

VENTURE CAPITAL FINANCING AND THE PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES (SMEs) IN SOUTH-WEST NIGERIA: IMPLICATIONS FOR ECONOMIC RECOVERY AND SUSTAINABILITY.

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ABSTRACT

One of the prominent challenges facing Small and Medium-scale Enterprises (SMEs) in Sub-Saharan Africa is poor access to finance, which have resulted into an overall poor performance. Venture Capital (VC) financing effects' on SMEs performance in South-West Nigeria was assessed in this study. Descriptive method of research design was adopted, tools designed based on the research questions and objectives with Reliability Cronbach's Alpha = 0.91, Test-Retest (0.85 & 0.91), Validity coefficient = 0.67. Quantitative data sourced among 372 participants were analyzed using SPSS 25.0 while qualitative data collected from 6 Key Informant Interview and In-Depth Interview among 25 purposively selected VC firms were subjected to thematic analysis using Atlas.t software. Out of a sample size of 372 SMEs, 145 (39%) were VC financed while 227 (61%) were Non-VC-financed. The study hypothesis was tested using Multiple Regressions Analysis. Venture Capital financing strategies (Growth, Prudent financial management, Improved management style and Attraction of other financiers) jointly predicted the performance of SMEs [$R = .441$, $R^2 = .194$, $F(4, 141) = 8.430$; $p < .001$]; SMEs performance and VC financing of SMEs at ($r = 0.64$; $p < .01$); VC financing model confirmed a good fit for predicting SMEs performance in South-West Nigeria with implications for economic recovery and sustainability. Creation of an enabling environment for VC firms by enacting investment friendly laws, incentives and policies that encourage financial institutions like banks, pension and insurance fund's contributions to the pull of funds for VC investment recommended.

Key Words: Finance, Performance, SMEs, VC Firms.

INTRODUCTION

Poor access to finance, bad management, poor infrastructural facilities among others constitute the challenges that Small and Medium-scale Enterprises (SMEs) are facing in Sub-Saharan Africa, Nigeria inclusive. As a result, SMEs rates of survival, capital formation, ability to acquire and absorb new technologies, ability to expand and create employment opportunities towards

meaningful contributions to GDP, ability to compete in the global market and strike business linkages with large firms are low and the overall performance has been lethargic and appalling. World Bank, (2015); CBN Periodicals, 2nd quarter, (2020)

Authors like Boeker, (2016), Sanusi, (2015); Wiltbank, identified a gap in the support for SMEs financially and in Nigeria as in most developing countries, the preliminary capital essential to start a business is more often than not a barricade to entry in most entrepreneurial activities Sanusi, (2015). Orbit Capital (2017) examined the funding options available for SMEs in Africa and noted that African banks have traditionally prioritized financing the public sector. Many charged high double digits interest rates as opposed to single digit charged in developed countries OECD, (2020). This has resulted in part to higher proportion of non-performing loans and a more complex situation for African SMEs in securing credit at levelheaded rate.

There are banks that prop up conventional firms and so, there is a need for an alternative source of long-term Private Equity–Venture Capital (VC) finance manned by Venture Capitalists (VCs) that are professional as well as institutional risk managers who understand the market and the risk of bringing new products to the market by providing early stage equity and strategic supports for innovative firms from start-up through to maturity and free standing ones. Apart from building firms from an initiative stage to free eminence and full-grown ones, VCs prop up novel thoughts that intimidate previously well-known products and services in corporation and on average require five to eight years to attain maturity. Equity financing as provided by VC firms is an imperative source of capital for conventionally focus on conjugal markets and their presence serve as a strong machinery for novelty by providing early stage equity and tactical support in form of vested interest in the success of SMEs [Gompers & Lerner, (2014); Oyelaran-Oyeyinka & Sampathss (2016)].

Adequate finance is desirable for capital formation, acquiring and absorbing new technologies, spreading out to compete in the global market and striking business linkages with large firms' investment in production facilities (Engel & Kellbach, 2016). As a result of poor access to finance, Daramola, (2012); Okwonkwo and Obidike, (2016) posited that a negligible fraction of SMEs develop into matured firms that make significant contributions to the nation's productivity, economic growth and employment generation. Small Business Administration, (2014) corroborated this by submitting that as a result of inadequate access to finance and poor working

capital management, nearly fifty percent of all new businesses fail within the first five years. As a result of the high vagueness, opaqueness, information asymmetries, and transaction costs that are associated with SMEs, most banks are not willing to grant loans to this sector; consequently, many SMEs are initially financed through inadequate sources like personal savings, family, friends or bootstrapping (Winborg & Landstrom, 2014). This justifies the need for other viable private equity source of finance like VC which can provide long-term adequate funding, good management of both human and material resources plus other technical supports that are crucial for SMEs growth and contribution to the economy. To improve the survival rates, and overall performance of the SMEs sub-sector towards enhanced contributions to economic growth, employment generation and the standard of living of all stakeholders in the SMEs sub-sector through VC financing remains justifiable and this study assessed VC financing on the performance of SMEs in South-West Nigeria. This and the allied factors are of interest because SMEs are the key to economic development with related greater potential for job creation and contribution to national economy in Nigeria. (Sanusi, 2015)

Specifically, the study (i) determined the knowledge level of VC firms as a source of finance by SMEs in the South-West, Nigeria and (ii) evaluate the effect of VC financing on the performance of SMEs in the same area in terms of growth, prudent financial management, improved management style and attraction of other sources of finance towards a general objective of assessing the effectiveness of VC financing on the performance of SMEs in South-West, Nigeria.

Tested hypothesis is: there is no significant relationship between VC financing and SMEs performance in South-West Nigeria in terms of growth, prudent financial management, improved management style and attraction of other sources of finance.

LITERATURE REVIEW

By definition, the National Policy on Micro Small and Medium Scale Enterprises (MSMEs) in Nigeria embraces a grouping dependent on double models, workforce and resources. Utilizing this premise, (i) small-undertakings are those endeavors whose absolute resources are over N5,000,000 Naira yet not surpassing N50,000,000 with a complete workforce of over ten, however not surpassing 49 representatives.(ii) medium endeavors are those undertakings with all out resources barring area and working over N50,000,000, yet not surpassing N500,000,000 with a complete workforce of somewhere in

the range of 50 and 199 representatives. SMEs are by and large characterized by high uncertainties, opaqueness, information asymmetries and high transaction cost.

Performance measure is subjective; it could be in both financial and non-financial terms. For example, how healthy a firm can employ resources to start its main shape of commerce and produce revenue is a measure of financial performance that is subjective. Jain and Kini, (2013) looked at performance as the procedure of measuring the fallout of a firm policy and operation in firms monetary terms, while Ilesanmi, (2013) considered performance as the extent of achieving a mission that makes up a precise job measured in terms of results. Business performance is the effort expended by an enterprise so as to reach and achieve its stated objectives which could include: its employee's satisfaction, its customer's satisfaction, the societal satisfaction, its survival, sales growth, and return on investment, employment, and ultimately profitability. This in the words of Mark and Nwaiwu, (2015) implies that performance is actual output as against expected output and its measurement may be in financial or nonfinancial during a time period in line with an expectation, promise or target. Its measurement dimensions are: efficient and effective management of resources, service quality, sales revenue, job creation, and market growth. This study employed financial and nonfinancial measures of SMEs performance resulting from VC intervention.

Empirical Review

Biney, (2018) investigated the impact of VC on SMEs growth and development in Ghana. The author applied matching methods by combining PSM-DiD estimation to compare VC financed and non-VC financed SMEs. Results found positive and significant association between VC financing and SMEs performance with regards to increased employment and sales growth. VC-financed as compared to non-VC financed SMEs experienced increased sales and employment growth by 3.5% and 1.5% respectively. VC financing by nature is endogenous. PSM-DiD may not adequately be able to address endogenous problems that may arise from the estimation. Thus impact assessment may be inconsistent due to bias selection. Again, the study only demonstrated a significant impact of VC funding on SMEs growth in a cross-sectional model, while the long-term effect is not included because many of the SMEs are young. Hence a longitudinal data analysis may show different results.

Memba, et al (2012), studied the impact of VC on the growth of SMEs in Kenya. A descriptive statistical analysis was carried out on annual profit figures. Findings revealed that SMEs that use VC experienced improved growth and that the use of VC can be profitable in Kenya even in an

inauspicious political and economic climate.. The economic impact of VC was realized by SME in sales growth, profit, asset and improvement in management of finance and other resources.

Juha (2010), examined the effect of VC investment on SMEs in Finland. Regression analysis was used to find out the effects of several determinants. Regression models were formed based on the presented theories. SMEs with and without VCs were considered separately. The result showed that VCs have a positive effect on SMEs in Finland.

Asaolu, (2014) investigated the role of VC in supporting rural entrepreneurs in Nigeria. Survey research design and quantitative approach were adapted for the primary data obtained through a valid research instrument. The study covered the six geopolitical zones in Nigeria and the primary data collected were analyzed with descriptive and inferential statistics. The study confirmed the existence of VC in Nigeria and the unawareness of rural entrepreneurs about their capabilities in bridging the entrepreneurial venture financing gap. Results also showed that VCs are not motivated to finance rural entrepreneurial ventures due to their uncertainty. Since VC is one of the most vibrant long-term and useful financing options for innovative rural entrepreneurship growth, the practical implication is that the Nigerian Government policy response to rural equity capital gap should be motivated. The study revealed that VC financing differs from conventional form of financing in the sense that it involves equity participation, long-term investment, and participation in management which gives room for the VCs to protect their own capital by providing a source of professional support needed by SMEs to reach the fullest economic potential.

Theoretical Review

Agency theory

Jensen and Meckling, (1976) analyzed the relationship between two economically acting parties known as the principal and the agent. The resulting theory has been widely used in the literature to examine the information asymmetry between the principal and the agent. An agency relationship is a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. In the process, an agency relationship is constituted by the dependency of one individual (principal) on the action of another individual (agent).

The assumption that both principal and agent are rational economic maximizing individuals is one basis of agency theory but studies have shown that entrepreneurs are time and again motivated by

factors other than only economic motives Landstrom, (1993). The duo as rational individual trying to advance their self interests may possibly not all the time have enough incentives to work towards a common goal and as a result may not share information with each other. These problems of goal incongruence and information asymmetry are the basis of agency problems which are adverse selection and moral hazard Cumming and Johan, (2013). An entrepreneurial SME owner looking for capital oversells his venture, and the venture capital handicapped by the lack of a healthy means of due diligence to ensure the authenticity of the claim, may end up with a suboptimal investment which implies adverse selection. After the investment, the entrepreneurial SME owner might indulge in non-value addition activities which are against the interest of the venture capital since his actions are not verifiable - moral hazard. Such opportunistic behaviour leads to uncooperative behavior in the relationship Panda, (2018). Studies indicate that the relationship between the VCs and entrepreneur is a vital determinant in the success of a business enterprise Panda and Dash, (2015) and may be more vital than the funds provided Cumming et al., (2005), but a smooth and healthy performance partnership is very important for the robustness of the association. Nonetheless, so modest is acknowledged about the dynamics of VC-Entrepreneur associations that authors have used the idiom 'black box' when making reference to the subject Busenitz et al (2004).

The existence of information asymmetry between the principal and the agent which encourages the agent's opportunistic behaviour is a further assumption of the theory, but the consultation between the duo and the personal rapport between them can result into less information asymmetries, less opportunistic behaviour, and thus substitute monitoring solutions Landstrom, (1993). Opportunistic behaviour of economic actors might frequently be the case; the theory however neglects the likelihood of philanthropic behaviour of agents, which can be observed in a number of situations. Monitoring can also operate as a dysfunctional factor by lowering trust among the parties involved Panda, (2018) In addition, the theory offers a one sided view as it neglects the likelihood of opportunistic behaviour of the principal, given the opportunistic behaviour of the agent.. The theory also assumes a short term receptiveness maximization of the personality usefulness of the actors, an additional long term leaning maximization of the private utility and multi-period education processes of the principal are more often than not overlooked. Practical proof of agency theory in the VC context offers a mixed picture and the bulk of studies

hold agency theory as suitable (Landstrom,1993), while some studies like Arthurs and Busenitz, (2003) reject, others like Panda (2018), find varied results. This study upheld this theory.

METHODOLOGY OF THE PAPER

The study adopted a cross-sectional research design for data gathering and investigation. Instrument which gathered data over a large sample and translates the research objectives into specific questions and answers for each question that were used for hypothesis testing was administered among 420 SMEs (that were randomly selected from the panel of SMEs institutions in Nigeria such as SMEDAN, NACCIMA, NASME, and MAN) and 40 VC firms purposively selected in South-West Nigeria. 372 questionnaires recovered from SMEs owners/managers and 25 from VC firms were analyzed with descriptive statistics such as percentages, and inferential statistics such as correlation and reliability statistics.

The reliability coefficients for the instrument used for data collection among the respondents in this study using Cronbach’s Alpha reliability statistics are 0.71 and 0.73 based on standardized items. These confirmed the reliability of the instrument.

Table 1: SMEs in South-West Nigeria

S/N	States	Number of SMEs
1	Ekiti	928
2	Lagos	8395
3	Ogun	2465
4	Ondo	2363
5	Osun	3007
6	Oyo	6131
	Total	23289

Source: SMEDAN(2017)

Slovin’s formula in Serakan cited in Adetayo (2011) which states that: $n= \frac{N}{1 + Ne^2}$ was employed to arrive at the sample size ‘n’.

N= population size

e= desired margin of error (0.05)

$n= \frac{23289}{1 + 23289 \times (0.05)^2}$

n= 393

Percentage ratios were applied to choose the sample size as presented in Table 2.

Table 2: Sample Size

S/N States	Number of SMEs	Percentage of Total	Sample Size
1. Ekiti	928	$928/23289 \times 100 = 4.00$	$4/100 \times 393 = 16$
2. Lagos	8395	$8395/23289 \times 100 = 36.00$	$36/100 \times 393 = 142$
3. Ogun	2465	$2465/23289 \times 100 = 11.00$	$11/100 \times 393 = 43$
4. Ondo	2363	$2363/23289 \times 100 = 10.00$	$10/100 \times 393 = 39$
5. Osun	3007	$3007/23289 \times 100 = 13.00$	$13/100 \times 393 = 51$
6. Oyo	6131	$6131/23289 \times 100 = 26.00$	$26/100 \times 393 = 102$
Total	23289	100	393

Source: Researchers Computation (2022)

Model Specifications

A linear regression model was proposed as presented below. The expression $Y = \alpha + \beta X$, represent the form of a linear regression line, where X is the predictor variable and Y is the criterion variable.

For SMEs, VC: Performance (Y) = $F(X_1, X_2, X_3, X_4, e_i)$(i)

Y = Performance (Criterion Variable: Growth, Prudent Financial Management, Improved Management Style and Attraction of other Sources of Finance)

X_1 = Knowledge of SME Owners about VC (High=1, low=0)

X_2 = Degree of responsiveness of VC (High =1, low=0)

X_3 = Determinants of VC (Yes=1, Otherwise=0)

X_4 = Effect of VC Financing (Positive =1, Otherwise=0)

X_5 = Regulatory framework (Yes=1, Otherwise=0)

e_i = Stochastic term.

For Equation (i) β_1 to β_4 are OLS Linear regression coefficients. The choice of the lead functional form was based on the magnitude of the F-ratio and R^2 , statistical significance of the regression coefficients as well as their conformity to *a priori* expectation.

RESULTS, FINDINGS, AND DISCUSSIONS

Socio-Demographic Characteristics of Respondents

This section presents the socio-demographic information of respondents in tables using descriptive statistics, percentage frequency. Table 3 indicates that among the 372 SMEs sampled, 145 (39%) have a significant relationship with VC firms in the South-West, the remaining 227 (61%) did not. This summary of SMEs active status with VC firms permitted comparative analysis and confirmed the shallow knowledge of SMEs owners about VC firms.

Table 3: Summary of SMEs’ Active Status with Venture Capital Firms

Category	Frequency	Percentage (%)
Venture Capital Backed	145	39.0
Non-Venture Capital Backed	227	61.0
Total	372	100.0

Source: IBM, 25.0 Version-Output (2022)

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Objective One which was to determine the knowledge level of VC firms as a source of finance by SME owners/managers in the South-West, Nigeria was achieved using a Chi-square cross-tabulation statistics and the results are presented in Table 4

Table 4: The level of Knowledge of Venture Capital among SME owners in South-West Nigeria

SMEs active relationship with VCs * knowledge about venture capital modus operandis				
SMEs’ active relationship with VCs	Poor knowledge (below 40%)	Moderate knowledge (below 41-55%)	Adequate knowledge (56% above)	Total
Venture Capital Financed	8(5.5%)	25(17.2%)	112(77.2%)	145
Non-Venture Capital Financed	187(82.4%)	28(12.3%)	12(5.3%)	227

Total	195(52.4%)	53(14.2%)	124(33.3%)	372
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Source: IBM, 25.0 Version-Output (2022)

Chi-Squared Cross tabulation analysis revealed that the level of knowledge about VC firms' mode of operations and business features differs between VC financed SMEs and non-VC financed SMEs in the South-Western part of Nigeria at (χ -Value = 238.65; df(2); $P < .001$). The knowledge about VCs was categorized into three; poor knowledge, moderate knowledge and adequate knowledge. Result indicates that only 5.5% of the VC financed SMEs reported poor knowledge about VC activities, while 82.4% of the SMEs who were non-VC financed reported a higher level of poor knowledge about VCs activities in the area of study. Further analysis showed that, 77.2% of the VC financed SMEs have adequate knowledge about VCs' operations compared to the 5.3% non-VC financed SMEs with adequate knowledge. Results imply that, there is a significant knowledge difference about the VC operations and activities between VC financed SMEs and non-VC financed SMEs. Table 6 shows additional information.

Table 5 results show that there are significant positive relationships among the variables of the study which implied that, respondents' age had significant positive relationship with the SMEs' performance ($r=0.43$, $p < .01$); educational qualification of respondents also positively related with SMEs' performance ($r=0.36$, $p < .01$), indicating that SMEs' level of education is very important when assessing the performance of SMEs. Also, VC financing had significant positive relationship with the SMEs' performance which shows that the more VC financing is accessible to the SMEs, the better their performance. Therefore, the level of SMEs' performance can be said to be a function of VC financing. Further, regulatory framework, growth and management styles are positive correlates of SMEs' performance in the study ($p < .05$). Overall, there exist a positive relationship between socio-demographic factors, economic variables and SMEs' performance.

Table 5: Correlations among the socio-demographic factors, economic variables and SMEs Performance

Variables	Age	Education	VCF	Reg. Frame	Growth	Prud. Mgt.	Mgt. Styles	Other Financier	SMEs Perf.	Mean	Std. Deviation
	Respondents Age	1	.065	.146	.120	.175*	.104	-.132	.148	.431**	3.23
Respondent highest qualification		1	.041	.012	.165*	.010	.028	.089	.364**	2.83	1.53
VCF			1	.570**	-.190*	.094	.010	.102	.250**	25.93	10.56
Reg framework				1	.180*	.072	.041	.008	.181*	25.17	9.95
Growth					1	.167*	.129	.122	.304**	20.60	13.69
PrudentMgt						1	-.017	.794**	.268**	2.84	1.70
MgtStyles							1	-.025	.007	4.39	6.20
Other financiers								1	.264**	2.88	1.69
SMEsPerf									1	29.54	5.97

** . Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6: Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	238.648 ^a	2	.000
Likelihood Ratio	278.561	2	.000
Linear-by-Linear Association	238.007	1	.000
N of Valid Cases	372		

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 20.66.

Source: IBM, 25.0 Version-Output (2022)

The objective two, which was to evaluate the effect of VC financing strategies (growth, prudent financial management, improved management style and attraction of other financiers) on the performance of SMEs in South-West Nigeriawas achieved through inferential statistical analysis using multiple regressions. Results are presented in Table 7. Liao, Welsch and Pistrui (2001)

defined the growth of an enterprise as a unidirectional construct operationalized by a variety of growth measures which include sales, profit, number of workers, value of net assets and market share among others. In this study, certain items on the questionnaire for SMEs were designed to measure turnover, profitability, and total assets.

The results presented in Table 7 indicate that VC financing factors (growth, prudent financial management, improved management style and attraction of other financiers) jointly accounted for about 19.4% variances in the performance of SMEs in South-West Nigeria [$R=.441$, $R^2=.194$, $F(4, 141)= 8.430$; $p<.001$] confirmed that the effects of VC indices are significant on the performance of SMEs.

Table 7: Summary of Multiple Regressions Showing Effects of Venture Capital Financing on the Performance of SMEs in Southwest Nigeria

Predictors	R	R ²	F	P	Beta	T	Sig.
Growth					.144	4.285	<.05
Prudent management					.124	3.275	<.05
Management styles	.441	.194	8.430	<.001	.182	6.750	<.01
Attraction of other financiers					.223	2.902	<.05

a. Dependent Variable: Performance of Small and Medium Enterprises (SMEs)

Source: IBM 25.0 Version-Output (2022)

The study hypothesis stating that there is no significant relationship between VC financing and SMEs overall performance in terms of growth, prudent financial management, improved management style and attraction of other sources of finance in South-West Nigeria was tested using Pearson correlation analysis and the results are presented in Table 8

Table 8: Summary of Pearson Correlations Showing the Relationships between Venture Capital Financing and the SMEs' Performance in South-West Nigeria

Variables	SMEs performance	Venture capital financing
SMEs performance	1	.637**
Venture capital financing	.637**	1

** . Correlation is significant at the 0.01 level (2-tailed).

Source: IBM 25.0 Version Output (2022)

As displayed, there exists a positive and strong significant relationship between SMEs performance and VC financing of SMEs at ($r=0.64$; $p<.01$). Result implies that, as the VC financing increases, there will be substantial and equivalent positive change in the SMEs performance .i.e. the existence of prudent financial management, growth and management styles will work perfectly when the same magnitude of VC financing is observable, SMEs performance will thrive at about 64%. The null hypothesis is therefore rejected.

Result confirms that the presence of VCs in a firm guiding proper marketing strategy, pricing policy, research and development, proper management among others leads to sales growth. This is in agreement with Astrid and Bruno, (2004) who studied VC funded firms in theUS for the period 1970-2000 and reported that sales doubled, twice Federal taxes paid, almost twice the exports generated and thrice as much was invested in research and development. The EVCA, (2011) also established that VC financed firms report a high growth in sales as compared to non-VC financed. Pearson's correlations confirms the existence of a positive and strong significant relationship between SMEs performance and VC financing at ($r = 0.64$; $p < 0.01$) meaning that as the VC financing increases, there will be substantial equivalent positive change in SMEs performance i.e. the existence of prudent financial management, growth and management styles will work perfectly when the same magnitude of VC financing is observable, SMEs performance will thrive at about 64%.

Further Findings

The research objective was addressed using a number of sound financial management parameters such as cash planning and budgeting. Financial management is a wide area, sections like working capital management and its variables (receivables and payables management) that deal with the liquidity aspects of the firm were considered. Efficient working capital management ensures an adequate supply of cash-flows to enable an outfit to meet its current and long-term obligations; hence the adequacy of this section of financial management embedded in prudent financial management for this study revealed ($\beta = 0.124$, $t = 3.275$, $p < 0.05$); Management style ($\beta = 0.182$, $t = 6.750$, $p < 0.01$) and Attraction of other financiers ($\beta = 0.223$, $t = 2.902$, $p < 0.05$). Results here show that upon use of VC, financial management improved because VCs seat on the board and work with SMEs to ensure that financial planning is integrated into the decision making process in accordance with Mandato (2005). This implies that VCs do not only inject equity funding, they

also make an input of the skills needed to set up the firm, design its marketing strategy, as well as organize and manage it.

The two indicators that were used to measure management style were the involvement of employees in decision making and how the business was managed. Management style in many SMEs is more often than not a family/ownership affair with misguided perceptions that opaque governance enhances control and the fear that openness and information sharing may lead to employees' transgression such as theft. The result of the predictor Management Styles ($\beta = 0.182$, $t = 6.750$, $p < 0.01$) implies that VCs involvement in SMEs financing changed management style and was all teamwork such that even employees at lower levels were involved or consulted through their representatives on matters that touch on their responsibilities. Many entrepreneurs believe that opaque governance enhances control and do not give room for committees like frequent audit, remuneration and staff representatives, but VCs ensures the presence of such committees and this improves transparency and encourages a sense of entrenchment and empowerment among all staff as they feel part and parcel of the business (Aureos Capital Development Review, 2004). No matter their levels, employees should be allowed to make operational suggestions and decisions which translate policies into specific actions (Bowen et al 2009). It is apparent from this result that the management approach of SME entrepreneurs changes positively with the presence of VCs and the marriage of the skills and experience which were brought by the VCs and the entrepreneur is a classic example of creating synergies in an economic environment where their respective abilities and talents complement each other.

Result ($\beta = 0.223$, $t = 2.902$, $p < 0.05$) indicated that the presence of VC attracts other sources of finance because the venture becomes more credit worthy, collateral is built up in the capital structure as a result of VC financing and more levels of confidence are built up. This is an indication that funding provided by VCs can be used to buy tangible assets, which can in turn be used as collateral to secure additional funding from other financial institutions. Result agreed with Manigart, et al (2003) that financiers develop confidence in firms that are VC financed because they reduce information asymmetries through screening and monitoring their portfolio companies, which will be more attractive to other financiers.

Conclusion

This study has shown that the marriage of the skills and experience that were brought by the VCs is a classic example of creating synergies in an economic environment where their respective abilities and talents complement one another. It has been confirmed that providing equity finance, management, and other technical supports has great potential for enhancing SMEs' performance. VC firms can manage successfully the high uncertainties, opaqueness, information asymmetries and transaction costs associated with SMEs which makes access to finance from traditional financial institutions an illusion as the readily available sources like personal savings, family, friends or bootstrapping are grossly inadequate. The SMEs under study experienced growth, improved financial management, improved management style, and the attraction of other financiers. Equity finance, management and other technical supports provided by VC firms are the key drivers of the distinctive SMEs' performance, and given that the trend in this performance is sustained, VC-financed SMEs will contribute more to the society in terms of taxes to the government, profit to investors etc. The use of VC in South-West Nigeria can be profitable even in an unpromising political and economic climate.

Significance of the study

The study will open up information to SME owners on the knowledge about the existence of VC firms as a source of finance. The benefits of VC financing will be revealed as connected with implications for SMEs' performance and the understanding of how this source of financing can impact the performance of SMEs will be increased. Government, policymakers, and the regulators of financial institutions will be provided with the required information towards the formulation of policies that will encourage the growth of VC firms and improve the performance of SMEs as a way of fast tracking the development and growth process. Being a cost conscious investment operation, investors would usually welcome research inputs that would directly reduce their cost of investments. Contribution to the knowledge building process of VC as a source of finance is a prerequisite for this study, the ability to identify key challenges facing VC firms in Nigeria would help fill in the gaps identified in the academic literature.

Recommendations

Government agencies should come up with enlightenment programmes about the activities of VC firms to address the challenge of inadequate information confronting SMEs as it creates an enabling environment for VC financing. Small businesses are often disadvantaged when it comes

to accessing finance or lobbying government to incorporate their views. Policies should be put in place for financial institutions, insurance, pension funds, etc, to make their contributions to the pool of funds for VC investment. Private and Public Partnership (PPP) arrangement between the government, venture capital firms and the public is recommended with the regulatory framework for the benefit of SMEs, venture capital firms and the public at large.

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