The Effect of Equity Financing on Entrepreneurship Business Development in Lagos State, Nigeria

[1]Akanbi, Moses Ayokunle, [2] Akinbola Olufemi Amos, [3]Ogbari Mercy Ejovwokeoghene

[1]Dept. Of Economics And Development Studies

[2,3]Dept. Of Business Studies, Covenant University, Canaan Land, Ota, Ogun State, Nigeria

Abstract

The paper investigates the effect of equity form of financing on entrepreneurship business development in Lagos State, Nigeria. A total sample size of 240 business enterprise of various categories was interviewed in three Local governments (Lagos Island, Ojo and Alimosho) in Lagos state through the administration of questionnaires. Frequency table and descriptive statistics were used to analyze the data collected. The result obtained from frequency indicated that65% of entrepreneurs indicated that government programmes such as: NERFUND, CBN, SSICS, NBCI funding of small-scale enterprise has been assisting entrepreneurship business development. Also, the greater proportion of entrepreneurs agreed that they took short term loans to finance their businesses. However, one of the findings from hypotheses testing clarified that there was positive effect of equity financing on entrepreneurship business development in Lagos state. The paper hereby recommends that Banks should cooperate more in assisting small-scale entrepreneurs to grow, and not just granting them short term loans so that the country's (Nigeria's) business unit can develop more.

Keywords

Entrepreneurship, Equity financing, Short term and Long term

I. Background of the Study

Business is literarily said to mean busyness or the state of being busy or any activity which keeps a man busy about. Economically, business means work, effort and acts of people, which are connected, with the production of wealth [6].

Functionally by business, we mean those human activities which are connected with the production of wealth, purchases of goods with the objective of selling them at a profit.

While in the words of Urwick and Hunt [11], business is any article or service, which other members of the community needs and are able and willing to pay for. Therefore business is concerned with producing and selling for profit.

Business comprises of production or acquisition of goods, sale or transfer or title, dealings in goods and services, regularity of dealings, profits as a reward for services, rendered and finally uncertainty or risk about future.

Entrepreneurship is the process of identifying viable business opportunities and tapping them. Akeredolu [1], said that Entrepreneurship is the practice of starting new organization, particularly new business by forcing creative destruction across markets and industries thereby simultaneously creating new products and business models elimination orders by creative destruction. Robin and Sue [8]; buttressed that entrepreneurship also entails being largely responsible for the dynamism of industries and long-run economic growth. Also, Entrepreneurship is about taking risk, and the process of discovering, evaluating and exploiting opportunities [5].

Therefore, Entrepreneur is that kind of person that is willing to put his career and financial security on the line for an idea, spending his time and capital in an uncertain venture. He is someone who acts without regards to the resources currently under his control in relentless pursuit of opportunities.

Significant attention has been focused on Small Scale Enterprises (SSE) in developing nations because of their potentials for diversification and expansion of industrial production as well as the role they play in the attainment of the basic objective of development.

However, Jose etal. [3], emphasized that small scale enterprises utilize the large labour surplus that exists. In developing economies, they yield quick returns and given their initial capital requirements, they facilitate the exploitation, mobilization and utilization of local capital resources.

Obebe [4]; posit that availability of equity finance is one of the main obstacles that entrepreneurs face when trying to initiate and consolidate their businesses.

Due to the increasing attention on small-scale enterprises, there are significantly more cost effective technique in fulfilling developmental objectives particularly in the areas of employing indigenous technological development, utilization of local resources and lower cost supply of inputs and services to large scale and users.

On account of these advantages, they generate significantly higher employment and output for a given amount of investment, compared to large enterprises. As a matter of fact, small scale enterprise now account for a significant proportion of industrial employment and rank next only to agriculture in the provision of employment for the teaming population of the country.

In terms of efficient running of business and management, most entrepreneurial small business depends primarily on the availability of funds. The development of small businesses in Nigeria has largely been impeded by financial constraints. Access to favourable terms in sourcing the capital required for the development of project has not been to the advantage of this sector [2].

However, the search for new and improved ways of easing the financial constraints of SME's has been a major priority to the Federal Government of Nigeria and other authorities as regards business over the years.

One of the fundamental objectives of a responsible government is to ensure optimum standard of living.

The post-independence government in Nigeria adopted import substitution large scale industries by investing on large scale industries and on large capital project which is predicated on the notion that Small companies well managed makes great ones" [7].

Storey [10]; was of the opinion that small and medium enterprise were considered to have inadequate infrastructures and high cost of doing business.

After many years of neglect, most developing countries have appreciated the linkage between technological and industrial growth and the role of small and medium enterprises. In Nigeria, assistance from National and international institutions are rendered for promotion of this sub-sector.

Meanwhile, studies on micro, small and medium enterprises have shown that entrepreneurship in these categories of business is a viable means of promoting self reliance in economic development as well as in accelerating the place of industrial technology [7].

No doubt, Entrepreneurship can serve as a major tool for economic development, for example the creation of 500,000 entrepreneurs on the assumption that if each entrepreneur employs 100 (hundred) workers, a total number of 50 (fifty) million jobs will be created within the time frame. Although the development is commendable, however, the best way to eradicate poverty is not to throw money at it but to grow out of it [9].

The future of the entrepreneurial and industrial development of the nation depends to a large extent, on the growth and development of the potentials of entrepreneur. The basis for this expectation lies in the proven capabilities and time tested distinct functions and characteristics of entrepreneurs to stimulate growth and general development. Unfortunately, the efforts of the entrepreneurs to grow, modernize and expand rapidly are still being constrained by their inability to mobilize funds for development. Yet, demand for capital is increasingly on the rise while at the same time, profit margins are being squeezed by rising wages, Keener competition, interest rates, high operating cost and the likes. Added to these is the fact that the Nigerian economy has not too long ago witnessed astronomical increase in postage and communication services, transportation and a host of other utility services, thereby increasing the cost of business operations.

In order to survive, grow, expand and modernize in the increasingly competitive business sector, it is imperative for businessmen/women particularly, the entrepreneurs should have access to long term funding.

The ultimate aim of this research is to find out and provide answers to the following questions: Firstly, has entrepreneurial equity financing schemes played any important role on entrepreneurship development? Secondly, has government programmes on funding of small scale enterprises been assisting entrepreneurship business development?

The importance of this study was to benefit entrepreneurs in Nigeria. Also, it will enable the entrepreneurs to understand the areas of opportunities provided by the government and other sources of finance and financial institutions.

Consequently, the study will assist small scale businesses in identifying the challenges associated with their sector so that they can guide against such problems in the nearest future.

Despite the issues discussed above, this study will explore the effect of equity financing on entrepreneurship business development in Lagos state, Nigeria.

II. Definition of Terms

1. Entrepreneurship: Entrepreneurship is the practice of starting new organization, particularly new business. It is the process of discovering opportunities that leads to profit.
2. Entrepreneur: An entrepreneur is that kind of person that is willing to put his career and financial security on the line for an idea, spending his time and capital in an uncertain venture.
3. SME: Small and medium enterprise.
4. SMIEIS: Small and medium industries equity investment scheme.
5. EQUITY FINANCE: Equity finance is a form of business finance in which funds borrowed to operate a business venture are not taken as loan but converted to equity (stake in ownership) which now makes the lender a part owner of the business venture, risk and profit are shared together.
6. LOAN: A loan is a borrowed sum by an individual or an organization meant to be paid back within a time frame. It could be with interest or non interest.
7. SHARES: A share is a unit of ownership in a particular operational company. It may be a quoted company on the stock exchange or not quoted. A person who has shares of a particular company is a shareholder. Profit and loss are shared together between the company and shareholders.
8. DIVIDEND: The dividend represent cash distributed to shareholders from the profit the organization makes for the year. When a company makes huge profit it gives good dividend.
9. VENTURE CAPITAL: Venture capital involves the provision of investment finance to private small or medium companies in the form of equity or quasi-equity instruments not traded on recognized stock exchanges. It is long term risk finance where the primary return to the investor is derived from capital gains rather than dividend income. Venture capital investors are actively involved in the management of the invested company, with the intention of helping to assure the success of the venture.
10. BUSINESS ANGELS: Business Angels are wealthy individuals who invest in high growth business in return for equity. Business Angels often make their own skills, experience and contacts available to the company.
11. CBN: Central Bank of Nigeria.
12. NERFUND: National Economic Reconstruction fund.
13. NBCI: National Bank for Commerce and Industry.
14. SSICS: Small scale industries credit scheme.

III. Research Methodology

The researcher followed these procedures in gathering the data for this study. A systematic approach was adopted in selecting the businesses interviewed. By boundary location, Lagos state has been divided into local government areas. Each local government area is divided into constituencies and each constituency is divided into wards. The enumeration areas within the wards were strictly followed in selecting qualified respondents for the study. A total sample size of 300 questionnaires was administered in the study area but 240 questionnaires were retrieved from the field. 90 Small Scale Entrepreneurs were interviewed in Lagos Island Local Government, 90 respondents were interviewed in Ojo Local Government and the remaining 60 entrepreneurs were interviewed in Alimosho Local Government. In short, 240 entrepreneurs were the sampling population for this study in Lagos state.

The technique employed in this research was a quantitative approach. The data was collected from a face-to-face interviewed through structured questionnaire that was carefully designed to incorporate all the necessary questions on the issues at hand. The questionnaire was designed in such a way that it would show explicitly information necessary for the study. Hence, all relevant information that would provide and give needed information was included. The questionnaire is divided into two sections: section A to B. Section A contains questions on respondents' Demographic and Socio-Economic Characteristics; Section B contains questions on entrepreneurship and equity finance knowledge.

However, validity of the instrument used in this study helped the researcher to measure all necessary variables required to

 ISSN : 2330-9519 (Online) | ISSN : 2231-2463 (Print)

attain the objectives and also to prove or disprove the statement of hypothesis. Reliability testing of instrument used in this study has enabled the researcher on dependability of the data collected to be true and will always give the same results if the survey is carried out again. Hence, a post-enumeration survey (PES) might be conducted to check consistency of the data.

The business entrepreneurs in this study are both small and medium size. Therefore, the questionnaire was designed in such a way that the respondent was able to give their responses accordingly without much difficulty as interpretation of questions was done for the non finance entrepreneurs.

After returning from the field work, the information supplied in the questionnaires was edited to check for inconsistencies and inadequacies. Thereafter, the responses were categorized and recoded where the questions are open-ended type. The coding was used in preparing the frequency tables. The research study was conducted in Lagos state of Nigeria because it is the commercial nerve centre of the Nation. Also, all relevant organizations in charge of financing and stimulating business growth such as Lagos State chamber of commerce, venture capitalists, Central Bank of Nigeria, manufacturers Association of Nigeria are situated with most having their headquarters in Lagos state. The research covers some selected small scale enterprises that are based in Lagos environs (Lagos Sub-urban Areas).

Table: 1 Rates of Questionnaire Returned

Category	No of questionnaire administered	Percentage of total response
No of Returned	240	80
No of Not Returned	60	20
Total no of Questionnaires	300	100

Table 2: The Effect of equity finance and other government schemes on entrepreneurship Business Development

Variable	Frequency	Percentage
Whether government programmes such as: NERFUND,CBN, SSICS, NBCI funding of small-scale enterprise is assisting entrepreneurship development.		
Yes	156	65
No	36	15
No-Response	48	20
Total	240	100.0
The major sources of business financing are:		
commercial banks	144	60
finance houses	6	2.5
other institution/sources	54	22.5
all three above	36	15
Total	240	100.0
The effect of Equity finance on entrepreneurship business development in Lagos State.		
Positive	162	67.5
Negative	42	17.5
No-Response	36	15
Total	240	100.0
The type of finance, as above accounts for the bulk of the respondent source of finance.		
Short term finance	126	52.5
Medium term	36	15
Long term	78	32.5
Total	240	100.0

Field Report, 2010

IV. Testing of Hypotheses

This section dealt with the testing of two hypotheses formulated in the course of this study in order to determine the validity of the results.

The research also employed the use of standard deviation method in providing empirical facts on the data collected.

The null hypothesis is represented by Ho alternative hypothesis is represented by Ha

Note: If H_o is less than the mean, reject H_o i.e. H_o< Mean, reject

If H_a is greater than mean, accept H_a i.e. H_a > Mean, accept

H_o = mean – (confidence interval) (standard deviation)

H_a = mean + (confidence interval) (standard deviation)

Hypothesis 1:

H_o: Entrepreneurial equity financing schemes do not play any effective role in entrepreneurship business development.

H_a: Entrepreneurial equity financing schemes played effective role in entrepreneurship business development.

Assumption

Option	Weight
Very effective	4
Effective	2

Using statistical Descriptive method:

X	F	FX	X^2	FX^2
4	35	140	16	560
2	4	8	4	16
	39	148		576

Mean = ΣFX / ΣF = 148/39

Mean = 3.79

Standard Deviation

$$\sqrt{\frac{\Sigma fx^2}{\Sigma f} - \frac{(\Sigma fx)^2}{(\Sigma f)}}$$

$$\sqrt{\frac{576}{39} - \frac{(148)^2}{(39)}}$$

$$\sqrt{14.7 - 14.40}$$

$$\sqrt{0.3}$$

$= 0.54772$

$= 0.548$

$SD = \frac{}{\sqrt{n-1}}$ where SD represent standard deviation and n represents the number of respondents

$$= \frac{0.54772}{\sqrt{39-1}}$$

$$= \frac{0.54772}{\sqrt{38}}$$

$= 0.888$

At 95% confidence interval, the standard formulae are: H_o/H_a = mean ± (1.96) (Standard deviation)

Where H_o follows the negative direction and H_a follows the positive direction.

H_o = 3.79- (1.96) (0.888)

H_o = 3.79 – 1.74048 = 2.04952

H_o Ω 3.05

Ha = 3.79 + (1.96) (0.888) = 5.53048

H_a Ω 5.53

If H_o < Mean (3.79), reject H_o and If H_a >Mean, accept H_a.

H_o = (3.05) < Mean (3.79) reject, H_a = (5.53) > Mean (3.79) accept,

B. HYPOTHESIS 2

H_o: The Government programmes on funding of small-scale enterprise are not assisting entrepreneurship business development.

H_a: The Government programmes on funding of small-scale enterprise are assisting entrepreneurship business development.

Assumption

Options	Weight
Yes	4
No	2

Statistical descriptive method

X	F	FX	X²	FX²
4	26	104	16	416
2	6	12	4	24
	32	116	20	440

Mean = $\frac{\Sigma FX = 116}{\Sigma F = 32}$

Mean = 3.63

Standard Deviation (SD) =

$$\sqrt{\frac{\Sigma fx^2}{\Sigma f} - \frac{(\Sigma fx)^2}{(\Sigma f)}}$$

$$\sqrt{\frac{440}{32} - \frac{(116)^2}{(32)}}$$

$$\sqrt{13.8 - 13.1406}$$

$$\sqrt{0.6594}$$

SD = 0.81203

Ho = 3.63 – (1.96) (0.81203)

Ho = 3.63 – 1.5915788

SD = 0.81203

H_o = 3.63 – (1.96) (0.81203)

H_o = 3.63 – 1.5915788

H_o = 2.03842

H_o Ω 2.04

H_a = 3.63 + (1.96) (0.81203)

H_a = 5.2215788

H_o Ω 5.22

H_o = (2.04) < Mean (3.63) reject Ho

H_a = (5.22) > Mean (3.63) accept Ha

V. Discussion of Results

Table 1 showed that 300 questionnaires were administered in the study area but 240 questionnaires were retrieved from the field. The rate of Responses was 80% (eighty percent) while 20% did not return their questionnaires.

The frequency table 2 reflected the following: Firstly, 65% of entrepreneurs indicated that government programmes such as: NERFUND, CBN, SSICS, NBCI funding of small-scale enterprise has been assisting entrepreneurship business development whereas 15% of entrepreneurs interviewed were of contrary opinions. 20% of the respondents did not give their views. Secondly, the greater proportion of entrepreneurs (60%) said that commercial banks are the major sources of their business financing in Lagos state. Both 2.5 and 22.5 percentages of entrepreneurs said that their businesses are being financed by finance houses and other loan institutions. Also, 15% of entrepreneurs admitted that their businesses are being financed by commercial banks, finance houses and other loan institutions respectively. Thirdly, 67.5% of entrepreneurs opined that there was positive effect of equity financing on entrepreneurship business development in Lagos state. However, 17.5% of respondents said that there was negative effect of equity financing on entrepreneurship business development in Lagos state. In addition, 15% of entrepreneurs refused to give their opinions to this question. Fourthly, 52.5% of entrepreneurs agreed that they took short term loans to finance their businesses. Furthermore, 15% of respondents confirmed that their mode of financing their businesses is through medium term loans. Precisely, 32.5% of entrepreneurs indicated in this study that their mode of financing their businesses is through

 ISSN : 2330-9519 (Online) | ISSN : 2231-2463 (Print)

long term loans.

From the testing of hypothesis one, we observed the following : since Ha (5.53) is greater than mean (3.79), we accept Ha which states that entrepreneurial equity financing schemes played effective role in entrepreneurship business development in Lagos state. Also, we reject Ho (3.05) because it's value is less than mean (3.79). This implies that entrepreneurial equity financing schemes do not play any effective role in entrepreneurship business development in Lagos State, Nigeria. Evidence from the testing of hypothesis two showed that since Ha (5.22) is greater than mean (3.63), we accept Ha which states that the government programmes on financing of small scale enterprises are assisting entrepreneurship business development in Lagos state. Also, we reject Ho (2.04) because it's value is less than mean (3.63). This implies that the government programmes on financing of small scale enterprises are assisting entrepreneurship business development in Lagos state.

VI. Conclusions

On the basis of the above findings from both frequency table and hypotheses testing, we can conclude that firstly, there was positive effect of equity financing on entrepreneurship business development in Lagos state. Secondly, the greater proportion of entrepreneurs agreed that they took short term loans to finance their businesses. Thirdly, that the government programmes such as: NERFUND, CBN, SSICS, NBCI funding on financing of small scale enterprises are assisting entrepreneurship business development in Lagos state, Nigeria.

VII. Recommendations

With reflection from the study carried out in Lagos state, the following recommendations are expedient: Firstly, that the banks should cooperate more in assisting small-scale entrepreneurs to grow and not just granting them short term loans so that the country's (Nigeria's) business unit can develop more. Secondly, there should be proper training of small and medium entrepreneurs on effective planning, financial and accounting control and human resources management. Thirdly, banks and other financial institution should strive to increase their loan facilities to Small-Scale business organizations in Lagos state. Fourthly, Nigerian Government should increase the penalty to banks for failing to meet the required quota of loans to small scale business.

References

[1] Akeredolu-Ale, E.: "The solution of private indigenous Entrepreneurship in Nigeria. Some Under stressed factors. Industrial development in Nigeria; Pattern problems and prospects. Oxford University press, Ibadan, 1977.

[2] Coskun, S.: "International Entrepreneurship Innovative Solutions for a Fragile Planet"; Springer publications, Florida, 2009.

[3] Jose, E, Miguel, A., Gianni, R.: "The formal and informal equity funding in Chile" Retrieved on 26th October 2009 from (www.google.com), 2008

[4] Obebe, K.: "Legal Considerations for Start-up Companies in Nigeria". Equity financing for Entrepreneurship. [Online] Available : http://www.google.com/, 2008

[5] Okafor, C. L.: "Entrepreneurship-A conceptual approach." Concept publications; pp. 28-29, 2002.

[6] Otokiti, S.O.: "Fundamentals of business and management": The book House company", pp. 60-89, 2004

[7] Oyekanmi, R.: "Challenges of finance schemes on entrepreneurship". Journal of Lagos Small and medium enterprise; SME Managers Limited, 1-22, 2005.

[8] Robin, L., Sue, M.; "Entrepreneurship, and Innovation Concepts", Contexts and Commercialization: Elsevier Ltd, Netherlands, 2006.

[9] Schumpeter, J.A.: "The Theory of Economic Development". New York: Oxford University Press, 1934.

[10] Storey, D.: "Entrepreneurship, Small and Medium Sized Enterprises and Public Policies", In Z, J, Acs and D, Audretch (eds,) Handbook of Entrepreneurship Research An Interdisciplinary Survey and Introduction. New York: Springer; pp. 473-511, 2005

[11] Urwick, Hunt, "Business strategy and Management". Principles, [Online] Available : http://www.oppapers.com/essays/Strategy-Management/570590, 2002