

Venture capital, angel investment, and SME empowerment in emerging urban economies

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Abstract

Small and medium enterprises (SMEs) constitute the backbone of Nigeria's economy, yet persistent financing constraints continue to impede their growth and sustainability. This study qualitatively examines the roles of venture capitalists (VCs) and angel investors (AIs) in supporting SME empowerment within the entrepreneurial ecosystem of Akure Metropolis, Ondo State, Nigeria, a regional urban context largely underrepresented in the alternative finance literature. Drawing on semi-structured interviews with 53 SME owners and five investors across manufacturing, technology, retail, and service sectors, the study employs thematic analysis to uncover patterns in capital access, strategic support, and investor-entrepreneur dynamics. Findings reveal that VC and AI funding significantly enhances working capital, operational capacity, and market reach for recipient SMEs. Beyond financial contributions, investors provide critical non-financial value through mentorship, industry networks, and strategic guidance, which collectively improve SME competitiveness and legitimacy. The study also identifies notable challenges, including equity dilution concerns, reduced entrepreneurial autonomy, misaligned investor expectations, limited investor presence in regional markets, and structural barriers faced by informal enterprises. Grounded in the Resource-Based View and Financing Gap Theory, the study concludes that while VC and AI financing hold strong developmental potential for SMEs in Akure, their impact is constrained by low investor awareness, weak regulatory support, and inadequate investment readiness among local entrepreneurs. The paper recommends targeted capacity-



building programs, investor awareness initiatives, and enabling policy frameworks to strengthen the SME financing ecosystem in Nigeria's secondary urban centres.

Keywords: Venture Capital, Angel Investment, Small And Medium Enterprises, SME Financing, Entrepreneurial Ecosystem, Alternative Finance, Akure Metropolis, Nigeria, Investment Readiness

JEL Classification: G24, L26, O16

1. Introduction

Small and medium enterprises (SMEs) are widely recognised as the cornerstone of Nigeria's economic architecture. They account for over 96% of all registered firms, contribute approximately 48% of the country's gross domestic product, and employ more than 84% of the labour force (SMEDAN, 2021). Beyond their quantitative significance, SMEs serve as critical drivers of innovation, poverty alleviation, industry diversification, and inclusive economic participation, particularly in a developing economy where formal employment opportunities remain limited (Ogundana et al., 2023; Omale et al., 2024). Their capacity to absorb labour, stimulate local production, and foster entrepreneurial culture makes them indispensable to Nigeria's long-term development agenda. However, the growth and sustainability of SMEs are severely constrained by one persistent and structural challenge: access to adequate and affordable financing. Traditional financial institutions, including commercial banks, microfinance institutions, and cooperative societies, remain the primary formal funding channels available to SMEs in Nigeria. Yet these institutions frequently impose conditions that most SMEs are unable to satisfy, including high collateral requirements, complex documentation procedures, elevated interest rates, and lengthy loan approval processes (Wachuku, 2014; RSIS International, 2023). The consequence is a deep and widening funding gap that traps many SMEs in cycles of undercapitalisation, limiting their ability to invest in technology, expand operations, attract skilled labour, and compete effectively in domestic and international markets. For early-stage and growth-oriented enterprises in particular, this financing barrier often proves insurmountable through conventional means alone.

In recognition of these structural limitations, alternative financing mechanisms have emerged as increasingly important instruments for supporting SME development. Among the most impactful of these are venture capital (VC) and angel investment (AI). Venture capitalists typically provide equity-based financing to high-growth potential enterprises, taking ownership stakes in exchange for capital alongside strategic and managerial support. Angel investors, who are generally high-net-worth individuals investing their personal funds, tend to engage at earlier stages of business development, offering not only seed capital but also mentorship, industry connections, and advisory guidance (HRMARS, 2023). Both financing models are distinguished from traditional



debt financing by their willingness to absorb higher risk, their equity-based structure that removes immediate repayment pressure, and their provision of non-financial value that institutional lenders do not offer. Globally, and increasingly within the Nigerian context, VC and AI have demonstrated their capacity to strengthen SME performance across key indicators, including revenue growth, asset acquisition, employment generation, and innovation output (Aina et al., 2020; Ayoade and Agwu, 2021).

Empirical evidence from several Nigerian states affirms this trajectory. Research conducted in Ekiti State reports a strong positive relationship between long-term investment sources, including venture capital, and SME performance, with regression coefficients indicating substantial influence on firm growth (AJEBA, 2022). Studies from Rivers State confirm that venture capital financing enhances the competitiveness and market expansion of funded SMEs (Onyeaghala and Amah, 2023), while findings from Kano State similarly demonstrate that VC funding drives measurable improvements in SME turnover (RSIS International, 2022). Evidence from Lagos-based technology SMEs further establishes a statistically significant relationship between venture capital and profit performance, mediated by entrepreneurial competencies (Ayoade and Agwu, 2021). Taken together, this growing body of evidence positions VC and AI as transformative financing instruments with the potential to reshape the SME landscape in Nigeria. Despite this expanding evidence base, a significant and consequential gap persists in the literature. The overwhelming majority of existing studies are concentrated in Nigeria's major commercial centres, such as Lagos, Abuja, and Port Harcourt, leaving smaller regional urban economies largely unexamined. Akure Metropolis, the capital of Ondo State, represents precisely such an underexplored context. The city hosts a dynamic and diverse concentration of micro, small, and medium enterprises operating across manufacturing, trade, technology, and service sectors, yet its business environment is characterised by high informality, limited institutional investor presence, and restricted access to formal financing channels (SMEDAN, 2021; AJEBA, 2022). While awareness of venture capital and angel investment as alternative funding options is gradually growing among local entrepreneurs, the actual reach, impact, and dynamics of these financing models within Akure remain empirically undocumented.

This absence of localised evidence carries real costs. Entrepreneurs in Akure are left without informed guidance on how to engage and benefit from alternative investors. Policymakers lack the contextual data needed to design financing frameworks that are responsive to the realities of regional SME ecosystems. Investors, in turn, have insufficient basis for directing capital toward Akure's entrepreneurial sector. The resulting information asymmetry constrains not only individual business development but also the broader potential for sustainable regional economic growth. It is against this backdrop, and in response to this identified gap, that the present study is situated. To address this gap, the study is guided by five research questions. The first seeks to understand what experiences SME owners in Akure Metropolis have had in accessing venture capital and angel investment. The second explores the ways in which VC and AI have influenced

the growth and sustainability of SMEs in the region. The third investigates the specific challenges SMEs encounter when seeking funding from venture capitalists and angel investors in this locality. The fourth examines how these investors support SMEs beyond financial provision, particularly through mentorship and strategic input. The fifth considers how SME owners in Akure perceive the relative benefits and limitations of venture capital and angel investment in comparison to conventional bank financing.

In pursuit of answers to these questions, the study is anchored by a central objective: to examine how venture capitalists and angel investors support the growth and empowerment of SMEs within Akure's entrepreneurial ecosystem. Five specific objectives operationalise this overarching aim. The study first seeks to explore the experiences of SME owners in Akure Metropolis regarding access to venture capital and angel investment. It then aims to understand how VC and AI investors contribute to SME growth and sustainability in the region. Third, it investigates the challenges faced by SMEs in Akure when seeking equity-based funding from external investors. Fourth, it examines the role of mentorship, strategic guidance, and active investor involvement in the development of funded enterprises. Finally, it seeks to identify how SME owners in Akure perceive the effectiveness of venture capital and angel investment relative to traditional financing options. Together, these questions and objectives position the study to generate contextually grounded insights that can meaningfully inform both policy formulation and investment practice in Nigeria's secondary urban economies.

2. Literature Review

Small and medium-sized businesses, or SMEs, are widely acknowledged as essential catalysts for global economic growth and development, especially in developing nations like Nigeria. In addition to encouraging industry diversification and inclusive economic involvement, they make a substantial contribution to innovation, employment creation, and poverty alleviation (SMEDAN, 2025; World Bank, 2023). SMEs are essential to Nigeria's economic sustainability because they employ more than 84% of the workforce and contribute roughly 48% of the country's GDP (SMEDAN, 2025). However, SMEs' capacity to obtain timely and sufficient funding is a major requirement for their expansion and long-term viability. One of the biggest obstacles facing SMEs is still funding, which restricts their ability to grow, make technological investments, and successfully compete in domestic and international markets (Wachuku, 2014; Adebayo et al., 2022). The funding gap is exacerbated by traditional financial institutions' frequent imposition of strict lending standards that are challenging for SMEs to achieve, such as high collateral requirements and intricate application procedures (RSIS International, 2023). Alternative financing methods like venture capital and angel investment have become more well-known as viable ways to close the funding gap for SMEs in light of these difficulties. The purpose of this literature review is to critically analyse the body of knowledge regarding the function and effects of angel and venture capitalists on SMEs, specifically in the Nigerian setting. In areas like Akure

Metropolis, where traditional financing options are frequently scarce or unavailable, the review aims to lay the groundwork for understanding how these alternative funding sources can improve SME performance and sustainability by examining the financial and non-financial support these investors offer.

2.1 Small and Medium-Sized Enterprises (SMEs) in Nigeria

Small and medium-sized enterprises (SMEs) are often described by factors such as staff count, yearly turnover, and asset base. In Nigeria, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021) defines SMEs as enterprises with 10 to 199 employees and assets (excluding land and buildings) ranging from ₦5 million to ₦500 million. These businesses are known for their flexibility, ingenuity, and high potential to create jobs, and they frequently operate in both informal and formal sectors (Aina et al., 2020). SMEs play an important part in Nigeria's socioeconomic growth. They account for over 48% of the country's GDP, over 96% of all firms, and employ more than 84% of the labour force. In addition to their financial contribution, SMEs have a critical role in promoting entrepreneurship and innovation, especially in service and technology-driven industries (Ogundana et al., 2023; Omale et al., 2024). Access to financing is the most significant obstacle that SMEs must overcome to grow and remain sustainable, notwithstanding their importance (Adebayo et al., 2022; Fasanmi et al., 2024).

2.2 Traditional Financing for SMEs

In Nigeria, commercial banks, microfinance institutions (MFIs), and cooperative societies are the main traditional funding sources for SMEs (Oyedele et al., 2020). While MFIs usually offer smaller, short-term loans aimed at micro and small businesses, banks offer a variety of credit products such as term loans, overdrafts, and working capital loans (RSIS International, 2023). Due to strict lending requirements, SMEs frequently struggle to obtain money, despite the importance of these conventional sources. SMEs' access to bank financing is severely hampered by high interest rates, lengthy and complicated documentation processes, and high collateral demands (Wachuku, 2014). In accordance with Ogundana et al. (2023), a number of SMEs are deficient in formal financial records and credit history, which complicates loan approval procedures (Adebayo et al., 2022). These financial obstacles have a direct, detrimental influence on SMEs' performance, limiting their ability to invest in capital, technology, and market growth. As a result, many SMEs stay locked in a cycle of underdevelopment and low production

2.3 Alternative Financing: Venture Capital (VC)

Typically aimed at early-stage and high-growth potential enterprises, venture capital (VC) is an alternative financing method that consists of equity-based investments (HRMARS, 2023). In contrast to traditional lenders, venture capitalists attempt to improve the operational and managerial capabilities of investee organisations by offering not only funding but also strategic support, mentorship, and network access. Venture capital is becoming more widely acknowledged

in Nigeria as a driving force behind the expansion, innovation, and sustainability of SMEs. In order to close a significant funding gap, venture capitalists take on greater risk by funding businesses that might not be eligible for traditional bank loans (Aina et al., 2020). Research shows that companies that receive venture capital funding have better revenue growth, asset acquisition, and product innovation (Ayoade & Agwu, 2021). For instance, a study conducted in Ekiti State revealed a strong positive relationship between venture capital investment and the performance of SMEs, highlighting the latter's function in boosting competitive advantage and broadening market reach (AJEBA, 2022). However, related patterns have been documented in other developing nations, where venture capital funding has been associated with higher innovation output and job creation in the SMEs (Ogundana et al., 2023; Fasanmi et al., 2025). Despite its benefits, venture capital financing is underutilised in Nigeria, owing to low knowledge among entrepreneurs and a very young VC ecosystem (RSIS International, 2023).

2.4 Alternative Financing: Angel Investment (AI)

High-net-worth individuals known as angel investors provide money to start-ups and early-stage companies, usually in return for convertible debt or stock. Angel investors, as opposed to institutional venture capitalists, frequently use their own money and are more inclined to take chances on start-up businesses with no track record (HRMARS, 2023). In addition to their monetary contributions, they are distinguished by their active mentoring activities, which provide access to professional networks, market insights, and insightful business advice (Aina et al., 2020). Although both venture capitalists and angel investors offer equity finance, their main distinctions are in the quantity, stage, and degree of participation of their investments. While venture capitalists typically spend larger sums in businesses with greater development potential and more established operations, angel investors typically target earlier stages and lower amounts of investment, making them essential for startups and micro-enterprises (Ogundana et al., 2023). Nonetheless, fostering company expansion and increasing long-term value are the same objectives of both (HRMARS, 2023). Angel investment has been shown to significantly impact SME success, especially in the critical early phases of business development. Studies indicate that SMEs backed by angel investors often experience higher survival rates, improved access to follow-on financing, and accelerated innovation processes compared to non-funded peers (Ayoade & Agwu, 2021; RSIS International, 2023). This blend of financial and strategic support positions angel investors as essential contributors to the SME ecosystem in developing economies like Nigeria.

2.5 Comparative Analysis: VC and AI vs Traditional Financing

Compared to regular bank loans, venture capital and angel investment offer a number of clear benefits, especially for SMEs that find it difficult to satisfy traditional lending requirements. The financial strain on early-stage businesses is lessened by VC and AI, which provide equity funding with no immediate repayment commitments, in contrast to debt financing (Aina et al., 2020). Additionally, these alternative funding sources are frequently more adaptable and prepared to

contribute to riskier or more creative projects that banks generally steer clear of (Wachuku, 2014). Both venture capitalists and angel investors provide vital non-financial support in addition to monetary infusion. This includes access to beneficial industry networks, strategic advice, and mentorship, all of which can improve managerial skills and create new business prospects (HRMARS, 2023; Ogundana et al., 2023). This kind of assistance is frequently mentioned as a crucial differentiator that aids SMEs in quickly growing and creating long-lasting competitive advantages (Ayoade & Agwu, 2021; Omale et al., 2024). However, there are dangers and difficulties associated with VC and AI funding. There may be pressure on entrepreneurs to achieve quick expansion and financial success, sometimes at the price of sustainability over the long run (RSIS International, 2023). Furthermore, some firm owners may be put off by equity financing because it entails dilution of ownership and possible loss of control. Access to such finance is still restricted and concentrated in a small number of urban centres due to the relatively young status of Nigeria's VC and angel investment sectors (Ogundana et al., 2023).

2.6 Local Context: SMEs in Akure Metropolis

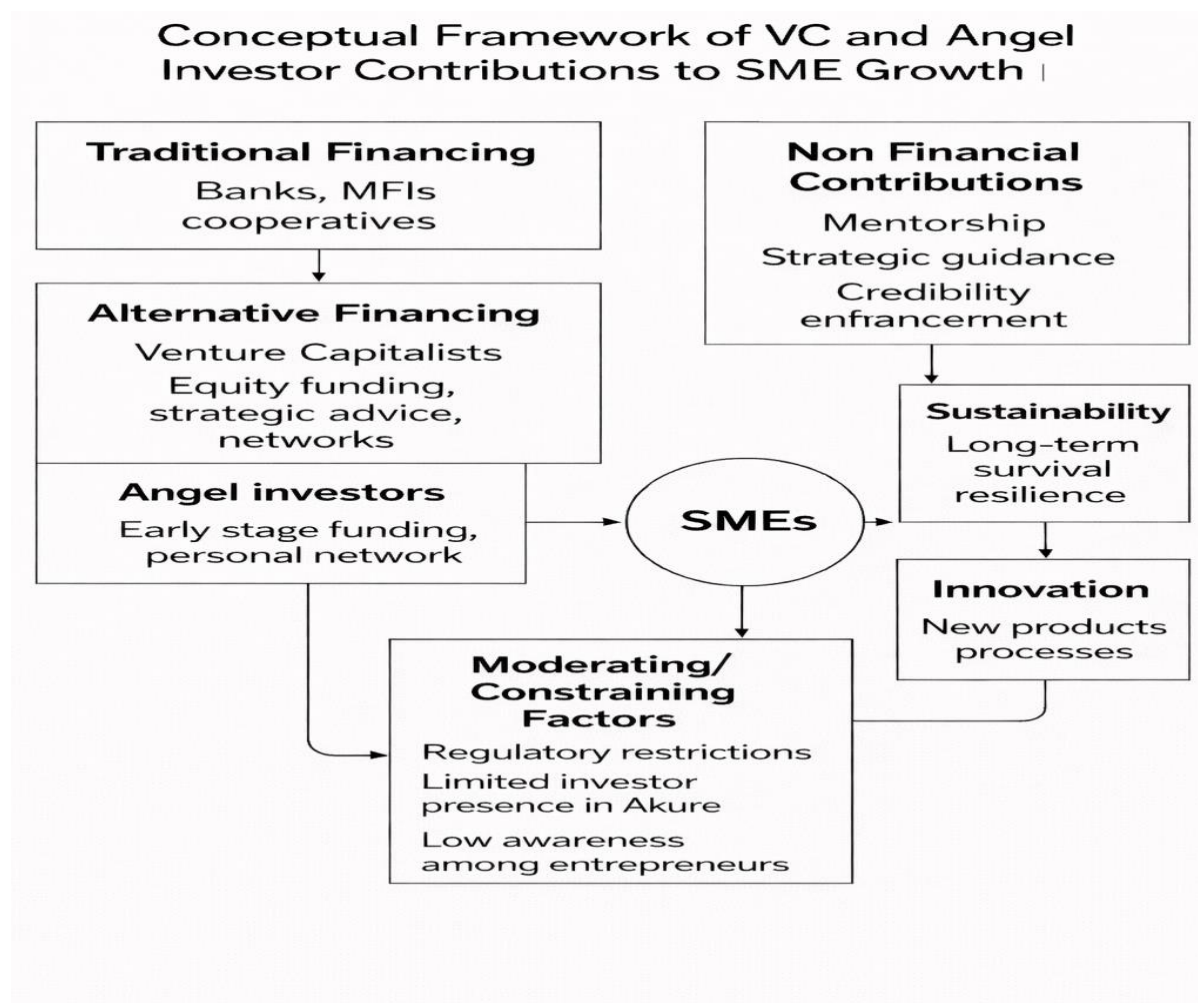
Akure metropolis, the capital of Ondo State, is a burgeoning metropolis with a thriving mix of micro, small, and medium-sized businesses, most of which are involved in the formal and informal sectors. Although the city's economy is characterised by a high concentration of manufacturing, commerce, and service-oriented enterprises, it is still not as developed as Nigeria's major commercial centres, such as Lagos and Abuja (SMEDAN, 2021). Studies on SME finance in Akure and the rest of Ondo State reveal continuing issues such as limited access to formal loans, low financial literacy, and a lack of investor presence (AJEBA, 2022; RSIS International, 2023). While there is an increased awareness of venture capital and angel investment as alternative financing sources, actual research on their impact in Akure is limited. This gap emphasises the importance of conducting localised research to better understand how venture capital and artificial intelligence might influence SME growth and sustainability in this distinct business environment. By investigating the roles of venture capitalists and angel investors in Akure, this study hopes to address a knowledge gap and provide insights that might drive policy and investment initiatives targeted to Nigeria's smaller urban economies.

2.7 Theoretical Frameworks and Models

The study of SME financing and the interaction between SMEs and investors, including angel and venture capitalists, is supported by a number of theoretical frameworks. One of the most popular is the Resource-Based View (RBV) hypothesis, which holds that a company's strategic resources, those that are valuable, uncommon, unique, and non-substitutable, are the source of its long-term competitive advantage (Barney, 1991; Aina et al., 2020). Access to financial capital, managerial know-how, and networks offered by VC and AI investors can be vital resources that improve firm performance and long-term growth in the context of SME finance, according to RBV (Ogundana et al., 2023). The Financing Gap Theory is another pertinent paradigm that explains why SMEs

continue to have trouble obtaining external financing because of perceived risks, high transaction costs, and information asymmetry (Beck et al., 2005; Wachuku, 2014). According to this hypothesis, SMEs are frequently viewed as high-risk borrowers by traditional lenders, and alternative financing methods like venture capital and artificial intelligence (AI) become essential for bridging this gap (RSIS International, 2023). VC and AI investors help to lessen information asymmetry and improve the creditworthiness and operational ability of SMEs by offering not only financing but also strategic guidance and mentoring (HRMARS, 2023). In combination, these ideas give a solid framework for comprehending how venture capitalists' and angel investors' financial and non-financial resources contribute to SME growth, innovation, and sustainability, particularly in emerging economies such as Nigeria. Building on the Resource-Based View and Financing Gap Theory, the following conceptual framework (Fig. 1) illustrates the relationship between venture capital and angel investment inputs, SME development outcomes, and contextual constraints within Akure's entrepreneurial ecosystem

Figure 1. Conceptual Framework



Regarding SME funding in Nigeria, the studied literature presents a number of important conclusions. Although SMEs are essential to economic growth, they confront major financial obstacles, mostly because of the restrictions of conventional funding sources like banks and microfinance organisations (SMEDAN, 2021; Wachuku, 2014). By offering equity cash, strategic advice, and network access, venture capital and angel investment have been demonstrated to successfully close these funding gaps. These factors collectively promote SME expansion, innovation, and enhanced performance (Aina et al., 2020; Ogundana et al., 2023; Ayoade & Agwu, 2021). In spite of this increasing body of evidence, significant gaps exist, particularly in terms of the localised impact of venture capital and artificial intelligence on SMEs in smaller metropolitan centres such as Akure Metropolis. Most previous research focuses on major cities like Lagos and Abuja, with little empirical evidence from Ondo State or other similar regional contexts (AJEBA, 2022; RSIS International, 2023). Furthermore, there is a lack of qualitative data on how SMEs in Akure perceive and use the non-financial assistance parts of VC and AI investment. This disparity highlights the need for the current study, which looks into the precise impacts of angel and venture capital investments on the sustainability and performance of SMEs in Akure Metropolis. In doing so, the research would assist in customised methods to improve SME financing in regional Nigerian economies by adding insightful local knowledge to academic literature and policy formulation.

3. Methodology

This study employs a qualitative approach to fully examine how venture capital and angel investment affect SMEs in Akure Metropolis. This section looks at SME owners' varied perspectives and experiences with investor support (Creswell & Creswell, 2018). Johnson and Onwuegbuzie (2004) contend that this method is justified since it provides both breadth and depth, ensuring the validity of the study's findings. This study's target demographic consists of small and medium-sized businesses that operate in Akure Metropolis, Ondo State. According to SMEDAN (2021), SMEs account for a sizable percentage of the local economy, including industries such as trade, manufacturing, and services. Given the study's focus on the impact of venture capital and angel investments, a purposive sample technique will be used to pick SMEs that have received such financing, as well as a comparison group that has not received external equity funding. This method assures that the sample contains certain features important to the research aims (Etikan, Musa, & Alkassim, 2016). In order to balance statistical power and resource limitations, the sample size was established using Cochran's formula for survey sample size calculation. A minimum of 150 SME respondents will be sought in order to enable significant quantitative analysis and enough saturation of qualitative data.

Semi-structured interviews were used in the study to collect primary data from managers and owners of SMEs. Interviews were equally conducted to gain a deeper understanding of the operations of SMEs. Secondary data sources included financial reports, SME performance records

from relevant agencies, and previous theoretical studies on SME finance in Nigeria. Thematic analysis of the qualitative information gathered from focus groups and interviews enables the discovery of recurring themes pertaining to investor support, difficulties, and the dynamics of SME growth. Before the start of data collection, ethical approval was acquired from the appropriate institutional review board. The goals of the study were explained to the participants, and informed consent forms were used to request their voluntary participation. By giving responders unique codes rather than names and safely preserving data to guard against unwanted access, they were guaranteed confidentiality and anonymity. Additionally, the study complied with ethical guidelines that protected participants' privacy and rights at every stage of the investigation.

3.1 Qualitative Data Analysis and Findings

This section provides a thorough qualitative analysis of information gathered from Akure Metropolis SME owners and managers, examining the effects of angel and venture capital investments on the growth and performance of their companies. The results are based on focus groups and semi-structured interviews to reveal the perceptions, difficulties, and lived experiences of these business owners.

3.2 Themes Emerging from Interviews

The interviews with more than fifty (50) SME owners who had obtained venture capital or angel financing yielded several important topics. The importance of non-financial support, such as business networking, strategic guidance, and mentoring, was a recurring issue. Many respondents characterised these forms of assistance as being just as valuable as actual financial capital. For instance, one participant noted, "Beyond the money, the investor's guidance helped me navigate market challenges and improve operational efficiency." Enhancing a company's legitimacy and confidence through investment from reputable financiers was another significant theme. According to a number of business owners, having an angel or venture capitalist on board improved their company's reputation among suppliers, consumers, and other stakeholders, which paved the way for collaborations and market growth. The information did, however, also draw attention to the drawbacks and compromises of this funding source. Concerns were raised by a few individuals over the investors' high standards, performance demands, and the partial loss of influence over business choices. One business owner said, "I felt sometimes that I had to run my daily operations in a way that was limited by the demands of investors."

3.3 Insights from Focus Group Discussions

These individual viewpoints were supported by the focus group talks with ten SME participants, which showed a common belief that Akure had less access to angel and venture capital investment than other cities like Lagos or Abuja. Low awareness and insufficient networks linking SMEs to possible investors were cited by numerous participants as the reasons for this scarcity. The conversations also highlighted how many local businesses are informal, which frequently makes

it difficult for them to meet the formal requirements set by angel and venture capitalists. According to the participants, this gap might be closed by capacity-building projects and focused assistance programs, allowing more SMEs in Akure to make use of alternative funding.

3.4 Interpretative Summary

The qualitative statistics shed light on the numerous ways in which venture capital and angel investment assist SME development beyond financial support. Mentorship, credibility building, and network access emerge as critical enablers of progress. Simultaneously, the findings highlight the contextual challenges specific to Akure's business climate, such as minimal investor presence and structural barriers faced by informal companies. This comprehensive perspective underscores that, while venture capital and artificial intelligence finance hold great promise for SMEs in Akure, efforts to promote and adapt these models to local conditions are critical to maximising their impact.

4. Findings and Discussion

The results of the qualitative study on the influence of angel and venture capitalists on small and medium-sized businesses (SMEs) in Akure Metropolis are shown in this section. In-depth interviews with venture capitalists and angel investors operating in the area, as well as SME owners who have received investment, were used to gather data. The investigation concentrates on the emerging topics that shed light on the functions, advantages, and difficulties of outside funding for SMEs, providing a thorough grasp of how these expenditures affect the expansion and sustainability of businesses.

4.1 Profile of Respondents

The study engaged 53 SME owners drawn from a range of sectors, including manufacturing, technology, retail, and services, representing businesses at various stages of development from early-stage startups to enterprises with up to ten years of operational history. Five investors comprising a mix of angel investors and venture capitalists also participated, offering complementary perspectives on investment strategies, expectations, and experiences within Akure Metropolis. This dual-sided respondent structure enriched the analytical depth of the findings by allowing investor and entrepreneur perspectives to be examined alongside one another.

4.2 Thematic Analysis of Findings

4.2.1 Access to Capital as a Catalyst for Growth

One of the most prominent themes to emerge from the data was the transformative role that venture capital and angel investment play in addressing the financing gap that conventional banking institutions have long failed to bridge for SMEs in Akure. The majority of respondents indicated that external equity funding significantly expanded their working capital, enabling them to acquire modern equipment, increase production capacity, diversify product offerings, and enter new

markets that would otherwise have remained inaccessible. A small business owner in the manufacturing sector captured this sentiment clearly, noting that the investment made it possible to purchase better machinery and increase production capacity, and that scaling the business without such funds would have been extremely difficult. These accounts are consistent with quantitative findings from other Nigerian states, where venture capital funding has been shown to produce measurable improvements in revenue growth, asset acquisition, and innovation output (Aina et al., 2020; Ayoade and Agwu, 2021). In Akure's context, where traditional bank financing is particularly constrained by informality and limited credit history among local enterprises, the availability of equity-based investment emerges as especially vital.

4.2.2 Strategic Guidance, Mentorship, and Network Access

Beyond the provision of capital, a recurring and strongly emphasised theme across both interviews and focus group discussions was the non-financial value delivered by venture capitalists and angel investors. Many SME owners described how their investors actively contributed to refining business models, improving operational efficiency, and opening doors to professional networks and industry expertise that would have been otherwise unreachable. One entrepreneur reflected that the investor brought more than money, introducing the business to industry experts and helping to substantially refine the operational model. This non-financial dimension of investor support aligns with the Resource-Based View framework, which positions access to strategic resources, including knowledge, networks, and managerial capability, as foundational to sustainable competitive advantage (Barney, 1991). The findings suggest that in the Akure context, where entrepreneurial capacity is often underdeveloped, and business ecosystems are less institutionally dense than in major cities, mentorship and network access from investors can be disproportionately impactful.

4.2.3 Credibility, Legitimacy, and Market Positioning

A theme that emerged with notable frequency was the reputational and credibility dividend that SMEs derived from being associated with recognised investors. Several business owners observed that securing investment from an established angel investor or venture capitalist enhanced their standing among suppliers, customers, and potential partners, generating downstream benefits including favourable trade terms, increased customer confidence, and new partnership opportunities. This legitimacy effect represents an underappreciated dimension of investor value that extends well beyond the immediate financial transaction and contributes to the long-term positioning of SMEs within their competitive environments.

4.2.4 Challenges in Investor-Entrepreneur Relationships

Notwithstanding the considerable benefits documented above, the findings also surfaced a set of significant challenges that temper the overall impact of VC and AI financing on SMEs in Akure. A recurring concern among respondents was the tension arising from equity dilution and the partial



erosion of entrepreneurial autonomy that accompanies external investment. Several business owners expressed discomfort with the degree to which investor expectations shaped operational decisions, with one respondent noting that investor demands sometimes constrained the freedom to manage daily operations according to personal judgment. Misalignment of vision between entrepreneurs and investors was also identified as a source of friction, with both parties occasionally holding divergent views on growth priorities, risk tolerance, and strategic direction. Investors themselves acknowledged these dynamics, emphasising the importance of transparent communication and the early establishment of clear expectations as prerequisites for productive partnerships.

4.2.5 Structural and Contextual Barriers in Akure

The focus group discussions revealed a shared perception among participants that Akure is significantly underserved relative to major urban centres in terms of investor presence and activity. Low awareness of available financing options, insufficient networks connecting local SMEs to potential investors, and the high prevalence of informality among Akure's businesses were identified as compounding barriers that restrict the reach and effectiveness of VC and AI financing in the region. Many enterprises lack the formal financial records, governance structures, and investment-readiness credentials that investors typically require before committing capital, creating a structural mismatch between the supply of and demand for alternative finance. Participants broadly agreed that targeted capacity-building programs and facilitated investor-SME engagement platforms would be instrumental in addressing these structural gaps.

4.2.6 Comparative Insights: Venture Capitalists and Angel Investors

The data revealed meaningful distinctions between the operational profiles and contributions of venture capitalists and angel investors. Venture capitalists generally provided larger tranches of capital and tended to focus on businesses demonstrating clear scalability and rapid growth trajectories. Angel investors, by contrast, typically committed smaller amounts but engaged more intensively with entrepreneurs, offering direct and personalised mentorship alongside their financial contribution. A consistent pattern emerged in which SMEs gravitated toward angel investors during the formative stages of development, valuing the hands-on guidance available at that phase, before transitioning to venture capital as a vehicle for scaling once the business model had been validated. This sequential financing dynamic reflects a complementarity between the two investor types that, when functioning effectively, can support SMEs across multiple stages of their growth lifecycle.

4.3 Discussion

The findings of this study resonate with and extend the existing literature on alternative SME financing in Nigeria and other developing economies. The positive impact of VC and AI on SME capital access, operational capacity, and strategic development corroborates the conclusions of

Dhlamini (2024), Ogundana et al. (2023), and Ayoade and Agwu (2021), who similarly documented the multi-dimensional value that equity investors contribute to funded enterprises. The centrality of non-financial support in respondents' accounts affirms global patterns in which mentorship, network access, and strategic guidance are increasingly recognised as being as consequential as financial capital in determining the developmental trajectory of SMEs. At the same time, the challenges identified in this study, particularly those relating to autonomy, governance, and the structural informality of Akure's business environment, introduce important contextual qualifications to the otherwise optimistic picture painted by the broader literature. These findings underscore that the effectiveness of VC and AI financing is not uniform across geographies and is shaped significantly by local institutional conditions, investor awareness, and the investment-readiness of the SME population. Addressing these contextual constraints is therefore as important as expanding the supply of alternative finance if the full developmental potential of VC and AI is to be realised in regional Nigerian economies like Akure.

5. Conclusion

This study set out to examine how venture capitalists and angel investors support the growth and empowerment of small and medium enterprises within the entrepreneurial ecosystem of Akure Metropolis, Nigeria. The findings collectively affirm that VC and AI financing constitute a meaningful and multi-dimensional driver of SME development in this context. Recipient enterprises benefit not only from the injection of capital that enables operational expansion and market entry but also from the strategic guidance, mentorship, credibility enhancement, and network access that investors bring alongside their financial contributions. These non-financial dimensions of investor support are particularly consequential in Akure's business environment, where entrepreneurial capacity, institutional density, and access to formal financing channels remain comparatively limited.

At the same time, the study draws attention to a set of persistent challenges that constrain the transformative potential of alternative finance in the region. Limited investor presence, low awareness of VC and AI among local entrepreneurs, structural informality within the SME sector, concerns over equity dilution and loss of autonomy, and misaligned expectations between investors and entrepreneurs collectively reduce the reach and effectiveness of these financing mechanisms. These findings are grounded theoretically in the Resource-Based View, which frames investor-provided resources as strategic assets that enhance competitive advantage, and in the Financing Gap Theory, which illuminates the information asymmetries and structural barriers that prevent SMEs from accessing conventional finance. Together, these frameworks help explain both why alternative finance matters for SMEs in Akure and why its impact remains uneven and constrained by local conditions.

The study concludes that while venture capital and angel investment hold genuine and significant promise for SME empowerment in Akure Metropolis, realising this promise requires deliberate

and coordinated action from policymakers, investors, support organisations, and entrepreneurs themselves. The following recommendations are offered in that spirit.

5.1 Recommendations

The findings of this study give rise to several interconnected recommendations directed at different stakeholders within Akure's SME financing ecosystem. Policymakers at both state and federal levels should prioritise the creation of enabling regulatory frameworks that incentivise venture capital and angel investment in regional urban economies. This includes introducing tax relief provisions for investors who commit capital to SMEs outside of Nigeria's major commercial centres, streamlining registration and compliance requirements for equity-based investment vehicles, and establishing dedicated SME investment promotion agencies at the state level in Ondo State. Such interventions would help reduce the structural barriers that currently discourage investor activity in Akure. Support organisations, including business development service providers, enterprise development agencies, and tertiary institutions, should design and deliver targeted investment readiness programs for SMEs in Akure. These programs should equip entrepreneurs with the financial literacy, governance knowledge, record-keeping practices, and pitch preparation skills required to meet the expectations of prospective investors. Improving the investment readiness of local SMEs is a prerequisite for translating increased investor interest into actual capital deployment.

Deliberate platforms and mechanisms for connecting SME owners with venture capitalists and angel investors should be established within the Akure business ecosystem. Structured networking events, investor-entrepreneur matchmaking forums, and digital platforms that aggregate investor profiles and SME opportunities would help address the awareness and information gaps that currently limit engagement between these two groups. Industry associations, chambers of commerce, and university entrepreneurship centres are well-positioned to anchor such initiatives. Investors operating in or considering entry into the Akure market should adopt engagement models that are sensitive to the specific characteristics of the local business environment, including the prevalence of informality, the relative inexperience of many entrepreneurs with equity financing, and the importance of patient capital approaches. Establishing clear governance frameworks, communication protocols, and expectation-alignment processes at the outset of investment relationships would help mitigate the friction and misalignment that several respondents in this study identified as sources of difficulty. Beyond individual deals, investors can contribute to ecosystem development by participating in mentorship networks, supporting capacity-building initiatives, and advocating for policy environments that are conducive to SME-focused alternative finance.

Finally, higher education institutions and research bodies in Ondo State and the wider South-West region should expand their engagement with the SME financing agenda by conducting applied

research, hosting policy dialogues, and producing practitioner-focused outputs that translate academic findings into actionable guidance for entrepreneurs, investors, and policymakers alike.

5.2 Limitations of the Study

While this study makes a meaningful contribution to the understanding of venture capital and angel investment within a regionally specific Nigerian context, several limitations must be acknowledged in interpreting its findings. The study's qualitative design, while appropriate for exploring the lived experiences and perceptions of SME owners and investors, does not permit the quantification of relationships between investor support and specific SME performance outcomes. The findings are therefore largely descriptive and interpretive rather than statistically generalisable. Future work incorporating quantitative or mixed-methods approaches would provide stronger causal evidence of the impact of VC and AI on SME development indicators such as revenue growth, employment levels, and market share. The sample, though purposively selected to ensure relevance to the research questions, is confined to Akure Metropolis and may not be fully representative of the broader SME landscape in Ondo State or other comparable regional economies in Nigeria. The experiences and perceptions of entrepreneurs in other secondary urban centres may differ in important ways, and caution should be exercised in generalising these findings beyond the Akure context without further empirical validation.

The study also relies primarily on self-reported data from SME owners and investors, which introduces the possibility of social desirability bias and recall limitations. Respondents may have presented their experiences in ways that emphasise positive outcomes or downplay difficulties, particularly in relation to investor-entrepreneur conflicts and governance challenges. Complementing interview data with longitudinal observation or financial record analysis in future research would help address this limitation. Furthermore, the relatively small number of investor respondents, five in total, limits the depth of insight available into the investor perspective. A more balanced representation of investor voices, including a larger and more diverse sample of both venture capitalists and angel investors active in regional Nigerian markets, would strengthen the analytical richness of future studies in this area.

5.3 Future Research Directions

This study opens several productive avenues for future inquiry that would deepen understanding of alternative SME financing in Nigeria's regional urban economies. Longitudinal research tracking the performance of SMEs before and after receiving venture capital or angel investment in Akure and comparable cities would provide stronger causal evidence of the developmental impact of these financing mechanisms over time. Such studies would be particularly valuable in documenting whether the growth and sustainability benefits identified in this study are maintained in the medium and long term or are concentrated in the immediate post-investment period.

Comparative studies examining the dynamics of VC and AI financing across multiple secondary urban centres in Nigeria, such as Abeokuta, Owerri, Benin City, and Maiduguri, would enable researchers to identify patterns, differences, and contextual factors that shape the effectiveness of alternative finance across diverse regional settings. Such comparative work would also help policymakers design financing support interventions that are appropriately tailored to the characteristics of specific regional economies. Future research should also explore the role of cultural and social capital factors in shaping investor-entrepreneur relationships in Nigerian contexts. The influence of trust, ethnic networks, community ties, and informal governance norms on the formation and outcomes of VC and AI partnerships remains poorly understood and warrants dedicated investigation, particularly in settings like Akure, where informal social structures play a significant role in economic life. The gender dimension of SME financing through venture capital and angel investment in regional Nigerian economies also deserves focused research attention. Understanding whether and how female-owned SMEs in Akure and similar cities access, experience, and benefit from alternative finance relative to their male counterparts would inform the design of more inclusive investment and policy frameworks.

Finally, as digital financial platforms, fintech ecosystems, and online angel networks continue to expand across Africa, research examining how these innovations are reshaping access to venture capital and angel investment for SMEs in smaller Nigerian cities would be timely and practically significant. Investigating the potential of digital intermediation to overcome the geographic and informational barriers that currently limit investor-SME connectivity in places like Akure represents a particularly promising direction for future scholarship.

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