

The Impact of Educational Qualifications, Experience and Venture Capital Awareness on Co-Ownership of Small Enterprises in Nigeria

Obasi Rosemary¹ and Donwa Pat²

Abstract

This study “The impact of education, experience, and venture capital awareness on co-ownership of small enterprises in Nigeria” aims at ascertaining whether experience, education and venture capital awareness influence the willingness of small businesses owners to share control power of their businesses. To achieve this objective, one hundred and fifty-five small enterprises were surveyed across Edo state. The data gathered was analyzed using descriptive statistics while hypotheses were tested using correlation statistical tool as well as the t-test statistics to ascertain the significance of the correlation analysis. The study finds that, older enterprises with experience greater than six years will not accept co-ownership control. Also, the more SMEs are awareness of venture capital, the more they will be willing to share their control power. We therefore, recommend that, government should endeavour to create awareness among small enterprises owners as well as, encourage investment angels who would provide funds for beginners and government should provide incentive for SMEs who will be willing to thieve and convert into limited liability companies after ten to fifteen years of existence.

JEL classification numbers: C61, G11, G23

Key Words: Venture capital, Investment Angels, Small and Medium Enterprises, Ownership control

¹Department of Accounting, Benson Idahosa University, Benin city, Edo state.
e-mail: bsrosemary@yahoo.com & robasi@biu.edu.ng

²Department of Accountancy, University of Benin, Edo state.
e-mail: pdonwa@yahoo.com

1 Introduction

Vast literature exists on Small and Medium Enterprises (SMEs) written by various authors in Nigeria and overseas (Oyedijo, [1], Mordi, [2], Onugu [3] and Obadan [4]). The evidence of these copious literatures underscores the relevance and importance of SMEs in the development of any given economy (Owolabi, [5]; Saika, [6] and Nnanna, [7]). Georges Doriot is considered the father of the modern venture capital industry (Wikipedia, [8]). It was recorded that the first venture-backed start-up is Fairchild Semiconductor funded in 1959 by Venrock Associates (Wikipedia, [8]).

Venture capital before the World War II as recorded by literatures was exclusively the preserve of the wealthy individuals and families. But with the advent of the Small Business Administration (SBA) in the United States, venture capitalist moved towards a professionally-managed ventured capital industry. The essence of this SBA was to help finance and manage small entrepreneurial business in the United States. In Nigeria, venture capital basically was brought to the fore in the late 90s, when Small and Medium Equity Industries Scheme (SMEIS) was inaugurated. Unlike the United States story of success, the Nigeria's scheme was not so successful. Reasons were deduced for its failure include, the ownership structure, labour – intensive production processes, concentration of management on the key man, high cost of funds, high firm mortality rate etc (Onugu, 2005 [3]).

While the professionally – managed venture capital was established in Nigeria in order to respond to the Federal Government concerns and policy measures for the promotion of SMEs as vehicles for rapid industrialization, sustainable economic development, poverty alleviation and employment and experience recorded is that access of the fund was minimal (i.e. less than 30%) (Uba, 2006 [9]). The government's interest in SMEs is still high. Hence, government keeps supporting and promoting SMEs course in Nigeria.

Since the late 1970s, reports have shown that the development and encouragement of this sub-sector has changed the destiny of many developed and developing economies. In the United States, the introduction of the venture capital investment since the 1950s in some selected sectors (technology sector) led to the high development and growth of that sector. There are similar cases in Asia, Canada, Europe, etc (www.wikipedia, [8] and Omoke and Beecroft, 2012 [10]). At this point, we are forced to ask, where is Nigeria in this trend of venture capital overturn?

In Nigeria, venture capital gained recognition from late 1990s, when the then government, requested for the support of the banking industry to ensure development in the country. This plea, led to the 10% profit after tax deductions from banks profits which rose to N43Billion as at 2006. This fund was expected to be used as equity investment fund for SMEs with the aim that the experiences of the United States, India, Canada, Indonesia, Malaysia etc (*ie see*, [3], [10]) will be replicated here. In the mid 2006, the Central Bank of Nigeria (CBN) reported that only N14.7Billion out of the N43Billion has been accessed over the years; and calls were made to SMEs to access the fund (www.bidnetwork.org, 2007 [11]). The question here again, is how aware are the firms (ie SMEs) as regard the venture capital framework. Based on the foregoing, the following questions were generated to guide the focus of this study.

Research Questions: The following questions guide the direction of this study;

1. To what extent are small firms owners aware of venture capital?
2. How does experience affect the interest of small firms' owners' in participating in venture capital?

- 3. To what extent are small firms’ owners willing to allow an investor to participate in their businesses?
- 4. Do education/qualification, experience and venture capital awareness impact on the willingness to co-own a firm?

Research Objectives

The main objective of this study is to ascertain the impact of educational qualification, experience and venture capital awareness on co-ownership of small firms.

Other objectives are,

- i. To ascertain whether experience has effect on small firm ownership sharing.
- ii. To ascertain the level of small firm owners awareness of venture capital
- iii. To ascertain the relationship between educational qualification and ownership sharing of small firms.

Research Hypotheses: This study explores the following hypotheses.

- 1. Small firms ownership sharing is positively related to ventured capital awareness i.e.

$$H_o : \text{SFOs} > \text{VCAA} = 0$$

$$H_a : \text{SFOs} < \text{VCAA} = 0$$

- 2. Experience of SFs is positively related to small firms ownership sharing

$$H_o : \text{ExPage} > \text{SFOs} = 0$$

$$H_a : \text{ExPage} < \text{SFOs} = 0$$

- 3. H_o : There is no relationship between experience, educational qualifications venture capital awareness and co-ownership of small enterprises.

H_a : There is relationship between experience, educational qualifications venture capital awareness and co-ownership of small enterprises.

Research Scope

The scope of this study is the small firms, basically known as registered business names. The reason being that, this category of enterprises has the largest population of business. Hence, they affect the grassroots more than any other in the group of SMEs. They are also, the group if everything remains constant, that should be categorized as the private limited companies in the nearest future etc. Geographically, we looked at small firms across Edo State.

Significance of the Study

This study’s expected result outlines the various variables that can be used to explain the causes of the failure of the use of venture capital in Nigeria among small firms. Researchers, economists, government, banks, venture small business etc. will all be interested in this sort of research results, because it will afford SMEs the opportunity of assessing the characteristics and behavior of the industry.

2 Preliminary Notes

Studies of various researchers from different nations writing in relation to their countries and environment abound. In Nigeria, a lot has been said and written about venture capital and SMEs but none has deemed it fit to look into the specific cause(s) why small firms (business names) do not access the venture capital to enhance their businesses success.

Based on the backdrop, the pecking order theory is of interest here. Hence, this section shall delineate the relevant theories that bind this study. The next will discuss the issues that help justify the study's hypotheses using reviewed literatures and anecdotal analysis.

2.1 Theoretical Framework

Pecking Order Theory (POT) is a corporate finance theory that postulates that the cost of financing increases with asymmetric information (Effective awareness) (Wikipedia, 2012 [12]). It predicts that companies prioritize their sources of financing, first preferring internal financing, and then debt, lastly, raise equity as a "last resort". This supports the researchers' view of assessing the factors that impact on small firm's interest in financing their businesses using the equity option.

Tests of the Pecking Order Theory (POT) have not been able to show that it is of first-order importance in determining a firm's capital structure. Although Fama & French (2002 [13]) Shyam – Sunder & Myers (1999 [14]) & Frank and Goyal (2003 [15]) find that some features of the data are better explained by POT. Some researchers have shown that POT should easily apply for small firms (Frank and Goyal, 2005[16] and Fama & French [13]).

2.2 Hypothesis Justification

In 2006, the Central Bank of Nigeria lamented that, as at the end of May 2006, about ₦25,967 billion remained unused out of ₦40,735 billion set aside by commercial banks in the Small and Medium Industries Equity Investment Scheme (SMIEIS) as equity financing for small and medium entrepreneurs (www.bidnetwork.org [11]).

Chukwu (2006 [17]) and Onugu [3] acclaim that, the major problem that has been identified included environmental and cultural issues because, the "Small and Medium Entrepreneurs Equity Investment Scheme (SMEEIS), unlike most other SMEs financing arrangements, is an equity fund". He went further, "what the bank is saying to the entrepreneur is come let the bank join you in owing the company..... Nigerians want to be the owners of their companies, for example, ABC & Sons, ABC & daughters etc".

Chukwu [17] and Onugu [3] suggest that Nigerians imbibe the culture of co-ownership, and that the problem should be addressed with constant education in order to let the people know the benefits of co-ownership. To the best of our knowledge, no study has addressed these claims empirically. Hence, we predict that, given the fact that the operators have identified the problem of non-access of equity funds by Nigerian SMEs since 2006. *We expect that co-ownership positively relate to venture capital awareness.*

This outburst made critics and even the banks to ascertain the reasons for this low patronage. Alo (2006, [18]) also reported that one of the problems of the scheme lies in the fact that it was not properly sold to the stakeholders. We expect that since this problem has been identified, the firms should now be educated as to the need and requirements of venture capital given the fact that, this study is conducted four years later. In that case, *we expect that, firms that started since 2007 i.e. five years of experience and existence, should be aware of venture capital. Hence, we predict that there will be negative relationship between experience and ownership control.*

2.3 Design

The survey design is explanatory which requires output from units of interest. We adopted the survey questionnaire in eliciting the various entrepreneurs profile concerning the phenomenon under study. The population is nine hundred and sixty two Small firms. The small businesses are mostly clustered across the state; we adopted the multi-stage clustering method to identify a group from which we randomly selected a firm into our survey group.

Questionnaires were designed to capture the various issues of interest and a pilot survey was conducted to test the validity of the instrument. The data collected are basically primary, with qualitative characteristics. The questions are basically binomial because, the researchers are interested in empirically testing the claims of some experts. There were also some ordinary scaled questions as well as open ended ones. The dependent variable is Co-ownership (Cowner) and the independent variables are;

- EXPAGE - Experience
- EDUQ - Educational Qualification
- VCAWARE - Venture Capital Awareness

The data collected were analyzed using descriptive statistics of proportions and central tendencies. Correlation analysis and the t-test statistics are used to test the hypothesis. The decision rule is to reject the H_o if $t_{cal} > t_{\alpha} - 0.05$ or $- t_{cal} < - t_{\alpha} - 0.05$. The test of fitness is carried out using regression analysis.

3 Main Result

Two hundred (200) questionnaires were delivered by hand to the various firms selected. We received 163 questionnaires but 8 of them were not properly filled by the respondents so, they were expunged. The sample size was thus reduced to 155 small firms. This represents seventy-eight (78) percent.

3.1 Descriptive Statistics

We expect that firms with less than 6years of experience should allow or be willing to accommodate co-owners. Going by the proportional report, we discovered that on the whole 32 percent are willing while only 24 percent out of the 55 percent represented by 85 firms are willing to accommodate co-owner.

The low performance rate made us assess the firms' owners' educational level. We find that only 3 percent had no certificate, 39 percent school leaving certificate, 16 percent Diploma, 32 percent B.Sc holders and 10 percent other degree holder (e.g. Masters etc). Based on their educational qualification, we might come to the conclusion that the proposed awareness campaign is still dragging. Although, we cannot base our conclusions on proportion or descriptive statistical results, hence, we conducted a correlation analysis to check if the variables have any association effects.

3.2 The Correlation between Experience, Educational Qualification and Co-Ownership

This result simply means that, as the firms' experiences (i.e. age) is increasing their educational qualifications and the owners' willingness to accommodate co-owners of the firm decreases. The implication of this finding is that, these firms should be captured young. That is to say; the firms' owners should be educated of the benefits of exploring the venture capital scheme for business enhancement and development which in return should generate a better return as compared to a single owner business. This is very important because, if these firms struggle on their own and survive up to 15 – 20 years or more, the likelihood is that they will never want to share their control because, they think they can survive without anyone, but here, the issue of return must be emphasized to entice them.

The positive correlation between experiences and venture capital awareness shows that as the firms grow in experience, the more they are aware of venture capital. This implies that, the older firms seem to be aware of venture capital more than firms with less than 6 years experience. This finding could be explained by the fact that the older firms are the ones that the banks deemed fit to know more about venture capital or they are the ones being approached by venture capitalist. Another implication here is that, venture capitalist are interested in growing business and not businesses that are starting-up.

Education qualification of the various firm owners has negative correlation with all other three variables (i.e. experience ($r = - 0.19$), venture capital awareness ($r = - 0.045$) and co-ownership acceptance ($r = - 0.209$). This means that, the higher the owners educational qualification the lower the association with the other variables. The finding shows that the new firms are those with higher qualification. This implies that many Nigerians with first and second degrees are finding solace in self-employment. The result also shows that, the owners with lower educational qualification are the ones that are willing to accommodate co-owners. This finding is absurd. This is because; educated owners would have been expected to show more understanding of the use of venture capital rather, as far as the research is concerned, they are not willing. This could be a way of protesting lack of no or little support from the start of the business.

There is a weak positive correlation between venture capital awareness and co-ownership ($r = 0.186$). This shows the importance of educating owners of small firms and marketing of venture capital to small businesses. The implication of none awareness of venture capital has earlier be enunciated when the CBN [11] called in 2006 announcing that, SMEs are not accessing the equity capital provided by bankers. This result has shown that, till 2011 this problem was still on (see table 2).

The results from the correlation alone cannot enable the researchers make inference on the phenomenon under study, hence, the t-statistic is adopted to enable empirical conclusion be made.

The result of the t-test shows that, there is negative relationship between experience and co-ownership acceptance. This finding is consistent with the CBN [11] report which says that SMEs are not accessing equity capital. Since, the result shows that, older firms will not accept co-ownership of their business.

3.3 The Relationship between Co-Owner and the Independent Variables

The regression result on table 4 shows that there is relationship between experience, educational qualification, venture capital awareness and co-ownership of small enterprises ($r^2 = 0.10$, $F = 5.9297$; $p = 0.0008$). This result is statistically significant at 0.05 levels. This implies that experience, educational qualifications and venture capital awareness can impact on Co-ownership of small businesses by 10% while, there are other factors that can explain 90% of small businesses dilution of control.

4 Label of Figures and Tables

The data collected showed that firms which have been in business for less than 6 years represent 55 percent while those above 6 years represented 45 percent. Based on this, we expected that, 55% or 50% of the firms should be aware of venture capital operations. Our study's report shows that only 19 percent of the firms are aware of venture capital in general and if we focus on just the 55% that we expected because, they came into business after the year 2006 when authorities promised to educate SMEs, we find that, only 12 percent of the 55 percent are aware of venture capital representing 10 firms out of 85 firms with the ages of 1 – 6 years of existence. The table 1, below illustrates this.

Table 1: Description Statistics showing the Proportion of Variables

VARIABLES	MEASUREMENT	FREQUENCY	PROPORTION
Experience (EXPAGE)	≤ 6 years	85	0.55
	≥ 6 years	70	0.45
	Total	155	1.00
Co-owner	Yes = 1	50	0.32
	No = 2	105	0.68
		155	1.00
Venture capital awareness	Yes = 1	30	0.19
	No = 2	125	0.81
		155	1.00

The correlation results show that experience has a negative correlation with educational qualification and co-ownership ($r = -0.191$ and -0.045 respectively). While experience is positively correlated with venture capital awareness ($r = 0.055$).

Table 2: Correlation Matrix

VARIABLES	EXPAGE	EDUQ	VCAware
Experience	1.0000	-	-
EDUQ	-0.1914	1.0000	-
VC Aware	0.0548	-0.0453	1.0000
Cowner	-0.1230	-0.2095	0.1859

The result of the t-test as shown on table 3 below shows that, we reject the H_0 hypotheses of positive relationship, while, we accept the H_a of negative relationship between experience and co-ownership acceptance.

Table 3: The Result of the T-test

TEST	VARIABLES	Rcal	Rcritical	Tcal	T α = 0.05
Control	EDUQ	0.1859	0.1326	2.3819	1.655
	VC Aware	- 0.2095	0.1326	- 2.7104	1.655
Experience	EDUQ	- 0.1914	0.1326	- 2.457	1.655
	VC Aware	0.0548	0.1326	0.680	1.655
	Cowner	- 0.1225	0.1326	- 1.538	1.655

Based on the correlation effects on the variables, the researchers decided to determine the impact of the independent variables on the dependent (co-owner).

Table 4: The result of the relationship between cowner and the independent variables.

VARIABLES	C	EXPAGE	EDUQ	VCAWARE	R2Adj	F-Stat	Prob. (F-Stat)
Coefficient	1.6030	- 0.0136	- 0.0994	0.2189	0.10	5.9297	0.0008
SE	0.1927	0.0060	0.0332	0.0913			
t-statistics	8.3192	- 2.2623	- 2.9956	2.3987			
Prob. (t-statistics)	0.000	0.025	0.003	0.018			

Notes: Dependent Variable: CO-OWNER
 Method: Least Squares
 Date: 09/06/12 Time: 11:52
 Sample: 1 155
 Observation: 155

Conclusion

This study investigated the significant impact of experience, educational qualification and venture capital awareness on co-ownership culture in small enterprises. We find that, older enterprises with experience greater than 6 years will not accept co-ownership of their businesses. Also, it shows that, the more the awareness of venture capital the more willingness to share their control. Hence the researchers recommend the following:

- ❖ Entrepreneurial development must be encouraged in our higher institutions and the students must be taught the benefits of venture capital and co-ownership in business. The institutions can be used to change the culture of single ownership culture of businesses in Nigeria.
- ❖ Government and wealthy individuals should try to assist businesses that are just starting. Government can establish investment angels to help beginners. Investment angels specialize in investing in start-ups businesses. They provide funds ranging from ₦250, 000 – ₦2million.
- ❖ Government can also provide incentive for small enterprises that are willing to convert to limited liability companies after 10 to 15 years of start-up experience. This will encourage small business owners to evolve to medium size enterprise and the implication of this, is more employment, increase government revenue through taxation etc.

ACKNOWLEDGEMENTS: We like to thank the organizer of Benson Idahosa University's Business Administration's conference for the value it added to this paper. We also, say thanks to the reviewers of this paper for their time and contributions. Above all, we want to appreciate all those small business owners who give us some of their time in responding to our questions despite their busy schedule.

References

- [1] Oyedijo, Ade, "Nigeria's Economy and its Career Promise for the Mature Employee", *The Guardian Newspaper* (2005), Lagos.
- [2] Mordi, G. "SMEDAN Promises MSME Operators a Better Deal", *Businessday*, (2005). Businessday Media Ltd, Lagos.
- [3] Onugu, B. "Small And Medium Enterprises (SMEs) In Nigeria: Problems And Prospects" Dissertation (2005), Submitted To The ST. CLEMENTS UNIVERSITY. Available:
www.wasmeinfo.org/Downloads/SMALL%20AND%20MEDIUM%20ENTERPRISES%20IN%20NIGE.... Retrieved: 04/05/2007.
- [4] Obadan "Analytical Framework for Poverty Reduction: Issues of Economic Growth versus Other Strategies in Poverty Alleviation in Nigeria", *Nigeria Economic Society annual conference proceedings*, (1979). chapter 1.
- [5] Owolabi, K. "Small Business Clinic", *Businessday*, (2005). Businessday Media Ltd, Lagos.
- [6] Siaka-Momoh, "SMEs Play Vital Role in Emerging Business Models", *Small Business Journal*, (2005). Business day Media Ltd, Lagos.
- [7] Nnanna, G. "SMEDAN Explains Underdevelopment of SME Subsector", *Small Business Journal, Businessday* (2005). Media Ltd, Lagos.
- [8] www.wikipedia.com "Venture Capital, (2007) " Retrieved: 08/20/2007
- [9] Uba, C. "Small and Medium Industries Equity Investment Scheme is headache for banks". *Sun News*, Thursday, June 29, (2006), P1&4. Also available:
www.sunnewsonline.com/webpages/features/money/2006/june/29/money.
- [10] Omoke, P. and I. Becroft "Venture capital as a financing option for small and medium scale enterprises in Nigeria" *A paper presented in BIU Business Administration's conference september, 2012*.
- [11] www.bidnetwork.org "CBN:Billions of Small and Medium Enterprises funds not used by Banks"(2007) . Retrieved: 08/20/2007.
- [12] www.wikipedia.com "Pecking Order theory" Retrieved: 09/09/2012
- [13] Fama and French, "Testing trade-off and Pecking order predictions about dividends and debt" *Review of Financial Studies* (2002).
- [14] Shyam-Sunder, L. and Stewart C Myers, "Testing Static Tradeoff Against Pecking Order Models of Capital Structure," *Journal of Financial Economics* **51**, (1999) 219-244
- [15] Frank, M and Goyal, V . "Trade-off and Pecking Order Theories of Debt" *Working Paper, Centre for Corporate governance, Truck School of Business a Dartmouth* (2005). Available: <http://www.tc.umn.edu/2murra280/workingpapers/survey.pdf>. Pp 1 – 88.
- [16] Frank, M and Goyal, V. "Testing the Pecking Oder Theory of Capital Structure", *Journal of Financial Economic*, (2003). **67**, 217 – 248.

- [17] Chukwu, M. *SME Equity is headache for Banks*. available:
www.sunnewsonline.com/webpages/features/money/2006/may/30/money (2006).
Retrieved: 30-05-2006.
- [18] Alo, O. *SME Equity is headache for Banks*. Available:
www.sunnewsonline.com/webpages/features/money/2006/may/30/money (2006).
Retrieved: 30-05-2006.