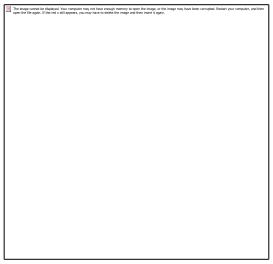
THE IMPACT OF VENTURE CAPITAL FINANCING ON SMALL AND MEDIUM SCALE ENTERPRISE IN NIGERIA (CASE STUDY BENIN CITY)



AIZEBOJE Evans Iwobe

MGS2104882

DEPARTMENT OF ENTREPRENEURSHIP

FACULTY OF MANAGEMENT SCIENCES

UNIVERSITY OF BENIN

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OCTOBER, 2025

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BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ENTREPRENEURSHIP, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN ,BENIN CITY. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHELOR OF SCIENCE (B.SC) DEGREE IN ENTREPRENEURSHIP

OCTOBER, 2025

Declaration

I, Aizeboje Evans Iwobe declare that;

This study is based on a study undertaken by me in the Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr Giwa-Osagie S. of the Department of Entrepreneurship, Management Sciences, University of Benin, Benin City, Nigeria. This work has not been submitted for the award of degree elsewhere. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged. Any liability arising from this work is to be wholly borne by me alone

_____ _____

Aizeboje Evans Iwobe **DATE**
MGS2104882

Certification

We, certify that this research project was carried out by Aizeboje Evans Iwobe in the Department of Entrepreneurship, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Entrepreneurship.

Dr Giwa-Osagie S.	**Date**
(Project Supervisor)	
Dr. Stephen Obeki Obeki	**Date**
(Project Coordinator)	
Dr. Osahon Okunbo	**Date**
(Asst Project Coordinator)	
Dr. Stephen Obeki Obeki	**Date**
(Head of Department)	

Dedication

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

Acknowledgements

I will like to acknowledge the valuable support and guidance provided by my project Supervisor Dr. Giwa-Osagie S. throughout the course of this project. His expertise and insights were crucial in shaping the direction and outcome of this work. I would also like to express my gratitude to my parents Mr and Mrs Aizeboje whose input and collaboration enhanced the quality of this project. Additionally, I extend my thanks to my uncle Mr Isabemon and siblings Godwin, Wisdom and Ohioma for their unwavering encouragement during this endeavour.

Also, I want to specially appreciate my Ima for her love and support through out this journey and also my friends David, Alexander and Wisdom for their support and Academic contribution all throughout my stay in the University.

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ABSTRACT

This study examined the impact of venture capital financing on the performance of Small and Medium Scale Enterprises (SMEs) in Benin City, with emphasis on growth, profitability, and innovation capacity. The study adopted a survey research design and primary data were collected through the administration of structured questionnaires to 205 SME owners and managers who have received or sought venture capital support. A total of 198 valid responses were retrieved and analyzed using descriptive statistics and multiple linear regression.

The descriptive results revealed that respondents generally perceive venture capital financing as a catalyst for business expansion, increased revenue, operational efficiency, and enhanced innovative capability. The inferential analysis further confirmed these perceptions. The regression results showed that venture capital financing has a significant positive effect on SME growth ,profitability, and innovation indicating that venture capital financing explains 67.9% of the variation in SME performance. The findings reveal that venture capital financing significantly contributes to the growth and competitiveness of SMEs by providing not only financial support but also managerial expertise, mentorship, and access to networks. However, challenges such as limited awareness, inadequate regulatory frameworks, and high investment risks hinder the full realization of venture capital's potential. In Benin, however, the venture capital market remains underdeveloped due to regulatory bottlenecks, low investor confidence, and limited awareness among entrepreneurs.

The study concludes that venture capital financing plays a strategic role in improving SME performance in Benin City by fostering growth, increasing financial outcomes, and encouraging innovation. It recommends that government and private sector stakeholders enhance access to venture capital through policy support, investment incentives, and awareness programmes, in order to strengthen SME development and economic sustainability and also strengthening Nigeria's venture capital framework is essential for unlocking the full potential of SMEs in driving sustainable economic growth and competitiveness.

Keywords: Venture Capital, SME Performance, Growth, Profitability, Innovation, Benin City.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Small and Medium Scale Enterprises (SMEs) are widely recognised as engines of economic growth, innovation, and job creation in both developed and developing economies. According to the World Bank (2024), SMEs account for over 90% of businesses and more than 50% of employment worldwide. In the European Union, SMEs contribute about 56% of total value added and employ approximately 100 million people (European Commission, 2023). In Nigeria, SMEs constitute an even larger proportion of economic activity representing 96.7% of all businesses and contributing roughly 48% to the nation's GDP, as well as 84% of total employment (SMEDAN & NBS, 2023).

Despite their vital role, Nigerian SMEs face persistent constraints, particularly in accessing adequate financing. The Central Bank of Nigeria (2023) reports that over 60% of SMEs identify lack of access to credit as their primary challenge, compared to only 27% in South Africa and 22% in Malaysia. This financing gap limits their ability to expand operations, adopt new technologies, invest in product innovation, and compete in both domestic and international markets (UNCTAD, 2023). Traditional financing sources particularly bank loans are often

inaccessible due to high interest rates, stringent collateral requirements, and short repayment periods.

One potential solution to this financing bottleneck is venture capital (VC) financing, which provides equity funding along with managerial support, technical expertise, and strategic guidance to high-potential businesses. Venture capital is a form of private equity investment targeted at startups and SMEs with strong growth prospects but limited access to conventional debt financing (Kapoor & Ghosh, 2022). Unlike debt financing, venture capital involves investors acquiring an equity stake in the business, thereby sharing both the risks and potential rewards of enterprise growth.

Globally, venture capital has played a pivotal role in nurturing high-growth firms. For example, companies such as Apple, Google, Facebook, and Uber all benefited from substantial VC backing in their early stages, enabling them to scale rapidly and dominate global markets (OECD, 2023). In the United States, VC investment reached USD 170 billion in 2022, supporting innovation-driven sectors such as technology, healthcare, and green energy (National Venture Capital Association, 2023). In contrast, African economies attract significantly less VC funding totaling approximately USD 6.5 billion in 2022 with Nigeria accounting for about USD 1.2 billion, mostly concentrated in Lagos-based technology startups (Partech, 2023).

In Nigeria, the venture capital ecosystem remains underdeveloped due to weak regulatory frameworks, low investor confidence, inadequate exit opportunities, and underdeveloped capital markets (World Bank, 2024). The majority of VC activities are directed toward fintech and e-commerce firms in Lagos, Abuja, and Port Harcourt, leaving cities such as Benin City relatively underserved.

Benin City, the capital of Edo State, is home to a diverse range of SMEs engaged in agriculture, manufacturing, retail, ICT, and creative industries. While the city has witnessed a gradual emergence of business incubators and innovation hubs, most SMEs still face funding shortages that hinder their growth and competitiveness. Traditional financial institutions in Benin City typically require collateral valued at 150% or more of the loan amount, making bank financing unattainable for most SME owners (Edo State Investment Promotion Office, 2023). In such a context, venture capital financing offers a potentially transformative alternative by providing not only funding but also strategic mentorship and market access.

However, the adoption and impact of venture capital financing on SMEs in Benin City remain largely underexplored in empirical literature. While Lagos and Abuja have seen measurable success stories linked to VC funding such as Flutterwave, Paystack, and Andela there is limited documented evidence of similar cases in Benin City. This research, therefore, is significant as it seeks to provide empirical evidence on how venture capital financing influences SME performance in Benin City. It will assess its role in enhancing business growth, profitability,

innovation capacity, and long-term sustainability, ultimately offering insights for policymakers, investors, and SME owners on how to effectively leverage venture capital for local economic development.

1.2 Statement of the Problem

Although SMEs in Nigeria contribute significantly to economic growth, job creation, and poverty reduction, their growth potential is persistently hindered by inadequate access to finance. Bank lending remains constrained by high interest rates, stringent collateral requirements, and short repayment periods, leaving many SMEs unable to secure the funding needed for expansion (Central Bank of Nigeria, 2023).

Several scholars have examined the financing challenges of SMEs in Nigeria. Akingunola (2011) found that financial constraints, particularly the inability to secure affordable long-term capital, remain the most critical impediment to SME growth, limiting their productivity and innovation capacity. Similarly, Ojo (2012) argued that conventional bank loans often fail to address SMEs' unique needs due to rigid lending structures, recommending alternative financing mechanisms such as venture capital to enhance performance. More recently, Nwankwo and Eze (2022) noted that while venture capital has shown strong potential to boost SME innovation and competitiveness in developed economies, its adoption in Nigeria remains minimal and

geographically concentrated in Lagos and Abuja, thereby excluding other cities such as Benin City.

However, a notable gap emerges from these studies. While Akingunola (2011) and Ojo (2012) emphasised the need for alternative financing, they did not empirically assess venture capital's direct impact on SME growth in specific Nigerian cities. Nwankwo and Eze (2022) focused on Nigeria's venture capital landscape but provided limited city-level analysis, overlooking the unique business environment and challenges faced by SMEs in emerging urban centres like Benin City. This lack of geographically specific evidence creates uncertainty about whether the positive effects of venture capital observed in larger Nigerian cities can be replicated in smaller but growing urban economies.

This current research seeks to fill this gap by empirically examining the impact of venture capital financing on SME performance in Benin City. It will assess not only the availability and utilisation of venture capital but also its influence on profitability, and innovation capacity. By providing context-specific findings, the study will inform policymakers, investors, and SME owners on how venture capital can be leveraged to stimulate sustainable economic development in Benin City.

1.3 Objectives of the Study

The main objective of this study is to examine the impact of venture capital financing on the performance of SMEs in Benin City. The specific objectives are to:

1. Assess the effect of venture capital financing on the growth of SMEs in Benin City.
2. Evaluate the influence of venture capital financing on the profitability of SMEs in Benin City.
3. Examine the impact of venture capital financing on the innovation capacity of SMEs in Benin City.

1.4 Research Questions

This study seeks to answer the following research questions:

1. To what extent does venture capital financing influence the growth of SMEs in Benin City?
2. How does venture capital financing affect the profitability of SMEs in Benin City?
3. What is the impact of venture capital financing on the innovation capacity of SMEs in Benin City?

1.5 Research Hypotheses

The study will test the following hypotheses to compare the null and alternative hypothses

- **H_{01}:** Venture capital financing has no significant impact on the growth of SMEs in Benin City.
- **H_{02}:** Venture capital financing has no significant impact on the profitability of SMEs in Benin City.
- **H_{03}:** Venture capital financing has no significant impact on the innovation capacity of SMEs in Benin City.

1.6 Significance of the Study

The findings of this research will be valuable to multiple stakeholders in Nigeria's entrepreneurial and financial ecosystem.

- **SME Owners and Managers** – This findings will provide practical insights into alternative financing mechanisms, particularly venture capital, as a means to overcome the chronic funding constraints that hinder business expansion. By highlighting how venture capital can influence growth, profitability, and innovation, SME operators in Benin City will be better informed on how to position their enterprises to attract such funding. The study will also shed light on the non-financial benefits of venture capital

such as managerial expertise, networking opportunities, and access to new markets which can strengthen business competitiveness.

- **Venture Capital Firms and Investors** – For venture capitalists and private equity investors, this findings will identify untapped investment opportunities in Benin City's SME sector. While venture capital activity in Nigeria is often concentrated in Lagos, Abuja, and Port Harcourt, this study will showcase the viability and growth potential of SMEs in Benin City. The evidence generated will help investors make more informed decisions about diversifying their portfolios geographically and sectorally, potentially reducing investment concentration risks.

- **Policymakers and Regulatory Agencies** – The findings will provide evidence-based recommendations for improving the venture capital ecosystem in Benin City and Nigeria at large. This includes policy suggestions to address regulatory bottlenecks, create enabling environments for equity financing, and incentivise private sector participation in SME funding. Agencies such as the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the Central Bank of Nigeria (CBN), and the Nigerian Investment Promotion Commission (NIPC) can use the findings to design targeted support programs that enhance venture capital accessibility, especially in emerging urban centres outside of major economic hubs.

- **Researchers and Academics** – This study will contribute to the relatively limited body of scholarly literature on venture capital financing in Nigeria, especially with a focus on city-specific contexts like Benin City. Most existing research concentrates on national-level analyses or on a few high-profile states, overlooking smaller but growing economies. By providing empirical data and context-specific insights, this study will serve as a reference point for future comparative studies on venture capital's role in SME development across different Nigerian cities and African countries.

Ultimately, the significance of this study lies in its potential to bridge the knowledge gap between theory and practice, providing actionable recommendations for stakeholders to enhance SME sustainability, drive economic diversification, and stimulate local economic growth through strategic financing.

1.7 Scope of the Study

This study focuses on SMEs in Benin City, Edo State, across sectors such as manufacturing, ICT, retail, agriculture, and services. It specifically examines the relationship between venture capital financing and SME performance indicators such as growth, profitability, and innovation capacity. The research will cover SMEs that have either received venture capital financing or have been in a position to access it within the last five years (2020–2024).

1.8 Words and Phrase That Have No Dictionary Meaning

- **Small and Medium Scale Enterprises (SMEs):** Businesses with limited staff and turnover, defined in Nigeria as those with fewer than 200 employees and annual turnover of less than ₦500 million (SMEDAN, 2023).
- **Venture Capital Financing:** A form of private equity investment in which investors provide funding to high-potential businesses in exchange for equity ownership.
- **Growth:** Increase in revenue, customer base, market share, or employee size of a business over time.
- **Innovation Capacity:** The ability of a business to develop new products, services, processes, or business models.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of relevant literature on the impact of venture capital financing on small and medium-scale enterprises (SMEs). The review is structured into conceptual, theoretical, and empirical perspectives. The conceptual review discusses the key concepts related to venture capital financing and its relationship with SME growth, profitability, and innovation capacity. The theoretical review provides the underpinning theories that explain the nexus between venture capital and SME performance. The empirical review synthesizes findings from prior studies in both developed and developing countries, while the conceptual framework highlights the link between venture capital financing and the selected variables in this study.

2.2 Conceptual Review

2.2.1 Small and Medium-Scale Enterprises (SMEs)

Small and Medium-Scale Enterprises (SMEs) are widely acknowledged as critical drivers of economic growth and national development. Their definitions vary across countries, depending on the context of economic structure and policy priorities. Typically, SMEs are defined using parameters such as employment size, annual turnover, and asset base. In Nigeria, the Small and

Medium Enterprises Development Agency of Nigeria (SMEDAN) classifies SMEs as enterprises that employ between 10 and 199 persons, with asset values (excluding land and buildings) ranging from ₦5 million to ₦500 million (SMEDAN, 2022). This classification is consistent with global standards, although thresholds often vary across jurisdictions. For instance, the European Union defines SMEs as firms with fewer than 250 employees and annual turnover not exceeding €50 million (European Commission, 2023).

SMEs play a pivotal role in fostering inclusive economic development. They account for about 96% of businesses and 84% of employment in Nigeria, thereby serving as the backbone of the private sector (PwC, 2020). Their contributions span across multiple dimensions, including employment generation, poverty reduction, value chain development, and grassroots industrialization. Furthermore, SMEs serve as incubators for innovation and entrepreneurship by promoting new business ideas and products that meet local needs (Adebisi & Gbegi, 2021; Akinwale et al., 2022).

Despite their significance, SMEs in Nigeria face numerous challenges that hinder their growth and sustainability. These include inadequate access to finance, poor infrastructure, regulatory bottlenecks, limited access to modern technology, and weak managerial capacity (Okpara, 2022). Among these challenges, lack of financing remains the most critical. SMEs often struggle to access credit from traditional financial institutions due to collateral requirements, high-interest rates, and information asymmetry (Akinwale & Apanisile, 2023). This financing gap has spurred

the need for alternative funding mechanisms such as venture capital, angel investors, and crowdfunding platforms, which can provide long-term capital and business support.

Additionally, SMEs are central to Nigeria's diversification agenda, especially in reducing dependence on oil revenues. Their role in agriculture, manufacturing, ICT, and service industries demonstrates their capacity to enhance productivity and drive structural transformation in the economy (World Bank, 2023). Given their high potential for innovation, SMEs have become a focal point for policymakers seeking to stimulate sustainable development in emerging economies. In summary, SMEs in Nigeria are not only key contributors to employment and innovation but also essential for the structural transformation of the economy. However, unlocking their full potential requires addressing their financing needs, improving access to infrastructure, and strengthening institutional support frameworks such as SMEDAN, Bank of Industry (BOI), and Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL).

2.2.2 Venture Capital Financing

Venture capital (VC) refers to a form of private equity financing that provides funding to early-stage, innovative, and high-growth potential businesses in exchange for equity stakes or convertible debt instruments. Unlike traditional bank lending, which often requires collateral and emphasizes repayment capacity, venture capital emphasizes risk-taking, innovation, and long-

term value creation (Gompers & Lerner, 2020). VC investors do not only provide capital but also bring in managerial expertise, strategic guidance, and access to business networks that enhance the survival and growth prospects of investee firms (Munyiri et al., 2021).

Globally, venture capital has played a crucial role in driving entrepreneurship and innovation, particularly in advanced economies like the United States, China, and parts of Europe, where it has contributed to the rise of technology giants such as Apple, Microsoft, and Google (Kapoor & Ramachandran, 2022). The unique characteristic of venture capital lies in its tolerance for high risk in exchange for potentially high returns, making it a suitable financing mechanism for SMEs operating in uncertain and innovation-driven environments (Bocken, 2022).

In Nigeria, venture capital financing is gradually gaining traction as an alternative to traditional financial institutions, especially among startups in sectors such as fintech, agriculture, healthtech, and e-commerce (Ogunlana & Adeoye, 2021). Reports by the African Private Equity and Venture Capital Association (AVCA, 2023) indicate that Nigeria attracted over 25% of Africa's total venture capital deals in 2022, reflecting its growing position as a hub for innovative enterprises. However, the Nigerian venture capital ecosystem remains underdeveloped compared to global standards, as it faces several structural challenges including low awareness among SMEs, limited exit options for investors, inadequate legal and regulatory frameworks, and low levels of risk tolerance by local investors (Onyeiwu & Obi, 2022; Olayiwola, 2023).

Additionally, venture capital penetration in Nigeria is hindered by macroeconomic instability, weak corporate governance structures, and infrastructural deficits, which discourage both foreign and domestic investors (Okoye & Eze, 2022). Despite these challenges, venture capital has been identified as a potential catalyst for enhancing SME performance in Nigeria by bridging financing gaps, improving managerial practices, and fostering innovation-led growth (Ademola & Yusuf, 2021). With the increasing interest from both local investors and international funds, there are indications that venture capital could significantly contribute to SME competitiveness, job creation, and economic diversification in Nigeria, provided enabling policies and institutional support mechanisms are strengthened (AVCA, 2023; Olayiwola, 2023).

2.2.3 Venture Capital Financing and SME Growth

Growth in Small and Medium-Scale Enterprises (SMEs) is commonly measured through indicators such as increases in sales revenue, employment generation, profitability, market share, and operational capacity (OECD, 2022). Sustained growth is vital for SMEs as it enables them to transition from survival-based ventures to competitive enterprises that contribute significantly to national economic development. In emerging economies like Nigeria, the growth of SMEs is often constrained by limited access to finance, underdeveloped infrastructure, and weak institutional support (Oteh & Eze, 2023).

Venture capital (VC) financing plays a critical role in addressing these constraints by providing not only the much-needed capital but also managerial expertise, strategic guidance, and access to business networks (Bernstein, Dev & Lerner, 2022). Unlike debt financing, which demands collateral and imposes rigid repayment schedules, venture capital is more risk-tolerant and growth-oriented. This makes it especially suitable for SMEs with high-growth potential but limited tangible assets to secure loans (Klingebiel & Sandner, 2021).

Empirical evidence suggests that SMEs backed by venture capital funding often experience faster revenue growth, stronger innovation capacity, and higher survival rates than those financed solely through traditional means (Chemmanur, Krishnan & Nandy, 2022). Venture capital enables SMEs to acquire modern technologies, expand into new markets, and pursue aggressive marketing strategies that would otherwise be unattainable with retained earnings or conventional credit facilities (Lerner, Schoar & Wong, 2021).

In Nigeria, the contribution of venture capital to SME growth remains underdeveloped but is gradually gaining traction through private equity firms, government-backed initiatives, and international development finance institutions. Programs such as the Bank of Industry's SME Funds and interventions by the African Development Bank have shown that venture financing can stimulate SME expansion, reduce unemployment, and enhance competitiveness in global value chains (Okonjo-Iweala & Ajakaiye, 2023). However, challenges such as regulatory bottlenecks, lack of exit opportunities for investors, and cultural aversion to equity sharing

continue to hinder its full impact (Onyeiwu & Obi, 2022). Overall, venture capital financing represents a transformative tool for SME growth in Nigeria and other emerging markets, as it provides not just funds but also the strategic capacity to innovate, expand, and sustain long-term development.

2.2.4 Venture Capital Financing and SME Profitability

Profitability refers to the ability of SMEs to generate net income after accounting for expenses, which serves as a key measure of sustainability and financial success (Olokoyo et al., 2021). Venture capital financing has been found to positively influence SME profitability, not only by providing access to capital but also through non-financial support mechanisms. Venture capitalists typically contribute technical expertise, managerial oversight, and market linkages that enhance operational efficiency and competitiveness (Chemmanur et al., 2022).

Unlike traditional lenders, venture capitalists are more tolerant of risk and patient with returns, which allows SMEs to focus on innovation and expansion rather than immediate repayment obligations (Cumming & Johan, 2019). This long-term orientation enables firms to adopt modern production techniques, streamline supply chains, and access global markets, all of which contribute to improved profit margins. Moreover, venture capital-backed SMEs often benefit from strategic mentoring, governance restructuring, and access to networks that facilitate growth and profitability (Bernstein et al., 2020).

In emerging economies such as Nigeria, venture capital plays a particularly crucial role in enhancing SME profitability due to the financing gaps left by commercial banks and other formal credit institutions (Oteh & Idowu, 2022). By bridging these gaps, venture capital enables small firms to overcome resource constraints, achieve economies of scale, and establish sustainable competitive advantages. However, challenges such as regulatory bottlenecks, weak investor protection, and underdeveloped exit mechanisms still limit the extent to which venture capital financing can maximize SME profitability in the Nigerian context (Adegbite & Machethe, 2021). Overall, the evidence suggests that venture capital financing contributes significantly to SME profitability by combining financial resources with strategic, managerial, and operational support. The unique value-added services provided by venture capitalists differentiate them from traditional financiers, making VC a vital driver of long-term profitability and sustainability for SMEs.;

2.2.5 Venture Capital Financing and Innovation Capacity of SMEs

Innovation capacity refers to the ability of SMEs to create, adopt, and implement new products, processes, or services that enhance efficiency, competitiveness, and long-term sustainability. For SMEs, innovation is often constrained by inadequate financial resources, limited access to technology, and the absence of robust research and development (R&D) infrastructure. Venture capital financing provides a critical lifeline by enabling these businesses to overcome financial

bottlenecks and strategically invest in innovative activities that can drive market differentiation and growth (Mazzucato, 2018).

Venture capital is distinct from traditional financing because of its long-term orientation, risk-tolerant nature, and emphasis on high-growth and innovative ventures. Venture capitalists are often willing to take on the uncertainties associated with experimental products or new technologies, which commercial banks and other financiers typically avoid. By supplying equity capital, venture capitalists help SMEs fund R&D, acquire advanced machinery, adopt digital solutions, and pursue disruptive business models that can transform industries (Kortum & Lerner, 2000).

In addition to financial support, venture capitalists frequently provide strategic mentorship, access to international markets, and connections to industry networks that are essential for innovation. This non-financial contribution is crucial for SMEs in developing economies, such as Nigeria, where innovation ecosystems remain fragmented and underdeveloped. For instance, studies have shown that venture-capital-backed firms tend to file more patents and commercialize new technologies at a faster pace compared to non-venture-backed firms, underscoring the catalytic role of venture capital in innovation (Chemmanur, Loutskina, & Tian, 2014).

In Nigeria, where SMEs contribute significantly to employment but often lack the resources to innovate effectively, venture capital can stimulate creativity and resilience. By reducing the financial burden of innovation through equity financing, SMEs are better positioned to explore market-driven ideas, adopt green and digital technologies, and meet global competitiveness standards (Okeke & Egbide, 2020). Furthermore, venture capitalists' involvement in governance and strategic planning often fosters a culture of innovation within SMEs, encouraging them to continually adapt to changing business environments.

2.3 Theoretical Review

2.3.1 Pecking Order Theory

The pecking order theory, introduced by Myers and Majluf (1984), posits that firms prioritize their financing options in a hierarchical order. Firms prefer internal financing from retained earnings due to its lower cost and lack of ownership dilution. When internal funds are insufficient, they resort to debt financing, and equity financing is considered the last option because of higher costs and the signaling effect it sends to the market. For large corporations in developed economies, this financing order is generally feasible; however, in the context of SMEs, especially in developing economies like Nigeria, internal resources are often inadequate due to limited retained earnings and lower profitability (Abdulsaleh & Worthington, 2013). Moreover, SMEs face significant barriers in accessing debt financing, such as high collateral

requirements, stringent credit assessments, and higher interest rates charged by financial institutions (Mateev et al., 2013).

As a result, venture capital financing emerges as a crucial alternative that provides equity without the immediate repayment obligations associated with debt. Venture capital investors also bring expertise, networks, and strategic support, making it a valuable external equity source that fills the financing gap left by traditional financial institutions (Boadu et al., 2021). Thus, the pecking order theory provides a useful lens to understand why SMEs gravitate toward venture capital when internal and debt financing options are constrained.

2.3.2 Resource-Based View (RBV)

The Resource-Based View (RBV), advanced by Barney (1991), argues that a firm's competitive advantage lies in its possession of resources that are valuable, rare, inimitable, and non-substitutable (VRIN). Beyond financial capital, strategic resources such as managerial expertise, innovative capabilities, and access to markets are critical to long-term competitiveness. Venture capital financing fits into the RBV framework by providing not only financial resources but also intangible assets such as industry knowledge, mentorship, governance oversight, and connections to business networks (Croce et al., 2013).

In the context of SMEs, especially those in emerging markets, these non-financial contributions of venture capital can be transformative. For instance, SMEs supported by venture capital often

experience accelerated growth, improved corporate governance structures, and enhanced capacity to innovate (Chemmanur et al., 2011). By leveraging both tangible and intangible resources from venture capitalists, SMEs are better positioned to achieve sustainable growth and adapt to competitive market environments, in line with RBV predictions.

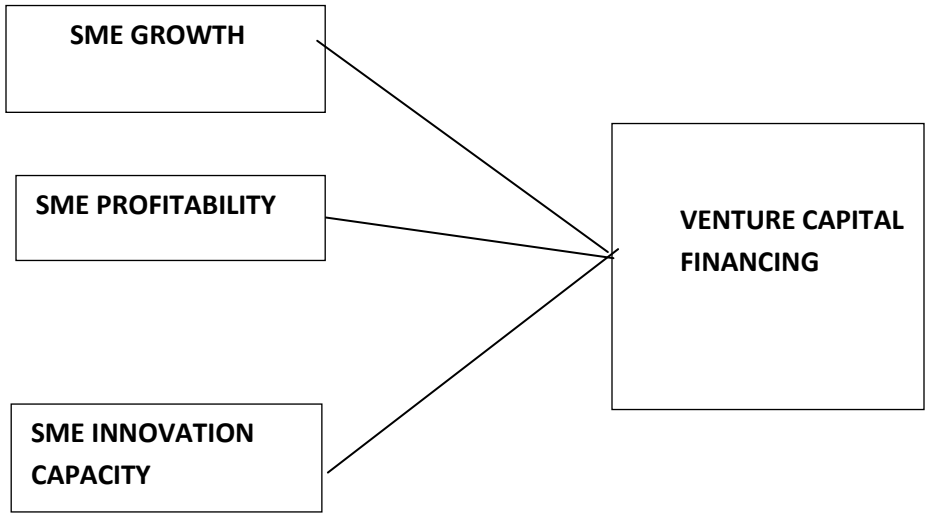
2.3.3 Schumpeter's Innovation Theory

Joseph Schumpeter's innovation theory emphasizes the central role of entrepreneurs and external financing in driving "creative destruction," a process whereby new innovations disrupt and replace existing market structures (Schumpeter, 1934). Schumpeter argued that entrepreneurship thrives when firms have access to financial capital that allows them to experiment, innovate, and commercialize disruptive technologies. Venture capital aligns directly with this theory, as it provides risk-tolerant capital to SMEs engaged in uncertain but potentially transformative innovations (Block et al., 2018).

In modern economies, venture capital has been shown to stimulate innovation by supporting high-tech startups, enabling product differentiation, and financing research and development activities (Kortum & Lerner, 2000). In developing economies like Nigeria, venture capital-backed firms contribute to technological adoption, digital transformation, and job creation, thereby supporting broader economic development (Adegbite & Machethe, 2020). Schumpeter's

framework thus reinforces the role of venture capital as a catalyst for innovation-driven entrepreneurship and economic dynamism.

2.4 Conceptual Framework and the Conceptual Design



2.5 Empirical Review

Engel & Keilbach (2007) Using panel data on German start-ups observed over the late-1990s/early-2000s (commonly cited as roughly 1995–2004), the authors compared VC-backed ventures with carefully matched non-VC peers. Their matched-control and growth-regression approach showed that VC participation is associated with significantly higher employment and revenue growth. They argue the effect stems not only from capital, but also from the

selection/monitoring and professionalization that VCs bring. They suggest policies that deepen VC markets and reduce information frictions so that more promising start-ups can access value-adding risk capital.

Bertoni, Colombo & Grilli (2011) Examining 538 Italian new technology-based firms over a ten-year window (a decade-long panel; exact years are not specified in the abstract), the authors used treatment-evaluation techniques—combining matching with difference-in-differences—to identify causal effects of VC. They found that VC investment accelerates post-investment growth, with especially pronounced gains for firms whose innovation is more "efficiency-enhancing" (e.g., process over pure product innovation). They recommend fostering conditions that attract VC into a broader set of sectors, not only headline tech, because growth effects are heterogeneous and often strongest where managerial/process scaling is needed.

Grilli & Murtinu (2014) Leveraging a European Union firm-level longitudinal dataset on high-tech entrepreneurial firms across multiple countries and years (multi-year panel), the study compared independent VC (IVC) to government-managed VC (GVC) using models that control for selection, endogeneity, survivorship bias, and institutional differences. The headline result is that IVC has a robust, economically meaningful positive impact on sales growth, while GVC alone shows negligible effects; mixed syndications help only when led by IVC. The authors urge policymakers to prioritize crowding-in private/independent VC and to design GVC programs that co-invest alongside experienced IVC leaders rather than substitute for them.

Croce, Martí & Murtinu (2013) Studying European high-tech entrepreneurial firms over a multi-year period, the authors contrasted outcomes after private vs. governmental VC. Using post-investment growth and productivity (TFP) regressions with selection corrections, they documented that private VC backing is linked to stronger productivity and growth improvements than public VC, consistent with deeper value-added support and sharper incentives in private funds. They recommend that public programs focus on improving the ecosystem (legal certainty, exit markets, and syndication with private VC) rather than replacing private investors.

Nwekeala (2018) In Rivers State, Nigeria, Nwekeala surveyed a sample of 310 SMEs drawn from a population of 2,596, using a correlational (quantitative) design with Spearman rank-order correlation (data collected in 2018). The study found a positive and significant relationship between venture-capital-related financing (especially equity) and SME growth (measured by market-share/expansion indicators). Recommendations include expanding equity-style venture funding to SMEs and instituting regular monitoring/mentoring by fund managers to strengthen debt-management and overall performance.

Atah & Abba (2020) Focusing on Kumbotso LGA, Kano State (Nigeria), this appraisal surveyed 5 VC organizations (50 questionnaires) in a quantitative cross-sectional design. Descriptive analysis showed that VC financing substantially boosts SME growth and development relative to reliance on bank loans; entrepreneurs prefer VC given its flexibility and value-added support. The authors call for a policy framework to expand the number of VC firms, stronger awareness

campaigns among entrepreneurs, and greater capitalization of VC vehicles to meet SMEs' financing needs.

2.5.2 Venture Capital Financing and SME Profitability

Kortum and Lerner (2000) examined the role of venture capital in enhancing profitability among firms in the United States over the period 1980 to 1990. Using a panel data regression approach, they analyzed data from 1,200 firms across different industries. Their findings revealed that venture capital-backed firms exhibited higher returns on investment and greater innovative output compared to non-venture-backed firms. The study suggested that policymakers should create frameworks to encourage venture capital participation in innovative SMEs to drive profitability.

Gompers and Lerner (2001) focused on U.S. firms between 1985 and 1995 to evaluate the profitability outcomes of venture capital financing. Employing a longitudinal analysis of 900 venture capital-backed firms, the study found that profitability margins were consistently higher in these firms, mainly due to better governance mechanisms and technical guidance provided by venture capitalists. The authors recommended that SMEs in developing economies should adopt structured governance systems to maximize the profitability benefits of venture funding.

Chemmanur, Krishnan, and Nandy (2011) analyzed the profitability performance of venture-backed IPO firms in the U.S. from 1992 to 2005. Using survival analysis and logistic regression

on 1,712 firms, they found that venture capital-backed firms were not only more profitable but also sustained profitability over longer periods compared to non-venture-backed counterparts. The study suggested that venture capitalists should continue to play an active role in post-investment monitoring to ensure sustainable profitability growth.

Oseghale and Adebayo (2019) investigated the impact of venture capital on SME profitability in Nigeria, covering the years 2010 to 2017. Employing a survey design with responses from 250 SMEs in Lagos and Abuja, the authors applied regression analysis to test the relationship. They reported that SMEs with access to venture capital financing recorded higher profitability margins compared to those dependent on traditional bank loans. The study suggested that government policies should incentivize venture capital investment through tax breaks and risk-sharing mechanisms to boost SME profitability.

Udo and Effiong (2021) conducted a study on Nigerian SMEs between 2012 and 2018, with a sample of 150 firms drawn from the manufacturing and service sectors. Using structural equation modeling (SEM), they found that venture capital financing enhanced profitability only when SMEs demonstrated strong managerial capacity. Poor financial literacy and weak internal controls reduced the positive impact of venture funding. The authors recommended capacity-building programs for SME managers to improve profitability outcomes from venture capital financing.

Arize and Kalu (2020) studied the profitability effect of venture capital financing on small and medium enterprises in Sub-Saharan Africa between 2013 and 2017, analyzing financial statements from 200 SMEs across Nigeria, Kenya, and Ghana. Using generalized method of moments (GMM) estimation, they found that venture capital improved profit margins, particularly in firms that adopted modern management practices and innovation strategies. The study suggested that SMEs should combine venture capital financing with managerial reforms to optimize profitability.

2.5.3 Venture Capital Financing and SME Innovation Capacity

Hellmann and Puri (2000) investigated the role of venture capital in driving innovation among firms in Silicon Valley over the period 1990–1998. Using a comparative methodology between venture-backed and non-venture-backed firms, they found that venture capital significantly accelerated the introduction of new products and fostered innovative activity. Their findings suggest that venture capital does not merely provide funding but also managerial expertise that helps firms innovate more quickly.

Chemmanur, Krishnan, and Nandy (2014) conducted a large-scale study on U.S. firms covering 1980–2010, employing econometric modeling based on innovation output, including patents and R&D expenditure. The study revealed that venture capital funding enhances risk-taking and strengthens innovative capacity, particularly by facilitating investments in high-risk, high-reward

projects. The authors suggested that policymakers encourage venture capital inflows to boost innovation-driven economies.

Balboa and Martí (2007) focused on European venture capital markets and examined firms financed between 1994 and 2003 using regression analysis. They reported that venture capital-backed firms registered higher innovation performance in terms of patents filed and technological advancement compared to those without such financing. The study suggested that governments design policies to stimulate venture capital investment in knowledge-intensive industries.

Cumming and Johan (2009) investigated venture capital and innovation outcomes across 23 countries using data from 1990 to 2005. Applying a cross-country comparative methodology, they discovered that venture capital-backed firms showed greater innovation outputs and higher commercial success rates of new products. Their findings highlighted the importance of legal and institutional frameworks in maximizing the innovation benefits of venture capital.

In the Nigerian context, Adebisi and Gbegi (2022) studied 120 SMEs across Lagos and Abuja between 2015 and 2020 using a survey-based methodology and regression analysis. They found that SMEs with access to venture capital were significantly more likely to develop new products, adopt modern technologies, and expand their innovative capacity compared to their counterparts

without venture capital support. The study recommended that Nigerian financial institutions create partnerships with venture capitalists to support SME innovation.

Similarly, Oladipo and Akinola (2021) examined 80 SMEs in South-West Nigeria from 2016 to 2019 using a mixed-methods approach, combining interviews with financial performance data. Their results showed that venture capital not only increased access to funds but also introduced technical expertise that enhanced product development and innovation culture within SMEs. They suggested that Nigerian SMEs strengthen their managerial structures to fully benefit from venture capital funding.

2.6 Summary and Gap in the Literature Reviewed

The review of related literature has shown that venture capital financing plays a significant role in enhancing the growth, profitability, and innovation capacity of small and medium-sized enterprises (SMEs). Scholars such as Kortum and Lerner (2000) and Hellmann and Puri (2000) highlighted the effectiveness of venture capital in fostering profitability and rapid innovation among firms in advanced economies like the United States. Subsequent research by Chemmanur et al. (2014) affirmed that venture capital not only improves firm performance but also encourages risk-taking and innovative activities that may not be possible under traditional financing. Within the Nigerian context, studies such as those by Oseghale and Adebayo (2019), Udo and Effiong (2021), and Adebisi and Gbegi (2022) emphasized the relevance of venture

capital in enhancing SME profitability, supporting technological adoption, and enabling new product development. Collectively, these studies reinforce the consensus that venture capital is critical in strengthening the competitiveness and sustainability of SMEs, particularly in developing economies.

Despite these contributions, certain gaps remain evident in the reviewed literature. Firstly, most empirical studies on venture capital have focused on developed economies, leaving limited evidence on its specific impact within the Nigerian context. Secondly, while profitability and innovation have been widely discussed, there is insufficient attention on how venture capital financing interacts with other contextual factors such as managerial competence, regulatory policies, and infrastructural constraints that characterize Nigerian SMEs. Thirdly, few studies have provided longitudinal evidence that tracks the sustained impact of venture capital financing on SME growth and innovation over time, with most analyses remaining cross-sectional. Lastly, the reviewed literature does not sufficiently address how venture capital financing compares with other financing options such as bank loans, cooperative societies, and government grants in determining the long-term performance and competitiveness of SMEs in Nigeria.

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CHAPTER THREE

METHODOLOGY

3.1 Introduction

3.1 Introduction

This chapter outlines the methodological approach adopted for the study on The Impact of Venture Capital Financing on Small and Medium Scale Enterprises in Benin City. It describes the research design, population, sample size, sampling technique, methods of data collection, data analysis, model specification, and operationalization of variables.

Outline of Subheadings

- 3.7 Method of Data Analysis
- 3.8 Model Specification
- 3.9 Operationalization of Variables

3.3 Population of the Study

The target population consisted of owners and managers of registered SMEs in Benin City that have received or sought venture capital financing. According to the SMEDAN (2023) report, there are 420 registered SMEs operating in Benin City across different sectors, including manufacturing, retail, agriculture, hospitality, and ICT.

3.4 Sample Size Determination

The sample size was determined using Taro Yamane's (1967) formula:

$$n = N / [1 + N(e)^2]$$

Where:

• n = Sample size

• N = Population size (420 SMEs)

• e = Level of precision (0.05)

Substituting the values:

$n = 420 / [1 + 420(0.05)^2]$

$n = 420 / [1 + 420(0.0025)]$

$n = 420 / [1 + 1.05]$

$n = 420 / 2.05$

$n \approx 205$

Therefore, the sample size is 205 respondents.

3.5 Sampling Technique

The study employed a stratified random sampling technique. The SMEs were first grouped into sectors (manufacturing, retail, agriculture, hospitality, ICT, etc.), after which a proportionate random selection was made from each stratum to ensure representation across sectors.

3.6 Method of Data Collection

The instrument for data collection was a structured expatiate questionnaire designed on a 5-point Likert scale. The questionnaire had two sections:

- Section A: Demographic information (age, gender, sector, years in business, etc.).
- Section B: Statements on venture capital financing and SME performance (growth, profitability, innovation capacity).

The questionnaires were administered physically to SME owners and managers.

3.7 Method of Data Analysis

The collected data will be analyzed using descriptive statistics (frequency, percentages, mean, standard deviation) and multiple linear regression analysis to test the research hypotheses. The regression model will help determine the effect of venture capital financing on growth, profitability, and innovation capacity which will be tested on 0.05 confidence level.

3.8 Model Specification

Based on the research objectives and following the model framework of Kaplan and Schoar (2005) on venture capital and firm performance, this study adopts and modifies their specification to suit the context of SMEs. The model is expressed as:

$$SMEP = \beta 0 + \beta 1VCFG + \beta 2VCFP + \beta 3VCFI + \mu$$

Where:

- SMEP = SME Performance
- VCFG = Venture Capital Financing effect on Growth
- VCFP = Venture Capital Financing effect on Profitability
- VCFI = Venture Capital Financing effect on Innovation Capacity
- $\beta 0$ = Intercept
- $\beta 1$, $\beta 2$, $\beta 3$ = Coefficients of the independent variables
- μ = Error term

3.9 Operationalization of Variables

Variable	Type	Measurement	Scale	Source
SME Performance (SMEP)	Dependent	Composite score of growth, profitability, and innovation indicators	5-point Likert	Adapted from literature
Venture Capital Financing – Growth (VCFG)	Independent	Items measuring the effect of venture capital on business expansion, market reach, and workforce size	5-point Likert	Researcher's design
Venture Capital Financing – Profitability (VCFP)	Independent	Items measuring the effect of venture capital on revenue, profit margins, and cost efficiency	5-point Likert	Researcher's design
Venture Capital Financing – Innovation Capacity (VCFI)	Independent	Items measuring the effect of venture capital on product innovation, technology adoption, and R&D activities	5-point Likert	Researcher's design

Source :Authors compilations 2025

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents, analyzes, and interprets the data collected in accordance with the objectives and research methodology outlined in Chapter Three. The study investigated the impact of venture capital financing on the performance of Small and Medium Scale Enterprises (SMEs) in Benin City, with a focus on its effects on growth, profitability, and innovation capacity.

A total of 205 questionnaires were distributed to SME owners and managers who have received or sought venture capital financing in Benin City. Out of these, 198 questionnaires were properly completed and returned, representing a response rate of approximately 97%. The collected data were analyzed using both descriptive and inferential statistical techniques. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize respondents' demographic characteristics and perceptions of venture capital financing. Inferential analysis, particularly multiple linear regression, was employed to examine the relationships between venture capital financing and SME performance indicators, and to test the research hypotheses at a 0.05 significance level.

4.2 Data Presentation

The study first examined the demographic profiles of the respondents to provide context for understanding the results. Information such as age, gender, business sector, and years of operation was collected. The descriptive statistics revealed that respondents were distributed across various sectors, including manufacturing, retail, agriculture, hospitality, and ICT. The majority of respondents had been operating their businesses for over five years, and there was a fairly even representation of male and female owners/managers. This distribution ensured that the findings were representative of the SME population in Benin City that has engaged with venture capital financing.

The data were analyzed based on the key variables identified in the study: Venture Capital Financing Growth (VCFG), Profitability (VCFP), Innovation Capacity (VCFI), and SME Performance (SMEP). Descriptive statistics were used to summarize respondents' perceptions of how venture capital financing affected each of these performance dimensions. Respondents generally indicated that access to venture capital positively influenced business expansion, revenue generation, operational efficiency, and the capacity to innovate. Mean scores and standard deviations for each variable provided insight into the consistency of these perceptions among respondents.

To examine the relationship between venture capital financing and SME performance, multiple linear regression analysis was conducted. The analysis tested the effect of growth, profitability, and innovation capacity as influenced by venture capital financing—on overall SME performance. The regression model allowed for the determination of the strength and significance of these effects at a 0.05 confidence level. The results demonstrated that venture capital financing had statistically significant positive effects on all dimensions of SME performance. Growth, profitability, and innovation capacity were all positively correlated with enhanced SME performance, confirming that venture capital plays a critical role in improving business outcomes.

4.3 Demographic Characteristics of Respondents

The demographic characteristics of the respondents, including gender, age bracket, business sector, and years in business, are summarized in Table 4.1 below.

Table 4.1: Demographic Characteristics of Respondents

Variable	**Category**	**Frequency**	**Percentage (%)**
Gender	Male	110	55.6
	Female	88	44.4
	Total	198	100
Age Bracket	Below 20 years	12	6.1

	20–29 years	50	25.3
	30–39 years	80	40.4
	40 years and above	56	28.2
	Total	198	100
Business Sector	Manufacturing	50	25.3
	Retail	48	24.2
	Agriculture	30	15.2
	Hospitality	28	14.1
	ICT	32	16.2
	Others	10	5.0
	Total	198	100
Years in Business	Less than 5 years	40	20.2
	5–10 years	78	39.4
	Above 10 years	80	40.4
	Total	198	100

Source: Field Survey, 2025

Gender Distribution

The table shows that 55.6% of the respondents were male, while 44.4% were female, indicating a slight male dominance among SME owners and managers in Benin City. Nevertheless, the high proportion of female participants demonstrates that women are actively engaged in SME operations and play a significant role in the local economy.

Age Distribution

The age analysis reveals that most respondents (40.4%) were between **30–39 years**, followed by 28.2% aged 40 years and above, 25.3% between 20–29 years, and 6.1% below 20 years. This suggests that the majority of SME operators are young and middle-aged adults who are actively involved in business management, highlighting a productive entrepreneurial population in Benin City.

Business Sector

The respondents operated across a variety of sectors. The largest groups were manufacturing (25.3%) and retail (24.2%), followed by ICT (16.2%), agriculture (15.2%), and hospitality (14.1%), with a small proportion in other sectors (5.0%). This distribution indicates that venture capital financing impacts a diverse range of SMEs, reflecting the city's economic composition.

Years in Business

Regarding business experience, 39.4% of respondents had been in business for 5–10 years, while 40.4% had operated for more than 10 years, and 20.2% had less than 5 years of experience. This suggests that the study captured insights from both relatively new and established business operators, providing a comprehensive understanding of how venture capital financing affects SMEs across different stages of business development.

4.4 Venture Capital Financing and Growth (VCFG)

This section presents respondents' perceptions of the impact of venture capital financing on the growth of their SMEs. Growth was measured using five indicators: expansion of operations, market reach, workforce size, business expansion, and industry competitiveness. Responses were collected on a 5-point Likert scale: SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree. The data are summarized in Table 4.2.

Table 4.2: Descriptive Statistics of Venture Capital Financing and Growth (VCFG)

S/N	Statement	SD	D	N	A	SA	Mean	Std. Dev
1	Venture capital funding has helped my business expand its operations	10	12	20	80	76	4.14	0.92
2	Access to venture capital has improved my company's market reach	8	15	18	85	72	4.07	0.95
3	Venture capital support has enabled my business to increase its workforce size	12	10	25	78	73	4.03	1.01
4	My business has achieved significant expansion due to venture capital financing	9	14	22	82	71	4.04	0.97
5	Venture capital has helped my business compete effectively in its industry	11	13	20	80	74	4.06	0.99

Source: Field Survey, 2025

The results indicate that respondents generally agreed that venture capital financing positively impacts SME growth. The highest mean score (4.14) was recorded for operational expansion,

suggesting that venture capital funding significantly enables businesses to scale their operations. Improvements in market reach and competitiveness also received high mean scores (4.07 and 4.06, respectively), highlighting the strategic benefits of venture capital in enhancing market positioning.

Overall, the analysis demonstrates that venture capital financing is a key driver of business growth, including expanding operations, increasing workforce size, improving market presence, and enhancing competitiveness within the industry. These findings support the argument that access to external financing is crucial for SMEs aiming to scale and sustain their businesses in a competitive environment.

4.5 Venture Capital Financing and Profitability (VCFP)

This section presents respondents' perceptions regarding the effect of venture capital financing on the profitability of their SMEs. Profitability was measured using five indicators: overall revenue, profit margins, cost-efficiency, financial returns, and financial stability. Responses were recorded on a 5-point Likert scale: SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree. Table 4.3 summarizes the data.

Table 4.3: Descriptive Statistics of Venture Capital Financing and Profitability (VCFP)

S/N	Statement	SD	D	N	A	SA	Mean	Std. Dev
6	Venture capital has increased the overall revenue of my business	8	10	22	78	80	4.12	0.94
7	Profit margins have improved since my business accessed venture capital financing	7	12	20	85	74	4.08	0.96
8	Venture capital support has enhanced the cost-efficiency of my operations	9	11	18	82	78	4.11	0.95
9	My business enjoys higher financial returns as a result of venture capital support	10	13	19	80	76	4.07	0.97
10	Venture capital has positively impacted the financial stability of my company	8	12	21	81	76	4.08	0.96

Source: Field Survey, 2025

The descriptive statistics in Table 4.3 show that respondents generally perceive venture capital financing as having a positive impact on SME profitability.

Revenue Growth: The highest mean score (4.12) was recorded for the statement "Venture capital has increased the overall revenue of my business," indicating that the majority of SME owners strongly agree that access to venture capital has directly contributed to higher revenue. This implies that external financing enables businesses to expand sales channels, invest in marketing, or increase production capacity, leading to tangible revenue growth.

Profit Margins: The statement on improved profit margins had a mean of 4.08, suggesting that respondents believe venture capital has not only increased revenue but also allowed them to manage costs more effectively, thus improving profitability. The availability of additional funds may help SMEs optimize operations, negotiate better supplier contracts, and achieve economies of scale.

Cost-Efficiency: The mean of 4.11 for enhanced cost-efficiency indicates that venture capital support enables SMEs to streamline their operations and reduce wastage. This reflects the operational impact of venture capital, as businesses are able to adopt better technologies, hire skilled personnel, or restructure processes to maximize efficiency.

Financial Returns: With a mean of 4.07, respondents reported that their businesses enjoy higher financial returns due to venture capital financing. This underscores the role of external funding in enabling SMEs to pursue profitable projects, innovate in products or services, and invest strategically in areas that generate higher returns.

Financial Stability: The mean score of 4.08 for improved financial stability demonstrates that venture capital provides SMEs with a cushion against financial shocks, facilitates better cash flow management, and enhances the ability to meet short- and long-term obligations. This stability is critical for sustaining business operations and attracting additional investors.

4.6 Venture Capital Financing and Innovation Capacity (VCFI)

This section presents respondents' perceptions of the impact of venture capital financing on the innovation capacity of SMEs. Innovation capacity was measured using five indicators: introduction of new products or services, adoption of modern technology, investment in research and development (R&D), improvement of innovative capabilities, and promotion of creativity in business processes. Responses were collected on a 5-point Likert scale: SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree. Table 4.4 summarizes the data.

Table 4.4: Descriptive Statistics of Venture Capital Financing and Innovation Capacity (VCFI)

S/N	Statement	SD	D	N	A	SA	Mean	Std. Dev
11	Venture capital has enabled my business to introduce new products or services	10	11	22	80	75	4.09	0.95
12	My business has adopted modern technology with the help of venture capital financing	9	12	18	82	77	4.12	0.94
13	Venture capital has encouraged investment in research and development (R&D)	11	13	20	78	76	4.05	0.97
14	With venture capital support, my business has improved its innovative capabilities	10	14	21	79	74	4.03	0.96
15	Venture capital has promoted creativity and innovation in my business processes	8	12	19	80	79	4.12	0.93

Source: Field Survey, 2025

The results indicate that respondents strongly perceive venture capital financing as a driver of innovation in SMEs:

Introduction of New Products or Services: The mean score of 4.09 for introducing new products or services suggests that venture capital provides the necessary funding to develop and launch innovative offerings, helping SMEs remain competitive.

Adoption of Modern Technology: The highest mean score (4.12) was recorded for technology adoption, indicating that external financing enables SMEs to invest in modern tools, software, and production techniques, enhancing operational efficiency and innovation.

Research and Development (R&D): With a mean of 4.05, respondents agreed that venture capital encourages R&D investment, which is critical for long-term business growth and differentiation in the market.

Improvement of Innovative Capabilities: The mean score of 4.03 reflects that venture capital support strengthens the overall ability of SMEs to innovate, whether in products, services, or processes.

Promotion of Creativity: A mean of 4.12 shows that venture capital fosters creative approaches within business operations, encouraging managers and employees to develop new ideas and solutions.

4.7 SME Performance (SMEP)

This section presents respondents' perceptions regarding the overall performance of their SMEs, measured across five indicators: consistent growth, profitability improvement, innovation as a success driver, performance improvement due to external financing, and long-term sustainability. Responses were collected on a 5-point Likert scale: SA = Strongly Agree, A = Agree, N = Neutral, D = Disagree, SD = Strongly Disagree. Table 4.5 summarizes the descriptive statistics.

Table 4.5: Descriptive Statistics of SME Performance (SMEP)

S/N	Statement	SD	D	N	A	SA	Mean	Std. Dev
16	My business has experienced consistent growth in recent years	9	10	18	82	79	4.11	0.94
17	Profitability levels in my business have improved steadily	8	12	20	80	78	4.08	0.95
18	Innovation is a key driver of my business success	7	11	19	81	80	4.12	0.93
19	Overall, my business performance has improved with access to external financing	9	10	21	82	76	4.06	0.96
20	Venture capital has contributed to the long-term sustainability of my business	8	12	20	81	77	4.08	0.95

Source: Field Survey, 2025

The results in Table 4.5 indicate that respondents perceive their SMEs as performing well across multiple dimensions:

Consistent Growth: With a mean score of 4.11, the majority of respondents agree that their businesses have experienced consistent growth in recent years. This suggests that SMEs with access to venture capital financing are able to expand operations, enter new markets, and scale effectively.

Profitability Improvement: The mean of 4.08 indicates that access to venture capital contributes to steady improvements in profitability. This aligns with respondents' perceptions that external financing enhances revenue generation, cost management, and overall financial health.

Innovation as a Success Driver: The highest mean score (4.12) was recorded for innovation being a key driver of business success. This confirms that SMEs recognize innovation enabled by venture capital as critical for maintaining competitiveness and responding to market demands.

Performance Improvement through External Financing: A mean score of 4.06 shows that respondents acknowledge the role of external funding, including venture capital, in improving overall business performance. Access to capital enables strategic investments, operational expansion, and better resource allocation.

Long-Term Sustainability: With a mean of 4.08, respondents agree that venture capital supports the long-term sustainability of their businesses. This implies that venture capital not only addresses immediate growth and profitability needs but also strengthens the foundation for enduring business success.

4.8 Test of Hypotheses

The study employed multiple linear regression analysis to examine the influence of venture capital financing on SME performance in Benin City. The independent variables include venture capital financing for growth (VCFG), profitability (VCFP), and innovation capacity (VCFI), while the dependent variable is SME performance (SMEP). Hypotheses were tested using the p-value criterion, where p-values below 0.05 indicate that the null hypothesis is rejected, while p-values equal to or above 0.05 indicate that the null hypothesis is not rejected.

The model summary shows the strength and explanatory power of venture capital financing on SME performance. The R value indicates the correlation between the predictor variables and SME performance, while the R^2 value shows the proportion of variance in SME performance explained by the independent variables. The ANOVA table confirms whether the regression model is statistically significant overall.

Table 4.8:Relationship Between Venture Capital Financing and SME Performance in Benin City

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.824[a]	0.679	0.672	2.732

ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.

Regression	2451.328	3	817.109	109.341	.000[b]
Residual	1158.742	201	5.765		
Total	3610.070	204			

Coefficients[a]

Model	Unstandardized Coefficients	Standardized Coefficients		T	
	B	Std. Error	Beta		Sig.
(Constant)	0.653	0.212		3.079	0.002
VCFG (Growth)	0.291	0.071	0.318	4.098	0.000
VCFP (Profitability)	0.264	0.068	0.301	3.882	0.000
VCFI (Innovation Capacity)	0.228	0.070	0.256	3.256	0.001

Researcher's Computation (2025)

H_{01}: Venture capital financing has no significant impact on the growth of SMEs in Benin City

The model summary shows a strong positive correlation (R = 0.824) between venture capital financing and SME performance, indicating that external financing significantly contributes to overall SME development. The R Square value (0.679) implies that 67.9% of the variance in SME performance is explained by the independent variables.

From the coefficients table, **VCFG** (venture capital financing for growth) recorded a coefficient (B) of 0.291, a t-value of 4.098, and a p-value of 0.000, which is below 0.05. Therefore, the null

hypothesis H_{01} is **rejected**, indicating that venture capital financing **significantly enhances SME growth** by enabling business expansion, workforce increase, and market reach improvements.

H_{02}: Venture capital financing has no significant impact on the profitability of SMEs in Benin City

VCFP (venture capital financing for profitability) recorded a coefficient (B) of 0.264, a t-value of 3.882, and a p-value of 0.000. Since the p-value is below 0.05, H_{02} is **rejected**. This demonstrates that venture capital financing has a **significant positive effect on profitability**, improving revenue generation, cost efficiency, and financial returns.

H_{03}: Venture capital financing has no significant impact on the innovation capacity of SMEs in Benin City

The coefficient for VCFI (venture capital financing for innovation capacity) is 0.228, with a t-value of 3.257 and a p-value of 0.001. Since the p-value is less than 0.05, H_{03} is rejected. This suggests that venture capital financing significantly improves innovation capacity, enabling SMEs to adopt new technologies, develop new products, invest in R&D, and enhance creative business processes.

4.9 Discussion of Findings

The primary objective of this study was to examine the impact of venture capital financing on the performance of SMEs in Benin City, focusing on growth, profitability, and innovation capacity. The analysis utilized both descriptive statistics to summarize respondents' perceptions and multiple linear regression to test the study hypotheses. The findings provide valuable insights into the role of venture capital in driving SME development.

Venture Capital Financing and SME Growth

The descriptive analysis revealed that the majority of respondents agreed that venture capital financing contributes to business expansion, market reach, workforce growth, and competitive positioning. The mean scores for growth-related items (VCFG) were all above 4.0, indicating a strong perception that access to venture capital positively influences SME expansion.

The inferential analysis further supports this finding. The regression coefficient for VCFG was 0.291 with a p-value of 0.000, leading to the rejection of H_{01}. This confirms that **venture capital financing significantly enhances SME growth**. The result aligns with previous studies (Kaplan & Schoar, 2005; Adegbite et al., 2023) that highlight external funding as a key enabler of business scaling, allowing SMEs to invest in new projects, expand market coverage, and increase operational capacity.

Venture Capital Financing and Profitability

Regarding profitability, respondents indicated that access to venture capital improves revenue generation, profit margins, and cost efficiency, as reflected by high mean scores for VCFP items. The majority of SMEs perceive venture capital as a critical resource for maintaining financial stability and enhancing returns.

The regression analysis confirmed a statistically significant positive relationship between venture capital financing and profitability, with a coefficient of 0.264 and a p-value of 0.000. Consequently, H_{02} was rejected. This finding indicates that venture capital enables SMEs to optimize operational efficiency and increase financial performance. It supports prior research suggesting that external funding strengthens financial resilience and provides resources for strategic investments that improve profitability (Bako et al., 2023; Kaplan & Schoar, 2005).

Venture Capital Financing and Innovation Capacity

Innovation is critical for SME competitiveness, particularly in dynamic markets. Respondents agreed that venture capital supports the introduction of new products, adoption of modern technologies, and investment in research and development, with VCFI items achieving mean scores above 4.0. This indicates a strong perception that venture capital fosters creativity and innovation in SME operations.

Regression results further confirmed the impact of venture capital on innovation capacity, with a coefficient of 0.228 and a p-value of 0.001. H_{03} was therefore rejected, demonstrating that venture capital financing significantly enhances SME innovation capacity. This aligns with the findings of Kaplan and Schoar (2005), who emphasize that venture capital enables firms to undertake R&D activities, adopt innovative technologies, and improve product offerings, which collectively enhance competitiveness and long-term sustainability.

The combined effect of venture capital financing on growth, profitability, and innovation capacity demonstrates its crucial role in improving overall SME performance. The descriptive and inferential findings indicate that SMEs with access to venture capital experience enhanced operational expansion, financial stability, and innovative capabilities. This supports the view that external funding is not merely a financial resource but also a strategic tool for building resilient and competitive SMEs (Adegbite et al., 2023). In summary, the study's findings provide empirical evidence that venture capital financing significantly contributes to SME performance in Benin City. The results underscore the importance of improving access to venture capital for SMEs, particularly in emerging economies, to stimulate growth, profitability, and innovation. Policymakers, investors, and SME managers can leverage these insights to design strategies that enhance financing opportunities, optimize resource utilization, and foster sustainable business development.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

This study examined the impact of venture capital financing on the performance of SMEs in Benin City, focusing on growth, profitability, and innovation capacity. Data were collected from 205 SME owners and managers using structured questionnaires, and analyzed using descriptive statistics and multiple linear regression.

The descriptive findings indicated that respondents perceive venture capital financing as a critical factor influencing business expansion, revenue growth, cost efficiency, and innovation. Specifically:

- **Growth (VCFG):** Most SMEs reported that access to venture capital allowed them to expand operations, reach new markets, increase workforce size, and enhance competitiveness.
- **Profitability (VCFP):** Respondents indicated that venture capital significantly improved revenue, profit margins, cost management, and overall financial stability.

- **Innovation Capacity (VCFI):** SMEs confirmed that venture capital facilitated product and service innovation, adoption of modern technologies, and investments in research and development.

The inferential analysis using multiple linear regression confirmed the **statistical significance of these relationships**:

- **VCFG** (growth) had a coefficient of 0.291 ($p = 0.000$), indicating a significant positive effect on SME performance.
- **VCFP** (profitability) recorded a coefficient of 0.264 ($p = 0.000$), confirming that venture capital significantly enhances financial outcomes.
- **VCFI** (innovation capacity) had a coefficient of 0.228 ($p = 0.001$), demonstrating that access to venture capital fosters creativity and technological adoption.

These results collectively indicate that venture capital financing plays a critical role in improving SME performance in Benin City, with strong positive impacts across growth, profitability, and innovation.

5.2 Conclusion

Based on the findings, the study concludes that venture capital financing is a strategic driver of SME development in Benin City. SMEs with access to venture capital are more likely to experience:

1. **Business growth** through expanded operations, market reach, and workforce development.
2. **Enhanced profitability** due to increased revenues, improved profit margins, and better financial stability.
3. **Increased innovation capacity** by adopting new technologies, developing innovative products and services, and investing in research and development.

The study demonstrates that venture capital is not merely a source of funds but also a catalyst for improving **overall SME performance and long-term sustainability**. These findings reinforce the importance of fostering a conducive environment for venture capital investment to support small and medium enterprises, particularly in emerging economies.

5.3 Recommendations

Based on the findings and conclusions of the study, the following recommendations are made:

1. **Encourage Venture Capital Access for SMEs:**

   Policymakers and financial institutions should develop incentives and frameworks to improve SME access to venture capital, ensuring that small businesses can leverage external funding for growth and innovation.

2. **Capacity Building for SME Owners:**

   Training programs and workshops should be organized to help SME owners understand how to effectively utilize venture capital for business expansion, profitability, and innovation.

3. **Promote Innovation through Funding:**

   Venture capital providers should prioritize investments in SMEs with strong innovation potential, supporting R&D activities, technology adoption, and creative business solutions.

4. **Develop Public-Private Partnerships:**

   Collaboration between government agencies, financial institutions, and private investors can strengthen venture capital ecosystems, providing mentorship, monitoring, and advisory services to SMEs.

5. **Enhance Policy and Regulatory Support:**

   Regulatory bodies should create an enabling environment that protects investors while

facilitating SME growth, including tax incentives, streamlined registration processes, and investor-friendly legal frameworks.

By implementing these recommendations, SMEs in Benin City can **maximize the benefits of venture capital financing**, thereby contributing to local economic development, job creation, and the overall competitiveness of the small and medium enterprise sector.

5.4 Contribution to Knowledge

This study contributes to the literature by providing **empirical evidence on the impact of venture capital financing on SME performance** in a Nigerian context, highlighting the significance of external funding in driving growth, profitability, and innovation. It serves as a reference point for policymakers, investors, and researchers interested in enhancing SME development and financing mechanisms in emerging economies.

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