that there is a very strong agreement among respondents that Development capital provides not only financial capital but also the opportunity to guide these young companies by offering managerial advice and controls. The mean of 3.68 on the other hand shows a very strong agreement among respondents that Development capital places the company on a stage with the capacity of creating a high paying jobs there by bringing wealth and prosperity for all.

Again the mean of 3.74 is another strong agreement among respondents that Development capital helps the small firms to play crucial role in experimentation and innovation that leads to technological change and employment growth. Equally interesting is the mean of 3.88 which indicates a very strong agreement among respondents that by raising the share of capital, development capitalists can exert more influences on the management of SMEs and obtain better returns. And the mean of 3.76 is another indication of very strong agreement among respondents that Excellent development capital can bring first-class brokers and institutional investors to enterprises, which plays a positive role in promoting the development of enterprises. In all, the cumulative mean of 3.78 on the average indicates clearly a very strong agreement among respondents that there is a relationship between developmental capital and SMEs growth.

4.3 Test of Hypotheses

Regression analysis was used to test the effect of each component of venture capital on SMEs growth in Akwa Ibom State while ANOVA was used to test the overall significant effect of venture capital on SMEs growth in Akwa Ibom State. In each case, SMEs growth is the dependent variable while venture capital components are the independent variable.

Table 5: Correlation Between venture capital and SMEs growth

	Seed capital	Start-up capital	Development capital	SMEs growth
Seed capital	1.00	0.473	0.648	0.938
Start-up capital	0.473	1.00	0.641	0.618
Development capital	0.648	0.641	1.00	0.657
SMEs growth	0.938	0.618	0.657	1.00

Source: Researcher's computation using SPSS 23.0

The correlation result as presented above shows that there is a very high positive correlation of 93.8% between seed capital and SMEs growth, a high positive correlation of 61.8% between start-up capital and SMEs growth and a high positive correlation of 65.7% between development capital and SMEs growth.

Model summary

Model	R	R ²	Adj. R ²	Std. error
1	0.960	0.921	0.916	0.896

Source: Author's Computation using SPSS 23

The overall correlation coefficient of 96% as presented above clearly indicates a positive correlation between venture capital depicted by its various components and SMEs growth.

Table 6: Analysis of Variance for Overall Effect of venture capital on SMEs growth ANOVA

Model	SS	df	MSS	F	Sig.
Regression	431.593	3	143.864	179.308	0.000
Residual	36.907	46	0.802		
Total	468.500	49			

Source: Author's Computation using SPSS 23

Dependent variable; SMEs growth

Independent variable; seed capital, start-up capital and developmental capital.

Table 7: Multiple Regression of the Effects of venture capital on SMEs growth Regression coefficients

Model	Unstandardized coefficient		Standardized coefficient Beta	t	Sig.
	beta	Std. error			
C	8.294	2.041		4.063	0.000
Seed capital	1.052	0.067	0.859	15.727	0.000
Start-up capital	0.613	0.133	0.250	4.624	0.000
Developmental capital	-0.135	0.140	-0.060	-0.961	0.341

Source: Author's computation using SPSS 23.0

Test of Hypothesis One

Ho: Seed capital has no significant relationship with SMEs growth in AKS

The multiple regression analysis on the effect of venture capital on SMEs growth presented on table 7 above shows that there is a positive and significant relationship between seed capital and SMEs growth. A relationship is said to be statistically significant if its p-value is equal to or less than 0.05 error level. The p-value of seed capital of 0.000 is far less than the acceptable error level of 0.05. From the finding, the null hypothesis is rejected. This means that seed capital as a component of venture capital have significant relationship with SMEs growth in Akwa Ibom State.

Test of Hypothesis Two

Ho: There is no significant relationship between start-up capital and SMEs growth in AKS

The regression result shows that there is a positive and significant relationship between start-up capital and SMEs growth in Akwa Ibom State. The p-value for start-up capital of 0.000 is far lesser than the acceptable error level of 0.05. On the basis of this, the null hypothesis is rejected. This means that start-up capital has significant relationship with SMEs growth in Akwa Ibom State.

Test of Hypothesis Three

Ho₃. There is no significant relationship between development capital and SMEs growth in Akwa Ibom State.

The regression result shows that there is a negative and non- significant relationship between developmental capital and SMEs growth in Akwa Ibom State. The p-value of 0.341 for development capital is higher than 0.05 acceptable error level. From the result, the null hypothesis is accepted. This means that developmental capital has no significant relationship with SMEs growth in Akwa Ibom State.

4.4 Discussion of the Findings

The study was undertaken with a view to investigating the relationship between venture capital and SMEs growth in Akwa Ibom State. There are various forms of venture capital and each form is found to exhibit significant relationship with SMEs growth in the state. For the growth of SMEs to be sustained, there must be preliminary financial arrangement that could see it to the last state of growth. In this stead, seed capital had been found to provide the resource for feasibility study preparatory for commencement of venture, raise the urgently needed capital for promoting the development and improving the performance of enterprises, look out for profitable venture to invest in, replaces interest laden loan in business financing and provides a long term investment for start-up companies and growing businesses that have the potentials to develop into significant economic contributor.

Start-up capital was found to contribute to the growth of SMEs by reawakening and enhancing the uptake of small and medium business enterprises, enhances actualization of the growth potentials of high risk and innovative result in substantial wealth formation, drive income from the high returns of the successful investment in the portfolio making, attract foreign participation to generate foreign exchange and seeking opportunity for growth potential through exploration of finance support technology areas. Looking at the relationship between development capital and SMEs growth, it has been found that Development capital provides not only financial capital but also the opportunity to guide these young companies by offering managerial advice and controls, places the company on a stage with the capacity of creating a high paying jobs there by bringing wealth and prosperity for all. Consequently, Development capital helps the small firms to play crucial role in experimentation and innovation that leads to technological change and employment growth, exert more influences on the management of SMEs and obtain better returns and bring first-class brokers and institutional investors to enterprises, which plays a positive role in promoting the development of enterprises. In view of what had been found, the present study collaborates the findings of Emerah et al, 2020; Adeniken et al, 2020 and Du and Cai, 2020 that Venture capital has positive significant relationship with SMEs growth and that VC significantly improve innovation, technology, profitability and growth improvement of SMEs. Furthermore, the findings were consistent with the a priori expectation except that development capital was not positively and significantly related to SMEs growth as expected.

5 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the findings

This study was undertaken with a view to investigating the relationship between venture capital and growth of SMEs in Akwa Ibom State. Venture capital had been found to exist in the form of seed capital, start-up capital and development capital. The growth of SMEs was taken to be the increase in financial performance of the organization in relation to preceding years' activities. The relationship between venture capital represented by its components and SMEs growth was determined using correlation analysis. Consequently, the extent to which each of the components of venture capital affect SMEs growth in the relationship was determined using multiple regression analysis. From the analyses, it was found that;

- i. Positive and significant correlation exist between each component of venture capital and SMEs growth in Akwa Ibom State.
- ii. Seed capital had positive and significant relationship with SMEs growth in the State.
- iii. Start-up capital had positive and significant relationship with SMEs growth in the State.
- iv. Development capital had negative and non-significant relationship with SMEs growth in the State.
- v. Overall significant relationship exists between venture capital and SMEs growth in Akwa Ibom State.
- vi. The findings were consistent with the a priori expectation except the relationship between development capital and SMEs growth.

5.2 Conclusion

Though a novel innovation in Nigeria, venture capital had existed in developed economies and had been used as a mean of growing businesses from inception to higher state of development. Though the existence of this scheme has helped in sustaining businesses and prevent businesses from going into limbo, it is quite frustrating that many businesses are yet to recognize its existence and functionalities. Though a fast means of financing and growing businesses, it should be noted that venture capital is for fast growing businesses whose returns are impressive. Whatever, the condition of financing, it is obvious that venture capital had been proven to significantly impact on small and medium scale enterprises growth.

5.3 Recommendations

- i. The State Ministry of Commerce and Industries should liaise with the State branch of Small and Medium Enterprise Development Agency (SMEDAN) to sensitize businesses of the existence of Venture capital operators in the State and elsewhere so that they can make use of such opportunities.
- ii. The State executive and legislative arm of government should provide conducive macroeconomic environment for Venture capital to thrive through provision of enabling infrastructure, institutions and legislations.
- iii. SMEDAN should establish consultancy unit within it to advise SMEs

operators on what form of Venture capital is appropriate at a given stage of their businesses. This will help the operators to know when to go for seed capital, start-up capital and development capital. Consequently, this advisory service will prevent wrong investment of fund in the wrong enterprise.

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