

Venture Capital and Small Scale Businesses in Benue State

Dr Saasongu Ezekiel Nongo

Department of Business Management, Benue State University, Makurdi

Abstract

This study is aimed at evaluating the impact of Venture Capital on Small Scale Businesses in Benue State. Employment creation, profitability, productivity and Business growth are the variables used. The population was 254 Small Scale Businesses financed by Venture Capitalists in the state out of which 50 was taken as the sample size. Close ended questionnaire was administered and data collected analyzed via Statistical Package for Social Sciences (SPSS). It was concluded that Venture Capital impact positively on Small Scale Businesses in the state through Employment creation, profitability, productivity and Business growth. It was recommended that venture capital should be used by entrepreneur or Small Scale Businesses in other to create employment, profitability, productivity and growth of the business.

Keywords: Small Scale Business, Venture capital, Entrepreneur, innovation.

1. Introduction

Economic growth and prosperity in developed and developing nations depends on how effective and efficient local firms are commercializing new technologies and innovations to gain sustainable competitive advantage. The attention of the world today have turned to Small Scale Businesses in attempt to promote economic progress since establishing large industries have usually failed to improve the lives of the majority (Memba, Gakure & Karanga, 2012). The performance of Small Scale Businesses is of interest to all countries since Small Scale Businesses are regarded as the stepping stone of industrialization and are viewed as important in even and equitable economic development.

Small Scale Businesses does not just play the role of shaping the local economy; they are believed to offset economic declines and help restructure existing industries. They have a big potential to bring about social and economic development, by contributing significantly in employment generation, income generation and catalyzing development in urban and rural areas (Hallberg, 2000; Olutunla, 2001 & Williams, 2006). In many of the newly industrialized nations, more than 98% of all industrial enterprises belong to the Small Scale Businesses and account for the bulk of the labour force (Sanusi, 2003). Rok (2005) assert that Small Scale Businesses are not only providers of good and services but also drivers in promoting competition, innovation and enhancing enterprise culture which is necessary for economic development and industrialization. Small Scale Businesses effectively respond to challenges of creating productive and sustainable employment opportunities promote economic growth and help in reducing poverty in the nation (Ariyo, 2005). Small Scale Businesses are able to do that by playing a significant role in contributing to the national goal of wealth creation and making developing countries like Nigeria an industrialized nation. Nigeria as a nation has also recognized the importance of Small Scale Businesses in economic development by setting up various programmes and institutions aimed at developing the sector.

According to Patmound (2011), excellent idea can be destroyed by lack of capital to implement since it is only the implemented idea that becomes useful to the individual or society. At the beginning of any small scale business, there is an idea, concept or invention driving the ultimate development of a full business. The survival of the business from one stage to another requires different assistance in managing its growth to ensure sustainability in the long term and the successful transition to another stage of development. Problems of Small Scale Businesses ranges from finance, low sales, low profitability, high costs of doing business and labour market barriers (Olutunla & Obamuyi, 2003). The problems inhibiting the growth of Small Scale Businesses vary from one business to another but lack of finance has been cited as the major contributor (Nataha, 2008). Sourcing initial and expansion capital funds has been a perennial problem of Small Scale Businesses globally. Finance is seen as an important factor to the growth of the business since the provision of known – how and other related criteria for effective and efficient achievement of goals and objectives of the organization depends strongly on it. The operational challenges and effective managerial skills are made possible by utilization of capital in providing know- how of which without finance is likely to lead to immediate downfall of a young entrepreneurial firm, a freeze of private initiative, and lack of propensity for taking business risk which will not be favourable to the business and economy of the nation. Lack of access to finance poses a particular constraint on Small Scale Businesses since the ability to increase the level of technology in other to meet up with global trend obviously depends on it.

Issues and problems limiting Small Scale Businesses acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies of lending. Commercial banks have the capacity to pull financial resources together to meet the credit

needs of Small Scale Businesses yet there has always been a gap between the supply capabilities of banks and the demanding needs of Small Scale Businesses especially in Nigeria and Benue State to be precise. There is a huge supply of both equity and loanable funds in commercial banking sector, which Small Scale Businesses are not beneficiaries since they are perceived by formal financial institutions as high risk, commercially unviable, not attractive, lack of track records, and are without appropriate collateral or having insufficient credit rating. Small Scale Businesses on their part have been reluctant to seek bank loans despite the various loan schemes being offered by the banks and government, because of the fear of the business being taken away in case of any problem to meet the agreed terms. With innovative entrepreneurial practices concerning new market opportunities as it is with Small Scale Businesses, Venture Capital stands to be a sufficient means of financing its operations. Venture Capital galvanizes innovative knowledge by entrenching and sustaining nascent businesses through value creating funding behavior.

1.1 Statement of the Problem

Benue State is richly endowed with natural resources of different types which make it in many respects, a land of unlimited opportunities for investment. At the moment, the state is generally poor, even with abundant cheap labour, land, raw materials, urban infrastructure, largely as a result of low level of capital investment and dearth of entrepreneurs. Industries are few and majority of the Small Scale Businesses barely survive if at all they are established. Benue State being a civil service state, Small Scale Businesses seems to be adequate in resource and economic distribution. In many newly industrialized societies, more than 98% of all industrial enterprises belong to Small Scale Businesses and account for the bulk of labour force (Sanusi, 2003). It is also estimated that Small Scale Businesses employ 22% of the adult population in developing countries like Nigeria (Kavanula and Quartey, 2000). In Nigeria, Small Scale Businesses account for about 70% of industrial employment (Adebusayi, 1997) and well over 50% of the Gross Domestic Product (Odeyemi, 2003).

Small Scale Businesses being engine room of the economy, it is then of important to find out the factors that will improve productivity and profitability of its operations to be successful and grow into conglomerates is of great concern to the entrepreneurs in Benue State and Nigeria at large. Recognizing the important of Small Scale Businesses in the economic development, several organizations including business associations' voluntary organizations and other government and non-governmental organizations have set up programs to enhance the factors that influence development this sector which lack of finance is the major contributor. Venture Capital has played a big role in enhancing the growth of Small Scale Businesses by providing equity capital that helps in solving the problem of finance of Small Scale Businesses. Though a lot of scholars have written about Venture Capital in both Nigeria and other parts of the world, they have not taking particular attention to Benue State. This study attempts to evaluate the impact of Venture Capital on Small Scale Businesses in Benue State

1.2 Research Objective

The aim of the research work is to evaluate the impact of Venture Capital on the performance of Small Scale Businesses in Benue State.

1.3 Research Hypothesis

H₀₁: There is no significant relationship between Venture Capital and performance of Small Scale Businesses in Benue State.

2. Review of Related Literature

Venture Capital industry has had a catalyst role in entrepreneurial development by identifying, financing, supporting and nurturing growth minded businesses with entrepreneurial tenacity. To Boadu, Dwomoh, Appia & Dwomo – Fokuo (2014), Venture Capital is a pool of long term money invested in exchange for equity, in young unlisted fast growing businesses, with potential to generate exceptional returns that the Venture Capitalists (VCS) expect. It is a long term. Capital financing for new businesses and rapidly emerging companies (Rose, 2003). Olutunla and Obamiyi (2008) asserted that venture capital is one source of non – banking financing which is quite prevalent in developed financial markets for small scale businesses or startup firms. Venture capital means direct equity or equity linked investments with a well – defined exist strategy in young, privately held companies (or investees), where the investor is a financial intermediary who raises and professionally manages a pool of money and is typically active either as a director, an adviser, or even a manager of a firm depending on the circumstance (Kortum and Lerner, 1998). Venture Capital is matched with financing to entrepreneur with good project and certifying companies to other investors which increases their ability to exist.

Boadu et al (2014) opined that Venture Capital is not just funds flowing into a company like Small Scale Businesses in form of an investment rather than a loan; Venture Capital gives assistance in managerial and skill training, finance, advisory services and business opportunities. Venture Capitalist gives managerial skills

training and access to business opportunities to Small Scale Businesses as well as access to advisory services and access to finance. This is done either by organizing training programmes to share ideas. Caseli and Gatti (2004) found out that Venture Capitalist support and strengthen the growth of Small Scale Businesses through strategic planning, management recruiting, operations planning or to potentials customers and suppliers. These can go a long way in helping Small Scale Businesses to achieve their core objectives which include creating employment and improving standard of living of a nation (Chemmanur, Krishnau & Nandy, 2011).

Bottazzi and Rin (2002); Hellman and Puri, (2002) are of the view that investor acts as entrepreneur's mentor, because, investing in nearby located start-up firms, means that he has sufficient knowledge for the industry, and therefore can be involved in designing strategies, hiring the best executives and enhancing the network of contracts with suppliers and customers. According to Jungwirth and Moog (2004), this specific knowledge establishes basis for advanced assessment of the project to know whether they will be successful or not. Raising a business means Venture Capitalist provides complete oversight to the firm, in terms of providing services, help and guidance for the entrepreneur (Lerner, 1995). Venture Capitalist introduces a package of services in the firm in order to enhance its performance and its value. Repullo and Suarez (1988) stated that value added by the Venture Capitalist facilitates the firm and makes the capitalist a promoter and a consultant. This is because of his richness of expertise, competencies, experience and reputation (Saetre, 2003; Wilson, 2005). Venture Capitalist creates value by providing networks, moral support, general business knowledge and discipline. Once investor introduces its money in business, such investor devotes time in helping the business succeed, by structuring internal organization and appropriate human resources management (Hellman and Puri 2002).

Manigart (2003) provided one of the most important contributions of Venture Capital to Small Scale Businesses. To him, Venture Capital provides credibility which attracts new funds. He further explained that through screening, observing and value – adding, Venture Capitalists reduce the information asymmetries and financial risks, and therefore adjourn legitimacy to the company and consequently influence on further financing. This creates admirable fundament for further expansion of the business and in turn brings about growth and development of the business as well as the society.

Liao (2004) looks at Venture Capital as the funds invested or available for investment in enterprises that offers the probability of profit along with the possibility of loss. Venture Capital at this point can be seen as organized providers of financing for winning risky business proposals by small scale businesses that have a promising but yet unproven idea. This is done when the capitalists are convinced that the Business idea is promising and worth the risk to be taking. An entrepreneur could have brilliant idea for starting up a smart business, but launching that idea needs fuel and services risk to be taken. Such poor entrepreneurs must rely on external financing in order to start their business (Lulfesman, 2000). Venture Capital helps to trigger, maintain, give confidence, and speed up Small Scale Businesses growth and its performance and results in improved profitability.

According to Darek (2009), Venture Capital is a special type of finance well suited to the requirements of a new technology based forms. He further stated that Venture Capital consists of demand and supply cycle. The demand for capital creation and growth of companies, by application which cycle starts with the necessity for seed capital, to fund and initial idea or basic research. It proceeds with the funding requirements of the successive stages of the company growth, such as marketing, product development and full scale production. In addition, Freear (2003) is also of the opinion that Venture Capital stimulates the creation and growth of technology based firms, helps translate the result of research and development into commercial outcomes. Pistni (2001) view Venture Capital as a crucial element in sustaining the development of Small Scale Business, particularly in their start-up and early stage phases, and can generate benefits like employment creation, innovation and competitiveness, investment and export sales growth and regional development.

Spencer (2008) refers to Venture Capitalists as handmaidens of innovation since operating in the background, they provide the fund needed to get Small Scale Businesses off the ground – and the advice and guidance that help growing Small Scale Businesses survive their adolescence. Hellmann and Puri (2002) also said Venture Capitalist is more radical and ambitious products or process innovators than other companies. Venture Capital financing strongly impinge on firm's innovation, patenting, processes and the influx of technological opportunities and it results to unique way to extract social significance of an innovation (Gans & Stern, 2003). This triggers innovations, along with the firm's professionalization which is very important to the attainment of organizational objectives. Generally, Venture Capital positive effects include commercializing innovation, increasing overall innovation of the macroeconomic level, from growth, professionalization of start-up firm and productivity (Romain and Petherie, 200; Hellmann and Puri, 2002; & Kortum and Lerner, 1998) Investees' success leads to economic growth and creation of jobs. This can at the angle of entrepreneur being fundamental to economic growth and productivity performance, which triggers creating innovative Small Scale Businesses, which in turn add huge block in building the natural competitiveness (Berger & Udell, 2002).

Players of Venture Capital market consist of Venture Capital trust fund, venture capitalist, business angles

and Small Scale Businesses. To Boadu (2008), the venture capital market is divided into the informal and formal market with each having its supply and demand. The supply side of the informal market is constituted by the business angles and relatives, while the formal market's supply side is formed by fund providers and the venture capitalists, the demand side of both markets is populated by enterprisers who seek seed for bridge capital. Both formal and informal market according Boadu (2008) raises enough capital for business development especially for Small Scale Businesses for effective running of business activities. The outcome of this phenomenon is job creation, wealth creation, customer satisfaction, increased revenue through taxes and business growth and expansion which constitute the social – economic benefits that venture capital market offer.

Assets are created, which can again be used as security for further borrowing. Thus, accessibility to finance is expected to positively influence the availability of factors of production such as land, labour, capital, equipment and machinery, subject to the constraints of asymmetric information and high cost of capital. For instance, interest rate, being cost of obtaining credit, is inversely related to the profitability of the firm, since rising interest will force the production to incur higher costs of production. All things being equal, increased quality and quantity of factors of production available to a firm will generate more production, and through effective and efficient marketing strategies enhance firm's performance. Availability of finance also enhances bulk purchases of productive resources, which decreases unit cost of production as a result of product is also expected to generate an increase in profit. Thus, the improved firm's performance ensures higher profits, higher growth in sales and employment and wealth maximization for the owners.

3. Methodology

This study used 254 Small Scale Businesses that have been financed by venture capitalists across Benue State as the target population. The Small Scales Businesses where drawn from various urban centers in Benue State of Nigeria. A sample of 50 Small Scale Businesses were picked at random from which data was collected. The criteria are that the Small Scales Businesses selected must be in operation for the minimum three years and must be in operation at the time of investigation. Data were collected via open ended questionnaires of Likert like scale or weighted as Strongly Agreed (4), Agreed (3) and Strongly disagree (2) Disagree (1) out of the 50 questionnaires administered, only 48 where completed and returned. The sample size was there limited to 48 Small Scales Businesses. The questionnaire was interrogated on employment creation, profitability, productivity and business growth or expansion as they relate to Venture Capital. The data was analyzed using descriptive statistics with the help of Statistical Package for Social Sciences (SPSS) computer software.

4. Discussion of Findings

Table 1: seeks to ascertain the level of the relationship between Venture Capital and Employment Creation in Small Scale Businesses in Benue State. The result shows correlation coefficient statistic of $r = 0.652$ indicating a moderate significant relationship between Venture Capital and employment creation in Small Scale Businesses. Venture Capital brings about innovation and expansion labour for more employment. This agrees with Boadu (2008), Hellman and Puri (2000) and Chemmamur, Krishaman and Nandy (2001) when they said Venture Capital is a phenomena that creates jobs and wealth of a nation through Small Scale Businesses.

Table 2: seeks to ascertain the extent of the relationship between Venture Capital and profitability of Small Scale Businesses. $R = 0.766$ was the result which shows that there a string significant relationship between Venture Capital and profitability of Small Scale Businesses in Benue State. That means, with Venture Capital, more profit will be generated by Small Scale Businesses which will avoid failure of the business. This findings agrees with scholars like Liao (2004), Caseli and Gatti (2004), Boadu, Dwonoh, Apiah and Dwomo – Fokuo (2014) when they said venture capital help Small Scale Businesses with potential to generate exceptional returns.

Table 3: seeks to ascertain the extent of the relationship between Venture Capital and productivity of Small Scale Businesses. The result $r = 0.691$ shows a significant relationship between venture capital and Small Scale Business productivity. With Venture Capital, productivity is increased since more materials will be brought with more labour and capable hands involved. This also agrees with scholars like Lerner (2011) Kortun & Lerner (2000), Hellman and Puri (2000) when they state that venture capital trigger innovation which positively increase productivity of Small Scale Businesses.

Table 4: seeks to ascertain the extent of the relationship between venture capital and growth of Small Scale Businesses. The result was $r = 0.598$ which means there is a moderation relationship between venture capital and growth of Small Scale Businesses. Venture Capital aids, promotes and maintain Small Scale Businesses with adequate policy framework that stimulate entrepreneurship and subsequent growth of the businesses.

5. Conclusion and Recommendations

5.1 Conclusion

The impact of Venture Capital on Small Scale Business performance cannot be over emphasized. Most Small Scale Business in Benue State either fails or operates below standard due to finance. They are always crying for

help in terms of finance to enable them achieve their goals and objectives. In this research work, it was concluded that Venture Capital plays a very important role in Small Scale Business performance in Benue State. Capital inflow by Venture Capital provides Small Scale Businesses with monitoring, skills, expertise, help and reputation for attracting more funds for innovation, profitability, employment creation, productivity and business growth. Venture Capital remains a crucial factor for spurring innovations, enhancing growth opportunities for Small Scale Businesses as well as new job creation. By realization of smart ideas due to Venture Capital, performance of Small Scale Businesses is enhanced.

5.2 Recommendations

Workshops, seminars and other enlightenment programmes should be organized by Benue State Government to educate entrepreneurs on the importance of Venture Capital funds since most of them are not aware of the role it plays in Small Scale Businesses.

Government should enact and enforce laws to increase venture capital knowledge and expertise for better financing package.

Venture capitalists in the state should embark on fundraising activities within the state and outside to help more Small Scale Businesses in the state.

Small Scale Businesses should join cooperative for them to be strong in bargaining for funds through venture capital.

Benue State Government should assist the few venture capitalists in the state to enable them expand their services.

Entrepreneurs should encourage venture capitalists in the state by judiciously using the funds given and paying back at the agreed time. This will encourage the venture capitalists to invest more in the state.

Small Scale Businesses in the state should use venture capital to increase labour force, profitability, productivity and business growth. This will help them to avoid failure of their businesses.

Since venture capitalists are not just to give funds but also to give expertise knowledge, the state should organize training for venture capitalist to acquire more knowledge to meet up with their challenges.

References

- Barger, A. N. & Ndell, G. F. (2002). Small Business Credit Availability and Relationship Lending: The importance of Bank Organizational structure. *Economic Journal*, 112 (323), Pp 67 – 69.
- Boadu, F; Dwomoh, G; Apiah, S. & Dwomo-Fokuo, E. (2014). Venture Capital Financing: An Opportunity for small and Medium Scale Enterprise in Ghana. *Journal of Entrepreneurship and Businesses Innovation*, Vol. 1 (1) Pp 2 – 4
- Bottazz, L. & Rin, M. (2002). *Venture Capital in Europe and the Financing of Innovative Companies – Economic Policy*, 17 (21), Pp 210 – 217.
- Caselli, S. & Gatti, S. (2004). *Venture Capital: A Euro – System Approach*. Berlin; Springer.
- Chemmanur, T. J., Krishnaan, K. & Nandy, D. (2011). How Does Venture Capital Financing Improve Efficiency in Private Firms? A look Beneath the Surface. *Review of Financial Studies*, 24 (44) P. 141.
- Darek, K. (2009). Business Incubation and its Connection to Venture Capital. *Economic Research Service*, 3 (2), Pp 6 – 10.
- Freear, J. (2003). Financing Technology based Ventures. A Historical Perspective of Venture Capital. *Journal of Entrepreneurial Finance*, 4(4), Pp 251 – 256.
- Garns, F. & Stern, E. (2003). The Venture Capital Revolution. *The Journal of Economic perspective* 15(2), Pp 145 – 168.
- Hallberg, K. (1998). *Small and Medium Scale Entity*. A framework for Intervention: World Bank Small Enterprises unit. Private Sector Development. Washington. Hisrich, D. R.
- Lerner, J. (1995). The Future of Private Equity. *European Financial Management Journal*, 17 (3), p. 321.
- Liano, F. (2004). *Venture Capital: The Complete Guide to finance and Business: Wealth creation techniques for Growing a Business*. New York: McGraw Hill.
- Jungwirth, G; & Moog, E. (2004). New Decisions in Research on Venture Capital Finance. *Financial Management Journal*, 23 (3), P 1 – 14.
- Kortum, S. & Lerner, J. (2000). Assessing the contribution of venture capital to innovation. *The Rand Journal of Economic*, 31 (4), p. 220.
- Kayanula, F. T; & Quartely, E. (2000). Assets and the Impact of Macro Finance Institutions. Washington DC. *Management System International*.
- Margarit, J. B. (2003). *Angel Financing: How to Raise Early- stage private equity financing*. Hoboken: Wiley and sons Inc.
- Memba, S. F; Gakure, W. R; & Karanja, K. (2012). Venture Capital: It's Impact on Growth of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Sciences*, 3 (2), Pp 1 – 7.

Nataba, R. (2003). Venture Capital Reputation and Investment Performance, *Journal of Financial Economics*, 90 (2), Pp 127 – 151.

Olutula, G. T; & Obanuyi; T. M. (2008). An Empirical Analysis of Factors Associated with the Profitability of Small and Medium Enterprises in Nigeria. *African Journal of Business Management*, Vol. 2, Pp. 1 – 7.

Rose, S. P. (2003). *Money and Capital Markets* (8th edition). New York: McGraw Hill.

Rolk, K. (2005). Dynamic Financing Strategies. The Role of Venture Capital. *Journal of Private Equity*, 7 (1), pp. 10 – 15.

Pistui, D. (2001). Environmental and Individual Determinates of Entrepreneurship growth: An Empirical Examination. *Journal of Enterprise Culture*, 9 (3), 215 – 229.

Patmond, M. T. (2011). Effect of Venture Capital Finance and Investment Behaviour in the Small and Medium sized Enterprises. *International Journal of Economics and Management Sciences*, Vol. 1, pp. 11 – 12.

Biography:

Dr. Saasongu Ezekiel Nongo, became a Member of Nigerian Institute of Management (NIM) in 2005 and an Associate Professor of Management in 2015. He is a Nigerian, born in Agasha (Benue State) on the 21st January, 1969. His educational background, include;

Secondary School Education: Government College, Makurdi-1986

Post-secondary education and degrees:

BSU Makurdi, Benue State, Makurdi. Nigeria – Ph.D. Management - 2011

ABU Zaria, Kaduna State, Zaria, Nigeria – Master of Business Administration – 1999

ABU Zaria, Kaduna State, Zaria, Nigeria – B.Sc. Busines Administration – 1991

ABU Zaria, Kaduna State, Zaria, Nigeria – Diploma in Accounting - 1988

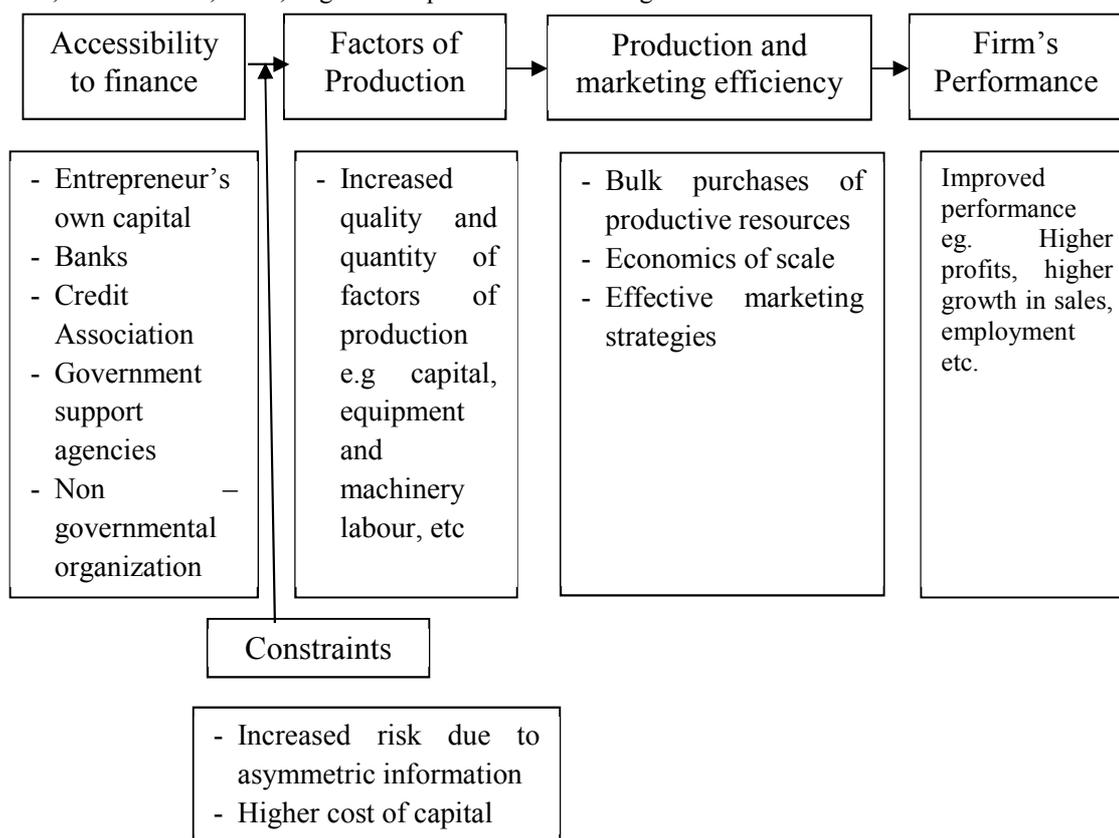


Figure 1. Model of loans and firm's profitability

Kortum,S. &Lerner,J.(2000). Assessing the contribution of Venture Capital to innovation. *The journal of Economics*, 31(4), p65



Table 1: Correlation Coefficient between Venture Capital and Employment Creation

		Venture Capital	Employment Creation
Venture Capital	Correlation coefficient	1.000	.652 ^{xx}
	Sig. (2. tailed)	.	.000
	N	48	48
Employment Creation	Correlation coefficient	.652 ^{xx}	1.000
	Sig. (2. tailed)	.000	.
	N	48	48

^{xx} Correlation is significant at the 0.01 level (2- tailed)

Table 2: Correlation Coefficient between Venture Capital and Profitability of Small Scale Businesses

		Venture Capital	Profitability
Venture Capital	Correlation coefficient	1.000	.766 ^{xx}
	Sig. (2. tailed)	.	.000
	N	48	48
Profitability	Correlation coefficient	.766 ^{xx}	1.000
	Sig. (2. tailed)	.000	.
	N	48	48

^{xx} Correlation is significant at the 0.01 level (2-tailed)

Table 3: Correlation Coefficient between Venture Capital and Productivity of Small Scale Businesses

		Venture Capital	Productivity
Venture Capital	Correlation coefficient	1.000	.691 ^{xx}
	sig. (2. tailed)	.	.000
	N	48	48
Productivity	Correlation coefficient	.691 ^{xx}	1.000
	sig. (2. tailed)	.000	.
	N	48	48

^{xx} Correlation is significant at the 0.01 level (2- tailed)

Table 4: Correlation Coefficient between Venture Capital and Growth of Small Scale Businesses

		Venture Capital	Business Growth
Venture Capital	Correlation coefficient	1.000	.598 ^{xx}
	sig. (2. tailed)	.	.000
	N	48	48
Business Growth	Correlation coefficient	.598 ^{xx}	1.000
	sig. (2. tailed)	.000	.
	N	48	48

^{xx} Correlation is significant at the 0.01 level (2- tailed)