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The Effect of Venture Capital Financing on the Economic Value Added Profile of Nigerian SMEs

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Abstract

This study examines the use of venture capital (VC) financing for small and medium-scale enterprise (SME) development in Nigeria by comparing the economic value added (EVA) of venture capital-backed SMEs and those of non-venture capital-backed SMEs. Three independent variables were specified namely: Equity finance, management support, and technical support, and the following tests were conducted: Paired t-tests for significance of the differences in dependent and independent means, f-test for significance of R² and t-test for significance of individual regression coefficients. 120 sets of questionnaire were administered, 60 for each category of SMEs, and a stepwise procedure followed the first response in order to maintain balanced responses between venture capital and non-venture capital-backed SMEs. Each set of questionnaire retrieved was checked for adequacy and completeness and if not, fresh questionnaires were sent out, ensuring that the objective criteria set out were met. It was found that VC financed SMEs clearly outperformed non-VC-financed SMEs, and that the distinctive performance is the effect of management support by venture capitalists in their portfolio SMEs. The study concluded that given this positive trend in enterprise sustainability, VC-backed SMEs will contribute more to society in terms of taxes to government, provision for corporate social responsibility, and staff welfare. Finally, it was recommended among other things that more incentives for VC investments should be offered to encourage greater participation.

Keywords: Venture Capital Finance, Economic Value Added, Enterprise development, Private Equity Finance**JEL Classification:** G14, G15[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1534211_code1409802.pdf?abstractid=1534211&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1534211_code1409802.pdf?abstractid=1534211&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1534211_code1409802.pdf?abstractid=1534211&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1534211_code1409802.pdf?abstractid=1534211&mirid=1&type=2)

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