

# Entrepreneurial Financing and Profitability: Evidence from Selected SMEs in Ogun State, Nigeria

<sup>1</sup>Dr. Margret N. Kabuoh <sup>2</sup>Dr. Samuel A. Ulikere, <sup>3</sup>Dr. Francis A. Akintola, <sup>4</sup>Osunsami A. Obafemi, <sup>1,2,3,4</sup>Department of Business Administration and Marketing, School of Management Sciences, Babcock University, Ilishan –Remo, Ogun State, Nigeria, Email: iheanetu2000@gmail.com

The contribution of small medium enterprises (SMEs) in any economy globally is critical and must be given adequate attention. Most of the SMEs are still constrained by poor management skills and lack of modern technology despite what private investors and government have done and still doing in order to enhance the performance of the SMEs, which may be as a result of inadequate financing leading to low profitability. This study examined the effects of entrepreneurial financing dimensions on the profitability of selected SMEs in Ogun State, Nigeria. The study adopted cross-sectional survey research design. The population comprised 1,794 owner/managers of SMEs. The sample size of 425 was drawn via Taro Yamane 1967 formula. A validated questionnaire was administered for data collection. The Average Variance Extracted of the constructs ranged from 0.741 to 0.896. The response rate was 82.4%. Data were analysed using descriptive and inferential statistics and multiple regressions. Findings from the study revealed that entrepreneurial financing dimensions (bank loans, government grant, venture capital, funds from family) had positive and significant effect on profitability of SMEs in Ogun State ( $R = 0.495$ ,  $Adj. R^2 = 0.236$ ,  $F(4, 345) = 28$ ,  $p < 0.05$ ). The study concluded that entrepreneurial financing dimensions play an important role in enhancing the profitability of selected SMEs in Ogun State, Nigeria. Thus, this study recommended that the financial institutions should creatively craft and adopt the availability of cheaper funds that would yield adequate profitability of SMEs with view to sustainability while enhancing economic growth.

**Key words:** *Bank loans, Entrepreneurial financing, Funds from family, Government grant, Gross domestic product, Profitability, Venture capital.*

## 1. Introduction

The gross domestic product (GDP) and development of any nation cannot be made possible without the contribution of Small and medium sized enterprises (SMEs). The performance of SMEs in national development is highly critical hence adequate concern by various segmentments as the government, investors and managers are paramount. Despite the creation of employment opportunities, SMEs increase per capita income and output, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic growth. However, assert from what government has done and still doing in order to raise the performance of the SMEs, most of them are still not meeting up as expected even though they are constrained by inadequate financing and poor management that has always affected their profitability level. Finance has been identified as the most important factor determining the survival and growth of SMEs in both developing and developed countries.

In developed countries such as United States of America, small and medium-sized enterprises (SMEs) play a vital role in the economy, accounting for about 50% of private sector employment, paying 43% of the total private sector payroll, generating 64% of net new private sector jobs, and creating 46% of the private-sector output (OECD, 2015). Access to finance represents a key challenge for SMEs' growth. SMEs constitute an important element of the UK's economy. There are in the region of 5.4 million SMEs in the UK who together employ 24.3m people and account for 99% of all UK businesses. They represent approximately 60% of employment and roughly 50% of total private business revenue (OECD, 2015). According to BEIS (2017), SMEs in UK suffer from access to finance barriers, due to a variety of demand and supply-side factors. The expansion of SMEs in China is a new phenomenon. According to Chen (2013), SMEs in China has grown in spite of the poor legal and financial mechanisms and institutions. Only a low number of small firms get credit in private lending agencies that usually charge high interest rates, require large amount of collaterals. (Allen & Qian, 2015).

In Africa, the major challenges facing SMEs include: lack of a supportive governance framework. SMEs suffer due to lack of legal framework that protects interests, harassment from local authorities' unsupportive tax regime and exposure to corruption (Muriithi, 2017). The second reason is lack of adequate access to credit. SMEs have little access to finance, which thus prohibit their emergence and eventual growth. This has not been easy for SMEs due to the stringent credit terms offered by financial institutions (Eric, 2016). Most SMEs do not have access to finance due to lack of minimum requirements from commercial banks, and these banks are hesitant in lending to SMEs due to lack of collateral, credit history, financial statement and banking history (Kauffmann, 2018). Access to finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities (Kauffmann, 2018).

In Nigeria, SMEs have not performed creditably well. They have thus fallen below expectations as regards their role in improving the level of economic activity (Onugu & Uzundu, 2015). The sector has made some contribution to the economic development of the nation, but the contribution is far below the level achieved by countries like India, Malaysia, Indonesia and the United State of America. Despite that, SMEs in Nigeria employ about 60 % of the labour force, they contribute only 35 % of industrial output and account for 10 % of industrial exports (Akingunola, *et. al.* 2018). Eniola & Entebang (2015) believed that SMEs in Nigeria are plagued with high rate of failure and underperformance due to inadequate financial support. This low contribution of SMEs to the development of the Nigeria economy has been attributed to lack of access to credit from the formal financial system. A lot of literature has underscored the importance of credit for the development of SMEs. The formal financial system in Nigeria provides service to 35% of the economically active population while the remaining 65% are excluded from access to financial services. These 65% are often served by informal financial sector (CBN, 2014).

The main problem confronting SMEs is access to finance. Banks have been very reluctant to grant loans to SMEs, which they regard as a high-risk sub-sector. The lack of information transparency on the part of SMEs creates difficulty for external agents to identify their financial circumstances (Aabi, 2014). Ologbenla (2018) saw the challenges faced by SMEs as poorly developed distribution channels as a result of poor public perception, lack of requisite skill to participate in highly specialized transactions, inability to attract and retain skilled talent, inability to adjust to new information and communication technology, low investment and asset management capabilities, and poor regulatory oversight. The enumerated challenges facing SMEs give rise to little or non-profitability and eventually to early closure.

The objective of this study was to examine the effects of entrepreneurial financing dimensions on the profitability of selected SMEs in Ogun State, Nigeria. The study carried out an analysis of data using regression analysis and the rest were structured in this manner: Section 2, the study presented extant literature from three perspectives of conceptual, theoretical underpinning and empirical review and development of hypothesis were presented. Section 3, methodology. Section 4, the study considered the data analysis, results, interpretation and discussion of findings. Finally is the conclusion and recommendations and contribution to knowledge found in section 5 of the study.

## **2.0 Extant Literature**

**2.1 Conceptual Review:** All study constructs were reviewed in this section.

### **2.1.1 Entrepreneurial Financing**

This entails the understanding of the importance along with the distribution of resources and its application to start-ups (Maleki, 2015). The domain of entrepreneurial finance has helped

in resolving significant questions that confront all entrepreneurs in respect of how much finance to raise; when should it be sourced and where, as well as how much will be considered appropriate for the new venture; and how should the financing be structured? (Salamzadeh, 2015). Many traditional avenues for financing that entrepreneurs approach for funding are sceptical about the business and financial plans, demand for high equity participation, exert firm control and managerial influence and have little knowledge of the characteristic growth process that start-ups go through (Salamzadeh & Kawamorita-Kesim, 2015).

Finance can be sourced both internally and externally. Internal finance is sometimes interchangeably called informal finance, is made up of all funds raised internally including retained profit and household savings (Ayyagari, Demirguc-Kunt & Maksimovic, 2010). According to Straub (2005), internal financing consists of loans supported from family members, moneylenders, rotating savings, and credit associations and fund from non-profit organizations. It fundamentally consists of all sources of finance obtained from outside the firm (Ayyagari, *et al.*, 2010). In sharp contrast, Reynolds (2011) indicates that firms get their formal financing after they have legally registered to become an entity.

#### **2.1.1.1. Bank Loan**

Bank loan is the money that banks give out as loans and advances with the future date of repayment (Iloh & Chioke, 2015). The Central Bank of Nigeria has a broader definition of bank loan, and this includes an aggregate of all loans, advances, overdrafts, bills discounted bank guarantees, banks acceptances, commercial papers, leases and indemnities (Iloh & Chioke, 2015). Bank loan consists of overdrafts and discounts of specific sums, which are ordinarily with conditions available to individuals, small and medium sized business to start, grow or sustain any economic activity (John & Onwubiko, 2013). Bank loan consists of overdrafts and discounts of specific sums, which are ordinarily with conditions available to individuals, small and medium sized business to start, grow or sustain any economic activity (John & Onwubiko, 2013). The Nigerian banking sector is germane to the growth of the nation's economy, however, the process to strengthen it has led to several reforms over the years (Askhia, Kabuoh, Makinde & Akhamiokhor, 2019).

#### **2.1.1.2 Government Grant**

Government is deeply involved in the support of SMEs and thus provides different types of financial supports to small and medium sized enterprises. All of which are country specific. According to Invest Europe (2016), government agencies provided 36% of the venture capital that was raised on the central and eastern European markets in 2015. Seo (2017) stated that the reason why government's economic policies have such a strong orientation towards SMEs is that they have a relatively larger potential in providing more jobs, thus enhancing the economic growth of the nation. They do this by providing equity, which is seen as key

mechanism for economic growth, to raise the quantity and quality of labour and capital (Van der Schans, 2015). Financing SMEs is not an easy task and should not only be left in the hands of the government. Supporting sources provided by government have been demonstrated to rarely work on its own, but it has worked more as a supplement to other sources. The implication is that every individual government has to figure out how to design its own financial support to SMES (Seo, 2017).

### **2.1.1.3 Venture Capital**

EVCA (2013) defined venture capital as professional equity that is co-invested with the entrepreneur to fund an early stage (seed and start-up) or expansion venture. Venture capital has been used as a tool for economic development in a variety of developing regions. In many of these regions, with less developed financial sectors, venture capital plays a role in facilitating access to finance for small and medium enterprises (SMEs), which in most cases would not qualify for receiving bank loans.

### **2.1.1.4 Funds from Family**

More than 50 percent of SMEs in Nigeria are sole proprietorships obtaining their start-up capital mostly from personal savings, family, and from friends and relatives. Usually the capital base of such companies hardly exceed N1 million, thus, making expansion in their investments difficult. Where there are partnerships or Plc., the sole proprietor owns more than 60 percent of the capital stock (Gbandi & Amissah, 2014). These kinds of funds facilitate the earliest working capacity of enterprises. In the startup level, the capital needs of the new venture are moderately small (Mitter & Kraus, 2011). However, the longer the entrepreneur is capable of surviving on owner's capital, coupled with the long hours of work (sweat equity) and the cash flow of the firm definitely minimises the risk associated with external funding. Besides, avoiding external financing greatly reduces undue pressure from financiers and this gives the owner more independence and the latitude to manage the organisation better (Markova & Petkovska-Mircevska, 2009).

### **2.1.2 Profitability**

Profitability is the primary goal of all business ventures. Without profitability, the business will not survive in the long run, so measuring current and past profitability and projecting future profitability is very important. Profitability is measured with income and expenses. Firms constantly look for ways to change the business to improve profitability (Hofstrand, 2015).

Profitability analysis can be internal because it is related with analysis of internal working of a business. The owners can measure the worth of their investment as ability to get a return. The employees are concerned with their wage rates, bonus and other fringe benefits. Proper

measurement and analysis of profitability satisfies the employees for they are getting at present. If there is some surplus in profitability, the employees can justify their new demands. The creditors can rely on profitability and treat their investment safe. Profitability is an important factor for all concerned with a particular business enterprise, either directly or indirectly (Pandey, 2015).

## **2.2 Theoretical Underpinning**

### **2.2.1 Signalling Theory**

The theory was propounded by Michael Spence in 1973, Signalling theory has been used to explain how firms communicate their quality and intentions to investors. For instance, debt and dividends signal quality because low quality firms presumably cannot keep up interest payments over the long run (Bhattacharya, 1979). Signalling theory is used to explain which start-ups get funded by investors and which do not raise capital. The next step is to characterize the signals as either positive or negative in terms of their effects on subsequent investments or valuations by public or private investors (Connelly, Certo, Ireland, & Reutzel, 2011). Most of the research looks only at deliberate positive signals because of the tendency to suppress negative signals (Connelly *et al.*, 2011). Yet, some negative signals are communicated unintentionally as a by-product of some other action.

## **2.3 Empirical Review**

### **2.3.1 Entrepreneurial Financing and Profitability**

Njeru (2014) evaluated the effect of credit financing on profitability of small and medium sized enterprises in Nairobi county. The target population was SMEs licensed to operate in Nairobi County. The significance of the results was tested at 95% significance level and the study found that credit financing had positive effect on profitability of small and medium sized enterprises in Nairobi County. Fred, Adegbuyi, Olokundun, Peter, Amaihian, & Ibidunni (2018) carried out a study on government financial support and financial performance of SMEs. The result revealed that financial assistance has significant impact on the financial performance of SMEs. This also is supported by the work of Ntiamoah, Li, & Kwamega (2016) who asserted that financial assistance offered by government could help generate more cash flows, which is a direct way of easing any financial constraints. However, there was evidence to show that access to funding is not adequate. This is in agreement with the study of Taiwo, Falohun, & Agwu (2016) which highlighted that SMEs are confronted with the challenge of limited access to financial resources compared to larger firms which has consequences for their growth and development.

Memba (2011) examined the impact of venture capital finance on performance of SMEs. The findings revealed that the venture capital has an impact on the performance of SMEs. This

was also supported by Memba, Gakure, & Karanja (2012) who examined the venture capital impact on growth of SMEs in Kenya, their findings also revealed that venture capital has an impact on growth of SMEs. Njeru (2014) evaluated the effect of credit financing on profitability of small and medium sized enterprises and found positive result in Nairobi County. Gichuki, Mulu-Mutuku, & Kinuthia (2014) studied the performance of women owned enterprises accessing credit from village credit and saving association. The result indicated that credit from village and saving association has significant impact on the performance of women owned enterprises. The findings revealed that some selected factors income, credit and education level of the respondents influenced positive changes in the net profits and capital of the SMEs. Andersson (2018) also examined the start-up funding intentions among nascent non-profit entrepreneurs and found out that an apparent preference for start-up are funding from philanthropic grants and private donations, along with the personal contributions of the founder and this revealed that there is relationship between the variables. The result indicates that funds from family have significant effect on the performance of the SMEs.

On the basis of the above inconclusive debate and mixed results of prior studies, this study proposed the following research objective, research question and hypothesis as follows:

**Research Objective:** *To examined the effects of entrepreneurial financing dimensions on the profitability of selected SMEs in Ogun State, Nigeria.*

**Research Question:** *What is the effect of entrepreneurial financing dimensions on the profitability of selected SMEs in Ogun State, Nigeria?*

**Research Hypothesis:** *Entrepreneurial financing dimensions have no significant effect on the profitability of selected SMEs in Ogun State, Nigeria*

### **Model Specification**

$$Y = f(X)$$

X = Independent Variable

Y = Dependent Variable

Where: X = Entrepreneurial Financing (EF)

$$X = (x_1, x_2, x_3, x_4)$$

$$EF = (BL, GG, VC, FF)$$

Where:  $x_1$  = Bank loan (BL),  $x_2$  = Government grant (GG),  $x_3$  = Venture capital (VC),  $x_4$  = Funds from family (FF)

Where:  $y$  = Profitability (PFT),  $\alpha_0$  = intercept of the model,  $\beta_1 - \beta_4$  = coefficients of the independent variable,  $e$  = error term

**Functional Relationship:**  $PFT = f(BL, GG, VC, FF)$

**Regression Model:**  $PFT = a_0 + \beta_1 BL + \beta_2 GG + \beta_3 VC + \beta_4 FF + e_i$

### 3. Methodology

The study adopted a quantitative research approach. A cross-sectional survey research design was used. The population of study was based on the available SMEs in Ogun State is 1,794 (SMEDAN, 2013).

#### 3.1 Sample Size Determination:

Taro Yamane (1967) formula was adopted for the sample size determination.

$$\text{Formula: } n = \frac{N}{1 + N(e)^2}$$

Where:  $n$  = sample size,  $N$  = Total population size for the study,  $e$  = Margin error which is 5% (0.05), Confidence level = 95%

Therefore;

$$n = \frac{1794}{1 + 1794(0.05)^2}$$

$$n = \frac{1794}{1 + 1794(0.0025)}$$

$$n = \frac{1794}{1 + 4.485}$$

$$n = \frac{1794}{5.485}$$

$$n = 327$$

Allowing for 30% non-respondents

Sample size:  $30/100 * 327 = 98.1$

Sample size:  $98.1 + 327 = 425.1$  approximately 425.

#### 3.2 Method of Data Collection/ Validity of Research Instrument

Data for this study was gathered from primary sources, for which useful findings, conclusion and recommendations for the study was drawn. The primary data was collected using

validated questionnaire. Exploratory factor analysis (EFA) was used to statistically measure construct validity. The Average Variance Extracted (AVE) > 0.5 was used to test the construct and convergent validity of the research instrument. The result of Kaiser-Meyer-Olkin (KMO) is greater than 0.5, it means that the questions actually measure the variables in the study. Bartlett test of sphericity result is less than 5% indicating that statement comprised in the research instruments of each variable actually measured what were intended. Also, the composite reliability (CR) for all the constructs is above 0.70. Thus, all the variables demonstrated adequate convergent reliability. Based on the results, the research instrument was considered valid for the main study. The result of the AVE, CR, KMO and Bartlett test of Sphericity can be seen in the table 1 below.

**Table 1. Validity of research instrument**

S/N	Variables	No of Items	KMO	Bartlett Test of Sphericity	Sig	AVE	CR
1	Bank Loan	5	0.782	184.765	0.000	0.741	0.711
2	Government Grant	5	0.944	177.033	0.000	0.894	0.978
3	Venture Capital	5	0.851	89.679	0.000	0.808	0.835
4	Funds from family	5	0.754	189.331	0.000	0.813	0.718
5	Profitability	5	0.874	187.490	0.000	0.896	0.814

Source: Pilot study SPSS result, 2020

## 4.0 Data Analysis, Results and Discussion of Findings

### 4.1 Descriptive Statistics

The analysis of the study stems from descriptive analysis as shown in tables 2-6 below while table 7 depicts the inferential analysis of the study.

**Table 2. Descriptive analysis of Bank loan**

Bank Loan	VH	H	MH	ML	L	VL	MSN	Total	
	F %	F %	F %	F %	F %	F %	F %	Mean	Standard Deviation
Quick disbursement of loan	110 31.43%	37 10.57%	82 23.43%	81 23.14%	35 10.00%	5 1.43%	0 0.00%	4.26	1.44
Quality of service of financial institution's staff	45 12.86%	94 26.86%	89 25.43%	88 25.14%	27 7.71%	6 1.71%	1 0.29%	4.06	1.24
Low interest rate/cost of borrowing	43 12.29%	71 20.29%	116 33.14%	81 23.14%	33 9.43%	5 1.43%	1 0.29%	3.97	1.22
Convenient repayment period	37 10.57%	106 30.29%	93 26.57%	75 21.43%	32 9.14%	6 1.71%	1 0.29%	4.05	1.23
Absence of requirement for immovable property as collateral	87 24.86%	58 16.57%	62 17.71%	87 24.86%	45 12.86%	8 2.29%	3 0.86%	4.05	1.51
<b>Grand Mean/SD</b>								<b>4.08</b>	<b>1.33</b>

Source: Researchers' Survey (2020)

Table 2 shows the descriptive analysis of the respondent's opinion on bank loan. It is seen from the table that 31.43% of the respondents had need for quick disbursement of loan to be very high, 10.57% were high, 23.43% were moderately high, 23.14% were moderately low, 10% were low, while 1.43% were very low. There were no missing responses. The mean and standard deviation therefore is given as 4.26 and 1.44 respectively. On the average, the respondents had moderately high need for quick disbursement of loan. Still from the table, we can see that 12.86% of respondents, had very high need for quality of service of financial institution's staff, 26.86% were high, 25.43% were moderately high, 25.14% were moderately low, 7.71% were low, while 1.71% were very low and the missing responses are 0.29%. The mean value and standard deviation are given as 4.06 and 1.24 respectively. This implies that on the average, the respondents had moderately high need for quality of service of financial institution's staff. The table further reveals that 12.29% of the respondents had very high need for low interest rate/cost of borrowing, 20.29% were high, 33.14% were moderately high, 23.14% were moderately low, 9.43% were low, while 1.43% were very low and the missing responses are given as 0.29%. The mean and standard deviation value is thus given as 3.97 and 1.22 respectively. Therefore, on the average, the respondents had moderately high need for low interest rate/cost of borrowing. The table also shows that

10.57% of the respondents had very high need for convenient repayment period, 30.29% were high, 26.57% were moderately high, 21.43% were moderately low, 9.14% were low while 1.71% were very low and 0.29% were missing responses. The mean value and standard deviation is given as 4.05 and 1.23 respectively. This shows that on the average, the respondents had moderately high need for convenient repayment period. Finally, the table reveals that 24.86% of the respondents had very high need for absence of requirement for immovable property as collateral, 16.57% were high, 17.71% were moderately high, 24.86% were moderately low, 12.86% were low while 2.29% were very low and 0.86% were missing responses. The mean and standard deviation value for the item is given as 4.05 and 1.51 respectively. Based on the average value, the respondents had moderately high need for absence of requirement for immovable property as collateral. The grand mean and standard deviation values are given as 4.08 and 1.33 respectively and this gives the implication that there is a moderately high need for bank loan as a factor.

**Table 3 Descriptive analysis of government grant**

Government Grant	VH	H	MH	ML	L	VL	MSN	Total	
	F %	F %	F %	F %	F %	F %	F %	Mean	Standard Deviation
Lowering of taxes	84 24.00%	55 15.71%	100 28.57%	86 24.57%	23 6.57%	2 0.57%	0 0.00%	4.24	1.27
Simplification of regulations	35 10.00%	87 24.86%	100 28.57%	87 24.86%	38 10.86%	2 0.57%	1 0.29%	3.95	1.20
Government loans	45 12.86%	76 21.71%	114 32.57%	91 26.00%	23 6.57%	1 0.29%	0 0.00%	4.07	1.13
Subsidies	33 9.43%	80 22.86%	96 27.43%	89 25.43%	46 13.14%	5 1.43%	1 0.29%	3.85	1.24
Providing better infrastructure	61 17.43%	77 22.00%	97 27.71%	89 25.43%	15 4.29%	7 2.00%	4 1.14%	4.12	1.30
<b>Grand Mean/SD</b>								<b>4.05</b>	<b>1.23</b>

Source: Researchers' Survey (2020)

Table 3 shows the descriptive analysis of the respondent's opinion on government grant. It is shown from the table that 24% of the respondents had very high lowering of taxes, 15.71% were high, 28.57% were moderately high, 24.57% were moderately low, 6.57% were low, while 0.57% were very low. There were no missing responses. The mean and standard deviation therefore is given as 4.24 and 1.27 respectively. On the average, the respondents had moderately high lowering of taxes. Still from the table, we can see that 10% of the

respondents, had very high simplification of regulations, 24.86% were high, 28.57% were moderately high, 24.86% were moderately low, 10.86% were low, while 0.57% were very low and the missing responses are 0.29%. The mean value and standard deviation are given as 3.95 and 1.20 respectively. This implies that on the average, the respondents had moderately high simplification of regulations. The table further reveals that 12.86% of the respondents had very high government loans, 21.71% were high, 32.57% were moderately high, 26% were moderately low, 6.57% were low, while 0.29% were very low and the missing responses are none. The mean and standard deviation value is thus given as 4.07 and 1.13 respectively. Therefore, on the average, the respondents had moderately high government loans. The table also show that 9.43% of the respondents had very high subsidies, 22.86% were high, 27.43% were moderately high, 25.43% were moderately low, 13.14% were low while 1.43% were very low and 0.29% were missing responses. The mean value and standard deviation is given as 3.85 and 1.24 respectively. This shows that on the average, the respondents had moderately high subsidies. Finally, the table reveals that 17.43% of the respondents had very high providing better infrastructure, 22% were high, 27.71% were moderately high, 25.43% were moderately low, 4.29% were low while 2% were very low and 1.14% were missing responses. The mean and standard deviation value for the item is given as 4.12 and 1.30 respectively. Based on the average value, the respondents had moderately high response for providing better infrastructure. The grand mean and standard deviation values are given as 4.05 and 1.23 respectively and this gives the implication that there is a moderately high need for government grant as a factor.

**Table 4 Descriptive analysis of venture capital**

Venture Capital	VH	H	MH	ML	L	VL	MSN	Total	
	F %	F %	F %	F %	F %	F %	F %	Mean	Standard Deviation
Seed financing	39 11.14%	65 18.57%	135 38.57%	92 26.29%	16 4.57%	1 0.29%	2 0.57%	4.02	1.09
Start up financing	25 7.14%	79 22.57%	132 37.71%	89 25.43%	24 6.86%	0 0.00%	1 0.29%	3.97	1.04
Growth financing	31 8.86%	85 24.29%	128 36.57%	85 24.29%	18 5.14%	1 0.29%	2 0.57%	4.04	1.08
Expansion financing	35 10.00%	92 26.29%	122 34.86%	80 22.86%	20 5.71%	1 0.29%	0 0.00%	4.11	1.07
Management Buy in/ Buy out	36 10.29%	65 18.57%	139 39.71%	91 26.00%	16 4.57%	0 0.00%	3 0.86%	4.01	1.09
							<b>Grand Mean/SD</b>	<b>4.03</b>	<b>1.07</b>

Source: Researchers' Survey (2020)

Table 4 shows the descriptive analysis of the respondent's opinion on venture capital. It is shown from the table that 11.14% of the respondents had very high seed financing, 18.57% were high, 38.57% were moderately high, 26.29% were moderately low, 4.57% were low, while 0.29% were very low. The were 0.57% missing responses. The mean and standard deviation therefore is given as 4.02 and 1.09 respectively. On the average, the respondents had moderately high seed financing. Still from the table, we can see that 7.14% of the respondents, had very high start up financing, 22.57% were high, 37.71% were moderately high, 25.43% were moderately low, 6.86% were low, while none were very low and the missing responses are 0.29%. The mean value and standard deviation are given as 3.97 and 1.04 respectively. This implies that on the average, the respondents had moderately high start up financing. The table further reveals that 8.86% of the respondents had very high growth financing, 24.29% were high, 36.57% were moderately high, 24.29% were moderately low, 5.14% were low, while 0.29% were very low and the missing responses were 0.57%. The mean and standard deviation value is thus given as 4.04 and 1.08 respectively. Therefore, on the average, the respondents had moderately high growth financing. The table also shows that 10% of the respondents had very high expansion financing, 26.29% were high, 34.86% were moderately high, 22.86% were moderately low, 5.71% were low while 0.29% were very low and none were missing responses. The mean value and standard deviation is given as 4.11 and 1.07 respectively. This shows that on the average, the respondents had moderately high expansion financing. Finally, the table reveals that 10.29% of the respondents had very high management buy in/buyout, 18.57% were high, 39.71% were moderately high, 26% were moderately low, 4.57% were low while none were very low and 0.86% were missing responses. The mean and standard deviation value for the item is given as 4.01 and 1.09 respectively. Based on the average value, the respondents had moderately high response for management buy in/buy out. The grand mean and standard deviation values are given as 4.03 and 1.07 respectively and this gives the implication that there is a moderately high need for venture capital as a factor.

**Table 5 Descriptive analysis for funds from family**

Funds from Family	VH	H	MH	ML	L	VL	MSN	Total	
	F %	F %	F %	F %	F %	F %	F %	Mean	Standard Deviation
Saving behavior	46 13.14 %	90 25.71 %	105 30.00 %	95 27.14 %	12 3.43 %	1 0.29 %	1 0.29%	4.16	1.11
Family loans	23 6.57%	107 30.57 %	140 40.00 %	62 17.71 %	14 4.00 %	4 1.14 %	0 0.00%	4.15	1.00
Family allowance	29 8.29%	110 31.43 %	122 34.86 %	73 20.86 %	15 4.29 %	1 0.29 %	0 0.00%	4.18	1.01
Pension loan	25 7.14%	105 30.00 %	127 36.29 %	65 18.57 %	24 6.86 %	3 0.86 %	1 0.29%	4.08	1.08
Investment habit	41 11.71 %	117 33.43 %	124 35.43 %	55 15.71 %	12 3.43 %	1 0.29 %	0 0.00%	4.33	1.01
							<b>Grand Mean/SD</b>	<b>4.18</b>	<b>1.04</b>

Source: Researchers' Survey (2020)

Table 5 shows the descriptive analysis of the respondent's opinion on funds from family. It is seen from the table that 13.43% of the respondents had very high saving behaviour, 25.71% were high, 30% were moderately high, 27.14% were moderately low, 3.43% were low, while 0.29% were very low and 0.29% were missing responses. The mean and standard deviation therefore is given as 4.16 and 1.11 respectively. On the average, the respondents had moderately high saving behaviour. Still from the table, we can see that 6.57% of respondents, had very high need for family loans, 30.57% were high, 40% were moderately high, 17.71% were moderately low, 4% were low, while 1.14% were very low and the missing responses are none. The mean value and standard deviation are given as 4.15 and 1.00 respectively. This implies that on the average, the respondents had moderately high family loans. The table further reveals that 8.29% of the respondents had very high need for family allowance, 31.43% were high, 34.86% were moderately high, 20.86% were moderately low, 4.29% were low, while 0.29% were very low and there were no missing responses given. The mean and standard deviation value is thus given as 4.18 and 1.01 respectively. Therefore, on the average, the respondents had moderately high need for family allowance. The table also shows that 7.14 of the respondents had very high need for pension loan, 30% were high,

36.29% were moderately high, 18.57% were moderately low, 6.86% were low while 0.86% were very low and 0.29% were missing responses. The mean value and standard deviation is given as 4.08 and 1.08 respectively. This shows that on the average, the respondents had moderately high need for pension loan. Finally, the table reveals that 11.71% of the respondents had very high investment habit, 33.43% were high, 35.43% were moderately high, 15.71% were moderately low, 3.43% were low while 0.29% were very low and none were missing responses. The mean and standard deviation value for the item is given as 4.33 and 1.01 respectively. Based on the average value, the respondents had moderately high investment habit. The grand mean and standard deviation values are given as 4.18 and 1.04 respectively and this gives the implication that there is a moderately high need for funds from family as a factor.

**Table 6 Descriptive analysis of profitability**

Profitability	VH	H	MH	ML	L	VL	MSN	Total	
	F	F	F	F	F	F	F	Mean	Standard Deviation
	%	%	%	%	%	%	%		
Return on Investment	73 20.86%	85 24.29%	106 30.29%	76 21.71%	7 2.00%	2 0.57%	1 0.29%	4.37	1.16
Return on Asset	34 9.71%	110 31.43%	130 37.14%	65 18.57%	10 2.86%	1 0.29%	0 0.00%	4.26	.98
Gross Profit margin	45 12.86%	92 26.29%	145 41.43%	56 16.00%	10 2.86%	1 0.29%	1 0.29%	4.28	1.02
Gross Net Profit	41 11.71%	104 29.71%	132 37.71%	61 17.43%	11 3.14%	1 0.29%	0 0.00%	4.29	1.01
Return on capital employed	37 10.57%	104 29.71%	129 36.86%	70 20.00%	5 1.43%	5 1.43%	0 0.00%	4.24	1.03

Source: Researcher's Survey (2020)

Table 6 shows the descriptive analysis of the respondent's opinion on profitability. It is shown from the table that 20.86% of the respondents had very high return on investment, 24.29% were high, 30.29% were moderately high, 21.71% were moderately low, 2% were low, while 0.57% were very low. 0.29% were missing responses. The mean and standard deviation therefore is given as 4.37 and 1.16 respectively. On the average, the respondents had high return on investment. Still from the table, we can see that 9.71% of the respondents, had very high return on asset, 31.43% were high, 37.14% were moderately high, 18.57% were moderately low, 2.86% were low, while 0.29% were very low and the missing responses are none. The mean value and standard deviation are given as 4.26 and 0.98 respectively. This implies that on the average, the respondents had moderately high return on

asset. The table further reveals that 12.86% of the respondents had very high gross profit margin, 26.29% were high, 41.43% were moderately high, 16% were moderately low, 2.86% were low, while 0.29% were very low and the missing responses were 0.29%. The mean and standard deviation value is thus given as 4.28 and 1.02 respectively. Therefore, on the average, the respondents had moderately high gross profit margin. The table also show that 11.71% of the respondents had very high gross net profit, 29.71% were high, 37.71% were moderately high, 17.43% were moderately low, 3.14% were low while 0.29% were very low and none were missing responses. The mean value and standard deviation is given as 4.29 and 1.01 respectively. This shows that on the average, the respondents had moderately high gross net profit. Finally, the table reveals that 10.57% of the respondents had very high return on capital employed, 29.71% were high, 36.86% were moderately high, 20% were moderately low, 1.43% were low while 1.43% were very low and none were missing responses. The mean and standard deviation value for the item is given as 4.24 and 1.03 respectively. Based on the average value, the respondents had moderately high customer feedback.

#### 4.2 Inferential Statistics

**Table 7 Regression analysis of entrepreneurial financing variables and profitability**

Entrepreneurial Financing Variables and Profitability					
Model		Unstandardized Coefficients		T	Sig.
		B	Std. Error		
1	(Constant)	11.061	1.132	9.769	.000
	Bank Loan	.086	.057	1.511	.132
	Government Grant	-.202	.064	-3.148	.002
	Venture Capital	.039	.072	.538	.591
	Funds from Family	.571	.068	8.364	.000
a. Dependent Variable: Profitability					
<b>R = 0.495, Adj. R<sup>2</sup> = 0.236, F (4, 345) = 28, p &lt; 0.05</b>					

Source: Researcher's Survey (2020)

Table 7 shows the result of a regression test to establish the effect of entrepreneurial financing variables on profitability. The results obtained for this analysis include (R = 0.495, Adj. R<sup>2</sup> = 0.236, F(4, 345) 28, P < 0.05). The R = 0.495 shows the level at which the

relationship between entrepreneurial financing variables and profitability can be measured. By this, the result shows that high positive relationship exists between entrepreneurial financing dimensions and profitability. This implies that as entrepreneurial financing dimensions are improved upon, it leads to a proportionate rise or increase in market share. The adjusted  $R^2$  which is referred to as coefficient of determination for multiple measured model is given as 0.236. This signifies that the effect of entrepreneurial financing variables on profitability is given as 23.6%. The implication here is that 23.6% of the changes or variation in profitability can be accounted for by entrepreneurial financing dimensions.

The table further reveals that the coefficients of the regression model designed to investigate the effect of entrepreneurial financing variables are provided. From the results, bank loan, government grant, venture capital, and funds from family contribute significantly to profitability of SMEs. The results show the unstandardized coefficients of bank loan [ $\beta = 0.086$ ,  $p = 0.132$ ] and venture capital [ $\beta = 0.039$ ,  $p = 0.591$ ] to be insignificant as  $p > 0.05$  while government grant [ $\beta = -0.202$ ,  $p = 0.002$ ] and funds from family [ $\beta = 0.571$ ,  $p = 0.000$ ] are all statistically significant. This thus, implies that a percentage increase in bank loan will have a 8.6% increase in profitability of SMEs, a percentage increase in venture capital will have a 3.9% increase in profitability of SMEs, a percentage increase in government grant will have a -20.2% increase in profitability of SMEs, while a percentage increase in funds from family will have a 57.1% increase in the profitability of SMEs. The regression model is thus expressed as:

$$\text{PFT} = a_0 + \beta_1\text{BL} + \beta_2\text{GG} + \beta_3\text{VC} + \beta_4\text{FF} + e_i$$
$$\text{PFT} = 11.061 + 0.086\text{BL} - 0.202\text{GG} + 0.039\text{VC} + 0.571\text{FF} + e_i$$

The *a priori* expectation was that the variables of contextual factors will have a significant effect on profitability. Thus, the null hypothesis should be rejected if  $\beta_1 - \beta_4 \neq 0$  and  $p \leq 0.05$  otherwise it has to be accepted. Based on the results in the table, the coefficients of the measures of contextual factors are not equal to zero and their  $p$  values are found to be less than 0.05. With the  $F$  value given as 28 accompanied by a  $p$  value of 0.000, we have to reject the null hypothesis and conclude that contextual factors indicated thus that the overall model is statistically significant.

## Discussion of Findings

The study evaluated the effect of entrepreneurial finance dimensions (bank loan, government grant, venture capital, funds from family) on the profitability of small and medium sized enterprises in Ogun State, Nigeria. The results showed statistically significant variations showing that entrepreneurial financing dimensions have positive impact on the profitability of the small and medium enterprises in Ogun State, Nigeria. In terms of concept, Njeru (2014) evaluated the effect of credit financing on profitability of small and medium sized

enterprises in Nairobi county. The target population was SMEs licensed to operate in Nairobi county. The significance of the results was tested at 95% significance level and the study found that credit financing had positive effect on profitability of small and medium sized enterprises in Nairobi County.

In similar study, Fred, Adegbuyi, Olokundun, Peter, Amaihian, & Ibidunni (2018) carried out a study on government financial support and financial performance of SMEs. The result revealed that financial assistance has significant impact on the financial performance of SMEs. This also is supported by the work of Ntiamoah, Li, & Kwamega (2016) who asserted that financial assistance offered by government could help generate more cash flows, which is a direct way of easing any financial constraints. However, there was evidence to show that access to funding is not adequate. This is in agreement with the study of Taiwo, Falohun, & Agwu (2016) which highlighted that SMEs are confronted with the challenge of limited access to financial resources compared to larger firms which has consequences for their growth and development. Memba (2011) examined the impact of venture capital finance on performance of SMEs. The overall objective was to establish the impact of venture capital on performance of SMEs in Kenya. The findings revealed that the venture capital has an impact on the performance of SMEs they finance. This was also supported by Memba, Gakure, & Karanja (2012) who examined the venture capital impact on growth of SMEs in Kenya, their findings also revealed that venture capital has an impact on growth of SMEs they finance.

Gichuki, Mulu-Mutuku, & Kinuthia (2014) studied the performance of women owned enterprises accessing credit from village credit and saving association. The result indicated that credit from village and saving association has significant impact on the performance of women owned enterprises. The findings revealed that some selected factors income, credit and education level of the respondents influenced positive changes in the net profits and capital of the SMEs. Andersson (2018) also examined the startup funding intentions among nascent non-profit entrepreneurs and found out that an apparent preference for startup are funding from philanthropic grants and private donations, along with the personal contributions of the founder and this revealed that there is relationship between the variables. The result indicates that funds from family has significant effect on the performance of the SMEs.

## **5.0. Conclusion, Recommendations and Contribution to Knowledge.**

### **5.1 Conclusion**

The study concluded that Entrepreneurial financing dimensions have significant effect on sales growth of SMEs in Ogun State. The null hypothesis which states that entrepreneurial finance dimensions have no significant effect on profitability of SMEs in Ogun State was rejected. SMEs are faced with financial challenges. Too difficult to assess bank loans as a

result of high cost of capital. SMEs in Ogun States are very competitive in terms of pricing, promotional activities as well as goal achievements.

## 5.2 Recommendations

Effective liaison with both commercial and microfinance banks to develop financial products suitable to SMEs like advocacy of cooperative societies to be a vital tool for lending in order to reduce risks and high-interest rate associated with such lending.

1. The financial institutions should creatively craft and adopt the availability of cheaper funds that would spur the growth of SMEs with view to enhancing economic growth.
2. There should be an effective collaboration with family owned enterprises to use capital market instruments to raise the desired funds for SMEs. This would ensure cheaper access to funds to finance their projects.
3. Government should create the enabling environment for the development of necessary infrastructural facilities, tax incentives and other incentives that will spur the growth of SMEs for economic growth.
4. Efforts should be intensified towards promotional activities to create more awareness on product/service offerings. This no doubt will go a long way to enhancing goal achievement and organisational profitability.

## 5.3 Contribution to Knowledge.

From a conceptual angle, the definitions of entrepreneurial financing and its sub variables; bank loan, government grant, venture capital, funds from family and SMEs performance contributed conceptually to the framework. The conceptual research model developed to illustrate the effect of entrepreneurial financing through variables such as bank loan, government grant, venture capital, funds from family on SMEs is also a contribution to knowledge. Furthermore, the objective of this study, the research questions and the hypotheses developed in this study also serve as a guide for future researchers. The signaling theory that was adopted for this study is relevant for explaining the interaction between the independent and dependent variables for this study and it was adequately reviewed. Existing empirical studies on the combined independent and dependent variables in this study were reviewed. The review was carried out in consideration of the objective of the study. One of the reasons for this review was to examine the findings of previous studies and build up on previous findings which would be relevant for discussing the findings of this study later. This study adds to the existing empirical research in Nigeria, particularly among SMEs in the Nigerian business sector.



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