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Exploring the Dynamics of Investor-Entrepreneur Relationships in Business Angel and Venture Capital Financing of Start-up Companies in Nigeria [A Combined Stewardship, Trust, and Agency (STA) Based Approach]

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Exploring the Dynamics of Investor-Entrepreneur Relationships in Business Angel and Venture Capital Financing of Start-up Companies in Nigeria

[A Combined Stewardship, Trust, and Agency (STA) Based Approach]

By

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[A Combined Stewardship, Trust, and Agency (STA) Based Approach]

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ABSTRACT

This doctoral thesis explores the dynamic and complex investment and ownership relationships between the investors (business angels/venture capitalists) and entrepreneurs in the financing of Nigerian start-up and scaleup enterprises to understand the reasons for low engagement between these investors and entrepreneurs.

Building impactful, sustainable, scalable, and profitable entrepreneurial ventures in Nigeria requires an open, healthy, and progressive investor-entrepreneur relationship, which in turn requires maintaining cooperation and collaboration that are devoid of deception, exploitation, and opportunism. Therefore, the purpose of this PhD research is to explore the key factors that cause low engagement in this relationship and their link to stewardship, trust, and agency (control) for developing a more collaborative and cooperative investor-entrepreneur relationship in an agency environment in the developing countries' context – with specific reference to Nigeria.

A review of the literature covering various aspects of entrepreneurial finance and the investor-entrepreneur relationship was conducted. This research work identifies equity (finance), enterprise, entrepreneur, and environment as the four conduits through which relationship flows. The study examines several issues on these conduits with regards to the investment logic, perceptions, and expectations of investors and entrepreneurs at both pre-and post-investment stages.

The study adopts an in-depth, open-ended, semi-structured interview approach to investigate the investor-entrepreneur engagement. It uses study data collected from secondary sources as well as primary sources through interviews with business angels, venture capitalists, entrepreneurs, and

their promoters. The data obtained were transcribed using Otter.ai and analysed using QDA Miner – a qualitative data analysis tool.

The empirical evidence indicates that the investor-entrepreneur relationship at the early start-up and scaleup stages suffers from multiple challenges. These challenges are related to the issues within these four aforementioned conduits – equity, entrepreneur, enterprise, and the environment through which relationship flows. Although investors and entrepreneurs make efforts to address these challenges to promote a cooperative and collaborative relationship, the problems of low engagement still remain.

The findings can be utilized to enhance collaboration and cooperation in the investor-entrepreneur relationship by identifying the appropriate context to apply relational or control mechanisms, which would eventually lead to better performance of start-up ventures. The findings have many important practical implications for investors and the early-stage entrepreneurs in Nigeria seeking investment opportunities or already managing existing relationships. In addition to investors and entrepreneurs, the findings have some important theory and policy implications for academia and government respectively.

This research work contributes to the body of literature within the field of entrepreneurial finance in developing countries and fills the existing gap in knowledge in the scholarly research into relationships between entrepreneurs and the traditional equity financiers – as business angels and venture capitalists. It also contributes to the literature by developing a new framework for the financing and ownership relationship mechanisms for a more efficient data-driven, digitally enabled investment relationship between entrepreneurs and their investors. This project makes important contributions to the literature in the area of investor and entrepreneur relationship in start-up financing in the Nigerian and other developing countries' entrepreneurial environments.

This research leads to the development of an ownership framework that combines the triple mechanisms of stewardship, trust, and agency to design, develop and promote tradeable hybrid financing instruments for the digital economy. This new framework will help increase engagement between investors and entrepreneurs by reducing misunderstandings, disagreements, and conflicts between investors and entrepreneurs in the financing of start-up companies in Nigeria and across Africa.

Keywords - entrepreneurship, agency theory, entrepreneurial finance, developing countries, trust, business angel, venture capital, stewardship, cooperation, collaboration.

Declaration

I declare that the work contained in this PhD thesis ***'exploring the dynamics of investor-entrepreneur relationships in business angels and venture capital financing of start-up companies in Nigeria'*** is solely that of the author. I affirm that this thesis has not been previously submitted in part or whole to qualify for other academic awards. The entire content of this thesis is the result of work by the author from the commencement date of the research journey. The author duly acknowledged and referenced all sources of materials used in this research study.

Copyright Statement

Dedication

I humbly dedicate this research work to the Almighty GOD for His divine guidance during the entire period of this project.

The dissertation is also dedicated to my beautiful wife and our children. They have sacrificed so much during the past few years to enable me to accomplish this research goal. They endured multiple challenges worsened by the covid-19 pandemic whilst I pursued this task. The journey of this doctoral research was hard due to the sudden closure of universities because of the pandemic. This doctorate research would not be possible without the support of nuclear and extended families as well as friends and well-wishers.

Lastly, I dedicate this study to the memory of my late father - Mr Patrick Obeta DUHU – may his soul continue to rest in perfect peace. Amen.

Acknowledgement

First and foremost, I give God all honours and praises for his mercies and divine protection during the entire period of this research project. It is only by His power that I have been able to come to this stage of such an important professional assignment. I have also completed some other non-academic projects during the period of this doctoral research. Commencing this PhD journey was a personal and professional challenge. Nevertheless, the experience has been amazing due to the people that have supported me along the way.

I am grateful to the following people who have provided their support and contributed their insights to this research project: my supervisors – Prof Gideon Maas, Dr Arun Sukumar and Dr Victor Atiase. You have kindly advised me despite your other critical schedules and engagements. Your assistance contributed enormously to the timely completion of this project. Thank you for sharing your insights, knowledge, and experience – I am so delighted to work with you.

I would like to express my profound gratitude to my wife Ethel and our children for their considerable patience and unwavering support while I completed this task. I want to thank my brothers and sister for their assistance. Finally, I want to thank all the staff members at ICTE (international centre for transformational entrepreneurship, Coventry University for their support. Also, I must not forget all my friends and colleagues for the encouragement – Ezinne, Mokuba, Sarah, Manneh, Chioma, Charles, Obinna, Ben, Martin, Ade, Susan, Chima, Ugochukwu, Pius, Robin, Helen, Steven, Patrick, Thomas, William, and many other too numerous to mention.

Brief Biography of Researcher

Ignatius Duhu was born in Enugu (Eastern Nigeria) where he attended his primary and secondary education. He completed his undergraduate studies at the University of Ibadan (Western Nigeria) where he obtained a bachelor's degree in Biochemistry. Later, he received a partial university scholarship from the University of Nottingham, which allowed him to enrol and successfully graduate with a Master of Science degree in Biomolecular technology. He went on to complete another Master of Science degree in Business Information technology at the University of Westminster and thereafter an MBA degree at Southbank University in London.

Before his doctoral research programme at Coventry University, he ventured into a start-up business during which he got in contact with other entrepreneurs, venture capitalists, business angels, consultants, and companies. He was unsuccessful in raising start-up financing for his venture and become keenly interested in understanding the challenges of raising financing for new ventures that lead to equity capital gap. The chance to research this area came in 2018 when he was admitted into a full-time doctoral research programme at the International Center for Transformational Entrepreneurship (ICTE). His research plan was concluded in early 2021 after presenting the viva of his doctoral thesis.

Preface

This doctoral thesis is the work of Ignatius Andrew Duhu – studying for a doctoral programme in transformational entrepreneurship at Coventry University (UK). The research work was conducted between Jan. 2018 and Nov. 2021. The background of this work is a problem the researcher faced in attracting investment to his venture in Nigeria. This motivated him to explore the relationship between equity finance providers and entrepreneurs.

It is hoped that the result of this research will help investors reduce risk exposure, provide the right investment instrument or vehicle that the various stages of enterprise growth and achieve maximum benefits from their relationship with entrepreneurs and their teams. Also, the findings will assist entrepreneurs to understand the need to prepare well and become investment ready and provide the best possible exit strategies or options attractive to investors.

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Abbreviations

BA	Business Angel
BAN	Business Angels Network
CBN	Central Bank of Nigeria
CVC	Corporate Venture Capital
DFI	Development Finance Institution
FGN	Federal Government of Nigeria
GEM	Global Entrepreneurship Monitor
HNWI	High Network Individual
IPO	Initial Public Offer
MSME	Micro, small and medium-sized enterprise
SME	Small and medium-sized enterprise
UK	United Kingdom
USA	United States of America
VC	Venture Capital

CHAPTER ONE

Introduction

In this introductory chapter, the foundation of the chosen research topic is outlined which describes the research problem linked to the research aim and objectives as well as the research gap, scope, contribution, and limitations of this research.

1.1 Introduction

This research work is designed to explore the dynamics of an investor-entrepreneur relationship in business angel and venture capital financing of start-up companies in Nigeria. The study applies a qualitative research method and semi-structured, face-to-face interviews of the three participant groups – equity investors (business angels/venture capitalists), entrepreneurs, and promoters plus policymakers to understand the reasons for low engagement existing between entrepreneurs and investors. The relationships between entrepreneurs and their enterprises on one hand and equity investors - business angels (BA) and venture capitalists (VC) on the other hand have been extensively researched by several scholars like Denis (2004); Wright & Robbie (1997); and Cable & Shane (1997) among others. These scholars maintain that two key approaches explain the relationship between entrepreneurs and their equity investors. They state that the first approach is the principal-agent model based on separation of control and management from ownership and the second approach is based on trust and cooperation. Whereas agency theory addresses principal-agent relations, stewardship theory looks at cooperation and collaboration.

Anchored on the above two major approaches and theories, this research seeks to offer new perspectives on the complex and dynamic relationship between entrepreneurs and the equity investors that support them. The research wants to understand the main reasons for poor alignment or the low engagement between investors and entrepreneurs in developing countries with a focus on Nigeria. Cable & Shane (1997) suggest that a mutually beneficial cooperative relationship is essential for the profitable development of enterprises. This research wants to understand the features and conditions that advance this mutually beneficial cooperation and collaboration. MacMillan, I. C., Siegel, R., & Narasimha P.N.S (1985) indicate that investors are always more interested in supporting and investing in those entrepreneurs who will enhance the funded companies' values so that the investors exit profitably.

In this chapter, the research problem or issue that is of interest is introduced and a review of the research background plus study context is presented. Furthermore, the available literature and gaps in knowledge are outlined. How the research was conducted, and the research gap addressed is also briefly mentioned. The contribution to the knowledge area is explained and an outline of the thesis content and structure is presented. This thesis incorporates the views of key stakeholders in the field of entrepreneurial finance - business angels, venture capitalists, entrepreneurs, as well as promoters and business advisors; and draws upon the latest academic thinking on equity financing of new ventures. The work provides insights into the complex relationship connecting Nigerian entrepreneurs and their start-up companies to equity finance opportunities from business angels and venture capital investors.

1.2 Background (Literature Review)

Advancing entrepreneurship is central to addressing the numerous economic, environmental, and social problems facing today's world (Li & Heap, 2008). Many scholars like Fairlie & Chatterji (2013) and Acs, Z. J., Desai, S. & Hessels, J. (2008) have identified the critical role of entrepreneurship in the global economic growth and prosperity of countries because they create products/services, generate employment, and offer income opportunities. This is particularly true for developing countries like Nigeria where the need to build sustainable, scalable, and profitable start-up businesses, grow the economy, and create jobs is immense (Achugbu, 2017). Research shows that there is a barrier to access to capital for entrepreneurs and business managers mainly due to the perceived high risk associated with their young ventures (Panda & Dash, 2014; Cook, 2001). The main barrier to finance facing Nigerian entrepreneurs and their start-up companies is that they are unable to self-finance the early stages of their business operations (Egere & Anigbo, 2018). This is because they lack savings which are in turn linked to little or no source of steady income due to unemployment and related issues (Ugochukwu & Imhonopi, 2015). Hence, they are unable to kickstart and scale their business operation through bootstrapping. As observed by Achugbu (2017), many start-ups and small enterprises in Nigeria struggle to survive and succeed due to the dearth of sufficient funds required to kickstart, scale-up, and grow. Furthermore, Hallberg (1998) and Mead & Liedholm (1998) observed that access to finance is a critical tool for the start-up and growth of new ventures worldwide including in developing countries. Hence, the need for this exploratory research work.

Business angels and venture capitalists play critical roles in the start-up, survival, and growth of new businesses and therefore mutually beneficial, win-win, cooperative relationships between investors and the entrepreneurs are crucial (Stratling et al., 2012; Dimov & De Clercq, 2006). Occasionally, disagreements and conflicts do arise in this relationship leading to issues like the divesting of the investor's funds or the firing of CEOs (Gabrielsson & Huse, 2002). These negative issues occur when high agency risks lead to a mismatch between the interest of investors and entrepreneurs for example where the entrepreneur pursues opportunistic activities at the cost of the investors' interest (Higashide & Birley, 2002; Jensen & Meckling, 1976). There is a need to achieve an optimal balance in the level of ownership, cooperation, trust, management, and control that are necessary for mutually beneficial strategic collaboration in any investor-entrepreneur investment relationship.

The research investigates the issues around why low engagement exists in the investor-entrepreneur relationship which is vital for the financing of start-up companies in Nigeria and other developing countries across Africa. On one hand, the equity investors are looking for some investment-ready businesses to invest in and on the other hand, many entrepreneurs and their ventures are searching for equity-based finance from investors as business angels and venture capitalists (Polzin et al, 2018). However, there is always little or no alignment between equity capital supply and demand as investors are dissatisfied that they fail to find suitable ventures to fund. At the same time, the entrepreneurs highlight that they have been unsuccessful in finding the right investors (Polzin et al, 2018). This low engagement and mismatch lead to an equity capital gap in the financing of most early and growth-stage enterprises. In turn, the failure of entrepreneurs to get their ventures funded leads to the premature death of their enterprises. The unsuccessful fundraising always results in an increased unemployment rate and associated lack of steady income for millions of economically active, working-age young people in Nigeria in particular, and Africa in general.

Timmons & Bygrave (1986) indicate that a cooperative relationship between a business angel or venture capitalist and an entrepreneur is essential and more critical to the venture's success than the capital itself. Although it may be intangible, a good relationship is a catalytic tool that stakeholders can apply to put in their best efforts to work for mutually beneficial and successful investment outcomes (Svendesen, 1998). Cooperative and compassionate relationships achieved for example through more open and frequent communication between investors and entrepreneurs is considered a prerequisite for capital plus other value-added support provided by investors (Parhankangas & Landström (2004) and Sapienza et al., (1996). Scholars like Sahlman (1990) have identified that the relationship between investors and entrepreneurs is complicated and always involves conflicts and disagreements. Prior research investigated how the self-interest and behaviour of investors or entrepreneurs may cause conflicts within the relationship (Cable & Shane, 1997; Sapienza & Korsgaard, 1996; Sahlman, 1990) and have negative impacts on a venture's efficiency, productivity, and effectiveness (Higashide & Birley, 2002).

Scholars like Colquitt et al (2007), and Mayer et. al (1995) who have researched the role of trust in business and organizations observe that trust is essential in private equity contracts and lowers agency problems over time. This research seeks to explore the role of trust in the relationship between equity investors and entrepreneurs plus their private companies. How trust issues affect the availability of equity capital in entrepreneurial finance. There is a need to study the equity finance gap and to understand the interaction of trust and agency problems with investors' search for investment opportunities and entrepreneurs' desire for access to affordable finance from potential investors.

1.3 Research Gap

There has been attention to entrepreneurial finance and especially equity finance from investors within the entrepreneurship research community (Brown et al 2020 & Block, et al 2018). Several researchers (like Cosh et al, 2009) have shown that entrepreneurial ventures face immense funding constraints mainly at the start-up and scale-up stages. Entrepreneurial research initiatives have focused on topics such as investment screening and selection, staging, syndication and exits (Cummings, 2019). However, none has explored the relationship existing between investors and entrepreneurs in developing countries context to understand the reasons for low engagement between entrepreneurs and investors, which leads to equity funding gap – due to the failure to move financial resources quickly and efficiently from the source of supply to demand – that is from investors to the entrepreneurs.

Entrepreneurial ventures in the developing economies and countries across Africa are gradually attracting the attention of business angels and venture capitalists both locally and internationally. Yet, in the growing literature and research work on entrepreneurial finance, certain topics and issues are still grossly under-researched. As noted by Bruton et al (2005), there was little research on VC financing in Africa, South America, and Oceania until the early 2000s. Even in this period (early 2020's), there are still sparse academic literature on BA and VC finance and entrepreneurial finance in general in countries of the sub-Saharan African region (Achugbu, 2017). Indeed, the investment and ownership relationship between entrepreneurs and their young private companies on one hand and equity finance providers as BA and VC investors, on the other hand, has remained under-researched despite an increased need for the application of data, technology, innovation, and strategy to prudently drive entrepreneurial financing in many of the developing countries like Nigeria.

Despite the vital role of the investor-entrepreneur relationship in enhancing financial and non-financial resources contributions and exchange between entrepreneurs and their investors, there has indeed been limited knowledge and understanding about what causes poor alignment or engagement between these investors and entrepreneurs; what can hinder or help an engagement promotion and the success of start-up companies' relationship with their early-stage investors. Furthermore, there have been little theorizing efforts regarding the core processes for effective relationship building and management in the context of entrepreneurial finance in developing countries such as Nigeria.

This limited research is primarily due to an underdevelopment of the business angel and venture capital industries in Nigeria in particular, and Africa as a whole. Presently, no research has explored the limited or low investment engagement between BA and VC investors on one hand and the investees (entrepreneurs/managers) of small and medium-sized businesses in Nigeria on the other hand. Yet, there has been a lack of planned entrepreneurial research programmes designed locally to improve scholarly research aimed at a more critical exploration of the Nigerian and African entrepreneurial ecosystem, with a focus on understanding entrepreneurial finance and key issues in investment relationships between investors and entrepreneurs.

The work of earlier scholars on the investor-entrepreneur relationship (such as Shane & Cable, 2002; Steiner & Greenwood, 1995) offered insight into the role of the relationship in attracting resources to ventures. Also, the works of researchers like Sapienza & Korsgaard (1996) and Ehrlich et al., (1994) play a significant role in improving the knowledge and understanding of the investor-entrepreneur relationship. However, little is known in the context of developing countries like Nigeria with regards to the causes of low engagement experienced in such developing regions. The perspectives of investors and entrepreneurs need to be integrated to understand how they relate and the influence of external factors in increasing or reducing the engagement between them.

This doctoral research aims to contribute towards filling this gap in knowledge and thus provide fresh insights on relevant schemes required to significantly improve the relationship between entrepreneurs and investors at both the country and continent levels. This research is one of the early academic research work in Nigeria exploring entrepreneurial financing with a specific focus on investor-entrepreneur investment engagement. As the business angel and venture capital industry has begun to grow within Nigeria and across Africa (Anders, 2019), many professional bodies and industry associations have started to publish research data on the financing of entrepreneurship. This enhances secondary data accessibility for research work on entrepreneurial financing focused on the region and will improve the validation of the research findings of this thesis.

1.4 Research Aim and Objectives

Sapienza, et al. (1996) indicated that conventional equity finance is unlike debt finance because equity-based finance provision by business angels and venture capitalists requires the transfer of some of the business risks from the entrepreneurs to these equity investors. As a result, investors want to be sure that the risks are worth taking with regards to the potential benefits of the investments. Hence, aspiring entrepreneurs in Nigeria who embark on active searches for external equity capital from business angels and venture capitalists to startup or scale-up their enterprises often fail to successfully raise such funds for their businesses (Olaore & Adeoye, 2014). Thus, there is an equity finance gap facing many Nigerian entrepreneurs and start-up companies due to perceived high risks and costs. This is important in investigating the reasons for low engagement between investors and entrepreneurs.

1.4.1 Research Aim

From the research gap identified in the previous section, this section presents the research aim. *The aim of this research is to investigate the reasons for low engagements between investors and entrepreneurs by exploring the dynamics of a complex investor-entrepreneur relationship in the business angel and venture capital financing of start-up companies in Nigeria.*

This doctoral thesis seeks to address the knowledge gaps in the investment relationship between investors and entrepreneurs as equity finance providers and non-financial resources providers respectively. This is achieved through this research project that helps to understand the current state of knowledge in entrepreneurial finance and yields insights into what can truly stimulate and/or hinder the investor-entrepreneur investment relationship.

To accomplish this task of studying the investor and entrepreneur relationships, the combined stewardship, trust, and agency (STA) based approach is applied to understand the main reasons for the low engagement between early-stage equity investors and Nigerian entrepreneurs. This is critical to understand what causes the gaps in the relationship and what are the reasons for low engagement between the entrepreneurs, their start-up companies and their potential investors in Nigeria and similar developing countries.

1.4.2 Research Objectives

Both the investors and entrepreneurs want to contribute their financial and non-financial resources respectively to unlock opportunities and create values in the markets and economy. But there appear to be obstacles that hinder them from engaging and creating these values. To understand investor-entrepreneur engagement, the researcher has identified four main items or entities which form the basis of engagement. These items are the equity finance instrument from business angels and venture capitalists, entrepreneurs/teams, entrepreneurial ventures, and the environment (that is country as Nigeria) where the entrepreneurs and their start-up companies are domiciled. These entities form the researcher's model of 'four quadrants of investor-entrepreneur engagement' presented under the following research objectives:

- **Research objective 1**

To investigate how the problems of equity capital as a dilutive, non-debt finance instrument hinder engagement between entrepreneurs and the business angel/venture capitalists.

- **Research objective 2**

To explore entrepreneurs' preparedness and readiness for accessing investments from business angels and venture capitalists within and outside Nigeria.

- **Research objective 3**

To examine the barriers within the Start-up Companies or Ventures that hinder engagement between investors and entrepreneurs.

- **Research objective 4**

To study the country's key environmental factors that hinder engagement between entrepreneurs and their early-stage equity investors

- **Research objective 5**

To propose systematic interventions which will develop a mechanism and platform for smart, easy engagement of start-up companies and investors –as business angels and venture capitalists in Nigeria.

1.5 Research Methodology

This research work is based on the qualitative research method in which in-depth, semi-structured interviews are conducted with research participants. There were three sets of open-ended interview questionnaires. The first one is for the business angels and venture capitalists, the second one is for the policymakers and promoters of entrepreneurship in Nigeria, and the third one is for the entrepreneurs. The research draws on stewardship, trust, and agency theories to understand key factors influencing investment and ownership relationships between investors and entrepreneurs. Hence, to explore the research work empirically, primary research data were collected in Nigeria from the participants – business angels, venture capitalists, promoters, and entrepreneurs using an open-ended, semi-structured interview method. The interview data were then transcribed, analysed, and studied. The Otter.ai – a transcription application with AI capability was used to capture data, organize, and transcribe the data from voice to words. Thereafter, QDA Miner software version 5 – a qualitative analysis tool applied to analyse the qualitative research data. This involves the thematic analysis of the multiple issues and features around equity finance, entrepreneurs, enterprise, and environment (country features) in the investment and ownership relationship between equity investors and entrepreneurs focusing on both the pre-and post-investment stages.

1.6 Research Contributions

This research work has theoretical, policy, and practical contributions. Theoretically, the study contributes to the body of literature within the field of entrepreneurial finance in developing countries and fills the existing gap in knowledge in the scholarly research into relationships between entrepreneurs and the traditional equity financiers – as business angels and venture capitalists. This is achieved by proposing an investment friendship anchored on a sponsorship-stewardship approach based on the stewardship-trust-agency (STA) framework to support a three-step funding approach for building sustainable, profitable long-term, trusted investor-entrepreneur relationships. Practically, the stewardship-trust-agency framework will assist both entrepreneurs and investors to take appropriate actions to build better investment and ownership relationships thereby making equity finance available, accessible, and affordable for entrepreneurs in Nigeria. In terms of policy, regulatory agencies will be able to provide the best contractual agreement for an entrepreneurial finance environment that is more transparent and attractive to local and global investors seeking investment opportunities in Nigeria's start-up companies.

1.7 Research Scope, Limitation, and Future Work

This research work is designed to investigate the primary reasons for the poor alignment and low engagement between equity investors and entrepreneurs in Nigeria. It will not cover the study of the relationship between entrepreneurs and the providers of other financial resources like creditors and donors. The start-up companies whose entrepreneurs were interviewed are from multiple industries or sectors of the economy. Most of these companies were nominated and recognized with performance-based awards by Connect Nigeria – a strategic promoter of entrepreneurship development in Nigeria. The limitation or constraints in this study were access to the interview participants – both investors and entrepreneurs. Some of the potential interviewees were unable to participate. The other limitation of this study is the environment where the research was conducted because although Nigeria has some of the characteristics of the other developing nations, these countries are not homogenous. Thus, it will be difficult to generalize the research findings across the rest of the developing countries. In terms of future research work, this entrepreneurial finance research study is incomplete without follow-on investigations into the causes of low engagement between creditors and entrepreneurs as well as between creditors and investors. This research work shows that there is a need for more research on these topics.

1.8 Structure of the Study

The research work is planned and organized into ten chapters. Chapter 1 introduces the research study and highlights the areas of research interest, research aim/objectives, research gap, motivation for the study, research methodology and importance of the research. Chapter 2 presents a review of the academic literature focusing on the investor-entrepreneur relationship, Start-up Company financing, business angels, venture capitalists as well as investment stages. Chapter 3 talks about the research context – business angel, venture capital, and start-up financing issues focused on Nigeria as the study environment. Chapter 4 discusses the theoretical underpinnings of this research and used to build the conceptual frameworks. This chapter will examine some of the theories relating to entrepreneurial finance like capital structure, pecking order, signalling, agency, and stewardship theories. The conceptual framework will be developed in this chapter. Chapter 5 presents the research methodology and procedure, or strategy applied to conduct the study and the rationale behind the various approaches. Chapter 6 reviews the data collection approach through semi-structured interviews with participants who provide empirical responses that address the research objectives. Chapter 7 focuses on the analysis of the data using QDA Miner. Chapter 8 presents the research findings. Chapter 9 is on the discussions - the interpretations of the research findings. Chapter 10 is the conclusion of the study with the research contributions, implications, recommendations, limitations, and avenues for future research especially study on the relationship between entrepreneurs and lenders as well as investors and lenders. The study is carried out in four main stages as indicated below:

- Stage 1 – Literature review
- Stage 2 – Research methodology and data collection
- Stage 3 – Research analysis and results,
- Stage 4 – Discussions, and conclusion

1.9 Chapter Summary

The interest of this doctoral study is to understand the reasons for poor alignment between the investors and entrepreneurs in the Nigerian Start-up Companies ecosystem. This introductory chapter introduced the research background and identified the research gap. It also presented the research aim and objectives focusing on four quadrants of intermediary entities in the complex relationship between equity investors and entrepreneurs – the equity (instrument), entrepreneur (individual), enterprise, and environment. Furthermore, the research methodology and contributions of the research were introduced. The chapter shows that there is a need to understand the reasons for low engagement between investors and entrepreneurs that result in the equity finance gap in Nigeria. The lack of access to equity finance means that many start-up ventures in Nigeria are underleveraged during the early stages and later become overleveraged as they mature. In the next chapter, a review of the literature will be conducted.

CHAPTER TWO

Literature Review

2.0 Introduction

In the first chapter, the direction of this research work was introduced with a concentration on the research aim and objectives. It was noted that the objectives of this research are to investigate the problems with equity capital instruments and barriers within start-up companies that hinder better engagement between entrepreneurs on the one hand and business angels and venture capitalists on the other hand. The purpose of this chapter is to explore theoretical and empirical underpinning with the primary goal of finding what earlier scholars have researched regarding business angel finance and venture capital investments. This is with a focus on the engagement or relationship between the investors and entrepreneurs. This chapter presents a review of the extensive research that has been conducted on business angels and venture capital plus funded businesses. It presents an outline of start-up and venture capital research development by discussing the key thematic topics. Also, the chapter reviews earlier research and studies on start-up companies and venture capital in relation to their engagements. This chapter addresses research objectives 1 and 2 on equity finance features and entrepreneurs' readiness for equity investments.

2.1 Types of Investments - Funders and Funding Models for Start-up Companies

In the entrepreneurial finance ecosystem, the equity finance instrument provided to entrepreneurs and their early-stage ventures emerges from three primary sources – family/friends, business angels, and venture capitalists. As outlined by van Osnabrugge & Robinson (1999), these three differ in terms of investment stage as business angels tend to support very early-stage enterprises often with little or no revenues and venture capitalists are more interested in companies with evidence of traction, customers, or sales and where possible, evidence of profits. In terms of their unique features, each of the three core funders are as explained below.

2.1.1 Families and Friends

Mason & Harrison (2000) consider funding from friends and family members as love money and informal, but the researchers maintain that their investments are often on conditions different from those used by the external or outside investors. According to Kotha & George (2012), most entrepreneurs start funding their new ventures using personal savings, bootstrapping, and support from their friends and family members. Mason (2006) also carried out integrated survey responses from 18 countries and found out that in most parts of the world, friends and family provide funding to entrepreneurs during the early start-up period. However, in developing countries, many entrepreneurs from poor and disadvantaged backgrounds do not have such friends and/or family members in a position to support them financially because they are not rich relatives or colleagues. Shane et. al (2008) observed that most of these kinds of investments are often in the form of debt finance and that many entrepreneurs due to inexperience usually make unwise investment decisions with such monetary support from families or friends. In both the developing and more developed societies, funding support from families and friends is an important source of financing for early-stage, pre-revenue enterprises (Mason, 2006).

2.1.2 Business Angels

Funding from business angels is considered the informal form of venture capital financing, defined by Mason & Harrison (1999, p. 95) as 'informal venture capital-equity investments and non-collateral forms of lending from wealthy private individuals and groups who use personal funds to invest directly in unquoted companies in which they have no family connection.' A few scholars like Mason (2006a), Sohl (2003), and Benjamin & Margulis (2000:5) present business angels as wealthy individuals and groups who in search of financial gain, invest their funds and often provide their time and expertise to support entrepreneurs of privately owned, non-quoted companies in which these individuals and groups have no family connection. Most business angels are high net worth people who finance high-risk entrepreneurial companies (Avdeitchikova et al., 2008; Freear et al., 1994).

Several researchers such as Mason (2006), Madill, et al. (2005), and Wetzel, (1981) indicate that, unlike family and friends, business angels seek financial returns and unlike venture capitalists use their personal funds and sometimes, these angels are partly motivated by some non-financial interests. These authors maintain that both business angels and venture capitalists provide their entrepreneurs with non-financial resources often called ‘smart money’ like advice, knowledge, hands-on experience, access to networks, customers, and other supports. Mason & Harrison (2000a:144) observed that during the early start-up stages, business angels make more investments in new and young companies – up to eight times than venture capitalists. Gaston (1989) notes that both business angels and venture capitalists can play complementary roles and the former can invest in smaller deals and at the earliest seed and start-up stages to unlock the opportunity for follow-on financing available to entrepreneurs.

Researchers like Denis (2004) state that business angels are wealthy individuals willing to invest their own money in start-ups or small but growing businesses. Scarborough et al (2009) maintain that angel investors are rich private individuals who invest their capital in start-ups and small enterprises in exchange for ownership equity in funded businesses. Furthermore, business angels provide an informal source of venture finance as rich people, not institutions and often have valuable experience in business and are willing to invest in start-ups and initial stages (Carter et al, 2006). Also, Dimitraki (2012) points out that business angels release funds at an early stage of an enterprise or business and often provide a few post-investment assistances to support the funded enterprises or ventures. Lastly, Mason & Harrison (1996) note that informal venture capitalists are frequently involved in multiple funding stages of an enterprise from the seed stage to IPO and management buyouts. The European Business Angel Network (EBAN, 2009) summarized some of the merits of business angels which include providing equity finance, making it possible for entrepreneurs to raise further financing for example from venture capitalists, providing advice, mentoring/coaching, investing early, and taking huge risks as well as investing with other investors, connecting entrepreneurs to potential customers and strategic partners, among others.

2.1.3 Business Angel Networks

The angel investing industry is usually promoted by wealthy private individuals who make micro to small investments in young ventures. However, an emerging trend in entrepreneurial finance is the formation of business angel networks or groups especially in developed countries (Mason, 2006). This approach leverages recent advancements in digital and mobile technologies. In most countries around the world, many angel investing groups now exist to facilitate investment in suitable start-up ventures. In fact, these days, angel investments are increasingly becoming more organized, professional, and syndicated and now publish the processes for searching and screening investment deals as well as carrying due diligence, participating in negotiations, creating term sheets, and executing investments (Mason, 2006). The authors also noted that there is evidence that organized, professional business angel networks perform better in these processes than individual angels. However, for many wealthy investors, there are some benefits associated with investing as individuals with respect to investment diversification and provision of follow-on financing to prevent excessive dilution during progressive, multiple investment rounds.

Earlier scholars such as Mason & Harrison (1996) have indicated that informal venture capitalists began to form networks among themselves in order to address the big problem regarding informal investors' invisibility. Bruton et al., (2010) argue that such network formation helps informal venture capitalists to build their reputation plus share information and knowledge. The formation and growth of the business angel network assist the informal investors and entrepreneurs to reduce costs and time associated with the search for and selection of viable investment opportunities.

2.1.4 Venture Capitalists

Venture capitalists are professional investors who provide equity finance to entrepreneurial ventures with exponential growth prospects in exchange for a share of the ownership of the funded ventures (Mason, 2006). The VCs also participate actively with entrepreneurial teams in the management of the ventures with a view to a successful, profitable exit. Based on the reports from several researchers as mentioned below, British Venture Capital Association (BVCA) and NESTA UK developed an 8S framework for the Venture Capital industry (BVCA-NESTA, 2009) as summarized here:

- Skilful – As VCs provide equity finance which transfers business risks to the investors from the entrepreneurs, VCs must ensure they protect their investments for example by assisting entrepreneurs with necessary management skills, knowledge, insight, and advice (Sapienza et al, 1996). Gompers (1995) observed that the superior performance of top VC funds reflects this skill for prudent management of funded ventures.
- Smallness: Worldwide, only a small number of growth-oriented enterprises qualify and eventually succeed in obtaining funding from venture capitalists (Shane, 2006). Burgel et al, (2004) indicated that during the mid-1990s, in the UK and Germany, only about 11% of fast growth, young firms received VC funding.

- Skewed returns - Murray & Marriott, (1998) argued that VC financing is one of the most skewed alternative investment asset classes because most investments produce negligible returns or completely fail and only a few investments yield the majority of the profits.
- Specialization – Most VCs have market or sector specialization and focus on industries that the fund managers know well. For example, they concentrate on innovation-driven and tech-enabled sectors like Climatetech, Fintech, EdTech, Biotech, and Greentech.
- Scale intensive – several researchers (Murray, 2009; Jääskeläinen et al, 2007; Murray & Marriott, 1998) observed that small VC funds do not perform well. These scholars argue that a small fund is insufficient to pay teams and cover costs relating to finding, evaluating, and supporting investee companies. It also makes diversification of investment difficult and provision of follow-on investment impossible. Hence, the original investment is excessively diluted without the provision of more investments, and they will fail to hold on to their ownership share.
- Systemic - operation of a VC fund is symbiotic in nature, and require key stakeholders to support it in order to excel – for example, industry contacts, managers, consultants, advisors, accountant, and legal experts. It also needs quality deals from investment-ready companies plus a viable exit pathway and good return to match the high risks involved.
- Support – Learner (1999) indicated that it is not possible to establish a VC industry that is viable without the long-term support of the national government. Gilson (2003) and Gompers & Learner (1999) argue that the VC system is fragile and requires quality support to effectively work for an extended period to build trust and entrepreneurial/managerial skills to address the problems.

- Significant – the VC industry has a significant impact on the local and national economies even though the industry has small size (Shane 2008). Fortunately, the rapid advancement of technology has helped to increase the citizens' awareness of the venture capital industry.

Nesta (National Endowment for Science, Technology, and the Arts) is an innovation foundation based in the UK. The organisation acts through a combination of programmes, investment, policy and research, and the formation of partnerships to promote innovation across a broad range of sectors. Nesta was originally funded by a £250 million endowment from the UK National Lottery (Polly, C, 2002., and Buckler, S. 2012).

Table 2.1 Differences between Angel Investors and Venture Capitalists

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Sources: [Van Osnabmagge & Robinson (2000); Benjamin & Margus (2001); Hill & Power (2002); Gaston (1989); Freear, et al (1994)].

In conclusion, there are other types of early-stage funding available to Nigerian entrepreneurs and their start-up companies. For example, trade credit, leasing, factoring, and bank lending. However, in the context of this research and especially examining seed-stage start-ups, the scope of this study is on equity-based finance from the business angels and venture capitalists. In the next sub-section, a comparison is made between these two sources of equity finance as the primary focus of this research.

2.2 Comparison of Business Angel and Venture Capital Investment Processes

The investment challenges associated with equity finance such as agency risks in the form of misuse of investors' funds and lack of efforts by entrepreneurs are similar for both BAs and VCs (Van Osnabrugge, 2000). Anchored on agency theory-based analysis, Van Osnabrugge (2000) conducted a comparison of the business angels' and venture capitalists' investment criteria and procedures in which the author proposed that both BAs and VCs in the United Kingdom may use different approaches to limit potential agency risks to their investments. In his empirical research study, Van Osnabrugge (2000) used data obtained from personal interviews and questionnaires to argue that even though both BAs and VCs reduce agency risks at all stages of investment, BAs give emphasis on doing so ex-post investment (the incomplete contracts approach), while VCs focus more on ex-ante investment (the principal-agent approach).

Regarding the empirical data collected by some researchers such as Van Osnabrugge (2000) and Mason & Harrison (1996), the differences in terms of investment processes and procedures between BAs and VCs are explained here. With respect to selection, screening, and deal flow, Van Osnabrugge (2000) found that VCs appear to be more efficient than BAs in the deal origination and initial screening processes because VCs are more professional and better structured than BAs (Mason, 2006). Investigating due diligence, the author concluded that VCs perform more pre-investment diligence than BAs as VCs study business plans and analyse financials more as well as have more sector experience than BA. However, nowadays, BAs can leverage data and technology to conduct initial screening and due diligence exercises (Cherry, 2015).

Based on the available research data on contractual control, Van Osnabrugge (2000) observed that VCs carry out more rigorous and lengthy negotiations than BAs. The author also noted that VCs form better contracts, invest more money, obtain higher equity shares, and often exercise the authority to replace entrepreneurs. However, the scholar indicated that both BAs and VCs may occasionally engage with the entrepreneurs in an extended period of contract negotiations. In terms of the post-investment monitoring task, Van Osnabrugge (2000) found that BA is more actively and personally involved in post-investment monitoring than VCs. Furthermore, the author found that VCs are more concerned about investment exits and higher investment return expectations than BAs.

In conclusion, it can be observed that both the BAs and VCs play a critical role in assisting entrepreneurs to mobilize financial resources at the early start-up and scale-up stages. As they provide equity-based finance, they help entrepreneurs to share the initial risks associated with starting and growing the ventures. Hence, they are vital to the success of funded companies. In the next sub-section, the literature on the investor-entrepreneur relationship is introduced and discussed.

2.3 The Investor-Entrepreneur Relationship

The relationship between investors and entrepreneurs has received more attention in the research community in recent years. This is because researchers believe that investor-entrepreneur relation is vital to the successful funding of enterprises and management of investments. Kaiser & Berger (2020) view trusted relationships as the currency of entrepreneurial finance, especially in the present data-driven digital economy. Aldrich & Zimmer (1986) noted that entrepreneurial finance scholars have been aware of the critical role of relationships between investors (financial capital providers) and entrepreneurs (non-financial resources providers) in facilitating the efficient transfer of the capital and resources to create values through building companies. Indeed, several researchers (Shane & Cable, 2002; Sapienza & Korsgaard, 1996; Steiner & Greenwood, 1995; Ehrlich, De Noble, Moore, & Weaver, 1994) have already identified relationships as the pipeline or pathway through which financial capital and non-financial capital flow are exchanged thereby ensuring that entrepreneurs can grow their ventures with these resources and that investors benefit in the form of multiple rewards for the investment risks that they have taken. Shepherd & Zacharakis (2001) maintained that without relationships between entrepreneurs and their investors, it will be difficult for young companies to obtain all the required resources for their development and growth thus increasing the chances of failure. According to Kerr, Lerner, & Schoar (2011), there is a better potential for venture success when resources and relationships are properly linked to available opportunities.

The exchange of financial capital between investors and the supported entrepreneurs is a critical outcome of entrepreneurship and other previous researchers have often focused on either the entrepreneur or the investor. For example, scholars like Kirsch, Goldfarb, & Gera (2009); Zacharakis, Erikson, & George (2010); Zott & Huy (2007) present entrepreneurs as people seeking investors who can assist them to create values for their enterprises. On the other hand, researchers such as Higashide & Birley (2002); Navis & Glynn (2011); Parhankangas & Landstrom (2004) present investors as those looking to benefit from values created by businesses by making the best decisions on how to provide such businesses with financial capital. The two approaches above present some thoughts on how an investor and an entrepreneur view each other. It is clear that both entrepreneurs and investors should understand that one is essential to the survival and success of the other and that everyone must seek to maintain a mutually beneficial relationship to survive (Kimbrell, 2015).

In previous research studies on the investor-entrepreneur relationship, researchers like Burton, Sorensen, & Beckman (2002); Chong & Gibbons (1997); Walker, Kogut, & Shan, (1997) have considered how investors and entrepreneurs find one another or know about their existence at the early stage. Other researchers such as Florin, Lubatkin, & Schulze (2003); Shane & Cable (2002); Venkataraman (1997) studied the factors that assist investors and entrepreneurs at the later stage to build relationships and execute successful equity investments. Entrepreneurs want to protect the ownership of their companies from equity investors who they believe will dilute their companies' ownership by taking a majority share position and thereby control the decisions of entrepreneurs and management of the companies (Shane & Cable, 2002).

According to Sahlman (1990), the conventional approach to the investor-entrepreneur relationship is that business angels and venture capitalists who engage with entrepreneurs must search, identify, and select some suitable ventures, then structure and execute deals with the entrepreneur, then add values to improve the chances that ventures will perform better, manage the relationship, plus monitor the investments, and equally important achieve some returns on their investment. Hence, managing an investment relationship is complex and difficult because the expectations of two separate entities or participants throughout the engagement period must align without excessive self-interest. Under the situation described above and due to the nature of financial capital, the conventional investors always gain higher influence in decision making over the entrepreneurs which impacts the relationship and distribution of rewards (Wijbenga, Postma, & Stratling, 2007; Sahlman, 1990).

Researchers agree that investors dictate the formulation of investment contracts and accept that the investor-entrepreneur relationship is a principal-agent relationship where the entrepreneurs are dependent on their investors (Sapienza & Korsgaard, 1996). In this relationship, the dependence is a function of the value of resources provided, available substitutes to the resource, and the existence of an alternative substitute's suppliers (Gomez-Mejia, et al., 1990). Under this circumstance, entrepreneurs desiring to grow their ventures require financial capital, which is scarce because there are limited funding opportunities. Ventures promoted by entrepreneurs have the potential to grow and become profitable, but their illiquidity increases the investors' risk exposure (Teten, 2013).

The investors are independent or at least less dependent on the entrepreneurs on the other hand because the investors usually manage large numbers or portfolios of entrepreneurial ventures so the impact of one entrepreneur/venture is diluted even if the capital invested is huge. As a result, it is agreed that investors always wield power over the entrepreneurs and the imbalance of power influences the behaviour of both the investors and entrepreneurs in a relation (Zacharakis et al., 2010; Gomez-Mejia et al., 1990).

The conventional approach to investor-entrepreneur investment and ownership relationship in micro and small-sized start-up and/or scale-up enterprises involves an investment and ownership engagement (Anandaram, 2012). In this traditional model, investors and entrepreneurs participate in a unique relationship whereby investors provide equity capital for an agreed share in the ownership of the funded start-up venture (Panda & Dash, 2016). However, the ownership of the investment and venture is both static and rigid with the high principal-agent problem (Panda & Dash, 2016). This implies that the equity ownerships do not move and are not frequently traded and exchanged. The conventional equity financing model for start-up ventures has multiple drawbacks that hinder the most efficient use of equity-based finance to build businesses. For example, unlike investing in big businesses, the equity investment in a start-up has low liquidity as it is not traded.

To succeed in today's competitive business environment, entrepreneurs must build, manage, and maintain excellent business relationships with many key stakeholders, particularly investors (Anandaram, 2012). Kapel (2017) described some of the stakeholders –

- Firstly, entrepreneurs must build and manage the relationship with investors as external financiers providing equity investment in the entrepreneur's business. For example, a mutually beneficial relationship should be developed and maintained over the lifetime of investment between the entrepreneur on the one hand and angel investors and/or venture capitalists on the other hand.
- Secondly, entrepreneurs must maintain a relationship with lenders who provide loans to the enterprise. Entrepreneurs may apply similar approaches to manage relationships with funders as investors and lenders as the engine of their enterprises and trust, communication, openness or transparency, and reliability are vital.
- Thirdly, relationship with their suppliers as well as customers is also crucial for any entrepreneur to excel. These customers are the heart of any enterprise and determine if the entrepreneur will succeed or fail. Occasionally, potential customers and suppliers can also provide early-stage funding to entrepreneurs.
- Fourthly, an entrepreneur's relationship with employees as a unique asset to the business is also particularly important because they make the business happen. Entrepreneurs should therefore promote the spirit of teamwork as well as appreciate hard work and employees' dedication to their jobs.

- Fifthly, entrepreneurs must learn to build a mutually beneficial business relationships with their competitors in the marketplace.
- Sixthly, entrepreneurs should develop a good relationship with the government for example through the regular meeting of the tax obligations. Seventhly, entrepreneurs should relate well with the community – the source of future customers, investors, lenders, employees and so on. For instance, entrepreneurs and their businesses should engage in corporate social responsibility (Kapel, 2017). In the context of the investor-entrepreneur relationship, an alignment of goals is important and forms the basis of mutually beneficial engagements as discussed in the next sub-section below.

2.4 Goal Alignment in Investor-Entrepreneur Relationship

Turcan (2008) conducted research exploring the goal alignment and mitigation of post-investment dyadic tensions in the investor-entrepreneur relationship and indicated that the best relationship between investors and entrepreneurs is one in which they share common goals regarding the business strategies for growing the funded company. The scholar used case study research for data collection, analysis, and interpretation, and found that four types of alignment emerged –a life-changing opportunity, enslavement, no marriage, and elusive alignment (Turcan, 2008). The conclusion, that the researcher drew from this work, was that the concept of goal alignment or goal congruence is unidirectional and geared towards the agenda of the investors for a quick and profitable exit. However, this type of exit may not be beneficial to many entrepreneurs operating in some sectors of the economy or domiciled in certain parts of the world.

Nahapiet & Ghoshal (1998) present goal congruence as the level or degree to which the goals and values exchanged by two or more partners converge. Several scholars have noted the critical role of goal alignment in relationship building and business success (De Clercq & Sapienza, 2006;

Parhankangas et al., 2005; Cable & Shane, 1997; Shepherd & Zacharakis, 2001). In many investor-backed companies, the growth objectives of the entrepreneurs and investors are often different and may ultimately become a source of potential disagreement (Turcan, 2008). Petty (1997) maintains that investors are attracted to ventures because of the possibility of high capital gain and an early exit. But, in pursuit of a fast exit, investors usually put undue pressure on the entrepreneurs to abandon plans for long-term sustainability and profitability in favour of short-term gains (Turcan, 2008). Lerner (1994) observes that some investors go to the extent of prematurely taking ventures to the public market via initial public offers (IPOs) at the wrong periods when such ventures are just gaining market traction. Under this circumstance, the entrepreneurs who prefer to focus on working for long-term growth and profitability face the dilemma of either agreeing with the investors' strategy on early exit or following their own strategic long-term plans (Lerner, 1994).

The researchers also point out that often many investors use several strategies to discourage entrepreneurs from pursuing goals that do not align with those of investors. For instance, De Clercq & Manigart (2007) believe that some investors may underfund ventures to make it impossible for their entrepreneurs and promoters to position such companies for the next growth stage. The deliberate underinvestment by the financiers is a potential source of conflict between entrepreneurs and investors (Mäkelä & Maula, 2005).

Christensen, et al (2009) also conducted an empirical examination of goal (in)congruence between investors and entrepreneurs across time via a qualitative study that examined the motivations for investors and entrepreneurs to act opportunistically towards one another. In their work, the researchers sought to find out if, apart from the early stage, the goals of investors and entrepreneurs are truly aligned at the mid and late stages (Christensen, et al 2009). The scholars examined goal congruence at key points in the investment process, using the framework of Wright and Robbie

(1998). From the interview-based research, Christensen, et al (2009) found that investors expect opportunistic behaviours from venture promoters during investment rounds though they largely trust promoters between financing rounds. Hence, there is goal incongruence and associated agency conflict between investors and entrepreneurs during the initial negotiation and investment stages, which agrees with the work of Arthurs & Busenitz (2003). The researchers also found that investors and entrepreneurs reported that venture capitalists act opportunistically towards the entrepreneur and other venture partners during all stages of the start-up development and the complex relationships between the sources of financial capital and non-financial capital.

A relationship between investors and entrepreneurs can be said to be effective when exchanges of data, information, and knowledge are promoted in such a way that it contributes to a venture's efficiency, productivity, and effectiveness (Zacharakis, Erikson, & George, 2010; Busenitz et al., 1998; Morgan & Hunt, 1994). Applying a qualitative interview method to undertake an empirical study, Van Dijk et al, (2010) investigated the relationship between entrepreneurs and venture capitalists from an entrepreneur's perspective to understand how perceived justice affects psychological contract breach (PCB) and how the PCB, in turn, evokes reactions in the investor-entrepreneur relationship. The researchers show that distributive justice, formal procedures, informational justice, and interpersonal justice, among others, are crucial factors that can influence responses to the breach (Van Dijk et al, 2010).

Many scholars believe that a contractual covenant is a key to preventing or resolving problems due to legal contract breaches that arise from the relationship between investors and entrepreneurs (Kaplan & Stromberg, 2003; Sahlman, 1990). However, van Dijk et al, (2010) noted that not all disagreement is legally oriented because relationships are multifaceted. Hence, the parties involved in a relationship may simultaneously hold mutually different views, that may be accurate but not mutually consistent (Lewicki, McAllister, & Bies, 1998). Because not all potential disagreements can be anticipated and documented in legally binding contracts (Sahlman, 1990), parties in a relationship will have to find ways to respond to some unexpected conflicts in the relationship. Collewaert (2012) outlines that psychological contract breach (PCB), with perceived justice as an important predictor is a useful perspective, that can assist in understanding the development of the social (non-legal) relationship between VCs and entrepreneurs.

As observed by Schein (1980), psychological contract theory focuses on the ongoing exchange of obligations that encompasses repeated cycles of each party fulfilling obligations to another (Dulac, Coyle-Shapiro, Henderson, & Wayne, 2008). It is about the beliefs of an individual about the terms and conditions of a reciprocal exchange agreement between two parties (Rousseau, 1989; Schein, 1965). The psychological contract breach is referred to as a conflict situation that can lead to several reactions or conflict outcomes, which are categorized as either constructive or destructive (van Dijk et al, 2010).

Gakovic & Tetrick (2003) view a psychological contract breach (PCB) as the employees' perceptions that the business concern is falling short of its obligations and promises to the employees. Psychological contracts can be explained within the social exchange theory framework. Blau (2009) distinguishes between social and economic exchanges and states that social exchanges entail unspecified obligations, while the obligations in economic exchanges are more commonly tangible in nature.

PCB is referred to as a conflict situation that can lead to several reactions or conflict outcomes, which are categorized as either constructive or destructive. In contrast to constructive reactions, destructive reactions such as entrepreneurial exit may lead to a decrease in morale and venture performance (Collewaert, 2012). Research has indicated that investigating the nature and the social characteristics of exchange relationships, including investor–entrepreneur relationships (De Clercq & Sapienza, 2006; Lockett, Ucbasaran, & Butler, 2006), are crucial to gaining a better understanding of their effectiveness (Collewaert, 2012; Granovetter, 1985). The next section describes some of the issues in business angel and venture capital financing.

2.5 Issues in Business Angel and Venture Capital Financing

When providing funding to entrepreneurs and their enterprises, both the business angels and venture capitalists face a unique set of problems. Berger & Udell (2006) note that uncertainty, limited collateral, and information asymmetry make financing of early-stage start-up ventures unattractive to financiers including investors and banks. Similarly, entrepreneurs and their enterprises face related problems when seeking financing from these investors. In the investor-entrepreneur relationship, the researcher presents two types of these problems such as internal and external problems. Whereas the internal problems are principal-agent problems, the external issues or challenges are environment-related – like the volatility of markets and uncertainty of the future (Gompers, 2001). The internal problems can be managed and controlled by the investors and entrepreneurs, while external problems are often beyond their control. This research explores both the internal problems linked to engagements or alignments required to build successful investor-entrepreneur relationships.

2.6 Relationship Issues - Principal-Agent Problems in BA and VC Financing

Presently, there are numerous research studies examining the principal-agent problems in multiple fields like psychology, economics, and business (Jensen & Meckling 1976; Eisenhardt, 1989). The focus of this thesis is on exploring engagements by reducing agency costs and opportunity costs associated with the principal-agent problems in both business angel and venture capital financing of start-ups in developing countries like Nigeria. Eisenhardt (1989) states that the agency dilemma generally occurs when an agent can make decisions and/or take actions on behalf of another person as the principal. The principal-agent dilemma can exist in many situations and circumstances in government, legal, business, employment, and financing. Cumming (2009) notes that an agent is the entity responsible for and takes actions that affect the financial returns to the principal but often the agent may have self-interests in doing things that are against the interest of the principal. Sahlman (1990) argues that the provision of informal and formal venture capital financing to enterprises is particularly interesting for exploring principal-agent problems.

In entrepreneurial financing, when investors provide equity funding to start-ups, it means that the investors as the principal have delegated the entrepreneurs as the agent to act on their behalf (Cumming, 2009). The researcher indicates that this delegation is usually due to the entrepreneurs' special advantages like the availability of non-financial resources such as time, knowledge, entrepreneurial skills/expertise, and access to information about their enterprises. However, as Miller (2008) observes, this knowledge and informational advantage or information asymmetry poses a big problem for investors as the principal. This problem can be explained thus: what is the assurance that the agent as an entrepreneur will always act or has acted in the best interest of the investors. Researchers like Cumming (2009) and Gompers & Lerner (2001) have identified many diverse types of principal-agent problems which can occur in the engagements and relationships between investors and entrepreneurs as explained in the following sub-paragraphs.

2.6.1 Information Asymmetry

Gompers & Lerner (2001) indicate that entrepreneurial firms, as well as their potential investors, often face many dangerous pitfalls in the capitalization process of the enterprises and these researchers show that one of the biggest principal-agent problems is the information gap or information asymmetry. These researchers present the information gap as a situation whereby there are many differences in what various players know about a company's internal workings or processes, potentials, and prospects as well as the market trends, and other information vital for prudent investment decisions (Gompers & Lerner, 2001). In this situation, the researchers claim that both the entrepreneurs and investors have high chances of making unwise or wrong decisions because none of them has full information on the company's true position.

As entrepreneurs manage their firms, they usually know more about the past and present state of their companies than external investors. They are also in a better position to predict the future based on what they already know. Gompers & Lerner (2001) note that many problems arise from an information gap that can discourage traditional investors from financing entrepreneurial ventures. Gompers & Lerner (2001) argue that entrepreneurs can make certain unwise decisions and/or take harmful actions without revealing the information or bringing it to the knowledge of their investors. For instance, at the expense of the investors, entrepreneurs may invest in risky projects that help to build their own reputation, inflate the progress or performance of their enterprises, and attempt to hide certain business losses from the investors (Cumming, 2009).

2.6.2 Agency Cost

Another principal-agent problem that can occur when external investors engage entrepreneurs in investment relationships is agency cost. Several researchers (Gompers & Lerner, 2001 and Fama & Jensen, 1983) describe agency cost as the cost or fee borne by investors as principal when the investors hire entrepreneurs as an agent to act on the investors' behalf. These researchers observe that cost increases due to conflicts of interest - as the investor's interests are frequently different from that of the entrepreneur and the latter as the agent always has access to more information about the enterprises. Gompers & Lerner (2001) state that agency cost can be of two major types – firstly, the direct cost that arises when a principal hires an agent whereby the agent uses the resources of the principal to their own benefit but at a loss or cost to the principal. The second is the indirect cost that arises when the principal attempts to mitigate problems connected with the use of an agent. Gompers & Lerner (2001) list executive compensations like bonuses and stock options as typical examples of indirect costs.

It is important to understand how all other principal-agent problems ultimately lead to agency costs, which may cause investors to suffer losses. An example of agency cost in the principal-agent relationship is where an entrepreneur as the agent is offered a small ownership stake in a venture that he manages whilst the investors as principal take a large ownership stake. Earlier researchers who have investigated the agency cost have made several observations, for example, Baker & Kiymaz (2011) observe that a manager with a small ownership stake tries to build an empire instead of working hard to make the company more efficient and profitable. The researchers indicate that empire building is usually in the form of increasing the company’s size instead of increasing the company’s profits, so the manager can benefit in several ways such as prestige, perks, and compensation usually at the expense of the company’s value. Also, Bebchuk & Fried (2004) note that the manager may be unwilling to fire a colleague whose mediocrity or incompetence outweighs their friendship. The manager often tries to maximise compensation with little pressure to perform – occasionally venturing into fraud through manipulation of financial figures to enhance his bonus and/or increase the stock price (Bebchuk & Fried, 2004). Again, Mahmudiy & Pavlin (2010) show that the manager may retain substantial amounts of cash that remain unused and wasteful, but which secures independence from capital markets.

2.6.3 Moral Hazard

The issue of moral hazard is another principal-agent problem that happens when an entrepreneur's interests mismatch those of the principal’s interests. Cumming (2009) presents moral hazard as the failure of an agent failing to put in his or her best efforts in the principal's interest, which will affect the expected payoff of the principal. Furthermore, Cumming (2009) notes that it is impossible to design efforts enforcing contracts as an effort is neither verifiable nor unenforceable even though it can be observed. An example of a moral hazard is when an agent knowingly takes risks in which he or she is protected but the principal incurs some costs.

Holmstrom (1979) and Krugman (2009) show that moral hazard is 'a circumstance whereby certain risk-prone decisions are made by one person whilst the cost is born by another person if things go wrong. According to Cummings (2009), an understanding of moral hazard show that the incentive of an agent to maximize effort is proportional to the residual claim to the agent in the entrepreneurial venture. Many scholars who have studied moral hazards such as Baker (1996) maintain that a moral hazard is different from an adverse selection because whereas the former is due to hidden action, the latter occurs because of hidden information.

2.6.4 Adverse Selection

Adverse selection is another principal-agent problem whereby the agent has access to information that is usually hidden and not made available to the principal (Cumming, 2009). In a principal-agent dilemma, adverse selection is intricately linked to moral hazard. Adverse selection is also connected with the information gap – lack of symmetric information in a principal-agent relationship. Cumming (2009) infers that whereas moral hazard usually happens after a financing contract has been signed between a principal and an agent (ex-post), adverse selection exists even before a contract is signed (ex-ante). The researcher describes adverse selection as a situation whereby information is hidden from one party in a transaction while moral hazard is a situation where the action is hidden.

2.6.5 Hold-Up Problem

Cumming (2009) shows that hold-up refers to situations where the bargaining power of agent and principal in a contract are not equal and renegotiation of the contract terms and conditions can happen. In such a situation, one party may decide to hold up the other party if it has stronger bargaining power. It is possible that in investor-entrepreneur engagement and relationship, both investor and entrepreneur can hold each other under different conditions. Cumming (2009) provides some examples of certain situations where the entrepreneur may hold up the investor – for example, an investor contributes a large amount of capital to finance the venture and the entrepreneur is the only person capable of ensuring the success of the venture. Cumming (2009) argues that an entrepreneur can hold up the investor if the entrepreneur receives an attractive employment offer from another company after an investor has funded the entrepreneur who may accept the new job offer, and this will lead to the venture's failure.

2.7 The VC Investment Cycle & Mitigating of Agency Problems

From the previous section, it can be deduced that the investment engagement and relationship between investors and entrepreneurs can lead to principal-agent problems that increase agency cost. The various issues at the stages of the investment cycle must be addressed in order to mitigate the agency problems and address the lack of engagement. According to Gompers & Lerner (1999), the financial/contractual relationship linking a VC firm and its funded company is often a multi-year investment scheme usually lasting anywhere between 3 and 10 years. These researchers call this period the 'venture capital cycle' which exists in three major phases or stages as follows: Pre-investment stage as searching, screening/selection; investment stage as contracting and financing; and post-investment stage as monitoring, value-adding, and exit or divestment.

Within the local and global economies, the principal-agent problem has generated academic literature including the business angel and venture capital financing. Kaplan & Strömberg (2001) argue that there are some ways that formal and informal investors as principals mitigate the principal-agent dilemmas. First, these researchers note that the investors engage in information collection through screening, due diligence, and selection before deciding whether to invest or not to invest. Secondly, Kaplan & Strömberg (2001) maintain that investors structure financial contracts that are built around ownership distribution, cash flow, and control rights between investors and entrepreneurs which incentivizes the latter to behave optimally. Again, the researchers indicate that once they have invested in entrepreneurs, investors monitor and continue to collect information about the projects' progress. The three stages in the investment cycles are explained in the following sub-paragraphs.

2.7.1 Pre-Investment Stage – Screening/Selection in BA and VC financing

There are several important steps in investing relationships linking entrepreneurs to their investors. Kaplan & Stromberg (2000) indicated that for investors to make new investments in start-up companies, VCs spend time and effort to search, evaluate, screen, and select these companies and their associated investment opportunities. The researchers note that these steps are followed by financial contract design and investment closing. Kaplan & Stromberg (2000) carried out research in which they empirically studied the above processes by VCs through investigating portfolio companies financing by VCs where they analysed the investment memoranda in the selected portfolio.

Kaplan & Stromberg (2001) studied how screening works and how investors analyse investment opportunities and then make or decline investments. They find evidence that showed what investors find attractive in the investment opportunity in terms of market size, customer adoption, technology, innovation, strategy, and competition (Kaplan & Stromberg, 2001). They state that VCs also consider the management team, contract terms, investment risks, and other issues unique to a particular investment portfolio. Kaplan & Stromberg (2001) note that the observed management risk often reflects the investors' concern about the founder's incentives such as when the founder or entrepreneur is unfocused or has personality issues.

Kaplan & Stromberg (2001) note that in some cases, investors' concern is not about the founder's undesirable characteristics but the incompleteness of the management team and usually in this situation, VCs attempt to bring in more experienced persons to the management team. Kaplan & Stromberg (2001) find that some management risks and other associated principal-agent dilemmas affect the design of VC financing contracts. The researchers observed that when a principal-agent problem and managing risk are high, investors ensure that the structure of the contracts allows the investors to control. This control is in form of voting rights, board seats, cash flow, and withholding of a higher fraction of financing if expected financial and non-financial performance are unmet.

Tyebjee & Bruno (1984) suggest that a typical VC firm as the lead investor usually searches for investments and syndicate partners at the same time whilst the investment prospects are screened to identify those that meet basic certain requirements relevant to the VC firm. Furthermore, the business plans of those prospects that are screened and qualified are then analysed based on each VC firm's decision criteria. Tyebjee and Bruno (1985) find that selection is made based on the revenue potential of the business model, business plan viability, potential market size, plus financial performance as well as investment size, project location, and economic sector. Depending on the investors' experience in the industry or market, there are other silent factors that such investors often considered. Entrepreneurs who can pass through the screening stage successfully are sent an investment term sheet or letter of intent by the VC firm, but the contents of these documents vary though they primarily outline the processes for the proposed investment (Schafer & Stephan 2003).

2.7.2 Investment Stage - Contracts in Investor-Entrepreneur Relationship

The next stage is the investment contract, which involves among other things, negotiations on the amount the investors are willing to invest as well as the company's valuation. Tyebjee and Bruno (1985) show that during contract negotiations, investors and entrepreneurs outline their individual needs, concerns, and preferences which are vital in contract design. A typical contract provides useful information on investment entry, duration, rights, and exit strategy (Tyebjee & Bruno,1986). Hellmann & Puri (2002) indicate that companies that receive VC financing always follow a four-step funding process from seed, start-up, expansion and finally the bridge financing stages during which VC firms support the post-investment activities of funded portfolio companies.

In general, investors and entrepreneurs as principal and agent respectively are bounded by signed financing contracts, which play a key role in maintaining a healthy relationship between the two parties during the investment lifetime. It is essential to mention that over the lifetime of the investment, there are normally provisions for contracts to be renegotiated if certain circumstances change. Extensive work was done on the venture capital finance contracts by Kaplan & Strömberg (2001) who investigated selected investments portfolio companies supported by different VC firms and noted that firstly, most VC financing contracts allow venture capitalists to separately allocate cash flow, board, ownership, and liquidation rights and other control rights. Kaplan & Stromberg (2001) also found that the most frequently used security is convertible security, but the researchers note however that most VCs also apply a combination of approaches to execute the various rights mentioned above.

Furthermore, Kaplan & Stromberg (2001) found from their study that various rights and future financing plans always depend on determining the funded portfolio companies' financial and non-financial performance. This is particularly true during the early stages of investor-entrepreneur relationships. Kaplan & Stromberg (2001) argue that often, the rights are allocated in a way that VCs take full control of the company's performance is poor but over time, the entrepreneur can obtain more control rights as the performance of the company improves. The contracting and financing stages are the most critical of the three stages in VC financing.

2.7.3 Post-Investment Stage - Monitoring in Business Angel and Venture Capital Financing

To address principal-agent problems, it is critical that both the formal and informal VC investors as business angels and venture capitalists respectively monitor the portfolio companies in which they have made investments. Several early researchers have investigated the post-investment stage (Kaplan & Stromberg, 2001). Gorman & Sahlman (1989) and Quindlen (2000) maintain that it is vital for venture capitalists to find managers, monitor the management team, and provide business advice to funded portfolio companies. In a study of nearly 200 start-up firms from Silicon Valley in the US, Hellman & Puri (2000) find that VCs support the reduction of time needed to bring products to market. Although, these researchers maintain that such reduction is linked to the ability of the VCs to select more successful companies or at least those with potential for success.

Kaplan & Stromberg (2001) present direct evidence of monitoring and other post-investment actions of VCs when they reviewed investment analyses by VCs before, during and after investments. These researchers find that VCs perform key functions in management team formation in each of the funded portfolio companies. Also, Kaplan & Stromberg (2001) infer that apart from monitoring, VCs provide additional support like designing employee compensation, developing business plans, facilitating the strategic business relationship with other companies, and assisting with potential acquisitions. Kaplan & Stromberg (2001) observed that monitoring and other supporting activities usually involve time and costs, which many VCs often find hard to provide.

As a result, Kaplan & Stromberg (2001) argue that investors do not want to become too involved in a funded firm even though they intend to regularly provide monitoring and advisory roles. It has been shown that monitoring may lead to the replacement of management teams due to mediocre performance. Many researchers including Hellman & Puri (2002) conclude that there is clear evidence that VCs provide effort and time to monitor and support the companies where they have made investments. Furthermore, there is also evidence that VCs assist entrepreneurs as founders in professionalizing their businesses. Repullo & Suarez (1999) point out that certain types of investors such as business angels and venture capitalists as informal and formal VCs respectively should be modelled as providing costly efforts to improve the profitability of investment from a more theoretical perspective. The last phase of the venture capital cycle is divestment whereby VC firms exit from investments in funded companies. Most often, investors face exit challenges as VC investments are illiquid assets that are not easily traded. The investment is discussed in more detail towards the end of this chapter.

2.8 VC Investment Staging/Syndicating and Mitigating Agency Problems

When investment contracts are designed and drafted between the investors and entrepreneurs, measures are put in place by investors to reduce associated investment costs and minimise their risk exposures. Three of such important steps or approaches used by both the business angels and venture capitalists in mitigating the principal-agent problems associated with their investments in high risk but high potential ventures are investment staging, syndication, diversification, and the use of convertible securities.

2.8.1 The VC Investment Staging

One of the key mechanisms used by investors to mitigate principal-agent issues is staged financing whereby funding is provided to portfolio companies in stages based on reaching a pre-agreed performance milestone. Gompers (1995) was one of the first researchers to empirically investigate VC investments and identified the mechanism of control that is common to most VC financing as 1) convertible securities; 2) investment syndication; and 3) staging of funds provided to portfolio companies. There is a trade-off between the provision of lump-sum financing on one hand and staged or milestone financing on the other hand. Gompers (1995) demonstrates that staging is often linked to the expected agency cost that rises with increased research and development intensity. The author argues that the above issues affect these three core elements of staging - the total amounts of investments, the time between investment rounds, and the total number of rounds.

Sahlman (1990) observes that the staging of investments is one of the key techniques applied by investors to reduce exposure and guarantee investment return. Staging of financing is indeed vital for formal and informal venture capitalists to remove or at least minimize certain risks and principal-agent problems associated with investing in portfolio companies like moral hazard, adverse selection, and hold-up problems. Gomper (1995) find that staging investment enables the VC firms to gradually acquire knowledge about the funded firm, monitor, and control as well as abandon the company by exiting from the investment if necessary. In most cases, the development of a venture or an enterprise is divided into stages that are associated with investment rounds. This often begins with seed funding, followed by development linked to expansion and concludes with investment exit or liquidation. Plummer (1987) observes that the cost of capital for the funded firm decreases over time from the first round to the subsequent rounds.

Sometimes staging can lead to disputes between investors and the portfolio company. For example, there could be disagreements among entrepreneurs or companies, the first or initial investors and later investors. How can such conflicts be resolved amicably? Admati & Pfleiderer (1994) propose a framework whereby only common equity is utilized by investors and thus there is no dispute if initial investors share key information and set price fairly, provided that there is no dilution and ownership per cent is unchanged before and after investment. This implies that investors must invest at a constant fraction. Unfortunately, the work of Admati & Pfleiderer (1994) did not address the issue of whether or not investing a constant fraction is the desire of insider investors.

Another source of conflict is that the investors may want to invest in terms that are not favourable to entrepreneurs. For instance, Fluck et al. (2005) indicated that in subsequent funding round, initial investors usually have an incentive to fund the whole round but at terms not favourable to the entrepreneur. The researchers maintain that such an attitude can have a negative post-investment incentive effect on the entrepreneur. Tian (2011) investigated the relationship between proximity and VC staging/monitoring and confirmed that the staging of investment is more likely to happen where the funded company is geographically distant from the VC firm.

Again, the researcher finds that more often the best exit performance happens with distant investments, which have more staging. Concerning staging and quality of the legal environment, Balcarcel et al. (2010) examined VC investments across the USA and concludes that better legal enforcement leads VC firms to utilize more investment staging. In general, many VC investors tend to start by investing small amounts of money at the early stage but with the intention to invest larger amounts in the future. According to Bergemann et al. (2009) who examined the dynamics of staged investment, VC firms make decisions on subsequent investment amounts based on the information they have about the potential risks of failure of the funded company. Overall, the research on VC staging of investment provides some useful insights into the investment relationship between investors and the funded portfolio companies.

2.8.2 The Business Angel and Venture Capital Investment Syndication

Another mechanism used in formal and informal VC financing to mitigate the principal-agent problems is the syndication of financing which is an important research area in entrepreneurial finance research. Several authors have indicated that an equity investor general does not invest alone in a start-up company but instead syndicates investment – that is invest together with other investors. The syndication process for the funding of companies often involves a “lead” investor who obtains the “informal privilege” of inviting other investors: the “passive” investors (De Clercq & Dimov, 2004; Lerner, 1994; Manigart et al., 2006). Syndicates of investors usually invest in stages – that is provide multiple investments over multiple periods based on the progress and performance of the funded ventures.

Early researchers in this area (Brander, Amit, & Antweiler, 2002; Gompers & Lerner, 2000; Manigart et al., 2002) maintain that the primary reason investors syndicate investment is to share certain resources – which includes sharing of investment risks, rewards, experience, knowledge, and expertise or other resources. This sharing of resources – both financial and non-financial through syndicating or co-investing ultimately assists in addressing principal-agent dilemmas and other issues in some environments of high uncertainty.

As noted by Wright (2001) resource-based view explains the early-stage syndicated investments indicating that syndication can happen at various stages or levels of financing of portfolio firms. However, Lerner (1994) believes that venture capitalists in late-stage syndicated investments often team up with their peers and less experienced venture capitalists. Research by Vedula & Matusik (2017) finds that geographical proximity is more important than syndication for a VC firm’s decision to internationalize. According to Dai & Nahata (2016), participation in syndication by local VCs or non-local VCs with investment experience is connected to increased investment in portfolio companies. Wright et al., (2005) believe that cross-border VC investment advances VC syndication and increases investment collaboration.

An observation by Dimov & Milanov (2010) who built on earlier research by (Guler, 2007; Hochberg et al., 2007; Sorenson & Stuart, 2001, 2008), investors with high status are more likely to syndicate. Furthermore, Guler & Guillén (2010) reveal that the social status of a VC in its home-based network is positively correlated with its entry into overseas markets. Brander et al. (2002) demonstrate that VCs add value beyond just selecting the best possible syndicated investments. In their investigation, De Clercq & Dimov (2004) demonstrate that financial and knowledge-related hypotheses are equally valid in explaining some syndication behaviours. Also, Manigart et al. (2006) observe that there is a relationship between the role of non-lead investors and their value-adding motive to syndicate. Sometimes, VC firms prefer not to syndicate and instead invest alone and thus assume all the risks and rewards of an investment.

The work of Jääskeläinen, Maula, & Seppä (2006) shows that syndication frequency positively moderates the relationship between companies' numbers and VC performance. Dimov & De Clercq (2006) demonstrate that VC investment syndication correlates with funded companies' performance. Devigne, Manigart, & Wright, (2016) also identified the link between VC status and the likelihood of terminating an investment for any reason. Hochberg, Ljungqvist, & Lu (2010) reveal that past syndication pattern is usually connected to VC market entry.

In their research, De Clercq & Dimov (2008) investigated and validated the hypothesis of a positive relationship between the VC firm's industrial knowledge and its investment performance. Liu & Maula (2016) studied the relationship between foreign VC firms' likelihood of partnering with local VC firms and international experience in the host country and revealed a positive relationship. Furthermore, the work of Ozmel, Reuer, & Gulati (2013) identified connectivity between a new venture's affiliation with a prominent VC firm and the formation of future alliances. Hopp & Lukas (2014) referred to earlier findings by Ferrary (2010) and confirmed that there was a positive relationship between partner investment experience and lead VC's probability of collaboration. The researchers suggest that this is positively moderated by a reciprocated history of syndicating activities, signalling activity frequency, and the portfolio company's development stage.

Ma, Rhee, & Yang (2013) studied the effectiveness of VC syndication and confirmed that there is a connection between VC performance and power. Similarly, the work of Zhelyazkov & Gulati (2016) examined the relational and reputational impacts of withdrawing from VC syndicates on successful syndication behaviours. The researchers identified that VCs are less likely to syndicate with directly (relational) and historically (reputational) withdrawn co-investors. Furthermore, Gompers, Mukharlyamov, & Xuan (2016) reveal that the venture capitalists who share certain similar features have higher chances of syndicating however, they maintain that this has the potential to negatively affect the investment success. Ter Wal et al; (2016) discovered that ventures succeed better when syndication is either open specialized or closed-diverse networks.

Syndication of financing is not without its unique challenges though most investors usually develop novel approaches to amicably address most issues facing them. The work of Mäkelä & Maula (2006) concentrated on creating a grounded model and propositions that are focused on the commitment between organizations in syndicated cross-border VC investments and included moderators such as distance, embeddedness, and financial importance. An earlier investigation by Chemmanur, Hull, & Krishnan (2016) reveals that most funded firms backed by syndicates of both international and local VCs have higher chances of success, though this should depend on other key factors. Surely, syndication does not address the principal-agent problems faced by investors when financing a venture however, it is an essential approach that helps to reduce costs and minimize risk exposures.

2.9 The Investment Harvesting by Business Angels and Venture Capitalists

Investment harvesting has to do with how business angels and venture capitalists realize their investments or generate returns from a company over time. Broadly, harvesting happens in two ways – via revenues or profits as the company passes through various growth stages and generates income as well as via revenues or profits generated during exit when the funders divest from the company (Bygrave & Zacharakis, 2010). As equity-based investors, business angels and venture capitalists' primary goals are to harvest from their investments in start-up companies. The investment harvesting step from an entrepreneurial venture in the form of pay-out or cash flow is usually through income in the form of profits or dividends paid by the entrepreneurs plus revenues generated when the company is acquired, or management takes the company to the public through executing an initial public offer (IPO). In their earlier work on the harvesting value from entrepreneurial success, Kensinger, et al (2000) noted that both entrepreneurs and investors reap the benefits of their labour through investment harvest or pay-out. The scholars note that in general, harvesting from a venture happens in two ways – first, through profits paid to investors from revenues generated during business operations and second, through an exit (when investors divest from the venture). To understand the harvesting processes, Kensinger, et al (2000) executed a series of interviews with several stakeholders who have been involved in typical investment harvesting processes - entrepreneurs, investors, investment bankers, and advisers. The interview participants indicated that harvesting is not just about generating income but also improving the liquidity of investment entry and exit processes.

Kensinger, et al (2000) observed that investment harvesting is often considered as a significant event in the relationships linking the enterprise, entrepreneurs, and investors together. The researcher maintained that successful harvesting of investment is facilitated by entrepreneurs and managers focusing on building net worth for equity investors. Kensinger, et al (2000) indicated that in addition to harvesting through monthly or quarterly or annual profit, the topmost harvesting methods through exit are via private sales such as management buyout, acquisition by another company, and taking the company through a public stock offering. For early start-up ventures, it may be difficult to generate steady revenues and make profits, so investors will depend on successful exits as discussed in more detail in the next sections below.

2.10 Business Angel and Venture Capital Investment Exits

Most business angels and venture capitalists are usually faced with a high rate of investment losses or negative returns plus write-offs and high returns are hardly achieved even when positive exits occur (McKaskill, 2009). The author believes that there are few investments that exit which achieve double-digits or higher due to the lack of proper exit plans and the old method of investing that is focused on fast, high, exponential growth. Even though the creation of financial value is considered by many scholars as the core of the entrepreneurial process, however, the harvest of this value through various exit processes has not been given enough attention by researchers (Mason & Botelho, 2016). These authors maintain that it is critical to plan the exit strategies because they are the primary ways that financial values are extracted from enterprises.

In general, there are two forms of exits – investor-centric and entrepreneur-centric. DeTienne & Cardon (2012) defined entrepreneur-centric exit as the process by which the founders of privately held companies leave the firms that they helped to create. Similarly, investor-centric exit occurs when investors divest from private businesses that they have financed. The entrepreneur-centric exit may occur in one of three ways – firstly, through bankruptcy or other financial reasons whereby the company stops trading; when the business is acquired; or when the entrepreneur departs from an ongoing business because of the sale of the business, succession, or dispute whereby he/she is forced to leave (DeTienne & Wennberg, 2013).

Thus, DeTienne and Wennberg (2013) argue that investor-centric exits are vital in the development of entrepreneurial finance. The investor-centric exit arises because business angels and venture capitalists who made equity investments for capital gain need a harvest event through an exit in order to achieve financial returns. Specifically, venture capitalists must return the cash to their limited partners and business angels need liquidity to execute more investments elsewhere. In investment exits, both entrepreneurs and their investors are actively involved in planning and developing exit strategies like trade sales whereby the business is sold to another company. Often, other key stakeholders like the senior management team and employees participate. The trade sale can be staged over a given period (duration) or implemented as a one-off process.

Many scholars believe that business angels play a vital role in the financing of early-stage businesses (Mason & Harrison, 2000; Sohl, 2012). The authors maintain that entrepreneurial businesses depend on business angels because of the recent decline in bank lending and venture capital investing. Waddell (2013) noted that it is taking a longer period for business angels to achieve an exit. The length of time required to exit from an investment causes discouragement for investors and makes it impossible for them to reinvest in new companies. As there are limited funds in circulation due to a lack of exit, the investors will be unable to efficiently invest and re-invest in ventures.

Gray (2011) observed that the issues around exit arise because most investors often fail to build exit plans into the investment strategies from the onset. Johnson (2012) noted that many investors do not consider exit possibilities at the investment stage and some do not pursue any exit strategy post-investment. The author also mentioned that most investors feel that it is inappropriate to discuss exit strategy pre-and post-investment because such discussions are viewed as off-putting to entrepreneurs who are passionate about building their start-up businesses.

However, this investment mindset always decreases the chances of realizing successful exits because it increases the risk of investing in some ventures with little or no prospects for acquirers whereas exits that happen maybe opportunistic and fewer than when a strategic approach to exit was adopted (Mason & Botelho, 2016). Both investors and entrepreneurs often give more attention to the investment amount and pre-and post-investment valuation of the funded businesses and little or no attention to the exit strategies. Many investors often do not have very clear exit plans during the investment period and are usually relaxed about the timing of post-investment involvement, do not have clear exit plans at the time of investing and are relaxed about the timing of the exit (Wetzel, 1981; Gaston, 1989; Harrison & Mason, 1992; Landström, 1993; Mason & Harrison, 1994; Lumme et al, 1998; Maxwell et al, 2011). In a recent research study, 'potential exit routes' was ranked one of the lowest investment criteria by business angels (Van Osnabrugge & Robinson, 2000). Many other scholars like Collewaert (2012) note that the investor's intention to exit may be a source of conflict with the entrepreneur. It is not known if a proactive approach to exit strategy by investors has any influence on the investment returns (Mason & Botelho, 2016).

Researchers found that venture capitalists are more concerned about exiting their investments than business angels (van Osnabrugge, 2000). This is because whereas business angels own their money, most venture capitalists must raise money usually in the form of a 10-year fund. As a result, venture capitalists are more conscious about planning investment and divestment (exit) to show successful investment track records by repaying the funds raised with profits. Scholars like Peters (2009) and Zider (1998) noted that venture capitalists are more likely to take a portfolio approach to investment and will seek to maximize investment returns to the funds which typically is achieved by a few successful exits – often less than 20% of total portfolio investments.

Multiple scholars (like Espenlaub et al, 1999; Gompers, 2006; Dolvin & Pyles, 2006; Bessler & Seim, 2012; Lerner et al, 2012) have noted that the venture capital literature gives more prominence to investment exit, with more emphasis on the IPO process. Other researchers state that business angels are much less likely than venture capital capitalists to exit via an IPO (Johnson and Sohl, 2012; Carpentier and Suret, 2014). Nonetheless, there are business angels who patiently stay with a funded business as it grows to achieve an IPO.

Despite the many benefits of crafting the best exit scheme, it is rarely the main focus of many investors, and it is also not intensely researched with only a few research studies that have featured exit considerations – for example Kollman and Kuckertz (2009) in their work on the investment decision-making of venture capital funds and Large and Muegge (2008) in their research value-added contributions of investors. Wetzel (1981) observed that business angels take a relaxed view of exits for several reasons including the fact that they usually make fewer investments and invest less amount of money. In addition, the researcher maintained that the presence of an angel makes it possible for many angel-backed ventures to obtain follow-on financing from venture capitalists who will more likely manage exit strategies (Freear & Wetzel, 1990).

Many researchers (Mason, 2006; Sohl, 2007; 2012; Gregson et al, 2013; Mason et al, 2013) have argued that the emergence of managed angel groups and other intermediaries offering 'packaged' investment opportunities have increased the emphasis on the need for investment exits. Nowadays, many business angels and groups operate more professionally by leveraging innovations and technological advancements to create and promote formalized procedures for assessing and exploiting investment opportunities (Mason & Botelho, 2016). As a result, business angels in their relationship with entrepreneurs of funded businesses are less likely to develop any emotional attachment to investments in such businesses (Ibrahim, 2008).

Equally important, more angel groups now make bigger investments, invest frequently, and are more likely to fund a business to an exit without relying on venture capitalists for follow-on investments. For an angel group, an exit is essential in order to attract new members and more importantly provide existing members with financial returns and the liquidity to pursue fresh investments in new ventures. Two scholars (Peters, 2009; McKaskill, 2009) with expertise in investment exits observed that there is sparse literature on exit strategies. These researchers and practitioners have argued that there is a need for an 'exit-centric' approach to equity investing in which the exit takes a center stage and is considered at every stage in the investment process. McKaskill (2009) argues that the entire investment process should revolve around the exit plans and strategies because exit – harvesting of financial return is the central event in investments.

Under the circumstance, a key consideration at the initial screening stage should therefore be about how successful exit can be planned and executed. Once this is identified, we can talk about the required amount of money that can get the targeted business to the point where both entrepreneurs and investors can exit. It is crucial that at the start of investment relations, both business angels and venture capitalists must discuss necessities for exit events with the entrepreneurs and their teams. Even if things were to change in the future, it is vital to get everyone on the same page from the beginning – expectations should be clear, and teams must be offered the chance to express their desires, ambitions, and aspirations. Business angels and venture capitalists should be exit-oriented and should be on alert to identify major legal and financial issues like ownership and valuation among others which may make exit plans difficult to execute (Mason & Botelho, 2016).

Scholars like Kensinger et al (2000) suggested that crafting of exit strategy should be accomplished in advance of an exit so that nobody is taken unaware. With exit in mind, investors should not place excessive values on their investments so they can easily attract potential buyers to negotiate. The legal stages should be dominated by exit consideration and the exit strategy should also influence the term sheet such that it will be easier to achieve alignment of interest, purpose, focus and vision between entrepreneurs and their financiers (Mason & Botelho, 2016). Indeed, building a better investment relationship between entrepreneurs and their investors requires structuring deals that offer flexibility with respect to exit for example providing the business angels with preferred shares gives them more rights (Mason & Botelho, 2016). The authors recommended that exit-oriented investors should have regular discussions on investment exit strategy post-investment and take necessary actions such as conducting certain due diligence exercises on prospective buyers to facilitate the sale of portfolio companies.

Scholars like McKaskill (2009) have identified two main types of investment exits as either a financial exit which requires funded businesses to achieve significant growth or a strategic exit which involves assigning values on the basis of future profits achievable by buyers who are able to exploit the assets to generate revenues. These scholars believe that whereas in strategic exit there may not be a need to achieve profitability, achieving financial exit will take time and money plus there are the associated challenges of growth and increased risks of failure. However, (Mason & Botelho (2016) pointed out that a strategic exit requires investors to identify potential businesses that might want to purchase a funded venture plus understand why such businesses would want to make the acquisition so that the venture is positioned in such a way that it comes to the attention of potential acquirers. For example, setting up commercial relationships with a potential buyer is a way to establish a clear path to a strategic sale (McKaskill, 2009).

Peters (2009) argues that the interests of business angels and venture capital funds have become increasingly divergent, and the author has advocated an ‘early exits’ strategy in which he recommends that business angels should focus on early-stage businesses with limited capital requirements that have the prospects of being sold. Overall, it is also possible for business angels to become patient investors who are willing to stick with entrepreneurs for as long as possible thereby empowering the entrepreneurs to prepare for the funded venture to organically buy itself out.

Geron (2014) mentioned that business angels can generate good financial returns by investing smaller amounts at lower valuations. Both the entrepreneurs and their investors can reach various ownership and valuation arrangements – for example, one in which business angels can partially exit and still retain some minority equity ownership in the funded company. In all cases, the entrepreneur and investor must work together to execute a strategic exit – develop the investment case, fully understand the strategic value, select potential strategic buyers, work out a possible exit value and then take steps to prepare the business for sale (McKaskill, 2009).

2.11 Venture Debt Finance

Venture debt is considered a specialist loan at the intersection of venture capital and debt finance (De Rassenfosse & Fischer, 2016). The researchers maintain that it is an emerging form of start-up financing designed to reduce equity dilution of companies thereby empowering investors and entrepreneurs to raise equity finance at higher valuation during the later fundraising round. The entrepreneurs of most companies who raise equity finance end up owing less than 10% of their ventures and as observed by Cosh, Cumming, & Hughes (2009), small or early-stage companies do not have often enough assets and good records of revenue potential or profitability which will enable them to obtain debt capital from bank or non-bank lenders. As a result, there is a dilemma associated with raising both debt and equity-based finance in entrepreneurial finance.

Many authors such as Ibrahim (2010) noted that venture debt is a special loan provided to early-stage businesses that lack the conventional ways of repaying debt like operating cash flows and tangible collateral often with guarantees. De Rassenfosse & Fischer (2016) have described the providers of venture debt finance as venture lenders who render funding support to entrepreneurs promoting companies that currently lack positive cash flow and little or no tangible assets to secure the loan. Robb & Robinson (2014) outlined that in addition to the lack of trackable record of profits in start-up companies, these ventures are also more vulnerable to the liquidity conditions in the lending or credit market than matured companies. Some researchers like Cole & Sokolyk (2018) have identified external debt finance as an essential part of start-up funding for companies at their early stages, which is second only to the external equity finance from traditional equity capital providers.

There are several researchers like Ibrahim (2010), Hardymon, Lerner, & Leamon (2005) and Mann (1999) who have applied qualitative research methods to investigate the venture debt business model in entrepreneurial finance. Hardymon et al., (2005) note that collateral is an important aspect of a venture debt agreement or arrangement in a similar way as the agreement for a commercial loan. The problem is that most new ventures lack sufficient business assets that can serve as collateral. According to Veena-Iyer (2020), the major difference between venture debt and other forms of credit is that venture debt is purposefully designed for start-up companies. Gonzalez-Uribe & Mann (2018) maintained that venture lenders provide venture debt because of the capacity to mitigate opportunistic behaviour in managers and entrepreneurs.

2.12 Chapter Summary

The academic literature relating to the various aspects of this research study has been reviewed in this chapter. These include the basics and arguments of the investor-entrepreneur relationship, the perception of goal alignment in an investor-entrepreneurship relationship and the entrepreneurs' perception of creating effective relationships. Furthermore, business angels and venture capital financing approaches are introduced as the problems of these two forms of financing are outlined. The principle-agent problems in both business angels and venture capital financing including information asymmetry, agency cost, moral hazard, adverse selection, and hold-up problems are discussed. The VC cycle and mitigation of principal-agent problems are reviewed. The various pre-investment, investment and post-investment stages were explained. The main differences between corporate and entrepreneurial finance plus the investment staging and syndication in VC financing. Furthermore, the exit challenges in equity financing are outlined. In the next chapter, some specifics on the research context will be discussed – as the environment where the research is conducted.

CHAPTER THREE

Entrepreneurship and Nigeria

3.1 Introduction

In the last chapter, literature on the investor-entrepreneur relationship plus angel investing and venture capital financing were reviewed. This chapter provides the context of this research – that is the growth and development of entrepreneurship in Nigeria as an emerging economy. It provides the background of the start-up ventures in the Nigerian economy, and it reviews the start-up financing ecosystem with a focus on angel investing and venture capital activities in the country. During the past decades since its independence, Nigeria as a developing economy has been making efforts to address unemployment and poverty facing most of the population (Ochinanwata, 2021). However, two of the multiple challenges exist in the Nigerian context – that is issues with enterprises and in the country (Nigerian) environment that make it harder for entrepreneurs to attract investments from business angels and venture capitalists. This chapter addresses research objectives 3 and 4, which are to identify the barriers within start-up ventures that hinder engagement between investors and entrepreneurs as well as to understand the country's key environmental factors that hinder this engagement.

3.2 The Nigerian Economy

Bloch, et al (2015b) recently conducted research to contribute toward a better understanding and knowledge about the urban economic growth and performance of Nigerian cities and towns in which the researchers considered these key issues: composition of the national/local economies in the formal/informal sectors, economic performance in key sectors like services and manufacturing, economic development policy and institutional environment at national and local levels. From their research, Bloch, et al (2015b) found the following: that the nation's informal economy is widespread and larger than the formal economy in terms of employment and diversity; that the linkage between formal-informal economies is not well understood; that these three sectors - oil and gas, technology, and real estate have been the most productive sectors of the economy, though, manufacturing is emerging as an important sector. Bloch, et al (2015b) observed that the previous decline in manufacturing may partly explain why it has been difficult to reverse the trends of rising unemployment and poverty despite Nigeria's impressive economic growth over the last two decades. Furthermore, the researchers noted that the remarkable economic progress is linked to the transformative urbanization process but that the economic growth is yet to translate into real improvement in economic opportunity for most of the population – in terms of job creation, livelihood improvement, and poverty reduction.

3.3 Entrepreneurship and the Nigerian Economy

As with most countries, the Nigerian economic prospect revolves around entrepreneurship and entrepreneurial development. Indeed, since its independence, the Nigerian government has been supporting entrepreneurship and advancing the interest of start-ups and micro/small enterprises with the main goal of facilitating job creation. Moses & Adebisi (2013) observed that this is due to the inability of government and other organizations to employ the nation's teeming young populace and the approach has also strengthened individuals' self-sustaining and self-reliant perspective to the recognition that dynamic and growing small businesses can contribute substantially to national developmental objectives. Aftab & Rahim (1989) had earlier noted that one way to address poverty issues is to increase the economic productivity of those engaged in micro/small scale production.

Advancing wealth creation, employment generation, and building Nigeria's economic progress through entrepreneurship requires adequate funding for entrepreneurs. Many researchers like Moses (2010) and Mambula (2002) have identified financing as one of the most crucial factors that determine the survival and growth of small enterprises and agreed that start-ups and small businesses in Nigeria suffer from insufficient financing among other problems. Naturally, start-up ventures and small-scale businesses require long-term capital for investment because they have long gestation periods thus any capital mismatch by these enterprises – for example, the provision of short-term loans to young ventures can have many grave consequences, especially in an unstable economic environment (Osisioma 2004). Furthermore, Moses & Adebisi (2013) maintained that start-up and scaleup financing remain critical in the survival, growth, and expansion of young businesses in Nigeria, however, access to capital for new entrepreneurial pursuits has not always been an easy task in Nigeria. The authors explained that even though some Nigerian entrepreneurs have recorded entrepreneurial successes in different sectors of the economy, many entrepreneurial dreams of young and ambitious people are still aborted at conception due to financing constraints.

3.3.1 Role of Entrepreneurship in the Nigerian Economy

Entrepreneurship plays a critical role in the growth of the Nigerian economy as Schmiemann (2009) noted that start-ups and small businesses are key drivers of economic development around the world. More specifically, entrepreneurship performs the following essential functions:

Capital formation – At the heart of entrepreneurship is capital formation by entrepreneurs and their businesses. By using the key factors of economic production – money, entrepreneurship, land, and labour, entrepreneurs are actively engaged in the production of quality goods and the delivery of essential services. Aina (2007) stated that entrepreneurship utilizes available resources for economic activities related to delivering quality products/services.

Wealth creation – the primary role of entrepreneurs in any economy is to plan, organize, and coordinate financial and non-financial resources into beneficial products/services and in doing so create and distribute wealth within the country.

Employment generation – the promotion of entrepreneurship leads to job creation and income improvements. Scholars like King & Levine (1993a) note that entrepreneurship is essential for the generation of new employment and the growth of the economy.

3.4 The Start-ups and MSMEs in Nigeria

There are many ways to classify enterprises around the world in terms of their size, sector, and a number of workers. In Nigeria, the government launched the national policy on MSMEs in 2007, to enable institutions to adopt a uniform definition and concept for micro, small and medium enterprises (MSMEs) to ensure a more coherent national agenda for the development of the sector (Evbuomwan, et al. 2012). As a result of that policy, standard definitions were provided for a common object of reference by stakeholders in Nigeria (SMEDAN, 2007), as indicated below in Table 2.1. According to Hallberg (1999), other features of an enterprise such as the degree of informality or the level of technological sophistication may be considered more essential as a segmentation factor than the number of employees. Balunywa (2001) noted that it may not be enough to classify enterprises based on employee numbers because enterprise development strategies vary from country to country. For example, in low-income countries, the adoption of job creation schemes may be different from those of the more advanced nations.

Table 3.1 MSMEs Classification in Nigeria

Source: Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Abuja, 2007

There are several socio-economic benefits for the MSMEs in Nigeria. For instance, the MSMEs play critical roles in the economy which cannot be overemphasised (Evbuomwan, et al. 2012). Also, Okonkwo & Obidike (2016) maintained that the MSMEs in developing countries like Nigeria act as the engines of economic growth and development. The startups and MSMEs promote entrepreneurship and are essential in the eradication of poverty and economic hardship through the acceleration of economic objectives (Ayozie & Latinwo, 2010; Udechukwu, 2003). The existence of start-ups and MSMEs benefits large enterprises and at the same time provide a countervailing force against the economic power of some large enterprises (Salami, 2003). According to the OECD (2005), MSMEs in developing countries account for more than 90% of all enterprises and generate the highest number of employments. According to Oyelarin-Oyeyinka (2010), MSMEs play a significant role in the Nigerian economy. The author indicates that a recent study by IFC shows that 96% of all enterprises in Nigeria are within the MSMEs category. Okonkwo & Obidike (2016) noted that MSMEs have been acknowledged to have enormous potential for sustainable socio-economic development. However, there is currently no reliable data on the total number of start-ups and MSMEs in the country.

3.5 Problems of Start-ups and MSMEs in Nigeria

Rasak (2012) noted that start-ups and MSMEs have emerged as major catalysts and key success factors for the development, growth, and sustenance of the Nigerian economy. However, the scholar also outlined several problems facing most start-up ventures in Nigeria despite the public view that these start-ups are the panacea for Nigeria's economic growth. Some of the major problems of start-ups and MSMEs in Nigeria include lack of finance, marketing, production, accounting, lack of expertise, raw materials, organization, technology, and infrastructural facilities (Rasak, 2012).

Finance - Scholars (Rasak, 2012; Aigboje, 2006) have identified a lack of finance as the biggest problem facing start-up companies in Nigeria. Without finance from personal savings, friends/family members, or other external sources, it becomes difficult for entrepreneurs to make any progress towards building profitable enterprises. Aigboje (2006) maintain that the way that many start-up companies are formed and operated in informal sectors, prevents them from accessing financing from the established bank and non-bank lenders. As a result, they suffer from an underleverage problem – which implies they have little or no debt and are thus unable to enjoy the tax benefits of debt financing like the established big businesses.

Market – This is another problem for entrepreneurs and their start-up businesses as many of them have no knowledge of the market outlets (Rasak, 2012). Yet, access to the market for products and services is key to the success of every enterprise. Osuagwu (2001) believes that most Nigerian MSMEs fail to apply basic marketing techniques and often face competition from the large enterprises and their local as well as imported products from Asia and Europe.

Skilled workforce – lack of suitable human resources is also a major problem for most Nigerian start-ups and MSMEs because highly skilled personnel usually prefer to work for large and well-established companies that can pay higher salaries.

Business accounting – keeping accurate financial accounts of any small business is critical to the survival and success of such business as accounting provides needed financial information required by external entities like lenders (Adewale, 1990). The researcher argues that without good accounting and financial record-keeping, start-ups will be poorly managed and will not attract investments from outside financiers.

Infrastructural problem – lack of access to steady electricity and poor road network among others hinder the start-ups and MSMEs' business activities. Ajonbadi (2001) mentioned that the lack of basic facilities like the source of power and the good road makes the production and movement of products and services difficult and prevents micro/small businesses from growing to generate employment.

Lack of organization – many entrepreneurs and their start-ups have business processes and procedures that are not properly organized. Akeredolu-Ale (1975) observed that a venture that is unorganized will be unattractive to external investors because the entrepreneur promoting the venture is poorly organized to efficiently control inventory, manage budget, and plan for the future.

Limited technological or technical skills – some entrepreneurs are reluctant to embrace rapid technological advancement. They are unwilling to train and obtain key technical skills that can assist them to digitize and automate the processes of businesses. Carpenter (2006) observed that few entrepreneurs believe that technology will erode their freedom or expose their business secrets.

3.6 Start-ups and MSMEs Financing in Nigeria

Scarborough, et al. (2009) cited the flow of capital from the financiers to entrepreneurs as an important requirement for building a more vibrant entrepreneurial ecosystem around the world including in developing countries like Nigeria. Most of the recent research on entrepreneurial finance in general and the investor-entrepreneur relationship, in particular, was conducted outside the African region, particularly in more advanced nations in Western Europe and North America (De Clercq & Sapienza, 2006; Stratling et al., 2010). There is rarely any research work on the investor-entrepreneur relationship in developing countries like Nigeria. Yet, there have been some recent improvements in enterprise and entrepreneurial development in Nigeria especially fresh approaches that leverage the advancement of modern technologies. Because of this, it is essential to understand the reasons for the low engagement experienced between equity investors and entrepreneurs in Nigeria and recommend some solutions for enhancing a more cooperative, mutually beneficial relationship. This is vital considering the leading role of financiers with a focus on BAs and VCs as the source of equity finance for start-up and scale-up businesses in Nigeria.

3.7 Sources of Finance for Start-ups and MSMEs in Nigeria

Van Auken (2002) states that there are many ways to raise entrepreneurial financing but the lack of access to finance often results in a small business having cash flow problems, missed opportunities, and possibly closure of the fledgling enterprises. There are multiple internal and external sources of finance for Nigerian entrepreneurs and their early-stage start-up and scaleup ventures – as equity, grant, hybrid, and debt finance. The main concentration of this research study however is equity-based finance. Scarborough, et al. (2009) identified some of the equity capital sources available to entrepreneurs at the early stages of their entrepreneurial journeys and they include personal savings and retained earnings as internal finance and friends/family members, strategic partners, business angels, and venture capitalists as external finance. Business angels and venture capitalists as the informal and formal venture capital sources of equity finance are vital in bridging the financing gap or capital scarcity faced by high-risk start-up ventures (Panda & Dash, 2013). Hence, it is relevant to explore the investor-entrepreneur investment and ownership relationship in the Nigerian context. In 'sources of funding for innovation and entrepreneurship', Cornelius (2020) presented a taxonomy of the various sources of funding as indicated below in Table 3.2. The author indicated that typically, companies have access to different types of finance throughout their life cycles which are influenced by a company's maturity and position of funding in the company's capital structure.

Table 3.2 A taxonomy of funding sources for entrepreneurship

Funding Types & Sources	Life cycle 1	Life cycle 2	Life cycle 3
	Early-stage	**Late-stage**	**Mature stage**
Owner/Non-debt/Non-equity			
Personal/family savings	xxx		
Government grants	xxx		
Retained profits		xxx	xxx
Debt finance			
Friends/family	xxx		
Credit card	xxx		
Microcredit	xxx		
Government loan	xxx	xxx	
Venture debt	xxx	xxx	
Bank loan		xxx	xxx
Trade credit		xxx	xxx
Leveraged loan			xxx
Subordinated debt			xxx
Corporate bond			xxx
Hybrid (debt-equity) finance	xxx	xxx	xxx
Equity finance			
Accelerators	xxx		
Business angels	xxx		
Venture capitalists	xxx	xxx	
Corporate VC		xxx	
Private equity			xxx
Public equity			xxx

The next two sections present further discussions on business angels and venture capitalists and how they operate in the Nigerian entrepreneurial finance ecosystem.

3.8 Business Angels in Nigeria

Moses & Adebisi (2013) examined the existence and functions of business angels in Nigeria as a source of financial and non-financial capital to overcome the unique funding challenges facing entrepreneurs and their small businesses in Nigeria and found that business angel financing is a viable alternative source of start-up and small businesses funding in Nigeria. Moses & Adebisi (2013) noted that in Nigeria, business angels are viewed as a funding option for business start-ups due to their effort to fill some of the gaps other financing options cannot provide, based on the formality and accessibility. This strengthens an earlier argument of other researchers like Macht & Robinson (2009), who argue that business angels are gap fillers in start-up financing as they have the potential to provide both financial and non-financial resources – money, network, advice, contacts, and so on to overcome the existing gaps in entrepreneurial development.

As indicated below, multiple scholars have defined business angels in similar but not exactly the same way. For example, Preston (2007) presents a business angel as an investor who has passion and enjoys helping entrepreneurs and their early-stage businesses with limited or no funds. Moses & Adebisi (2013) mentioned that business angels provide the supply of equity capital at the early stage of small business life and that these categories of informal investors are predominantly affluent, self-made individuals and groups who tend to invest in industries in which they are familiar with. Shane et al (2008) confirmed that globally, business angels are responsible for a growing number of investments, even though this is relatively unidentified in developing and developed economies. In Nigeria, business angels are emerging and the formation of business angel networks such as Lagos Angel Network (LAN) is a growing trend.

Several researchers like Sohl (2003), Mason & Harrison (2008), Shane (2008), and Mason (2006) have identified some of the key features of a business angel that make him/her suitable for early-stage start-up ventures. These scholars outline these features as follows – a typical business angel is a wealthy or high net worth individual with one or more investments, who invest his/her own money directly in unquoted companies or enterprises for financial gain and often non-financial rewards. Researchers such as Stathis (2004) and Feld (2006) noted that business angels are often retired entrepreneurs or executives who may be interested in investing for several reasons that go beyond the pure financial reward to include keeping updated on the current progress of a particular industry, providing mentoring to younger entrepreneurs and using their experiences and networks on a part-time basis. In Nigeria, the number of business angels is growing, and these are mostly younger, successful entrepreneurs who want to support other ambitious entrepreneurs even though many of the entrepreneurs who are seeking investments are not aware of them or do not know how to reach out (Moses & Adebisi, 2013).

3.9 Venture Capital Financing in Nigeria

The VC industry in Nigeria is developing and a few VC firms have emerged during the last ten years (Eniola & Entebang (2015). There has been rapid development of venture capital in Nigeria due to economic liberalization, globalization, and technological advancement (Bamisile, 2021). Venture capital has the potential of offering a valuable source of finance complementing the more traditional credit finance provided by commercial banks (Achugbu, 2017). Venture capitalists (VCs) are financial intermediaries that raise money from individuals and institutions for investment in high potential ventures, which are risky (Nahata, 2008). Earlier scholars noted that VCs help start-ups overcome their “liability of newness” by helping them with strategic advice, new opportunities, resources and gaining legitimacy (Berglund et al., 2007; Elfring & Hulsink, 2003; and Hsu, 2004).

Some of the fundamental reasons hindering MSMEs from obtaining credit from commercial banks and other credit institutions are less important in attracting venture capital. The advantages of venture capital are, therefore: (i) Venture capitalists are willing to accept higher risks than traditional banks in exchange for potentially large gains from the sale of shares in the company. (ii) Venture capitalists do not require collateral from borrowers. (iii) Operating costs are lower due to the absence of high-interest rate payments. (iv) Venture capital, by nature, is long-term or at least medium-term capital, in contrast to short-term loans from banks. (v) The managerial know-how provided by venture capitalists can in some cases be more valuable to the start-ups of MSMEs than the actual financing received. However, there are also several drawbacks: (i) As in traditional bank lending, operating costs associated with lending a small amount may discourage investors. (ii) The need for highly liquid markets is not as pressing compared for open-end funds or mutual funds, since venture capital funds have a long-term involvement in the companies, they invest in. Nevertheless, an exit mechanism is necessary for venture capitalists to attain capital gains, but this has been difficult in all developing countries except those with emerging capital markets (Feldman, 1997). Other mechanisms such as guaranteed buybacks do not seem realistic for MSMEs.

As most companies that venture capitalists invest in either fail or yield only modest profits, successful ventures must generate large enough returns to cover losses incurred from the less successful investments. The need for potentially high profits rules out the bulk of MSMEs and start-ups that do not have the potential of becoming future mega-companies and is one reason why venture capital is concentrated in certain sectors such as the technology industry.

3.10 Approaches to Equity Financing of MSMEs

To address some of the challenges of facing start-ups and MSMEs financing in Nigeria, various stakeholders need to design and drive innovative approaches. The private sector in Nigeria and more importantly the national government have been exploiting different financing models during the past few years. Abereijo & Fayomi (2005) indicated that there have been many innovative approaches to MSMEs financing in Nigeria mostly supported and facilitated by the government. The authors showed that the Nigerian governments with assistance from some international financial institutions have tried to address the constraints and problems of high transaction costs and risks by creating subsidized credit programmes and/or providing loan guarantees (Abereijo & Fayomi, 2005). Examples of these are Small Scale Industries Credit Scheme (SSICS), Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERFUND), and World Bank Loan Scheme (SME I & II Loan Scheme), etc.

3.10.1 Small and Medium Industries Equity Investment Scheme (SMIEIS)

The Small and Medium Industries Equity Investment Scheme (SMIEIS) which was established by the Nigerian national government with the support of the Bankers' Committee in Nigeria was one of the innovative approaches. SMIEIS initiative was designed to provide long-term financing to MSMEs in the form of equity investment to address the equity capital gap facing MSMEs. The expectation was that by providing equity financing, the government will assist to prepare MSMEs to attract credit from the local banks. Abereijo & Fayomi (2005) identified some of the major problems that faced the execution of the SMIEIS initiative. These challenges are mentioned below:

Firstly, due to a combination of issues linked to the stagnant national economy and unfriendly business environment, especially inadequate infrastructure and associated high cost of business operations, there were limited investment opportunities to take up the funds. Another problem is that many entrepreneurs – out of illiteracy and lack of awareness are not interested or eager to dilute their ownership as required to access equity finance. Most entrepreneurs are unprepared for the scrutiny that equity investment requires, for example, they are unable to produce good business plans with quality projected financial statements. Many of the entrepreneurs lacked the managerial competence necessary to attract investments and the promoters of SMIEIS were unable to obtain reliable information about these entrepreneurs and their enterprises.

Above all, it was difficult to determine the valuation of various MSMEs seeking equity investment because of the unavailability of historical financial information. Again, due diligence exercises were expensive and time-consuming because it was hard to obtain enough financial information as the enterprises in need of funding lacked complete documentation and appropriate records of past business operations. Furthermore, there was a lack of suitable legal backing for the scheme and the banks did not have expertise in managing private equity investments. On the part of the managers and entrepreneurs promoting the MSMEs, they resisted any efforts by the banks to control them and were reluctant to allow the banks to properly monitor their business activities. As a result of the above problems, less than 10% of the funds made available under the SMIEIS initiative were disbursed to MSMEs to finance projects (Abereijo & Fayomi, 2005). The scholars noted that exit from MSMEs that received funding was difficult as they are highly illiquid assets.

3.11 Entrepreneurial Ecosystem in Nigeria

An improved relationship between entrepreneurs and investors as well as the success of young, start-up enterprises in Nigeria requires a vibrant and thriving entrepreneurial ecosystem to drive the entrepreneurial activities of the entrepreneurs. Several researchers like Federico et al (2012), Napier & Hansen (2011), Isenberg (2010), and Zacharakis et al., (2003) have recognized that a vibrant entrepreneurial ecosystem is central to successful ventures creation and management as well as economic growth. Other scholars like Mason & Brown (2014) believe that entrepreneurial ecosystems are unique environments where young ventures are supported to survive, scale, and thrive. Furthermore, Stam & Spigel (2016) proposed that instead of the enterprises, it is indeed the entrepreneurs who should play a primary role in the development of entrepreneurial ecosystems.

Based on research work and a report by Fate foundation (2017), the Nigerian entrepreneurial ecosystem is made up of many key players in different categories. These segments include policymakers, capacity building and advocacy, business mentoring and support, research and development, access to the market, and funding (business angels, banks, and venture capital). The entrepreneurial ecosystem stakeholders in Nigeria include investors, entrepreneurs, insurers, large corporates, banks, policymakers, and professional entities.

Table 3.3 List of selected examples of ecosystem builders in Nigeria in various categories

Source: Fate foundation Nigeria - Entrepreneurship Ecosystem report (2017)

3.12 Entrepreneurship Education in Nigeria

What are the roles of entrepreneurship education and training in addressing the low engagement between investors and entrepreneurs in Nigeria? Entrepreneurs in Nigeria need to gain valuable knowledge about how to start and scale their enterprises to achieve desired growth. In particular, they need knowledge about how to build and manage relationships with multiple stakeholders, especially investors. This knowledge should be provided through formal and informal entrepreneurship training. According to Maina (2014), entrepreneurship education as a subset of the total educational system includes the training, skills, and risk management awareness obtained to drive enterprise growth and generate employment. The scholar noted that it is vital to embrace entrepreneurship education to empower entrepreneurs to advance job creation instead of searching for paid work.

According to Francis & Uke (2015), entrepreneurship education can achieve its socio-economic goals in Nigeria when entrepreneurship learning is included in the national education policies. The authors maintained that entrepreneurship education is one of the vital solutions for tackling the worsening unemployment crisis, economic inequality, and poverty plus helpful in the execution of necessary measures which can provide young talents with the knowledge and skills required to build a more prosperous society. Mba & Godday (2014) noted that entrepreneurship education and development enable the creation of wealth and building of prosperity using all available financial and non-financial capital. The authors further stated that entrepreneurship education can improve the characters or attitudes of entrepreneurs and those young people aspiring to pursue entrepreneurship as a career thereby enhancing personal and professional growth whilst sustaining national economic development.

In Nigeria, many young people lack the know-how of how to develop entrepreneurship skills and absorb entrepreneurial thinking but unfortunately and most colleges and universities do not give the teaching of entrepreneurship a topmost priority. In view of this, it is important that stakeholders such as governments, NGOs, big companies, and wealthy individuals support young people to obtain entrepreneurship education which prepares them to build impactful great companies and manage relationships with potential financiers – both investors and creditors. The insufficient entrepreneurial skills and knowledge linked to limited economic opportunities mean that young Nigerian graduates are faced with a less promising future including conditions of unemployment, underemployment, and low-wage employment plus unsteady jobs in the informal sector with little income security and financial or economic prospects (Nwachukwu, 2016).

Tony (2016) showed that the benefits of entrepreneurship education and development are usually evidenced through youth empowerment, self-reliance, and employment as well as new knowledge offered to potential entrepreneurs seeking finance to startup and scale-up their enterprises thus turning from job seekers to job creators. Several scholars like Gana (2000), Aiyeduso (2004), and Osuala (2010) have identified some of the challenges of promoting entrepreneurship education in Nigeria as poor funding and other support from the government, lack of qualified entrepreneurship instructors, and ineffective planning, monitoring, and evaluation of the programme.

3.13 Chapter Summary

This chapter explained the context or environment of this research conducted in Nigeria and identified the start-ups and MSMEs financing in the country as well as the financing constraints facing them. Some of the innovative approaches to equity financing of start-up ventures were discussed. Detailed explanations were provided for BA and VC financing in Nigeria. In addition, the entrepreneurial ecosystem in Nigeria is presented and also the role of venture builders. The materials in chapters 2 and 3 on secondary data provide information on current knowledge regarding start-up companies and access to investment from BAs and VCs as well as new, innovative approaches for unlocking access to profit-based, equity finance for small private companies in Nigeria. As Yin (2009) noted, secondary data collection despite its strengths has some weaknesses – for example, incomplete collection of data may lead to a biased selection and retrieval of data may be difficult, or access may be limited for some reasons. The concentration of the researcher is on improving the strengths of the secondary data collection process. The next chapter presents the theoretical and conceptual frameworks.

CHAPTER FOUR

Theoretical & Conceptual Frameworks

4.1 Introduction

In the last two chapters, the review of literature and research context was presented. The goal of this chapter is to discuss the theoretical and conceptual frameworks which underpin this research study. Whereas the theoretical framework explores some of the theories developed by earlier scholars who have researched and written about business angels and venture capital financing, a conceptual framework forms the basis of the primary research. In this chapter, various theories linked to investor-entrepreneur relationships – such as the capital structure, ownership, and control, trust, stewardship, and agency theories are presented and how they can be applied in understanding the investor-entrepreneur relationship in entrepreneurial financing in the context of Nigeria. These are discussed in greater detail to explain their roles in the understanding of the investment and ownership relationship between investors and investees. This plays a key role in the development of a novel approach or framework for this research that combines agency, trust, and stewardship theories to improve understanding of the relationship between entrepreneurs of start-up companies in Nigeria and the business angels and venture capitalists. The key theories relating to the investor-entrepreneur relationship are explained in logical sequences that highlight each theory, the main creator(s), the aim of the theory, strengths, and weaknesses of each theory (where possible), and the application of the theory to this research. The conceptual framework is then developed as a combination of secondary literature and the theories through which the aim of this research is investigated. This chapter addresses the last research objective – which is about developing a mechanism and platform for smarter, innovation-driven, and technology-based engagement between entrepreneurs of start-up companies and equity investors.

4.2 Theoretical Frameworks to Understand Investor-Entrepreneur Relationship

A theory is viewed as a set of interrelated concepts, definitions, and propositions that present a systematic view of events by specifying relations among several variables, to explain and/or predict these events (van-Ryn & Heaney, 1992). Also, Heilbrun & Gray (1993) note that the theoretical framework is based on models and theories designed to explain participation patterns in terms of an underlying theory. The theories linking entrepreneurial financing and start-up companies are addressed in this chapter. These theories underpin the conceptual framework developed for this research and are anchored on the practice and theory of equity-based finance structure from business angels and venture capitalists. The theoretical frameworks are discussed in the following sub-paragraphs.

4.2.1 The Capital Structure Theories

The relationship between investors and entrepreneurs can be partially explained via the capital structure theories. Scholars like Baker & Wurgler (2002), Myers (1984), and Myers & Majluf (1984) who have studied capital structure, describe it as the way that enterprises organize their equity and debt finance under different conditions or circumstances. According to Kumar & Rao (2015), the capital structure represents how an enterprise arranges its financing sources - in the form of retained earnings, long-term debt, and equity available to the business or enterprise. In their earlier paper on the review of capital structure theories, Mostafa & Boregowda (2014) stated that capital structure theory is about what the source of the money supply is available to companies and what is the strategy used to obtain the money in order to purchase company’s assets or invest on core projects. The authors noted that several problems make it challenging for companies' management to decide on the type of external finance – whether debt or equity to choose. Mostafa & Boregowda (2014) observed that agency problems and information asymmetry for example present a complex dilemma to management on whether to take up loans from creditors or issue shares to investors. Below are brief presentations of some of the capital structure theories:

- Modigliani & Miller Value-Irrelevance Proposition – Modigliani & Miller (1958) as cited by Mostafa & Boregowda, (2014) proposed that the value of a company is irrelevant to the capital structure and financial decisions made by the company's management. This value-irrelevance model became an important theory of capital structure theories of firms. Mostafa & Boregowda (2014) argued that the Value-Irrelevance theory was proposed under the ideal market condition which in the real world is untrue or difficult. For example, Modigliani & Miller (1958) as cited by Mostafa & Boregowda, (2014) assumed that investment policy is fixed, that there is equal access to borrowing, there is no transaction cost or bankruptcy cost, there is only corporate tax, also no moral hazard, no agency cost, and no information asymmetry. The above assumptions form the weaknesses of this theory. However, the theory serves as the benchmark used by scholars to advance capital structure research. Luigi & Sorin (2009) confirmed that trade-off theory, pecking order theory, and later market timing theory are the three main theories of capital structure that emerged from the assumption of perfect capital markets under the "irrelevance model" theory of Modigliani & Miller.
- Aljamaan (2018) stated that in 1961, Donaldson introduced the pecking order theory which was later modified by Myers & Maljuf (1984). Ehrhardt & Brigham (2011) outlined that pecking order theory is about the types of financing sources and how companies prefer to

access these sources. The authors observed that most companies will usually raise financing internally via retained earnings – that is by reinvesting income and by selling tradeable securities. Thereafter, companies will seek external financing by obtaining loans. Ehrhardt & Brigham (2011) noted that depending on each company's situation, it will seek further financing by issuing preferred stock and lastly issuing common stock as necessary. The authors maintained that the hierarchy of preference is as follows – financing from internal sources, debt financing, debt-equity hybrid financing, and finally equity financing. The reason for this order is because of the risks and costs associated with these various financing types.

- Saleh, et al (2018) showed that the trade-off theory is the oldest capital structure theory which is connected to the theory of Modigliani & Miller. According to Oruç (2009), the trade-off theory was first proposed by Myers (1984) to describe how companies try to maintain a balance between debt finance related tax savings on the one hand and agency costs, bankruptcy costs, and financial distress costs on the other hand. Scholars like Danso & Adomako (2014) and Mostafa & Boregowda (2014), have argued that the trade-off theory as the modified Modigliani & Miller proposition indicates that the tax advantages are offset by the costs of financial distress and agency cost to the company. This means that a company will typically seek to accomplish an optimal level of leverage by balancing the benefits and costs of financing thus such a company will have a capital structure that increases the value of the company while reducing the cost associated with the prevailing imperfect market (Jahanzeb, et al, 2014 and Sheikh & Wang 2010).
- Market timing theory was proposed by Baker & Wurgler (2002). According to several scholars such as Mostafa & Boregowda (2014); Luigi & Sorin (2009); and Baker and

Wurgler (2002), the market timing theory of capital structure is about how companies time their issue of equity finance whereby a company aims to issue new stock when the stock price is high (overvalued) and repurchase their shares when the price is low (undervalued). Luigi & Sorin, (2009) explained that many companies find ways to reduce information asymmetry in order to create their own timing preferences to fund their projects. As Myers (2001) cited in Sheikh & Wang, (2010) notes that there is no universal theory with regards to the companies' debt-equity choices. This is because scholars fail to reach a consensus on what the optimal capital structure of companies is or should be, this is the negative of capital structure theories. Though, several other theories fully explain companies' relationship with finance and investment. The positive is that these theories explain how and why companies access and utilize diverse types of funding at different periods. The applicability of capital structure to this research is that an understanding of existing theories will assist the researcher to design suitable capital structures for Nigerian start-up companies which will improve the relationship between the entrepreneurs and business angels plus venture capital investors.

4.2.2 Agency Theory

Michael Jensen - an economist and former researcher at Harvard Business School was the creator of agency theory, which he developed to explain and predict the behaviours of investors and managers (Landstrom, 1993). Essentially, in entrepreneurial finance, an agency relationship is developed when an investor (as principal) invests in a venture whereby an entrepreneur (as agent) manages the funded venture. Under this arrangement, the principal who does not have the time or skill relies heavily on an agent to act on the principal's behalf (Fama & Jensen, 1983). In general, Landstrom (1993) explained that agency theory is about the problems and issues that arise when cooperating parties in a relationship have different goals and a division of labour. Researchers like Fama, (1980) and Fama & Jensen (1983) outlined that the agency theory concentrates on the relationship whereby the principal engages the agent to perform some work on behalf of the principal. These scholars noted that because both principals and agents are assumed to be rational economic-maximizing individuals, separating ownership and control leads to the agents making decisions and taking actions that are not always in the best interest of the principal and often such agent's behaviours result in some costs (that is agency costs) to the principal.

Despite the above challenges, Pratt & Zeckhauser (1985) suggest that in this agency relationship, the agent can save the principal's time and money as the former has more time, knowledge, and skill/effort to complete assigned tasks. However, the researchers note that one major dilemma is that the principal finds it difficult to closely monitor the actions of the agent. These situations resulted in the development of agency theory through the work of early scholars like Fama (1980), Jensen (1983) and Meckling (1976). Mahaney & Lederer (2003) present agency theory as the mutual contractual agreement or arrangement between the principal and agent which can be applied in various agency relationships such as the investor-entrepreneur relationship.

According to Wasserman (2006), agency theory is one of the oldest theories in the literature of accounting, economics, management, and recently entrepreneurship. Specifically, agency theory relates to the agency problem that occurs when two cooperating parties have different goals (Eisenhardt, 1989). Researchers such as Jensen & Meckling (1976) were among the first to work on agency theory and argued that there is always a principal-agent problem when external financing is introduced to a company. In their research studies, these scholars (Fama 1980, Fama & Jensen 1983, Eisehhardt, 1989, and Landstrom, 1993) show that an agency relationship is a contract under which one person (the principal) engages another person (the agent) to perform some services on principal's behalf which involves delegating some decision-making authority to the agent. Eisenhardt (1989) suggests that in agency theory, both principals and agents are assumed to be self-interested, rational, and risk-averse.

Agency theory is about minimizing agency cost which arises due to problems of the mismatch of the interests of the principal and agent. Sapienza & Villanueva (2007) maintain that agency theory is crucial in analysing the investor-entrepreneur investment relationship in which economic return is the primary motivation for screening and selecting ventures. This implies that both funders and entrepreneurs must be aware of steps they will take to prevent as well as address agency problems and costs when they arise. In agency theory, the assumption is that usually, the objectives of the principal do not align with those of the agent (Cumming & Johan, 2008). However, Buchanan (1996) points out that although conflict of interest which can arise from differing motives of principal and agent is at the heart of agency theory, it is often not only due to self-interest but also because of disagreement over other issues such as the business strategy. As Dooley (1992) indicates, monitoring is not a satisfactory, practical solution to agency problems for investors considering the time, cost, and inconvenience of implementing real monitoring tasks.

Over the past few years, agency theory has faced criticisms from several scholars (Schillemans & Basuioc 2015; Clarke 2014; Heath 2009; Lambright 2009; Davis, et al 1997). Whereas Davis et al (1997) suggest that the theory is limited to circumstances where the principal and agent are at odd, other researchers like Lambright (2009) note that the theory's assumption about human nature is wrong. Davis et al (1997) maintain that the theory failed to explain complex human behaviours and instead simplified the way that people relate and operate. The analysis of principal-agent problems in formal and informal venture capital finance uses agency theory in which the investor is the principal, and the company (entrepreneur) is the agent. This is discussed in the context of the various investment entry strategies used by investors – that is different forms of financing as pure debt, convertible debt, preferred equity, convertible preferred equity, common equity, and warrants among many others.

From the above, the negatives or weaknesses of agency theory are the general assumptions that both principal and agent are 'self-interested' parties, that their goals are always divergent and that the relationships are always in conflict. The positives are that the research into agency theory helps to understand the challenges faced by stakeholders in the separation of ownership and control, thus this is an essential theory in entrepreneurial finance research. The theory has applicability to this doctoral research because an understanding of many aspects of the theory is useful for building a new framework for better investment and ownership relationships between entrepreneurs and their investors during the early start-up and scaleup stages of their ventures.

4.2.3 Information Asymmetry Theory

In his research on asymmetric information theory and the role of private equity in the financing of small businesses, Matagu (2018) mentioned that Joseph Stiglitz (1961), George Akerlof (1970) and Michael Spence (1973) were the first three economists to develop the theory of asymmetric information which was later formalized in 2001. Asymmetric information is a major problem that exists between entrepreneurs and investors which makes it difficult for the entrepreneur as an agent to be properly monitored by the investor as principal is one aspect of agency cost. Among the key features in the investor-entrepreneur relationship, information and communication are the most important relationship drivers, however, in an agency environment, some complex agency problems such as incomplete communication, adverse selection, and moral hazard problems exist (Eisenhardt, 1989) in addition to asymmetric information. Again, Cumming & Johan (2008) argue that the information asymmetry problem and these other agency costs are vital for explaining the existence of venture capital funds and how investors manage the relationship with entrepreneurs. These researchers believe that entrepreneurial ventures would quickly and easily raise capital from banks or other sources of debt finance if there were no agency costs like information asymmetry. Indeed, information sharing is critical in investor-entrepreneur relation because it leads to the creation of mutual trust and commitment, reduce the cost of delegation and decision making as well as mitigate fears of opportunism (Sapienza & Korsgaard, 1996). In an important research work investigating the role of asymmetric information in understanding why investors utilize equity in entrepreneurial financing and not pure debt, Trester (1998) provides useful insights. First, the author mentioned that incentives for entrepreneurs to behave opportunistically are available in debt contracts due to the allowed foreclosure option. This disclosure makes it possible for the entrepreneurs to default on debt whilst benefiting from the payoff of their ventures. On the other hand, there are no foreclosure rights in equity contracts which makes it a desirable alternative option, especially the preferred or convertible preferred equity contracts. For example, some researchers (like Bernile, et al, 2007; and Gompers, 1995) maintain that BAs and VCs are suitable financiers in business operations and circumstances where information is asymmetric.

From the above, the weakness of this theory is the assumption that an agent, an entrepreneur tends to hide information or is unwilling to divulge useful information to the principal. However, most entrepreneurs who want their ventures to be funded are interested and eager to share relevant information with funders. The positives are that investigation into the problem of information asymmetry help to understand the role of symmetric information and complete communication in relationship building between entrepreneurs and investors. The theory has applicability to this doctoral research because it is essential for designing and developing a conceptual framework for the most appropriate funding models that advance the best investment and ownership relationship between entrepreneurs and their investors.

4.2.4 Ownership and Control Theory

The financing of start-up companies during their early growth stage is about dealing with their ownership related issues directly through equity finance or indirectly via debt finance. Yan (2000) noted that in recent years, research into the relationship between ownership and control has gained wide attention and he explained that ownership refers to the rights, responsibilities, risks, and rewards associated with an asset. Also, Scott (1979) as cited by Yan (2000) presented ownership as a dual character with legal and socio-economic sides corresponding to the legal power and social/economic power, respectively. Several researchers (like Parhankangas, et al 2005; McKaskill, et al 2004; Cumming & MacIntosh 2003; and Kutsuna, et al 2000). indicate that most BAs and VCs focus their investments in early-stage entrepreneurial firms on ownership and harvesting (pay-out) opportunities especially technology companies and tech-enabled businesses with the primary aim of obtaining capital gain when an exit transaction occurs. These investors often take equity or ownership in funded ventures in expectation of large capital gain during exit.
Scholars such as Neus & Walz (2005); Mayer, Schoors, & Yafeh (2005); Megginson (2004); Kanniainen & Keuschnigg (2003); Wright & Lockett 2003; Gompers & Lerner (2001); Bascha & Walz (2001); and Bergmann & Hege (1998) argued that early-stage entrepreneurial firms do not have sufficient cash flow to pay interest on the debt and/or dividends on equity investments and as a result, VC’s returns are derived majorly from capital gains upon exit transactions soon. These researchers believe that BAs and VCs are experts at due diligence and in screening the potential opportunities for investments and good at adding value to funded companies through many key

approaches - like sitting on boards of directors and providing financial, strategic, marketing, and managerial advice, plus facilitating a network of contacts for investee firms with suppliers, accountants, lawyers, and investment banks.

4.2.5 Stewardship Theory

Another important way to explain the relationship between investors and entrepreneurs is in terms of stewardship. In late 1980, Donaldson and Davis considered agency theory a negative perception and wrong assumption about entrepreneurs and managers and therefore proposed the stewardship theory later as an alternative to the agency theory (Donaldson & Davis, 1991). In the investor-entrepreneur relationship, the idea of stewardship theory which is about cooperation and collaboration may be viewed as complementary to agency theory which is based on self-interest and conflict of such interests and whereas agency theory promotes individualism, stewardship theory advances collectivism (Donaldson & Davis, 1991). Researchers propose that managers and directors of companies usually consider themselves as the companies' stewards who can be trusted to do good jobs and are connected to the companies' overall vision, aims, and objectives (Hernandez, 2012; Schillemans & Basuioc, 2015). Based on the work of earlier scholars like Buchanan (1996), stewardship theory shows that more often individuals can be motivated by the consideration of fairness and concern for the interest of other stakeholders. According to Sundaramuthy & Lewis (2003), this theory is anchored on the connection, cooperation, and collaboration that exist between two parties – such as investors and entrepreneurs.

In exploring entrepreneurial finance, most entrepreneurs view themselves as stewards who are determined to act in the best interest of their companies and investors and not necessarily desiring to advance their self-interest. As a result, these entrepreneurs will work in ways that are mutually beneficial rather than the ones that enhance self-serving benefits (Davis et al, 1997). Block (1993) presents stewardship theory as the idea of service for others – acting or doing the right thing and not advancing self-interest. Caldwell & Karri (2005) note that the stewardship theory assumes a total commitment to others' welfare, success, or progress. Some scholars such as Pastoriza & Arinio (2008); Tosi et al 2003; and Davis et al, (1997) argue that managers are motivated by the satisfaction that comes from the success of the companies they manage rather than some other extrinsic rewards that are economic in nature. Also, Arthurs (2003) believes that managers and entrepreneurs are stewards whose behaviours align with the objectives of their principals. The researcher notes that in both agency and stewardship theories, there is a need for the aims and objectives of the principal and agent to align. This is because, without alignment, it will be difficult to achieve the goal of the funded companies.

The stewardship theory assumes that the agent's behaviour is aligned automatically with the principal's objectives (Davis, et al. 1997). The researcher also indicates that the stewardship theory concentrates on the structures that empower instead of controlling the agent. Hence, there is little or no need for monitoring as there is no need to prevent agency costs (Donaldson, 1997). Hernandez (2012) presents stewardship theory as the extent to which an agent is committed to advancing the interest and long-term welfare of others whilst suppressing his or her interest. Van Slyke (2006) maintains that stewardship theory is about the convergence of the principal and agent goals rather than the agency theory's conflict of interest.

The negative of stewardship theory is the assumption that there is no self-interest, and that little attention is paid to the principal-agent problems like agency costs, moral hazards, and adverse selection. The positive of this theory is that it advances cooperation and collaboration which should exist in the relationship between principal and agent for a successful outcome to be achieved. The theory has applicability to this doctoral research because the research wants to promote a funding model which integrated both agency and stewardship theory to build a stronger and mutually beneficial relationship between entrepreneurs and their investors.

4.2.6 Theory of Trust

Many scholars like Colquitt, et al (2007), Dirks & Ferrin (2002), Das & Teng (2001), Dirks (2000), Kramer (1999), Madhok (1995), Mayer et al, (1995) and others were the early pioneers of the theory of trust and showed that trust theory is connected to both agency and stewardship theories discussed in the previous sections above because whereas a high level of trust between principal and their agent is associated with stewardship theory. Hence, a low level of trust is linked to the conflict of interest in agency theory. The researchers also noted that building trust is essential in the development of mutually beneficial partnerships and relationships, for example, the medium to long-term investment relationship between investors and entrepreneurs. Trust as a topic has been investigated in various subjects such as economics, sociology, business management, and psychology. Researchers like MacAllister (1995) and Remple, Holmes, & Zana (1985) note that trust plays a central function in investment relations and tried to measure trust at various levels and under different situations.

Nahapiet & Ghoshal (1998) believe that trust is an important social capital that resides within the network of mutual acquaintances or associates and recognitions where it serves the unique role of fostering cooperation, collaboration, and collective actions. The theory of trust presents three key issues to improve knowledge of the relationship between investors as trustors and entrepreneurs as trustees. Firstly, in terms of control, Zaheer et al (1998) maintain that nurturing a business environment where the need for control is not required will significantly reduce agency costs. Secondly, concerning the timeline or event, Granovetter (1985) argues that past encounters or previous interactions can minimize or even remove potential conflicts of interest between investors and entrepreneurs. Thirdly, regarding the remuneration or compensation, Lee & Whitford (2008) note that applying a wrong approach to reward-punishment issues can be harmful to the relationship between the principal and agent and may compel the agent to exploit opportunistic behaviours.

4.2.7 Integrating Capital Structure, Information, Trust, Stewardship & Agency Theories

Based on the above discussions of various theories developed to explain the relationships between principals and agents in general, this doctoral thesis proposes that in exploring the investor-entrepreneur relationship, it is essential to integrate some of the theories. This integration will enhance the relationship between entrepreneurs and potential investors by reducing the weakness of each theory – stewardship, agency, trust, and capital structure whilst facilitating a more appropriate separation of ownership from management/control. Forsyth (2016) explored the evidence supporting agency and stewardship theories to understand the compatibility of both theories and determine whether both are valid or only one of them stands. The scholar concludes that both theories coexist and have a complementary view, indicating that both are applicable in different circumstances depending on the attitude of the principal and agent. Panda (2018) explored the adequacy of agency theory in explaining the venture capitalist and entrepreneur relationship through a start-up company life-cycle perspective. Panda (2018) found that advanced stage relationships suffer severely from agency risks while early-stage relationships are less affected. Overall, time plays a critical role in the application of these theories and the relationship between entrepreneurs and investors to build trust in the relationships. For instance, as the investors and entrepreneurs get to know themselves through frequent communication and sharing useful information over time, their level of trust and entrepreneurs' tendency to become stewards will increase and agency problems will significantly decrease (Donaldson & Davis, 1991). From the information above, it is essential to integrate these theories to ensure that start-up companies in Nigeria are better prepared to receive adequate funding during their various growth stages. It is also vital to assist these private companies to address problems of overleverage and underleverage through building optimally balanced capital structures.

4.3 Conceptual Framework for Understanding Investor-Entrepreneur Relationship

The various theories from the literature and theoretical framework discussed in the previous sections are relevant for developing a conceptual framework for understanding the complex relationship existing between equity investors and entrepreneurs. According to Brown, Renwick, & Raphael (1995), the design of the conceptual framework helps to logically integrate all the relevant aspects of a concept to arrive at a process that can provide the best possible explanation of the research problem stated. Miles & Huberman (1994) define a conceptual framework as a visual or written product, one that explains, either graphically or in narrative form, the main things to be studied — key factors, concepts, or variables—and presumed relationships among them. These researchers agree that the conceptual framework relates to the present version of a researcher's map of the subject area being investigated. They believe that as research progresses over time, the conceptual framework will most likely continue to evolve. The proposal of Miles & Huberman (1994) aims to link research purpose (boundaries) and flexibility together to achieve research coherence in terms of the research plan, result, analysis, and conclusion. This is revealed in a typical conceptual framework which enables the visualization of the entire research.

According to Robson (2011), the conceptual framework of a research study is the system of concepts, assumptions, expectations, beliefs, and theories that supports and informs research and is a key part of research design. In their research study, Mugenda & Mugenda (1999) present the conceptual framework as a ‘hypothesized model’ in which certain relationships are established between two variables – independent and dependent. This implies that under a certain research condition, a researcher conceptualizes, designs, and then develops the graphic or diagrammatic relationship and connectivity between the two or more components or variables.

In general, the conceptual framework is designed to assist the readers to view a proposed relationship that exists in any given research investigation. In their study, Shosh & Vernon (2007) show that the conceptual framework is relevant to advanced investigations such as doctoral research work. For this study on the relationship dynamics between entrepreneurs and business angels and venture capitalists, the conceptual framework is planned and developed as described in the sub-section below.

4.3.1 Development of a Conceptual Framework for Investor-Entrepreneur Relationships

To explore the major reasons for the existing low engagement between entrepreneurs and potential equity investors (as BAs and VCs) leading to the equity finance gap or limited equity investments in start-up companies in Nigeria, this research develops a conceptual framework. Accordingly, the conceptual framework developed for this study draws on the entrepreneurial finance literature discussed in the previous three chapters. The framework interprets the dynamic and complex interactions and co-operations between equity investors and entrepreneurs. In developing this framework, the researcher aims to brainstorm and focus on the research problems and objectives of this study. The conceptual framework is used by the researcher to design and develop a new framework or conception of the planned research study and the theories that are being investigated. It shall assist the researcher to discuss the research objectives, choosing the most suitable research method, plus justifying the research study, and identifying any likely threat to research validity.

As an integral part of the conceptual framework, the research problem together with the research aim and objectives will serve to justify the research study by showing why this research is relevant. Together, the research objectives, methods, data collection and analysis are connected to the conceptual framework, research theories and academic literature which are all linked to the ideas and potential solutions being designed and developed for this research as indicated in figure 4.1 below. To develop and construct a conceptual framework for this study, it is crucial to apply the linkages of the above key topics to build a new relationship between formal and informal VCs on one hand and the entrepreneurs plus their enterprises on the other hand. Figure 4.1 below shows the linkages to the conceptual framework, connecting research ideas, theories, and literature, research problems, data collection/analysis, research objectives, and method.

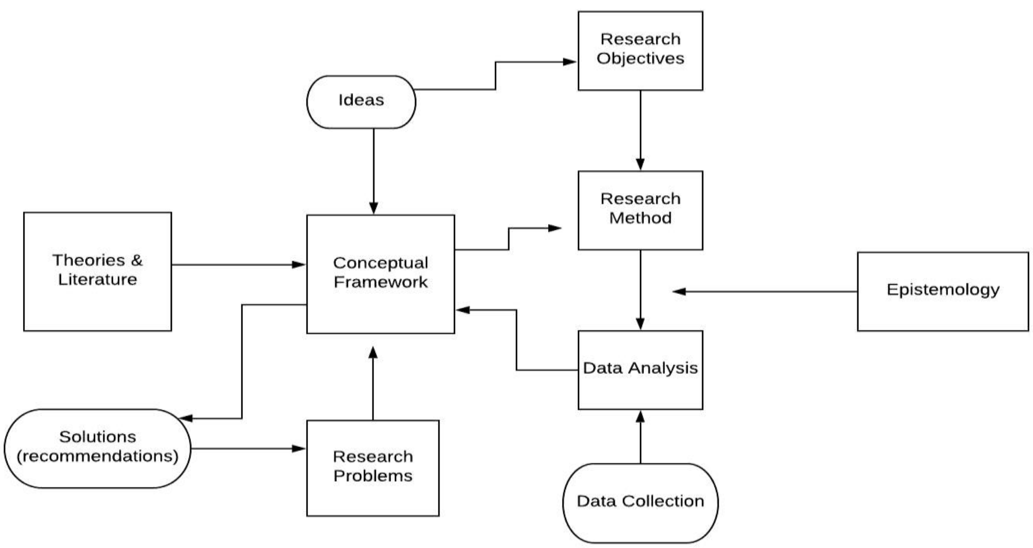

Figure 4.1 Sketch showing interactions linked to developing a conceptual framework

Adapted from Kusnadi (2010)

4.3.2 Conventional Single Step Approach to Equity Financing of Start-up Companies

To understand the conceptual framework which will be developed in the next section below, it is vital to first discuss the traditional single-step approach currently used by business angels and venture capitalists to provide dilutive equity finance to entrepreneurs and their start-up ventures. The early-stage equity finance processes involve the investors and entrepreneurs connecting, communicating, sharing relevant enterprise information, and thereafter conducting due diligence. After checking the business plan, business model, and revenue model plus discussing the potential investment risks and rewards, investors and entrepreneurs agree on valuation and dilution in addition to other items on the investment term-sheet. Then, the investor signs a contract and makes a dilutive equity investment in the company based on the agreed investment terms and conditions and takes some equity or ownership share in the funded ventures. The researcher calls this provision of dilutive equity finance a single-step approach which can be distributed either at once or in multiple stages based on the start-up company's performance as pre-agreed.

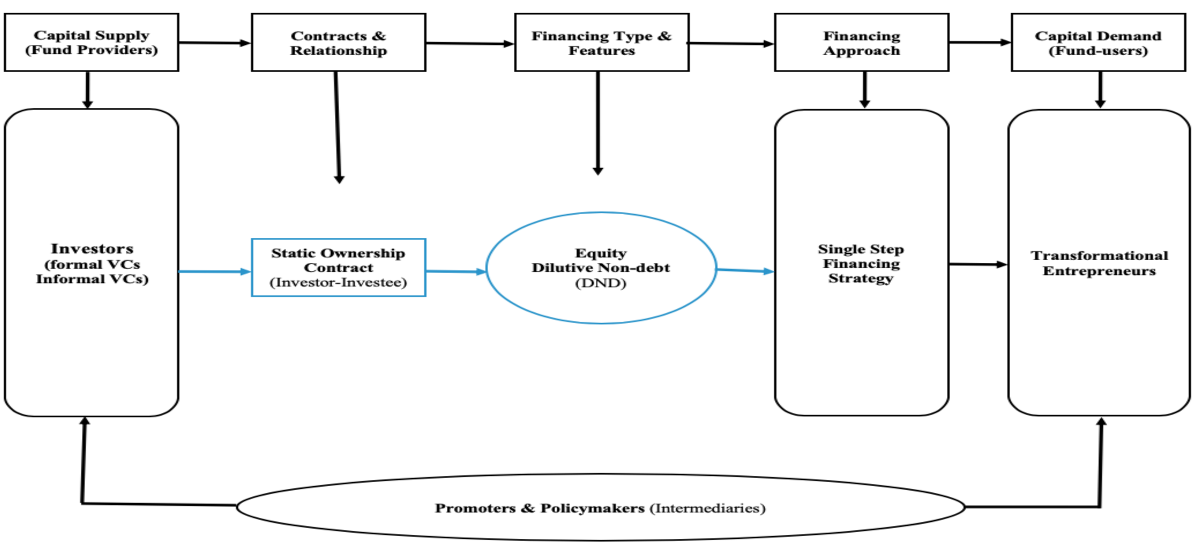

Figure 4.2 The traditional single step equity financing strategy linking entrepreneurs and their investors together. **Source:** Adapted from Grossman & Hart (1986).

In this equity-based finance contract, ownership linking investors and entrepreneurs is static and illiquid, and the funding is dilutive, non-debt (DND) as shown in figure 4.2 above. From the previous explanations of the various theories around principal-agent relations, the researcher is aware that this single approach to equity investing in new, young start-up ventures may present multiple problems for both investors and entrepreneurs. Specifically, this conventional single-step approach to building an entrepreneur-investor relationship makes it difficult for new entrepreneurs to raise equity finance and discourages investors from providing equity-based finance. This is because of the problem of newness to market that faces their young private ventures, the problems with profits (dividends) as a harvesting option, and high business uncertainties as investors are unsure if the investment is right as the company's future prospect is volatile and unpredictable. In addition, the investment has substantial risk and low liquidity – implying that once invested, equity financiers are unable to exit whenever they choose and selling to a third party is also difficult.

4.3.3 Stewardship –Trust –Agency Framework for Investor-Entrepreneur Relationships

In the previous sub-section, some of the problems facing the current single-step model of equity financing were introduced. The researcher designs a conceptual framework to address major issues around the four main stages of equity financing - investing, controlling, harvesting, and divesting stages linking entrepreneurs and their start-up ventures to investors. Building trust and developing long-term relationship necessary for managing investments in new start-up ventures requires a proper alignment of the goals of investors and entrepreneurs to design acceptable financing and ownership contracts. This is critical to stakeholders for addressing the potential principal-agent problems in the investment relationship between the entrepreneurs and investors. It is also vital for enhancing the role of entrepreneurs and investors as fund users and fund providers respectively.

As shown in figure 4.3 below, a stewardship-trust-agency framework is designed that captured the four research objectives around equity, enterprise, entrepreneur, and environmental issues in the relationships and contracts between investors and entrepreneurs. Within these four relationship conduits are complex interactions around ownership, governance, cash flow, and liquidity that are linked to trust, agency, stewardship, and information asymmetry. This study seeks to understand the core interactions among these issues and also how they are connected to poor alignment or low engagement between the investors and entrepreneurs which leads to the equity finance gap.

As presented in the introductory chapter, this doctoral research which introduces a stewardship-trust-agency framework focuses on these four core areas – ownership dilution and rights, pay-out or cash-flow, management/control, and exit options necessary for building a mutually beneficial and trusted relationship between investors and entrepreneurs. Based on the earlier discussions around capital structure, stewardship, agency, and trust theories, the researcher argues that the behaviours and motivations of entrepreneurs as agents should not be considered by key stakeholders as being static. Instead, they should be viewed as being mobile or in a state of motion – in other words, an entrepreneur's behaviour and motivation move from a position of a steward to a position of an agent and lastly trusted key player. Overall, investing in private companies in Nigeria during their early and later growth stages requires continuous improvement in the way the ownership of companies receiving equity investments are treated by leveraging new technologies.

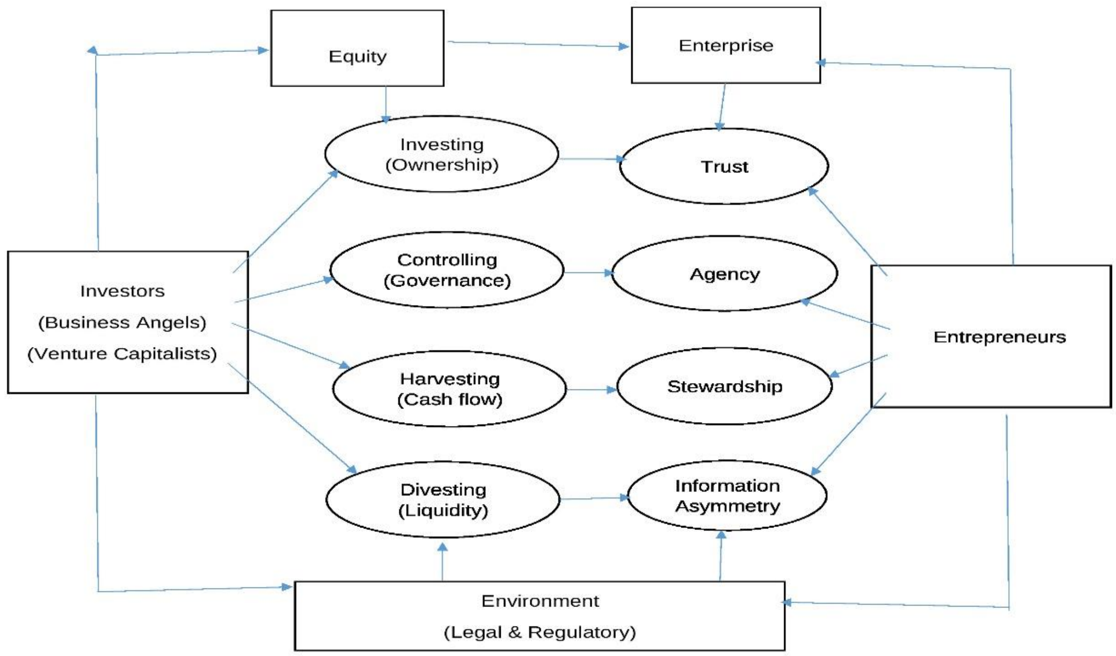

Figure 4.3 Stewardship-Trust-Agency Framework for Investor-Entrepreneur Investment Relationship showing the issues connected to equity, enterprise, entrepreneur, and environment

To conclude this section, a summary of the conceptual framework is presented as discussed below. The final contract agreement between equity investors and entrepreneurs enabling the investors to provide investment opens a chain of reactions and expectations in the investment and ownership relationships between investors and entrepreneurs as principal and agents respectively. This study focuses on the equity finance, start-up enterprise, entrepreneur, and environment and how all these four are linked to the integration of investing (entry and ownership), controlling (governance or management and monitoring), harvesting (cash flow or pay-out as profits), and divesting (exit) plus the role of trust, agency, stewardship, and information asymmetry. The dynamics and complex interactions of these events or activities form the backbone of the conceptual framework and are qualitatively explored in the primary research through semi-structured interviews.

4.4 Research Direction

Lerner (2009) explains that the value of entrepreneurial finance is indispensable for any country that seeks to promote entrepreneurship. As the primary source of equity-based finance, both business angel investing, and venture capital financing is attractive external equity finance sources for entrepreneurs who are seeking non-debt financing. The BA and VC industries have proven themselves as an integral component of entrepreneurial finance (Dennis, 2004) and therefore a favourable factor stimulating economic growth for countries around the world (Jeng & Wells, 2000). The direction of this exploratory study is to clearly understand the attitudes of investors and entrepreneurs towards financing/investment and ownership engagement. This will help to provide a better understanding of the current situation of the entrepreneurial finance landscape in Nigeria. In relation to the research aim and objectives, this study will establish how certain key factors are responsible for poor alignment in the relationships between equity investors and entrepreneurs based on these four primary conduits – equity, entrepreneur, enterprise, and environment. This research study will provide opportunities for scholars to investigate other useful relationships in entrepreneurial finance in Nigeria such as relationships between debt providers and equity providers plus relationships between business angels and venture capitalists.

4.5 Chapter Summary

This chapter has explored the various theories that underpin this exploratory research. It has also explained the research framework anchored on ownership, management/control, and cash flow. Building an optimally balanced capital structure is essential for private companies of different sizes, and growth stages regardless of their sectors of operation. The conclusion is that three core theories – stewardship, agency, and trust should be integrated and compatible in understanding the investment and ownership relationship between the investors and entrepreneurs. This research proposes that the early-stage, mid-stage and late-stage relationships between investors and entrepreneurs should be more suitable for the practical application of the theory of stewardship, agency, and trust, respectively. As a result, the conceptual framework is that the financing and ownership relationship should firstly commence with hybrid financing based on stewardship linked to equity financing based on agency linked to venture debt based on trust over the lifetime or lifecycle of the venture's investment and ownership. The next chapter presents this research project's methods and methodology.

CHAPTER FIVE

Research Methodology

5.1 Introduction

The theoretical and conceptual frameworks that underpin this research study were discussed in the preceding chapter. This involved drawing upon extant academic literature on start-up and scaleup companies as well as business angel investing and venture capital financing concerning principal-agent issues around trust, ownership, control, and cashflow rights. This chapter describes the research methodology used for this research and introduces the research philosophy behind the empirical data collection approach. The next chapter delves into the data collection and analysis focussing on sample selection, data collection instruments and data analysis.

5.2 Research Design

Many researchers have provided various explanations for research design – for example, Kumar (2013) states that a research design is a strategy developed to plan and conduct research to answer a research question or problem. According to Kerlinger (1986), a research plan is an outline of what a researcher wants to explore from design to result and data analysis. Thyer (1993) as cited in Kumar (2011) states that a research design shows the blueprint or detailed plan of how a research study will start and finish including the selection of the sample, collection of data, and analysis of data. Furthermore, researchers such as Gall, et al. (2003) present a research design as a data collection and utilization plan which allows vital information to be obtained with enough precision and analysed properly. Lastly, whereas Polit & Beck (2012) maintain that a research design is the research plan which the researcher adopts to respond to a research question, Creswell, (2009) notes that research design is the rigid structure or frame required to undertake research. Creswell (2009) indicates that overall, a typical research design has the following four key segments: research methods, strategies, approaches, and philosophies. Kumar (2013) suggests that the various definitions of research design reveal its key role in research which is to develop a procedure for research and enhance the quality of the procedure by promoting its reliability, validity, objectivity, and accuracy.

The research design enables researchers to plan, design, and carefully conduct research activities. Saunders et al. (2003) adopt a research onion to explain the research design process. The research onion is about the layers of steps taken in typical research – which moves from layer to layer - from the outer side of the onion to the inside. The layers are as follows: research philosophy, approach, method, strategy, time horizon, and technique/procedures for collecting and analysing research data. Overall, the research onion shows the issues considered when embarking on an unknown research journey. The research onion shown in Figure 5.1 represents the connectivity among the various concepts which exist in a research planning and design, and it shows the entire research processes, steps, or activities in typical research (Saunders, et al., 2003). A number of scholars (Bryman & Bell, 2007; Blumberg, et al., 2008) infer that a research design is critical because it assists researchers to understand the way that all research aspects are interconnected.

Figure 5.1 The Research Onion
Source: Adapted from Saunders (2003)

5.2.1 Exploratory Research

Exploratory research is the type of research design where the main interest is in gaining deeper insights relevant to future investigations. As the name implies, exploratory research serves the role of exploring or investigating the research question or problem facing a researcher. In this case, the researchers aim to obtain a more accurate research question or hypothesis. Several scholars have indicated that exploratory research needs more open-ended, flexible techniques that direct researchers' attention to learning, problem-solving, and discovery (Palys, 2017; Bryman 2012). Malhotra (1996) notes that exploratory research is usually flexible and versatile allowing investigators to dig deeper into their work. Again, Sekaran (2003) argues that a formal research study in which insufficient information is available suites exploratory research. Saunders, et al. (2003) agree that exploratory research assists scholars to gain a deeper understanding, whilst Neuman (2000) states that this research design is essential where no prior research had been conducted.

5.2.2 Descriptive Research

An alternative to exploratory research is descriptive research. Glass & Hopkins (2008) present a descriptive research study as one that allows the event's data to be gathered and organized. This type of research design fits into both qualitative and quantitative research methods. Typical descriptive studies are aimed at finding out or answering research questions using a survey method to collect descriptive data (Borg & Gall, 1989). Fong (1992) identified two vital issues in descriptive research design the validity and reliability of measurements. These two concepts - validity and reliability, are discussed in more detail in the next chapter on data collection.

5.2.3 Explanatory Research

According to de Vaus (2004), explanatory research focuses on the 'why' questions – for instance, it can be used to investigate the question of why the crime rate is high or low in any given country. Explanatory research, also called casual research design, is crucial for example where a research problem has not been investigated in the past. Churchill (1995) notes that explanatory research shows the cause-effect relationship between two or more different methods, or groups. Gay & Airasian (1999) argue that often the researchers are unable to control the independent variable as it is studied. Overall, case analysis, focus group research, and in-depth study of a single problem are some of the clear examples of explanatory research.

5.2.4 Justification for the Use of Exploratory Research

Considering that there are many ways to plan and design research, this research study adopts an exploratory research design to allow an investor-entrepreneur relationship to be closely examined by the researcher to investigate the start-up financing challenges that both equity financiers and entrepreneurs face. The choice of this research design will assist in exploring the research problem without the need to produce conclusive evidence. An exploratory research design will allow the researcher to study and exploit novel solutions to the identified research problems thus assisting the researcher to obtain insights into problems (Kothari, 2003). Furthermore, the exploratory study shall help the researcher to thoroughly investigate hidden issues and unknown concepts. As prior research studies in VC financing in Nigeria and Africa, in general, are few and limited in scope, this justifies the use of this research design. In addition to formal structured interviews, other sources of data like pilot studies and informal discussion are used in conducting exploratory research which also gives researchers some flexibility to adjust to changes as the research progresses.

5.3 Research Philosophy

Researchers such as Bryman (2012) and Hall & Hall (1996) show that research philosophy relates to the nature of reality or knowledge and how researchers acquire knowledge. According to Burns & Burns (2008), research philosophy is about the assumptions and beliefs of a researcher that direct the way a research work is thought, planned, designed, and conducted. The research philosophy is considered beneficial because it guides the researcher when making choices about which research method, research strategy, research approach as well as data collection and analysis to be used. Researchers such as Gill & Johnson (2002), Bryman & Bell (2011), and Creswell (2014) outlined axiology, ontology, epistemology, and the nature of humans as the core elements of any adopted research philosophy. Saunders et al., (2009) argue that different variations and interpretations of research philosophy, positivism, interpretivism, realism, and pragmatism are the four major research philosophies.

Researchers such as Gill & Johnson (2002) insist that positivism as a research philosophical choice engages structured, systematic, and objective methods that facilitate the replication and generalisation of research findings. Thus, Bryman & Bell, (2011) show that at the heart of positivism is the fact that too much human engagement in the conduct of research is distorted and dilutes the research findings. These scholars, Bryman & Bell, (2011) argue that researchers must be limited to data collection in an observable manner. According to Saunders et al. (2009) and Bryman & Bell (2011), interpretivism proves that there is a difference between research involving natural sciences and those relating to the social phenomenon and as a result, researchers in social science should properly engage the subject of enquiry to obtain the required results. Indeed, Zikmund et al (2013) note that as a philosophical choice, interpretivism has a disadvantage in that researchers tend to interfere with the research findings.

Bryman (2012) show that in realism as research philosophy, the researchers' knowledge and experience is usually different, independent, and separate from an existing reality of knowledge. As a result, realism requires researchers to creatively explore, examine, and find the reality without contaminating the reality with their experiences (Saunders et.al. 2009; Bryman & Bell, 2011). Baert (2005) and Saunders, et.al (2009) present pragmatism as another philosophical choice that focuses on making any research paradigm in typical research work to be relevant and result-driven. Scholars such as Denscombe (2007), Saunders et.al (2009), and Creswell (2014) propose that researchers should integrate many research methods, approaches, and strategies to obtain the best possible results because no single method can sufficiently address the researcher's problems or answer the research questions.

5.4 Research Approaches

The research approach is an aspect of research methodology used when determining the research method that a researcher should choose. According to Saunders, et al. (2009), a research approach is simply the process of generating and testing research theories. Overall, there are multiple ways to approach a typical research study. Bryman & Bell (2011) noted that the three major research approaches are: inductive, deductive, and abductive as briefly explained further in the sub-sections below:

5.4.1 Inductive Research Approach

The inductive research approach is considered a bottom-up approach whereby research theory is developed from an initial observation of research data to determine the explanation of the theory (Burns & Burns, 2008; Bryman & Bell, 2011). Hall & Hall (1996) note that the inductive approach relies on observed data and the inferences drawn from them. The inductive approach links observation to the research process linked to theories (Goddard & Melville, 2004). Inductive research moves from specific observations to generalizations and theories. Normally, researchers commence inductive research by using observations to find patterns and develop a hypothesis which they explore to come up with conclusions or theories (Trochim et al, 2016). Bryman (2012) states that one merit of inductive research is that it enables inferences to be derived from models and the demerit of this research approach is that it is hard to be specific regarding the extent of making any generalisation because inferences are not based on any known premise.

5.4.2 Deductive Research Approach

The second research approach is deductive research. Trochim, et al. (2016) note that deductive research starts from the top and moves down to the bottom as well as goes from the general to the exact issue whereby a researcher follows a topic of interest with theory thinking and brings down the investigation to a specific testable hypothesis. Trochim, et al. (2016) maintain that it is possible to further narrow down when observations are collected to address the hypothesis leading to the testing of the hypothesis with specific data and a confirmation of the original theories. Bryman & Bell (2011) indicate that the main weakness of the deductive approach is that it cannot be applied in typical research to explore and identify the impact of human behaviour on the researcher. Often, the deductive approach is at the opposite end of the inductive research approach.

5.4.3 Abductive Research Approach

The abductive research approach is developed to find an alternative solution to the major problems and weaknesses associated with both the inductive and deductive approaches. Earlier researchers, Saunders & Thornhill (2012) observe that the deductive approach lack clarity regarding the selection of theory to be tested through the formulation of a hypothesis. The researchers also note that the weakness of the inductive approach is that it is impossible to build a theory even with a large amount of empirical data obtained from field research. By adopting a more pragmatic perspective, the abductive approach solves some of the problems of both inductive and deductive research approaches. Saunders, Lewis, & Thornhill (2016) outlined that the abductive approach uses both the process of testing to confirm or reject a hypothesis and the process of building theory to identify patterns in observed data.

5.4.4 Justification for Use of Inductive Approach

The approach employed in this research study is the inductive approach which will assist in finding specific answers to the research questions which were formulated at the beginning of the research process. This research study explores the strategies and mechanisms applied by investors to mitigate principal-agent issues in the impact of formal and informal VC financing. The application of inductive research enables inferences to be derived from this research – which is one of the advantages of the approach as observed by Bryman (2012). Furthermore, an inductive approach is chosen because this research study is based on qualitative data collection and analysis method which is linked to the inductive research approach.

5.5 Research Strategy

A research strategy means a researcher's proposed steps taken to address the research questions and implement the research methodology. From the literature review exercise carried out, it is found that most previous research used various research strategies to obtain their primary data. This research work employs a research strategy that enables the successful conduct of research and collection of data via interviews. Sekaran & Sekaran (1992); Saunders, Thornhill, & Lewis (1997), and Bryman (2012) present several types of research strategies used in research design and implementation as discussed in the sub-sections below.

5.5.1 Observational Research

As the name implies, this is a research strategy that requires the researcher to observe the research participants. Nisbet (1997) infers observational research is indeed a crucial activity that assists the researcher to obtain information, knowledge, and understanding necessary for collecting relevant research data. In some cases, it may possible, though not always easy to undertake direct observations of the participants in their natural environment. Sekaran & Sekaran (1992) agree that observational research requires the researcher to get involved in the natural work environment of the participants. One benefit of observational research according to Abakhail (1999) is that it can remove the participant's bias which is common with survey questionnaires and interviews for example.

5.5.2 Case Study Research

Yin (1994) defines a case study as 'an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not evident, and in which multiple sources of evidence are used. Bryman (2004) explains that the basic case study involves the analysis of a single case, while Stake (1995) observes that case-study research can be complex in relation to the unique nature of the specific case under consideration. One advantage of this strategy is that it enables the researcher to focus on a clear and specific situation to explore how different processes can connect and interact.

5.5.3 Survey and Questionnaire-based Research

Remenyi & Williams (1995) explain that surveys are designed to collect specific data or information in response to questions that are clear and directed. Bell (1999) suggests that survey questionnaires are useful for obtaining certain information that requires proper analysis, pattern recognition, and comparison inference. The main benefit of this strategy is that it is convenient for information gathering from research participants and thus a popular for conducting scholarly research. The survey questionnaire can be distributed via postal and/or electronic mail.

5.5.4 Interview-based Research

Saunders et al (1997) explain that a research interview can be structured, semi-structured, or unstructured depending on the research problems under investigation and other variables unique to the specific research. One drawback of the interview research strategy is that it is open to bias from the researcher and participants. The two main ways of conducting research interviews are via face-to-face and telephone. In face-to-face interviews, the respondents give the researcher consent and willingness to be personally interviewed at a specific time and place. The benefit of a personal interview is that researchers can obtain some immediate responses from participants.

5.6 The Research Methods

Several authors like Bryman (2012) and Creswell (2009) state that generally, there are three main research methods – which are qualitative, quantitative, and mixed methods and these research methods have distinctive features. These scholars maintain that these methods are the specific procedures and techniques that researchers apply when conducting research. The methods outline the plans for the collection and analysis of data plus the dissemination of the research results. In entrepreneurial research, a good understanding of these three major research methods is helpful.

5.6.1 Qualitative Research Method

Gay & Airasian (2000) present the qualitative research method as one where the researcher collects a small and medium-sized number of data, over a certain period in a natural environment to obtain new insights in ways that will be impossible using other research methods. More specifically, Strauss & Corbin (1998) define qualitative research as one that does not involve any quantification or statistical application and whose findings are not arrived at using statistical procedures. Denzin & Lincoln (2005) maintain that qualitative research is often multi-disciplinary and based on multiple methodologies. Brewer (2003) concludes that qualitative research attempts to draw on philosophical ideas and other traditions to support the attention on research "quality" rather than "quantity".

Denzin & Lincoln (1998) state that the qualitative research method is composed of clear, methodological approaches. These procedures include subjectivist epistemology, naturalistic, and relativist ontology which respectively mean that natural interaction is vital and a natural setting is critical to studying the research population or participants whereby multiple realities are accepted (Denzin & Lincoln, 2005). In addition to the work of Denzin & Lincoln, another researcher, Creswell provided further qualitative research philosophy as axiological and rhetorical which respectively implies that the contribution of the researchers is significant to the research (Creswell, 2007). Cohen, Manion, & Marrison (2007); Creswell (2009); Denzin & Lincoln (1998); Snape & Spencer (2003) are among the researchers who made the following observations about the features of the qualitative research method as summarized below: Qualitative research assumes that processes, situations, events, cases, plus participants are firstly unique, depending on context and not often recognized and secondly, are time-dependent and are affected by context. These researchers maintain that the qualitative method focuses on answering the questions of quality and not quantity or frequency. Furthermore, they agree that the qualitative method enforces the researcher to become the research instrument, so they can interview participants face-to-face and observe their behaviours as participants.

5.6.2 Quantitative Research Method

Creswell (1994); Gay & Airasian (1999) state that quantitative research is an empirical investigation into a social phenomenon or human problem as well as theory testing concentrated on variables measured with numbers and analysed with powerful statistical tools. These researchers agree that the quantitative approach assists in determining whether the phenomena of research interest for example can be explained via a theory. Furthermore, Bryman (2012) believes that quantitative research is an essential research strategy that applies quantification methods for data collection and analysis.

Again, the quantitative research method is considered a research problem inquiry which uses theory testing or proving with statistical variables into a human problem or social phenomenon that is based on testing or proving a theory with statistical variables to determine if the theory is true or untrue (Saunders et al. 2009). Muijs (2011) indicates that a quantitative research method is a systematic study that involves the use of numerical analysis that provides a narrow and concise description of controlled variables. Most academic research in economics and social sciences follows the quantitative research approach.

5.6.3 Differences between Qualitative and Quantitative Methods

Several researchers such as Yilmaz (2013), Creswell (2007), and Denzin & Lincoln (1998) believe that there are many differences between the two major research methods – qualitative and quantitative research methods. For example, there are differences in terms of their epistemological, theoretical, and methodological underpinnings. Based on the work of earlier researchers like Bergman (2008), Bryman (1998), and Cohen, Manion & Marrison (2007), the differences between quantitative and qualitative research methods are with regards to the research approaches, assumptions, purposes, and the role of the researcher.

One of the most interesting differences is with regards to the data collection and analysis methods applied. Denzin & Lincoln (1998) and Miles & Huberman (1994) maintain that whereas quantitative research uses surveys and questionnaires to collect data and apply statistics plus mathematical models to analyse the data, qualitative methods use interviews, focus groups, and participant observation to collect data and non-statistical methods to analyse the data. Again, the population size of the research participants that are studied is another area of difference – as qualitative research needs only small participants while quantitative research requires large participants. Patton (2002) showed that while the qualitative method is more effective in studying individual participants, the quantitative method is useful when conducting research where the participants as – cases, people, and situations are usually very large.

5.6.4 Mixed Research Methods

Tashakkori & Creswell (2007) define mixed method research as one whereby a researcher obtains research data, analyses the data, organizes the findings, and finally draws some useful conclusions using qualitative and quantitative approaches. Several scholars suggest that the integration of qualitative and quantitative research methods approaches generated intelligent debate within the research community (Morgan, 2007; Onwuegbuzie & Leech, 2005; Bryman, 2004). Sechrest & Sidani (1995) argue that the development of mixed-method and the growth of a pragmatic research movement can minimize the multiple problems associated with singular research methods.

5.6.5 Justification for Choice of Qualitative Methods

In exploring the strategies used by formal and informal investors to mitigate agency cost associated while investing in start-up ventures, the qualitative research method is utilized considering the small population size studied. Also, an in-depth, semi-structured interview is applied to collect the relevant primary research data to be analysed. The population size makes the quantitative research method unsuitable for this research, which aims to achieve a clear understanding of the key challenges facing better investment engagements or relationships between investors and entrepreneurs. Researchers such as Creswell (2003) and Rossman & Rallis (2003) show that qualitative research comprehends concepts and phenomena in greater depth and takes a more holistic view of social and economic issues.

5.7 Chapter Summary

The method used to address a research objective is central to the research journey. In this chapter, the research methodology approaches applied in this study were presented. The research design including the exploratory, descriptive, and explanatory research is discussed. The justification for the choice of an exploratory research study was clarified. Furthermore, the research philosophy and research approaches – inductive, deductive, and abductive were discussed plus the justification for the choice of an inductive research approach. Again, the research strategy was introduced in terms of observational, case study, survey, questionnaire-based and interview-based approaches.

The key research methods like qualitative, quantitative, and mixed research methods were introduced. The main differences between qualitative and quantitative methods and justified the choice of qualitative research method were outlined. The next chapter discusses the collection of research data through the planning and conduct of semi-structured interviews with the research participants.

CHAPTER SIX

Research Data Collection

6.1 Introduction

The first three chapters of this thesis discussed the secondary literature related to this research and led to the development of the research framework presented in chapter 4. Secondary data for the research were collected from several sources including textbooks, journal articles, books, reports, and news articles among others. The secondary data collection focused on the key entrepreneurial finance issues explored in this research and involved regular internet searches to retrieve vital information. The last chapter presented the various research methods and reasons for the choice of qualitative research method for the study. This chapter discusses the steps taken to collect primary data – including sampling, recording data, storing information, and dealing with ethical issues among others. The chapter outlines the choice of research location, research population, pilot study, primary and secondary data collection as well as types of qualitative research methods with a focus on semi-structured, face-to-face, or one-on-one interview processes. The data collection approach followed in this research was a series of interrelated activities aimed at gathering information required to address the research questions and objectives (Creswell, 2013).

6.2 The Preparation for Data Collection

The planning and preparation for data collection were critical to the success of the data collection task. First, the research aim, and objectives were reviewed prior to embarking on this task. A list of potential participants was drafted from multiple sources. For participants who are entrepreneurs, several small companies and their entrepreneurs were identified and selected from a list of 100 start-up and scaleup enterprises. These are enterprises that won various performance-related awards in an initiative organized by Connect Nigeria – a promoter of entrepreneurship and small business development in Nigeria. From a directory of business angels and venture capitalists in Nigeria available with the Lagos Angels Network and Venture Capital Association of Nigeria, some business angels and venture capitalists were selected for interview.

A comprehensive list of names of the potential participants was prepared and contacted via signed letters of introduction from Coventry University which were sent out through electronic mail. The letter invited participants to take part in the entrepreneurial financing research exploring the dynamics of the investor-entrepreneur relationship between investors and entrepreneurs. The contents of the letter included – the reasons why they were chosen, the benefits and risks associated with taking part in the research and the protection and confidentiality of their data.

Subsequently, a series of follow-on electronic mails were sent to those who responded positively to further discuss the nature of the research. A final selection of the participants was made, and the list included business angels, venture capitalists, entrepreneurs, and small business promoters plus policymakers. Furthermore, telephone calls were later made with those participants who agreed to participate to reconfirm their interest, explain the interview procedures and discuss the benefits of the process to them and for enterprise development in Nigeria.

6.3 Research Setting and Justification for Choice of Nigeria (the Research Area)

This research work explores the dynamic investment and ownership relationship between Nigerian entrepreneurs and their start-up companies on one hand and on the other hand, business angels and venture capitalists to understand the causes of low engagement between the entrepreneurs and investors. Some reasons justify the choice of Nigeria for this study. According to a World Bank (2015) report, Nigeria has one of the largest concentrations of start-up companies and the MSMEs sector in Africa – though most of them lack access to adequate funding. Researchers like Igwe (2016); and Igwe, Onjewu & Nwibo (2018) have shown that there has been increased attention to start-ups and small enterprises in Nigeria because of the negative economic impacts of the recent financial crisis. More entrepreneurs are starting new ventures and their start-up ventures are searching for external financing opportunities. It is vital to research and understand the best ways to build a better investment relationship between local entrepreneurs and investors to facilitate the building of the nation's digital economy requires research and development that drive new and innovative business models. The researcher has observed that BAs and VCs from within and outside the African continent are presently targeting the start-up growth opportunity in Nigeria.

6.4 The Research Population

Researchers describe the research population in several ways, and some are pointed out here - Mugenda & Mugenda (1999) view the population as a group of individuals, things, objects, or events with similar characteristics or features that can be observed. According to Denzin & Lincoln (2013), a research population means the individuals or groups with related features which relate to identified specifications of a research study. Lumley (2010) on the other hand, maintains that a research population is a large collection of all the subjects which allows a sample size to be obtained. Again, Fowler (2014) presents a research population as the total elements from which data are drawn regarding a research study involving organizations and individuals. The research population of this doctoral study are first, all start-up companies operating in Nigeria that have received or have not yet received any formal or informal VC financing. Secondly, all business angels and venture capitalists operating within and outside Nigeria but interested in financing Nigerian start-up companies. Thirdly, all promoters and intermediaries supporting the development and growth of micro, small and medium-sized enterprises in Nigeria. There are two main types of the population considered for this research study the target and accessible population. These two key concepts are discussed in the following sub-paragraphs.

6.4.1 Target Population

Fiat (1995) notes that the target population is the entire group of individuals or objects from which a sample can be obtained and which the researcher is interested in drawing a conclusion. The target population is also often known as the theoretical population (Explorable, 2009). For this research study, the target population are as follows: Firstly, start-up companies in Nigeria that have either received or not received external financing from business angels and venture capitalists for their businesses during the last 10 years (2008 - 2018). The 10-year criterion is a selection restriction to exclude start-up companies that had raised funding a long time ago. Secondly, the target population include business angels and venture capitalists that have provided funding to at least one Nigerian start-up company. Thirdly, there are various intermediary organizations like government agencies, associations, and groups approached to obtain data on the operations of micro, small, and medium enterprises in Nigeria before the equity investors and entrepreneurs or managers are separately interviewed.

6.4.2 Accessible Population

In a typical research study, the accessible population is the ‘focus population’ of the research to which conclusions can be derived and applied by the researcher (Asiamah, Mensah, & Oteng-Abayie, 2017). Therefore, an accessible population is a subset of the target population and is always considered as the study population. Bartlett et al (2001) present an accessible population as the research participants who can be reached after those who are inaccessible or cannot participate in the research study are removed or excluded from the target population. Bartlett et al.

(2001) also show that the final group of research participants from which data is collected represents the sampling frame. Quite often, researchers draw their sample from the accessible population. The accessible population is made up of firstly selected Nigerian start-up companies and their entrepreneurs based in Lagos who have received business angel investment or venture capital financing in their businesses during the last decade (between 2008 and 2018). These are the MSMEs whose management teams can be reached for interviews. Secondly, business angels and venture capitalists respectively who can be reached for face-to-face, semi-structured interviews. Thirdly, certain promoters of start-up companies who have worked with entrepreneurs through supporting, advising, and mentoring them in the recent past. Most of the target population – investors and entrepreneurs are based in the urban areas in Nigeria (research location). For ease of accessibility, the focus research area was Lagos – Western Nigeria.

6.4.3 The Unit of Analysis

The essential element from which data for this research study is obtained is the unit of analysis and as Kumar (2014) indicates that these are the main elements that are chosen from the sample for a research study. Hence, for this specific research work, the units of analysis are business angels and venture capitalists as well as the start-up companies and promoters or policymakers which are being studied.

6.4.4 Research Sampling Criteria

A sampling of the research population was an important part of the research design and execution. Essentially, sampling helps to clearly understand more about the features or attributes of the entire population (Lucy, 1996). Denzin & Lincoln (2013) note that sampling criteria are the specific characteristics or features that must be possessed by elements in the population to be included in a research study. Burns & Grove (2008) state that the characteristic of inclusion is aimed at delimiting the research population of interest. In order to meet the requirement of this research project, all the start-up companies under investigation must possess the following peculiar features to participate in the research study:

i) Formally registered and currently operating in Nigeria

ii) Have received or are yet to receive external, business angel investing and/or venture capital financing

iii) Have received such financing between the years 2008 and 2018

iv) For both the funded and non-funded start-up companies, they must have been in business operation for at least 3 years.

Ben-Shlomo, et al (2013) outlined several sampling methods for social science research and based on the work of these scholars, the sampling method for the hard-to-reach participants in this research was a combination of judgement sampling and snowball sampling because the sampling was based on the researcher's judgement and request for interviewed participants to nominate others to be interviewed. The samples of the BAs and VCs were more flexible because the researcher placed no restriction on the features of various investors interviewed provided that they have funded at least one start-up company in Nigeria – the researcher focused on those investors who have had experience investing in Nigerian start-up companies. Also, the promoters are those who are locally based in Nigeria and have worked or are currently working with start-up companies. The number of respondents involved was determined based on those who agreed and were available to be interviewed. Overall, a total of 25 participants were interviewed and they comprise 3 BAs, 8VCs, 10 entrepreneurs, and 4 promoters.

6.5 Research Data Collection Strategy

The researcher applied many data collection strategies to obtain the research data from interview participants. First, the respondents were clustered into four groups – business angels, venture capitalists, and entrepreneurs and promoters. Second, a comprehensive list of potential participants in each group was compiled. Third, an introductory email requesting an interview was sent out to each of the names on the list. The initial responses were limited, so follow-up approaches were made to get more interviewees to participate. Overall, the recruitment and data collection process took approximately five months – between June and October 2019. The researcher conducted semi-structured, in-depth interviews with the available participants.

6.5.1 Primary Data Collection

In order to gather evidence about the research topic, several primary data collection methods like observation, survey, and interview were considered. The semi-structured, face-to-face interview was selected and applied by the researcher with the participants to carry out the primary data collection. The interview method was chosen to allow the respondent to freely express themselves thereby sharing relevant information in a way that enables the researcher to record the participants' responses. The data collection processes were executed during the months from July to October 2019 and the task required that appropriate respondents were selected for the interviews. There were four groups of interviewees for this research - business angels, venture capitalists, entrepreneurs, and promoters/policymakers. All the participants agreed that the interviews can be recorded with Otter (interview recording and transcription software) so that they are analysed and studied later using the Nvivo software (qualitative data analysis software). Most of the interviews lasted less than one hour with the average time being 45 minutes. The interviews took place at the participants' offices though a few were conducted at other convenient places or locations outside the offices as chosen by the participants.

6.5.2 Qualitative Data Collection

As earlier discussed in chapter 5, the data collection approach can be a qualitative, quantitative, or mixed-method. Sofaer (1999) observed that qualitative methods help in conducting the initial exploration to develop theories. In addition to surveys and observation, much qualitative research uses interviews with selected participants to collect research data. The vital data and information for this research were collected using a qualitative data collection approach – via carefully executed physical interviews with the participants. The participants were open to discussing the challenges facing start-up companies financing in Nigeria as well as primary reasons for the low engagement between investors and entrepreneurs. The expectation is that the investment decisions made by both the formal and informal investors as well as the perceptions of the entrepreneurs and business managers seeking funding shall be determined from the analysis of the interview data.

6.5.3 Development of the Interview Questions

The success of every qualitative research starts with preparing the right questions and asking the participants these questions in ways they can understand and respond to them (Buschle, 2021). This way, appropriate and useful data are collected from the interviewees. The interview questionnaires for this qualitative research were developed separately for the three categories of participants – investors (BAs and VCs), promoters, and entrepreneurs. The questions for one participant group were different from those of the others. Each set of interview questionnaires was pre-tested with a volunteer prior to executing an actual interview (Buschle, 2021).

6.5.4 Open-ended Interview Questions

Since the focus of this doctoral thesis is to explore dynamic investor-entrepreneur investment and ownership relationships, the researcher employed an open-ended interview approach that gave the participants the freedom to discuss the questions deeper. It also enabled the researcher to capture the thoughts and opinions of the respondents about the key themes of the research. Three separate sets of interview questions were prepared and administered to the investors, entrepreneurs, and promoters (see interview questionnaires in Appendix 1). Then, semi-structured, open-ended, face-to-face interviews were conducted with each of the angel investors and venture capitalists. In addition, the researcher conducted similar interviews with the entrepreneurs and promoters of Nigerian small enterprises' development and growth. The participants have several years of experience as either fund managers or entrepreneurs which was important in improving the reliability of the interview. The researcher asked several questions about the complex and dynamic relationship between entrepreneurs and investors with the primary goal of understanding the reasons for low engagement between the formal and informal investors on one hand and the entrepreneurs on the other hand.

6.6 Research Interview Process

The research interviews were implemented through a semi-structured interview method – also called an interview guide approach. A semi-structured interview was organized and executed whereby the participants were engaged in clearly specified questions focused on the topic; the researcher had the freedom to play around with the wordings and sequences during each interview (Patton, 2002). According to Gillham (2005), this type of interview is useful when executing qualitative research due to its flexibility and the quality of raw data obtained. A few scholars such as Bruton *et al.*, (2002) and Wright *et al*., (2005) maintain that interview is one of the suitable data collection methods for qualitative research which allows the participants to engage in deeper interactions, discussions, and follow-up questions. Yin (2009) identifies that some of the strengths of an interview approach are first that it is usually focused on the subject matter. Also, it provides clear insight even though it can often lead to bias when researchers ask questions improperly and inaccuracies when the participants fail to remember things correctly.

Interviews may be more expensive for researchers but Wright *et al*., (2005) argue that face-to-face interviews usually solve one of the drawbacks of the questionnaire method of data collection by removing the need to send out and receive questionnaires. Smith (2005) maintains that interviews are usually carried out face-to-face though the need to overcome geographical barriers has encouraged the prevalent use of telephone interviews these days. Otter.ai software was used as a digital voice recorder and the primary technology tool for recording and storing the various interviews conducted on the Internet. Thereafter, these interviews were copied into Microsoft Word, saved, and stored on the laptop and other secure locations that only the researcher can access with a username and password. Lastly, the researcher introduced a qualitative data analysis software tool as QDA Miner version 5 to organize, transcribe, and code the interviews in readiness for analysis. Overall, these technologies – Otter.ai and QDA Miner version 5 made the research interview processes to be quite interesting, smarter, and less time-consuming. The steps for the research interview process are presented in the following sub-sections below.

6.6.1 Pilot Study

Lancaster, et al. (2004) and Kraemer, et al (2006) identify a pilot study as a crucial stage in a research project which aims to search for potential problem areas and deficiencies in the research instruments before a full research study is conducted or executed. Schattner, et al (2006) state that a pilot study stage in a research project is used to test data collection instruments in readiness for the real research work. For this research work, a pilot study was conducted to pre-test the qualitative research method and obtain relevant information to enhance research reliability and feasibility. A plan for the mock interview that acted as the pilot study was arranged to assist the researcher in clearly understanding how the participants respond to interview questions and which areas in the interview process, they may misunderstand or find difficult to answer. Only two (2) respondents were involved in the pre-test which lasted for 40 minutes. Some specific feedback was received from respondents – for example, the recommendation that certain questions should be re-phrased to make them clearer. The recommended changes were made to address the issues in the questions that ‘pilot test’ participants found hard or ambiguous to comprehend or interpret. In general, the pilot studies significantly improved the research methods adopted during the execution of this research.

6.6.2 Interviews with Business Angels

In Nigeria, there are both informal and formal venture capitalists as business angels and venture capitalists respectively – seeking to support entrepreneurs to startup and scale-up their ventures. However, it was difficult to access some of them in order to conduct interviews because they are not properly organized – they were informal and uncoordinated in their operations. The researcher noticed that there was one formal network of business angels based in Lagos, Nigeria known as Lagos Angel Network. It was established by like-minded business angels to provide pre-seed and seed stage financing to start-up ventures located within Lagos. This angel network plays a vital role in promoting the development of the entrepreneurial ecosystem in Nigeria and provides both advice and mentoring to entrepreneurs.

However, the researcher did not have the opportunity to interview any of the business angels at Lagos Angel Network. Notwithstanding, other business angels outside the network were available for interviews as they did not respond to multiple messages via electronic mail. Sufficient information was obtained by the researcher from interviewing the available angel investors who volunteered their time to participate in the research project. A total of 3 informal VCs or business angels are interviewed and each interview lasted about 45 minutes. They provided relevant responses to interview questions in a friendly atmosphere and were able to express themselves freely throughout the interview durations thereby enabling the researcher to obtain appropriate information.

Table 6.1 The list of interview participants – (category 1A business angels)

S/N	Participant Code	Participant Organization Name	Participant type	Interview Date
1	PBA01	Afford	Business Angel	12/10/2019
2	PBA02	Small Starter	Business Angel	21/08/2019
3	PBA03	Solid Start	Business Angel	02/07/2019

6.6.3 Interviews with Venture Capitalists

The venture capitalists have established offices in Lagos. However, it was hard to get them to find a suitable time to participate in the interviews despite a series of prior contacts and multiple communications regarding the need for them to fully get involved in the conduct of this research project. After putting in so much effort, the researcher was able to reach out and interview a total of eight formal institutional venture capitalists in Lagos. All the interviews were conducted as semi-structured, face-to-face interviews. Prior to the interviews, the investors had good knowledge of the research problem, aims, and objectives as well as the potential benefits of the research project findings. They responded well and answered the questions to the best of their knowledge and provided useful contributions and insights to the interview questions.

Table 6.2 The list of interview participants – (category 1B - venture capitalists)

S/N	Participant Code	Participant Organization Name	Participant type	Interview Date
1	PVC01	Alitheia	Venture Capital	04/09/2019
2	PVC02	Novastar	Venture Capital	08/10/2019
3	PVC03	Growth Capital Fund	Venture Capital	01/08/2019
4	PVC04	Acumen	Venture Capital	15/08/2019
5	PVC05	GreenTree Investment	Venture Capital	19/08/2019
6	PV06	Sahel Capital	Venture Capital	21/08/2019
7	PV07	Grofin	Venture Capital	23/08/2019
8	PV08	Unique Ventures	Venture Capital	05/08/2019

6.6.4 Interviews with Promoters and Policy Makers

A total of 4 entrepreneurial promoters as important stakeholders or intermediaries between the investors and entrepreneurs were interviewed. Their interview time was shorter due to the nature of the questions that were prepared for them to address. However, they were able to answer the interview questions plus share their opinions on the subject matter of this research project. There are three separate questionnaires because the perceptions of investors, entrepreneurs, and promoters on the investor-entrepreneur relationship are different.

Table 6.3 The list of interview participants – (category 2 - promoters of start-up companies)

S/N	Participant Code	Participant Organization Name	Participant type	Interview Date
1	PPM01	Leadspace	Promoter	02/08/2019
2	PPM02	Connect Nigeria	Promoter	07/08/2019
3	PPM03	High Places Attorney	Promoter	15/07/2019

4	PPM04	VC4Africa	Promoter	15/07/2019

6.6.5 Interviews with Funded Entrepreneurs

These are participants that have received informal and/or formal VC financing. Most of the start-ups and their entrepreneurs who were interviewed were those that have received funding from angel investors and/or venture capitalists in their enterprises. Overall, a total of 7 entrepreneurs of funded MSMEs were interviewed.

Table 6.4 The list of interview participants – (category 3A funded entrepreneurs/start-up companies)

S/N	Participant Code	Participant Name	Participant type	Interview Date
1	PEN01	ScholarX	Entrepreneur	06/08/2019
2	PEN02	Myycrib	Entrepreneur	07/08/2019
3	PEN03	TSGI	Entrepreneur	11/07/2019
4	PEN04	Vanpeux	Entrepreneur	12/07/2019
5	PEN05	TIA Energy	Entrepreneur	22/07/2019
6	PEN06	ShelterPro	Entrepreneur	24/07/2019
7	PEN07	Wemove.com	Entrepreneur	30/07/2019

6.6.6 Interviews with Non-funded Entrepreneurs

A total of 3 entrepreneurs and their non-funded start-up ventures were interviewed. These participants are those that have not received any financing from either a business angel or venture capitalist prior to participating in the interview. For distinct reasons, these participants have not been successful in accessing external finances but are currently seeking funding. One of the participants – Classy Sassy was genuinely not interested in accessing any support from investors for profit-based, equity funding from either the business angels or venture capitalists. She argued that the investors did not come to her aid when she needed their funds, so going forward, she would prefer to take a bank loan to execute the project when necessary. She maintained that this approach would enable her to avoid diluting the ownership as well as controlling her business without investors' interference.

Table 6.5 The list of interview participants – (category 3B non-funded entrepreneurs/start-up companies)

S/N	Participant Code	Participant Name	Participant type	Interview Date
8	PEN08	VP Grasse	Entrepreneur	09/07/2019
9	PEN09	Classy Sassy	Entrepreneur	26/07/2019
10	PEN10	Needmyservice.com	Entrepreneur	25/07/2019

6.6.7 Advantages and Limitations of Interviews in Qualitative Research

There are multiple benefits associated with conducting qualitative research using the interview as a method of choice for data collection. For example, interviews can provide more in-depth data (information) that respond to the researcher's questions and gives the participants the opportunity to clarify information better (Cohen & Manion, 1994) and this increase the chance of obtaining valid information. Fraenkel & Wallen (1993) note that interviews improve relevant cooperation between the research participants and researcher. Nonetheless, face to face interviews have some disadvantages – for example, participant response to questions may be influenced by the researcher's voice or body posture like facial expression (Cohen and Manion, 1994). Interviews in qualitative research may be exposed to bias on the part of the researcher conducting the interview (Cohen and Manion, 1994). For instance, the researchers may want to get responses that support their own preconceived views, or the researchers may interpret the participant's responses to advance the researcher's preconceived ideas (Cohen & Manion, 1994).

6.7 Data Recording Procedures

An understanding of what exactly must be recorded in qualitative research data collection based on interviews is critical even though recording data generated through interviews is often difficult. There are various procedures to record qualitative research interview data. As Yin (2019) argued, improving the completeness and accuracy of data requires appropriate review and modification of initial notes taken during the actual interview study. This study followed the proposal of Creswell (2003) regarding the preparation of reflective and descriptive notes as the researcher's ideas during the interviews and information provided by the participants, respectively. This research study used audiotapes and otter.ai software to capture and record the interviews conducted. Then, the recorded interviews were carefully transcribed by copying the materials that were voice-recorded onto Microsoft word documents. The transcriptions were carried out following each interview process. The consent of each participant was sought, and approval was obtained regarding the use of the software to capture and record the interviews.

6.8 Otter – Software for Qualitative Interview

This research study used an artificial intelligence-enabled tool called Otter web app to capture and record the interviews. The use of Otter software helped the researcher to identify the sentences or passages that needed more time and attention for manual editing and clean-up. After each interview, the recorded discussions were played back multiple times for editing and cleaning purposes. For safe and secure storage, the edited and improved recorded data for each interview transcript was copied into a Microsoft word document. This was then saved on the dedicated folders for research data collection which are accessible via a secured username and password. Once saved and stored securely, further editing tasks were conducted later because Otter does not produce perfect transcription. Finally, transcription results obtained with the software are not flawless. However, the Otter app does the voice recording followed immediately by transcription, unlike many other speech-to-text services that require the uploading of pre-recorded audio.

6.9 Compliance with Research Ethics

This research study involved the collection of data through semi-structured interviews with key stakeholders in entrepreneurial finance – business angels, venture capitalists, entrepreneurs, and promoters. A few ethical issues were addressed before the execution of the in-depth face-to-face interviews. As noted by Denscombe (2007), ethical issues relating to sensitive data, incorrect reporting, consent, and bias were carefully observed. When other researchers' work or ideas were applied for this research, references were provided to maintain academic credibility. The researcher completed the Coventry University Ethical Approval process, and this research project was approved and certified as medium risk in accordance with Coventry University Ethics principles. Thereafter, an ethical approval certificate dated June 10, 2019, with project reference number P88988 was issued.

The following measures were further taken in order to meet Coventry University's ethical principles and guarantee the confidentiality of the research participants: Firstly, the objectives of this research work were communicated to the participants through emails and telephone calls which also provided a summary of the interview process. Secondly, participants' information sheets were provided, and informed consent was obtained from them prior to the actual interviews at a secured location chosen by the participant. Thirdly, it was made clear to the participants that they can agree or disagree to participate plus withdraw from participating in the interview at any period or refuse to respond to any question.

Each research participant's privacy was maintained, and the confidentiality of data obtained was organized and secured in such a way that it will be impossible to identify any of the participants in the thesis report and any future research publications in journals, books or elsewhere. The records of interviews and associated transcripts were stored in a secure area with access to the raw data available to the researcher. The interview data will be destroyed at the completion of the research project.

6.10 Research Reliability and Validity

As with business and social research works, the reliability and validity of this research are essential. Research reliability is about the dependability and consistency of the research results (Bazeley, 2013). Other researchers such as Blumberg et al., (2008) present reliability as the ability to replicate the research design to obtain the same result. Neuman (1994) argues that there are two kinds of reliability – internal and external reliability. The scholar maintains that internal reliability has to do with result consistency and data plausibility whereas external reliability refers to data consistency and duplicative attributes across the sites. For this research, a pilot study on questionnaires for entrepreneurs was conducted, research questions were designed to minimize ambiguity plus reduce bias, and low inference descriptors were applied by recording interview data with the Otter app. Lastly, to achieve the required research reliability, the participants have practical experiences and working knowledge that enabled them to answer the research questions correctly.

Research validity is the most genuine, accurate, credible, and representative truth of research processes and outcomes (Polit & Beck 2012). Sarantakos (1998) refers to validity as the ability to produce an accurate result and to measure what is supposed to be measured. The researcher argues that a valid measure produces true results that reflect the situation and condition of the research environment it is supposed to study. To achieve the validity of this research work, the researcher confirmed that the data collection instrument in the form of an interview captures the relevant information required to answer all the research questions and meet the research objectives. Hence, the research interview questionnaires were planned, designed, and developed according to the research objectives of this study.

Furthermore, following the recommendation of Creswell (2014), the researcher took these steps to ensure validity by determining that the findings are correct from the positions of the participants and researchers. Firstly, the researcher examined with selected participants the accuracy of major findings - certain themes, descriptions, or final reports. Secondly, the researcher liaised with a non-familiar third party who can provide an objective valuation of the research work. Thirdly, the researcher clarified bias in the study through the open and honest description and self-reflection. Moreover, as suggested by Gibbs (2007), these procedures were followed by the researcher to enhance the reliability of the research work. Firstly, the interview transcripts were cross-checked for any recognizable error or mistake made during the transcription. Secondly, the researcher frequently compared data with the codes generated as well as wrote memos about the codes. Finally, to ensure the validity, reliability, and suitability of the interview questionnaires, a pilot interview was conducted prior to actual fieldwork. The above strategies and steps were necessary to maintain reliability and enhance the validity of this research study.

6.11 Data Collection Issues

There are several issues that can affect typical research data collection tasks such as incomplete data collection and pre-mature termination of data collection for certain reasons leading to inadequate data and loss of data due to some technical problems. These issues were carefully dealt with during the data collection process. During every interview, care was taken to ensure that there was a source of electricity and/or that the laptop was fully charged. Furthermore, the laptop's Internet connection turned on and the Otter app was recording the interview.

6.12 Chapter Summary

The data collection approaches applied for this research study were outlined and discussed in this chapter. The secondary and primary data collection strategies were presented. The primary data collection approach used was in-depth, face-to-face interviews or telephone interviews using Skype communication platform. There were three groups of participants – investors, entrepreneurs and promoters that were interviewed for four months. Through secondary sources mainly academic journals and books, secondary data were collected. Lastly, some ethical issues were carefully handled and properly addressed during the data collection procedure. As the steps taken to collect the research have been discussed in-depth in this chapter, the next chapter will consider the analysis of the research data obtained from the fieldwork.

CHAPTER SEVEN

Research Data Analysis

7.1 Introduction

In the preceding chapter, the research data collection strategy for this research study was discussed. Also, the use of Otter – an artificial intelligence (AI) web app to transcribe voice to Microsoft word was explained. The next step following research data collection is data preparation and analysis of the qualitative study plus the discussion of the research findings. This is essential to obtain useful insights from information provided by participants during the interviews. The data transcription and analysis involved the application of the Otter web app and QDA Miner software version 5 respectively. These approaches helped to obtain valid, high-quality data from interviews in connection with the main objectives of this qualitative research study (Dey, 1993). According to Creswell (2013), data analysis in a qualitative interview research study prepares and organizes the data (that is text data in transcripts), then reduces such data through a process of coding, condenses the codes into themes, and finally presents the data in various formats - figures, tables, or a discussion. All these processes are connected and lead to the generation and interpretation of research results or findings which are presented later in the next chapter.

7.2 Data Analysis in Qualitative and Quantitative Research

Morrill et, al. (2000) observed that one major difference between qualitative and quantitative data analysis is that whereas the data analysed in the latter are numbers, the data analysed in the former are mainly texts. In his book 'Investigating the social world: the process and practice of research', Schutt, (2004) states that certain features of qualitative data analysis are shared with those of the quantitative data analysis. The author noted that the approaches of qualitative and quantitative data analysis can involve making distinctions about textual data. In this case, the textual data can be transposed to quantitative data through a process of categorization and counting.

Furthermore, Patton (2002) and Denzin & Lincoln (2000) note that whilst the qualitative data analysis reflects the researcher's alignment to an in-depth, comprehensive understanding in which the researcher is an active participant, on the other hand, the quantitative data analysis positions the researcher as a dispassionate investigator of specific relations among discrete variables. Other scholars like Marshall & Rossman (2006) and Merriam (1998) argue that in a qualitative research study, it is critical in most cases to conduct both the data collection and analysis simultaneously. In view of the above, this research work involved the collection and analysis of the interview data within the same time frame. This is different from most quantitative research studies where data collection and analysis usually happen at different periods. Qualitative data analysis is an iterative and reflexive process that begins as data are being collected rather than after data collection has ceased (Stake, 1995).

7.3 Research Interview Transcription

The transcription of the research data which involved the conversion of the spoken word into the written word to facilitate data analysis was the most difficult and time-consuming aspect of this research work. After the interviews were audio-recorded with the Otter app, this tool was employed to automatically transcribe the recorded interviews. All 25 recorded interviews were transcribed. The audio recordings were transcribed verbatim, spellings checked, and punctuation corrections were made while reading and listening were carried out later to the play-back. After transcription, the identities of the participants were anonymized to protect the confidentiality of individuals.

Overall, the transcriptions strived to tell the participants' stories as they discussed them during the research interviews.

7.4 Data Analysis Spiral and Organizing of Data

Creswell (2013) observe that the processes of data collection, data analysis, and reporting of the findings are not distinct steps in a typical research study but instead are integrated and interrelated. The author presented this interrelation of activities as a spiral image which he called a research data analysis spiral. Creswell (2013) argues that researchers will essentially follow a cycle rather than use a fixed linear approach to analyse qualitative data. The data analysis spiral for this research commenced with transferring the transcribed interview data securely as text data into Microsoft word documents. This involved naming and organizing large volumes of data and information into computer files and folders where they were securely stored in preparation for the accurate data analysis processes.

7.5 Reading of Organized Research Data

The next step in the data analysis process which was followed upon transcribing and organizing the research data was to carefully read and memo the information which was obtained from the participants. All the transcripts were read several times to get a sense of the information provided by participants. During the period of reading, some notes were made, and key ideas and concepts were developed. This helped the researcher to think deeper and reflect more on what the study participants discussed during the fieldwork. As the transcripts were carefully read and re-read and important words, phrases, and sentences noted, it was possible to associate them with meanings that were then gathered and grouped into themes. These themes were interpreted to obtain some descriptions of the key information provided by the research participants. As Sutton & Austin (2015) note that qualitative study seeks to convey an understanding of why people have thoughts and feelings that might affect the way they behave. These scholars argue that the main role of the researchers in qualitative research is to access the thoughts and feelings of the study participants.

7.6 The Basics of Data Analysis

As a qualitative researcher and data analyst, the researcher analysed primary data about the issues of engagement or alignment between the investors (business angels and venture capitalists) and entrepreneurs of selected start-up companies in Nigeria. A total of 25 interview transcripts from primary data were used that were obtained from the research interview project which was conducted between July and November 2019 in Nigeria and the UK. The purpose of my research inquiry is to explore the investment relationship between investors and entrepreneurs to understand the reasons for low engagement between the two stakeholders. At the end of this chapter, readers will be able to understand the main factors that contribute to low engagement between investors and entrepreneurs in the context of Nigeria.

The primary goal of the researcher is to assist readers to understand the kind of data analysed, the data analysis process, and data analysis outcomes (Smith, Flowers, & Larkin, 2012). Furthermore, in the presentation of the research findings, the perspectives, background, and biases plus previous experiences of the researcher are described. Also, the researcher explained how he ensured that personal circumstances did not have any influence on the research data analysis process. The researcher provided the sources of data, the main characteristics of the data and the setting, as well as the situation during the period when data collection tasks were performed in Nigeria and the UK. Lastly, to address the five research objectives, full detail of the data analysis process applied plus the outcomes were specified. Overall, the basis of data analysis is to capture, organize, analyse, and interpret research data appropriately to gain insights.

7.7 The Context of Data Analysis

The primary data was collected through semi-structured interviews of research participants. The Otter.ai was the transcription software platform used to transcribe the interview data. Participants' interview transcriptions are then analysed using QDA Miner version 5 to address the research questions. In terms of the sample population of the study, 80% of the participants were males and 20% were female. Overall, the participant's age and years of business experience had a marginal influence on their responses. With regards to the participants' occupations, 3 are business angels, 8 are venture capitalists, 10 are entrepreneurs and 4 are promoters as indicated in Table 7.1 below.

Table 7.1 Interview Transcript – some demographics of participants

Participant Identity (study ID)	**Gender**	**Role/Occupation**	**Age Bracket (years)**	**Experience (years)**
A0001 BA1	Female	Business Angel (BA)	30 - 35	8
A0002 BA2	Male	Business Angel (BA)	46 - 50	24
A0003 BA3	Male	Business Angel (BA)	41 - 45	17
A0004 VC1	Male	Venture Capitalist (VC)	41 - 45	15
A0005 VC2	Male	Venture Capitalist (VC)	51 - 55	29
A0006 VC3	Female	Venture Capitalist (VC)	36 - 40	10
A0007 VC4	Male	Venture Capitalist (VC)	36 - 40	12
A0008 VC5	Male	Venture Capitalist (VC)	56 - 60	30
A0009 VC6	Male	Venture Capitalist (VC)	61 - 65	38

A00010 VC7	Male	Venture Capitalist (VC)	46 - 50	25
A00011 VC8	Male	Venture Capitalist (VC)	61 - 65	41
A00012 EN1	Male	Entrepreneur (EN)	31 - 35	9
A00013 EN2	Male	Entrepreneur (EN)	36 - 40	13
A00014 EN3	Male	Entrepreneur (EN)	31 - 35	11
A00015 EN4	Male	Entrepreneur (EN)	35 - 40	18
A00016 EN5	Male	Entrepreneur (EN)	41 - 45	16
A00017 EN6	Male	Entrepreneur (EN)	46 - 50	23
A00018 EN7	Male	Entrepreneur (EN)	51 - 55	28
A00019 EN8	Female	Entrepreneur (EN)	51 - 55	25
A00020 EN9	Female	Entrepreneur (EN)	45 - 50	24
A00021 EN10	Male	Entrepreneur (EN)	26 - 30	6
A00022 PM1	Female	Promoter/Policymakers (PM)	36 - 40	15
A00023 PM2	Male	Promoter/Policymakers (PM)	46 - 50	22
A00024 PM3	Male	Promoter/Policymakers (PM)	56 - 60	27
A00025 PM4	Male	Promoter/Policymakers (PM)	51 - 55	31

7.8 The Disclosure of Preconceptions, Perspectives and Expectations

As an entrepreneur, the researcher is an optimistic individual who believes that entrepreneurial venturing is rewarding and has a huge opportunity that can be exploited despite potential risks. However, on his entrepreneurial journey a few years ago, the researcher failed miserably to raise seed funding to grow his start-up venture. As a result, he experienced economic hardship and had to struggle for a long period between 2009 and 2016 until the young venture finally died prematurely. In addition to developing as an entrepreneur, there is an aspiration to become a team builder and an entrepreneurial researcher, who has a better understanding of the real power of creativity, innovation, strategy, and technology in addressing some of the problems associated with entrepreneurial finance. Before analysing the research data, the researcher's viewpoint has always been that entrepreneurs fail mainly due to a lack of adequate financing. Also, the researcher believes that accessing external funding should be simple and easy for anyone seeking to start and scale a for-profit enterprise solving customers' problems.

Based on the researcher's recent experience with respect to planning, searching, and finding funding for new businesses, the realization is that entrepreneurial financing is complex and a lot more complicated. The researcher argues that more research studies should be conducted to explore new and smarter ways of making entrepreneurial finance available, accessible, and affordable. Considering the focus of this research study and the research questions/objectives, the researcher expected to find a mutually beneficial relationship between entrepreneurs and their investors. Also, it was assumed that the promoters of entrepreneurship especially the national government and NGOs in Nigeria are genuinely interested in playing an active role in promoting stress-free access to adequate funds for entrepreneurs. Throughout the data collection and analysis processes, the researcher endeavoured to bracket most of his personal views, biases, opinions, and expectations to perform the data analysis and improve the credibility of the research findings. This was achieved through clearly outlined research plans and actions as well as through avoiding fabricating research data or falsifying results.

7.9 Data Analysis Process

The process of data analysis commenced with the researcher reading, reviewing, organizing, and preparing the 25 participants' interview transcripts. Firstly, unique IDs (identifications) were issued to each of the transcripts to hide participants' personal information from the public domain. In addition to assigning an identifier or code to each participant, the various qualitative analysis software tools to use for the research data analysis were considered (Adu, 2019). After several considerations, QDA Miner was chosen as the preferred analysis tool over the others like NVivo. This is because QDA Miner is not complicated to use for qualitative research data analysis. The data analysis steps which were observed are presented in an orderly fashion so that the process can be followed, and investigation repeated by other researchers who are interested in using the same data analysis strategies (see Table 7.2). This follows the reporting standard for qualitative research as discussed by Levitt et al., (2018). As the qualitative research analysis is usually viewed as a subjective experience, the researcher clearly showed how he planned and arrived at the research findings (Adu, 2019).

Table 7.2 Summary of research data analysis steps/activities

S/N	Step	Activities
1	Data preparation	▪ Assigned identifiers (IDs) to transcripts ▪ Reviewed the interview transcripts ▪ Determined qualitative analysis tool to use
2	Suspension of judgement	▪ Brainstormed my perspective, preconception, and expectation ▪ Reflected on all of them ▪ Endeavoured to suspend these judgements from influencing the research analysis
3	Code research transcripts	▪ Chose appropriate coding strategy

		▪ Created 5 anchor codes (assigned labels to the research questions) ▪ Coded transcripts by assigning labels to texts or blocks of texts and grouped them under their respective research questions
4	Develop categories/themes	▪ Grouped codes into categories ▪ Generated relevant research themes ▪ Grouped codes under their respective themes

Adapted from Adu, P. 2018 (step by step guide to qualitative coding)

7.10 QDA Miner - software for qualitative data analysis

Several software systems (computer programmes) have been designed and developed to support the analysis of qualitative research studies. Weitzman & Miles (1995) observed that these software programmes have been useful in automating the process of analysing qualitative research data. Like other analysis software programmes, QDA Miner software has the benefit of managing large and small numbers of databases that are organized neatly in files. Also, it is easy for researchers to search and find words, phrases, and statements as well as think about them carefully to improve the research analysis. However, some of the demerits of the software system are that it does not perform the actual analysis for researchers. Also, the full version can be costly to procure, or access may be restricted. Above all, researchers will often require some technical training and skills to master how to operate software programmes efficiently.

Primarily, QDA Miner assists researchers to stay organized when analysing their data and it has many functions which useful in managing, analysing, and presenting the qualitative research data (Bazeley, 2002). Before using the QDA Miner, a shortlist of 72 tentative codes was developed by aggregating the text into small categories and assigning names to the codes. The number of codes increased as the coding of all the transcripts was performed with the software tool. More codes were developed as the interview transcripts were read. Though as the coding process was revised, there were code reductions and combinations of the codes into 17 themes. The code labels used were exact words used by the research participants. The researcher realized that the manual coding and computer-based coding processes for the qualitative research are different in many ways and the latter is about automation and clarity provided by QDA Miner and similar computer-based software coding approaches. In summary, the researcher recognized the text segment, allocated the code label, and examined the database for text segments with the same code label. Hence, as a qualitative researcher, so much time was spent completing the processes of coding, categorizing, and theme generation.

7.11 Coding the Interview Transcripts

In qualitative data analysis, the data preparation and development of codes, categories, and themes are vital, so the successful research interview transcription was followed up by the coding of the interview transcripts. Creswell (2013) maintains that coding interview data involves reducing the data into meaningful segments and assigning names for the segments. Sutton & Austin (2015) indicate that coding is about identifying issues, topics, similarities, and differences that are revealed through participants' narratives and interpreted by the researcher. These scholars state that the process of data coding enables the researcher to begin to understand the world from the perspective of each of the participants.

The researcher proceeded with the planned task of coding the transcripts by selecting a desired coding strategy to enable the researcher to recognize empirical indicators (relevant information) and then assign labels (codes) to them (Strauss, 1989). In consideration of the research approach used in this study and the research question that was to be addressed plus the research data obtained from fieldwork, the researcher deduced that an interpretation-focused coding strategy is the best coding technique. The strategy is applied to develop codes that depict the meaning that a researcher derives from the significant information identified in the data (Adu, 2018). As required by this strategy and with respect to the application of QDA Miner in coding, all 5 research questions were first organized and then labelled. The labels for research questions then formed the anchor codes as indicated in Table 7.3 below.

Table 7.3 Research questions and anchor codes

S/N	Research Questions	Labels (Anchor Codes)	Entity
1	To investigate how the problems of equity capital as a dilutive non-debt finance instrument hinders engagement between entrepreneurs and business angels plus venture capitalists	RQ2 Equity features	Equity (Instrument)
2	To explore entrepreneurs' preparedness and readiness for accessing investments from business angels and venture capitalists within and outside Nigeria	RQ1 Entrepreneur readiness	Entrepreneur (Individual)
3	To identify the barriers within the small and medium enterprises or ventures that hinder engagement between investors and entrepreneurs	RQ3 Enterprise characteristics	Enterprise (Institution)
4	To understand key environmental factors that hinder engagement between investors and entrepreneurs' engagement	RQ4 Environmental factors	Environment (Intermediary)
5	To propose systematic interventions which will develop a mechanism and platform for smart, easy engagement of MSMEs & investors – angel investors and venture capitalists in Nigeria	RQ5 Engagement promotions	Engagement/ alignment (Intervention)

The application of an interpretation-focused coding strategy enabled the researcher to critically investigate each significant information (empirical indicator) to gain deeper knowledge and design a response that tackles a particular research question linked to the empirical indicator. Using the QDA Miner tool, the researcher followed these important steps to generate codes for all the interview transcripts.

The interview transcripts were imported from Microsoft word files into QDA Miner. To achieve this, a new project was created and located plus all the interview transcripts were selected and saved. Next, the demographic variables and attributes for each participant in a 'case' of QDA Miner were also created. Thereafter, each case that contains each participant's transcript and conducted the coding process was opened. This implies that codes were developed for all the transcripts by creating a phrase (usually less than five words long) for each significant information or empirical indicator which represents the code. Each time, an empirical indicator is assigned to a code that was developed under an anchor code (research question). To achieve this, read each interview transcript was carefully read, and applicable empirical indicators were selected during the reading and following the guideline provided by the QDA Miner tool. The codes and their respective description, count, and cases under the various research questions are shown in Appendices 1, 2, and 3.

7.12 Interpreting, Representing, and Visualizing the Research Data

To accomplish the purpose of this qualitative research, it was essential to interpret the research data. As described by earlier scholars like Lincoln & Guba (1985), data interpretation assists to make sense of the data. This involves extracting the larger meaning of the research data from the codes and themes. Sutton & Austin (2015) state that qualitative research can help researchers to access the thoughts and feelings of research participants. They claim that this will assist the researchers to comprehend the meaning that participants attribute and assign to their experiences. The research data were interpreted based on the theory established for this thesis and presented in texts, charts, figures, and tabular forms.

7.13 Development of Categories, Themes, and Charts

The QDA Miner tool does not support the generation of categories and themes appropriately. Because of this, an individual-based sorting strategy was used to develop categories and themes in Microsoft word documents. Thereafter, each theme was created under its associated anchor code (research objective) and the QDA Miner code command was applied to merge all the codes to their respective themes. To accomplish the purpose of this qualitative research, it was essential to interpret the research data. Once the interview transcript was organized into codes, categories, and themes, it was easy to generate various reports, charts, tables, and diagrams using the 'analyse' function of QDA Miner. It was simple to create all kinds of charts – a bar chart, a pie chart showing various features.

Table 7.4 Themes and corresponding codes

A total of 17 themes for the 5 research questions/objectives are generated as shown below

RQ	**Themes**	**Codes**
RQ1 Equity features	Investment deal size	equity capital is expensive investment deal size is small equity finance is long-term poor coordination of financing unrealistic ROI expectation requires social ties and networks
	Control and micro-management	high investment assessment criteria control and micro-management greed and selfishness excessive documentation requirement Funding only already successful ventures
	Investment ownership	disagreement over ownership sharing a long duration of the fundraising equity capital is perpetual resistance to ownership dilution investors seeking majority ownership
RQ2 Entrepreneurs' readiness	Goal incompatibility	Goal incompatibility Reluctance to share ownership No skin in the game Entrepreneurs search for investment too early Lack of passion
	Trust issues	Entrepreneurs' character Trust issues Low reputational risk Unethical behaviour or hidden agenda
	Information asymmetry	Information asymmetry Inability to conduct background checks No business plan or feasibility studies
	Inexperience team	Entrepreneurs are not ambitious No records of business activities Inexperienced team

		Lack of knowledge
RQ3 Enterprise characteristics	Due diligence	Difficulty conducting effective due diligence Costly and time-consuming due diligence No track record of activities Lack of financial records Unable to verify outputs
	Governance structure	Lack of governance structure No strong, effective team No formalization or proper incorporation Non-compliance with regulatory authorities No corporate governance
	Illiquidity	An exit is often difficult small enterprises are highly illiquid underdeveloped stock market Disagreement about valuation
	Growth-oriented business	Not high growth business Not very viable business Not an impactful business Not enough employment creator Not in the right sector/market No revenues or steady cashflow
RQ4 Environmental factors	Weak legal system	Weak legal system Corruption and fraud Cumbersome & time-consuming process
	Operational risks	High operating risks Lack of infrastructure systemic risk currency and credit risk regulatory risks political risk
RQ5 Engagement promotion	New funding model	New funding model Strategic partnerships Use of staged financing Use of syndicated financing Trade equity in small fractions trained investment managers fund businesses in local currency application of innovative exit strategies
	Technology and platforms	Application of new technology Creativity and innovation Online platforms for fundraising National due diligence platform
	Communication	Honest, consistent, open communication Creation of venture builders Entrepreneurial training

		Prudent management of risks
	Package of assistance	Package of assistance (supports) Enabling environment by government Support from fund managers and venture builders Have good legal/financial teams Development of incubators and accelerator models

The themes above were developed by following an approach in which a claim (theme) is generated based on a review of the transcripts and all evidence (codes representing empirical indicators) selected from the data to support the claim. A cluster of themes links the codes to a research objective. Each theme was labelled based on the characteristics of the assigned codes.

7.14 Chapter Summary

This chapter compared data analysis in qualitative and quantitative research and discussed reading of organized research data was conducted. The basics and context of data analysis were explained research data collection approaches were discussed in this chapter starting with the preparation for data collection. The researcher's preconceptions, perspectives, and expectations were disclosed, and the data analysis process was discussed. The QDA miner as qualitative data analysis software was presented. The goal of the data analysis is to address the research questions relating to equity finance features, entrepreneur readiness, enterprise characteristics, and environmental factors in understanding the reasons for low engagement between investors and entrepreneurs which in turn lead to the equity capital gap in entrepreneurial financing. The primary data were analysed from the semi-structured interviews that were conducted in Nigeria, the UK, and the Netherlands. From the 5 research questions, anchor codes were created, evidence or codes (empirical indicators) generated, and themes (claims) developed. A report for the analysis was created with tables, charts, and diagrams. The next chapter presents the research results.

CHAPTER EIGHT

Research Results/Findings

8.1 Introduction

The last chapter discussed the analysis of the research data, and this chapter provides the results of the data analysis by providing explanations of the findings and evidence in support of the results. The purpose of this qualitative research project is to gain a deeper understanding of the views of the target research population on the reasons for the low engagement currently existing between the Nigerian entrepreneurs and equity investors. In this research, open-ended interview questions were designed and implemented to capture the participants' responses on some issues relating to the challenges facing entrepreneurial finance. The primary focus is on the equity capital gap within the context of the empirical research setting. In the previous chapter, the data collection activities were organized and executed. Thereafter, the data were analysed with the help of the QDA Miner tool. In this chapter, the research findings from the data analysis are discussed. By analysing the data collected, the results offer key insights into the necessary steps for improving the alignments and engagements between investors and entrepreneurs in Nigerian cities and towns.

8.2 Presenting the Main Findings

As the thematic analysis approach was applied in analysing the research data, the researcher followed an organized theme-driven format to present the research findings. Hence, the findings were planned and organized around the themes (claims) and their features – mainly codes (pieces of evidence) obtained from the research study data. The phenomenon studied is the cause of low engagement between entrepreneurs of start-up companies and early-stage investors. The findings are communicated here with the readers' expectations in mind (Guest et al, 2012). The researcher reports each contributing cause or reason for low engagement or poor alignment. This was achieved by including the summarized version of some of the participants' information as supporting evidence relating to each reason. An individualized theme-driven format was used in which each theme is presented as an independent standalone structure to address the research objectives (Greckhamer & Cilesiz, 2014). Within each research question/objective, the findings are presented under numerous themes to show how the findings address all the various research objectives. The data analysis shows that there are several factors in standalone theme structures to address the research objectives. Within each research objective, the findings are presented under the various themes.

Overall, the multiple factors which have been found to be responsible for low engagement between investors and entrepreneurs are interlinked. The reasons for low engagement between investors and entrepreneurs appeared to be inexhaustible, so only the main reasons are discussed here. The participants share similar perspectives on certain issues and different perspectives on other topics. These factors are discussed under the first four research objectives and the fifth research objective presents the proposed best practices for addressing the problems as well as strategies for enhancing engagement promotion.

8.3 Equity Finance Features

This section addresses the first research objective – 'to investigate how the problems of equity capital as a dilutive, non-debt financial instrument hinders engagement between entrepreneurs and business angels plus venture capitalists.' Equity finance instrument provided by business angels and venture capitalists is useful for attracting non-financial resources and also serves as a powerful tool for better engagement between entrepreneurs and their early-stage financiers. For example, a properly funded start-up company will have the finance to recruit and retain good talents thus it will be able to build a great team. A clearly defined contract agreement outlines the basic features of each equity finance instrument and how investors and entrepreneurs should relate to achieving their goals. Below are some of the causes of low engagement between entrepreneurs and investors that are linked to the specific issues and features of equity finance instruments and supporting contract agreements.

8.3.1 Investment Deal Size

A successful investment deal is one in which the right entrepreneur with the right idea or business model is connected to the right investors offering the right size of capital at the right valuation (Mason, 1996). The researcher found out that some deals initiated by investors and entrepreneurs are often terminated midway for one of several reasons linked to the use of pure equity-based finance. For example, business angels and venture capitalists interviewed reported that the start-up companies present investment deals whose sizes are too small and unattractive. As participant A0001PBA01 (business angel investor) puts it:

'Investors in the ecosystem are looking for large projects because they want to invest large amounts and by that, I mean amounts over $5 million - generally, five to $10 million. And then they want to see how they can scale that up that investment quickly, and they are not as interested in projects which need investment under those amounts.'

The above statements show that the small investment needs of entrepreneurs do not often match what the investors are looking for in terms of size and potential. The result indicates that the investors are always searching for the best deals in terms of their sizes and most importantly the possibility of such enterprises generating good revenues. For example, more than half of the entrepreneurs interviewed as participants were at the stage of their ventures where they are looking for between US$50,000 and US$500,000 but investors are not keenly interested in providing any financing less than 1% of their funds' portfolios which is usually not less than US$1million. So, it can be deduced that the funding needs of entrepreneurs are mismatched or misaligned with the equity investors' incentives. Thus, a gap exists between the investment amount suitable for the entrepreneurs and the amount investors desire to deploy. This contributes to a low engagement that further leads to a failure to raise early-stage funding.

The other issue is that equity capital is long-term and the most expensive type of entrepreneurial finance, especially for small enterprises because it involves a perpetual exchange of ownership stake by entrepreneurs with investors' investment. Participant A00011PVC08 (Venture Capitalist) noted that *'equity is long-term finance and most expensive form of raising money.* A business angel (A0001PBA01) mentioned that *'many entrepreneurs feel that equity finance is too expensive but also argued that investors are sharing risks with entrepreneurs.'* Based on the participants' responses, the researcher found out that it is very costly for the entrepreneurs in Nigeria to set up the structures at the initial stages and other requirements necessary to attract equity financing from the investors. As a result, less educated entrepreneurs – those without formal training are reluctant to pursue equity fundraising from business angels and/or venture capitalists despite their ventures' need for such capital. This is because of perceived high cost and other reasons like unreasonable and unachievable investment return expectations of some investors. Again, the researcher found that the lack of capital alignment or engagement between investors and entrepreneurs leads to an unmet need for equity-based funding which results in the inability of new ventures to grow and create more jobs for millions of unemployed youths in Nigeria. Above all, the participants' interview responses show that in Nigeria, equity finance is often more about who the entrepreneurs know that has access to capital. As participant A00023PPM03 (promoter) said *'entrepreneurs who* *do not have family and friends or not in a valuable network find it harder to raise capital.'* The results also show that there is the problem of a lack of proper coordination between business angels and venture capitalists working together to unlock financing for start-up companies in Nigeria plus a lack of cooperation between investors and lenders like local banks.

8.3.2 Control and Micro-management

The data obtained from the primary research confirmed the general assumption as presented in chapters two and three of the literature reviews on issues around ownership, trust, and control or management as the three key factors determining the success or failure of the investor-entrepreneur relationship. The findings show that investors want to exercise some measure of control over the entrepreneurs in order to manage their investment risks. However, entrepreneurs desire freedom and are averse to being controlled and afraid of being pushed out of their companies after spending time and other resources to build such companies. One participant A00018PEN07 (entrepreneur) noted that '*for fear of losing control of their businesses, many Nigerian entrepreneurs are reluctant to seek equity finance for their start-up ventures.'* This entrepreneur also mentioned that *'it'd be a misnomer for the investor to try to control the business, if they want to do that, they might as well just start the business, invest the money and run the business themselves.'* The entrepreneurs interviewed for this research maintained that no investor should take a permanent majority ownership but may control the businesses as a way of managing their investment risks. Another entrepreneur, participant A00015PEN04 stated, '*I think the biggest problem with equity finance is the potential for loss of control.'*

From the participants' responses, the researcher noticed that entrepreneurs complain a lot about the investment thesis and criteria presented by business angels and venture capitalists. As one participant A00020PEN09 (entrepreneur) mentioned *'many investors don't want to take on risks and always think that the business may not succeed so they set high criteria.'* She stated further that '*investors are risk-averse in Nigeria, but I think they should manage the risks involved.'* However, investors have a different view regarding investment criteria as one of them outlined (participant A0008PVC05 – venture capitalist) '*we apply a combination of frameworks, tools, and techniques to drive our investment criteria.' One of the things we like to do is to listen to what the entrepreneur has to offer, evaluate the size of the market, and leverage our individual experiences, as the team members of the Investment Committee (IC)'.*

Another reason is that according to responses from the entrepreneurs interviewed for this study, some investors tend to be unwilling to support for a lengthy period. A few of them lack a genuine intention to assist build sustainable and profitable companies that create values and generate employment. Instead, these investors are more interested in how they can exploit entrepreneurs' naivety, lack of experience or ignorance. As one participant A00014PEN03 (entrepreneur) stated *'some of the investors don't really care about your business; they just want to make some money*.' A second participant A00017PEN06 (entrepreneur) noted that *'the other barrier is greed that comes with equity investment'*. One big problem that reduces engagement between investors and entrepreneurs searching for and failing to find investments is that entrepreneurs believe that most investors ask for all kinds of information and documents. As one participant A00012PEN01 (entrepreneur) puts it *'investors often request for several documents, and sales figures that do not apply to our business in the current circumstance when we started.'* Another entrepreneur - participant A00014PEN03 noted that '*there is so much documentation required and so many requests with respect to the investors wanting to get more information.'* Yet, from investors' perspective, the indication is that both business angels and venture capitalists are of the opinion that they require reliable information to make better investment decisions as they cannot do so in a vacuum – that is without enough data about an enterprise. As one of the venture capitalists - participant A0008PVC05 stated '*we do experience a number of problems - two of them are information and documentation.* He further stated that *'surely, you need to invest in companies who have proper documentation, when incorporated, finding out who the directors are, the business partners, any form of corporate governance, any audited account?'*

Promoters and entrepreneurs confided in the researcher that investors – even the business angels are reluctant to invest in brand new, pre-revenue enterprises and always prefer to fund already successful and proven ventures. Participant A00017PEN06 (entrepreneur) said '*every investor wants a successful name that is already out there. This means entrepreneurs who are already achieved great business successes.'* Participant A0009PVC07 (venture capitalist) put it this way: *'we don't invest in greenfield projects – we support entrepreneurs already in operation who can show some track records of business activities and not absolute greenfield without any functioning business process.'* In this case, the result indicates that engagement with investors is very low for all those entrepreneurs who are just starting, struggling to start or currently have no revenues.

8.3.3 Ownership of Funded Companies

From interviewing the participants, the researcher discovered that the ownership of funded young private start-up companies is a big issue for both the investors providing equity and entrepreneurs seeking equity-based financing for their ventures. Again, the researcher found out that one reason for low engagement is the long fundraising duration usually associated with raising equity capital. Participant A0007PVC04 (business angel) noted '*the equity fundraising processes take roughly 5 to 6 months, it depends, and I always say you should start preparing for investment one year before you need the money because many of the entrepreneurs are not investment ready as they do not* *have the relevant data.* A venture capitalist (participant A00010PVC07) stated *'normally the average time it takes from the date of an application to disbursement is 90 days or more.'* But the interview results show that a lot of entrepreneurs are often impatient and, in a hurry, to find funding to start or scale their enterprises. Participant A00017PEN06 (entrepreneur) indicated that '*the processes of obtaining the funds are cumbersome, have some bottlenecks, and take a long time. Sometimes as we chase the funding, we lose interest and the time we already spent will be a waste.'* Another major problem is that equity capital is perpetual – this implies that it is indefinitely long time or enduring forever. Participant A00011PVC08 (venture capitalist) confirmed that *'equity is long term finance, and this presents a challenge.'* In view of this, some stakeholders – as fund seekers and providers are reluctant to engage for such a multi-year long period. For instance, some entrepreneurs who desire to be independent will choose to seek debt finance instead of equity. The research results reveal that due to ignorance of how equity financing really works and the benefits of equity, three-quarter of the entrepreneurs interviewed is reluctant to share the ownership of their young enterprises with the investors. Interviewed investors, promoters, and entrepreneurs agreed that one of the reasons why there is poor alignment between the investors and entrepreneurs is that illiterate entrepreneurs – those lacking formal knowledge of how equity financing works - do not want to give up some shares in the ownership of their enterprises. As participant A00018PEN07 (entrepreneur) puts it *'many investors want a lot of ownership and control of the funded business to manage their investment risks.'* He also noted that '*loan is not really good for young start-up companies seeking early-stage investment, but equity is difficult to obtain.'* The reluctance and refusal to dilute their ventures' ownership means that there will be no engagement as any equity finance providers will require an exchange of ownership for the capital they are investing in outside enterprises. One of the research participants A0008PVC05 (venture capitalists) argued that *'if an* *entrepreneur is not willing to relinquish a bit of a venture's ownership, then he's not ready for equity funding as simple as that.'*

The researcher discovered that even for those entrepreneurs who understand the need to release ownership, they are often resistant to certain kinds of equity dilution or they disagree with investors over how ownership sharing should happen as pointed out by participant A00014PEN03 (entrepreneur) *'some entrepreneurs say they don't want investors trying to own a bulk of their businesses and at the same time requesting for revenues, instead of putting the revenues back towards the business growth.'* Also, participant A00011PVC08 (venture capitalist) said that *'cultural issues may prevent ownership sharing – but it is important to share nonetheless.'* The other reason for low engagement which was revealed by the findings is that some investors want to take majority ownership to compensate for the investment risks they take. As participant A00012PEN01 (entrepreneur) identified *'sometimes an investor demand for a large equity but when the investors take majority ownership of young companies, this may hinder follow-on financing in future'.* Interviewed investors argued that it is critical to take many factors like the risks associated with the business operating environment into consideration when valuing an enterprise's market opportunity and deciding how much ownership share, their investments are worth. On the other hand, the entrepreneurs interviewed claimed that they are the ones doing all the work to make their enterprises generate revenues and become profitable. In addition, the researcher observed that some entrepreneurs in Nigeria are just not interested in raising any equity funding from conventional sources like traditional equity investors such as the business angels and venture capitalists either locally or internationally. Furthermore, the researcher found out from the investors interviewed that the current market for entrepreneurial finance is indeed incomplete and surely something or some form of structured funding model is missing for early-stage enterprises.

The investors who were interviewed for this study maintained that there are financing gaps to be filled which will require active collaborations from both the private and public sectors players. This includes equity finance supply and demand gap, as well as debt finance supply and demand gap – all of which will be analysed further in the next chapter on research discussions.

8.4 Entrepreneurs' Readiness for Equity Investments

This section addresses the second research objective – to explore entrepreneurs' preparedness or readiness for accessing equity investments from business angels and venture capitalists within and outside Nigeria. Recorded data show that a major reason for low engagement is that entrepreneurs are unprepared and unready to engage with investors. From the interview participants' responses, the researcher found out that at the early stages of enterprise development, both the business angels and venture capitalists tend to invest in an entrepreneur and his/her team's character, capabilities, and competence. Hence, it is critical that entrepreneurs are prepared well in advance of meeting investors to stand a greater chance of getting funding. Below are some of the causes of low engagement which are related to an entrepreneur's readiness and preparedness to attract external equity investments.

8.4.1 Goal Incompatibility

The interviewed participants indicated that low engagement would continue to exist as long as the investors' and entrepreneurs' goals and expectations are not aligned. This implies that the overall goals and objectives of entrepreneurs and investors are always incompatible. The interview data showed that there are several reasons for goal incongruence or incompatibility in which partners secretly pursue some hidden agendas. The findings from entrepreneurs' and promoters' responses indicate that some of the investors and entrepreneurs are often motivated by greed, selfishness, and ignorance and tend to act opportunistically towards each other. The business angels and venture capitalists interviewed confirmed that they actually expect opportunistic behaviours from entrepreneurs. Equally, all the entrepreneurs said that they know that many investors will act opportunistically towards them. These findings relate to and confirm the principal-agent problems and 'agency theory view' of the dynamic, complex investor-entrepreneur relations (Wusterhagen & Christensen, 2005). For example, the goal of an entrepreneur may be to re-invest all or most of the profits made into a business. However, the investor may prefer that profits are distributed once they are earned. Also, an entrepreneur may have an intention for other uses of funds that is different from a plan pre-agreed with investors. The interviewed investors pointed out that in some cases an investor may want to invest a certain amount so as to retain a preferred percentage of ownership, but entrepreneurs are reluctant to share ownership beyond a certain per cent or ratio. As participant A00010PVC07 (Venture Capitalist) pointed out – *'you know, the typical thing with most African entrepreneurs, they don't want to dilute their equity for fear of losing control, and yet they are seeking equity financing.'*

Both the business angels and venture capitalists who were interviewed noted that entrepreneurs who are unwilling to share ownership or dilute equity have not met major investment criteria and are therefore not investment ready and do not understand how equity financing operates. Furthermore, as indicated by participant A0009PVC06 (Venture Capitalist) *'low engagement arises when investors believe that the entrepreneurs have little or no skin in the game.'* This implies that they have not made enough personal financial and non-financial contributions to their new ventures before seeking equity financing from external sources. In this case, they are considered as not yet prepared to play the investment game because they have taken no risks and can walk away when things go wrong. The same participant A0009PVC06 (Venture Capitalist) puts it this way: *'Not all businesses are at the right stage where they are ready for equity investing – for example when there's probably not enough equity in the business contributed by the entrepreneurs and their teams which can ensure that their enterprises to be viable for investment. We aim to bring business to the stage where they can attract the best equity investments from investors.'*

The interviewed entrepreneurs feel that equity investors wrongly assume that entrepreneurs are bringing little to the table in terms of contributions and so during contract negotiations, investors strive to take a large share of the venture's equity. As a result, there is an imbalance in terms of return expectations. As participant A00010PVC07 (Venture Capitalist) noted *'we look at the collective contribution of the promoters (entrepreneur and the team) in making our investment decisions.'* An additional finding reveals that low engagement occurs because many entrepreneurs search for equity too early in their entrepreneurial journey at a time when they are least prepared to take on equity investment. One participant A00014PEN03 (entrepreneur) puts it this way - *'the mistake many entrepreneurs make is that they seek investment too early, in the sense that they do not have enough paying customers or users and they start searching for investment. Obviously, the investors will want to take up to 80% or more of the business. This is because the investors are taking larger risks at the earliest stage.'*

The investors interviewed for this research confirmed that they can easily detect through regular interactions, those entrepreneurs who are passionate about starting and growing entrepreneurial ventures. All the investors noted that they will decline support for those who lack passion, drive, and determination. Another study participant A0007PVC04 (venture capitalist) stated: *'When we interact with any entrepreneurs of the potential investees or portfolio companies via regular* *communications and interactions, we will speak with him/her to understand their motives as founders, get to understand their motivation for setting up the company, their background, their vision, concerns, and what drives them.'*

8.4.2 Trust Issues

Based on the research findings, another major cause of low engagement or alignment is the issue of trust and character of the entrepreneur. As all relationships are built on trust, especially one in which money is involved, both entrepreneurs and investors noted that trust is critical in investor-entrepreneur engagements. The researcher found out that there is a link between trust and weak institutions in Nigeria as well as trust and control exerted on entrepreneurs by most investors. As one of the interview participants A00011PVC08 (venture capitalist) noted *'trust is important but does not stand on its own and develops over time.'* Another venture capitalist - participant A00010PVC07 also said '*trust is about the character or attitude of the entrepreneurs and is always linked to environmental factors*. The researcher noted that lack of trust leads to low engagement between the investors and entrepreneurs. Participant A00012PEN01 believed that *'trust is very important as investors and entrepreneurs must trust each other to engage in investment relation. The investors need to have a genuine interest in our solution and be willing to promote it.'*

Furthermore, from the entrepreneur interviewed, the researcher observed that trust is linked to some already existing social ties – family, friends, and networks. As participant A00013PEN02 (entrepreneur) identified that *'the level of trust was high because of the long-term family and friend relationship.* Another entrepreneur (participant A00014PEN03) believes that *'everything in life including alignment and investment relationship has so much to do with trust.'* She argues that *'in investment that involves lots of money, trust should not be the biggest issue when there are proper documentation and a clear understanding of contract terms.'* She further commented that *'yes,* *naturally investors should be able to trust the entrepreneur to deliver - in terms of maybe the entrepreneur squandering your money, risks can be controlled for example investors should not release money at once.'*

The researcher found out that in the Nigerian business environment, the level of trust is generally poor. This is due to an increase in various scams and fraudulent practices enabled by advancements in new technology. Yet, trust is like the engine that powers all business transactions. Participant A00018PEN07 (entrepreneur) stated that *'trust is the foundation of businesses, and it takes a long-term relationship to be earned. Of course, people give the benefit of doubt to go ahead to initiate conversations, initiate business transactions, and then it is trust that carries everything along passively.'*

Moreover, the researcher found out that the economic systems in Nigeria are not working properly and this lowers the trust level between parties in a contract. Another entrepreneur participant (A00016PEN05) whom the researcher interviewed was outspoken when she indicated that *'trust is important, but it is like a double edge sword. I don't trust that the investor can give me money and in the future release equity ownership back to me. The level of trust is important in the relationship between entrepreneurs and potential investors in Nigeria. However, investors and entrepreneurs may secretly do certain things that are not on the financing contracts.'*

At the early start-up and scaleup stages, business angels and venture capitalists invest in individual entrepreneurs and teams, so character plays a role in nurturing investor-entrepreneur engagement. Participant A00016PEN05 (an entrepreneur) maintained that *'one of the most important things in investment relation is character* but he argued that *'the viability of the business models of the start-up ventures is another critical issue.'* He said *'as we search for equity investors; we are aware that trust is critical. You know, it is because an investor needs to trust you and your team, and they* *also need to trust that what is signed in the contracts can be upheld.'* The researcher noticed that both investors and entrepreneurs are aware that trust is the bedrock of building relationships but noted that it takes time to establish trust. One participant, A00010PVC07 – a venture capitalist reasoned that *'both parties should be able to trust each other as this helps foster a great business relationship.'*

The researcher discovered that issues around character also include low reputational risk, unethical behaviours, and hidden agenda – all of which cause low engagement between investors and entrepreneurs. Participant A00022PPM01 (promoter) mentioned that *'character is important because investors invest in people (the founders/teams) who must be transparent, sincere, and accountable.'* Another participant (A00023PPM02) - a promoter puts it this way *'investors want to be sure that entrepreneur has been in businesses – and that he is not looking for money to solve personal problems or to siphon funds for fraudulent activities.'* In general, investors believe that there are many good ideas and business models in Nigeria, but there are not enough people with good character or the right attitude to build great businesses which will create real values for the economy and generate employment.

8.4.3 Information Asymmetry

The researcher found out that another reason for low engagement is that investors usually decline to invest when entrepreneurs are not providing enough information about their business activities. Participant A00010PVC07 (venture capitalist) noted *'we want full disclosure – we want the entrepreneurs to tell us everything the way it is, so we invest and execute transactions, based on facts, and not assumptions. What if we notice that an entrepreneur is beginning to hide information or provide one that is false or irregular, we will simply refuse to invest.* Hence, a major cause of low engagement between entrepreneurs and investor is the reluctance of some entrepreneurs to provide detailed and accurate information. Participant A0007PVC04 (venture capitalist) outlined that '*information gap – lack of financial, operational, and customer data' leads to low engagement as most investors are not able to make informed decisions.'* He went ahead to advise entrepreneurs that *'when you start a company, it is vital that you begin to collect and store relevant data about your business activities and processes to prepare for investment.'*

The researcher discovered that the inability of investors to conduct background checks on entrepreneurs and their teams is another barrier to engagement between entrepreneurs and investors. As participant A0001PBA01 (business angel) noted *'it is difficult to engage if there is no possible way to do background checks on entrepreneurs.'* Overall, there is no centralized database management where a citizen's records can easily be checked in Nigeria like in more advanced countries. Another evidence of the entrepreneurs not being ready or prepared for investment that results in low engagement is when such entrepreneurs approach investors without conducting detailed feasibility studies and developing investible business plans. As participant A0001PBA01 (venture capitalist) put it *'to engage, we want to understand the market opportunity, business model, appraise the feasibility study and review the business plans.'* Also, participant A0001PBA01 (business angel) mentioned that *'entrepreneurs who have no business plans which show projected financial statements and capabilities of the teams will not attract investment.'* All the other participants whom the researcher interviewed agreed that entrepreneurs and teams must put together and confidently present good pitch decks and strong business plans to engage with and convince their preferred equity investors.

8.4.4 Inexperienced Team

The research showed that an entrepreneur's lack of experience is another major reason for low engagement between investors and entrepreneurs. Participant A0005PVC02 (venture capitalist) pointed out *'we do not take risks on inexperienced entrepreneurs or teams not proven - we take execution or business risk, not entrepreneurial risk, so we will not take risks on entrepreneurs we think are high risk.'* This investor went on to state that the *'expertise and experience gap is a big one and also feeding onto the issue of getting the right talents. So, the biggest challenge to financing entrepreneurship in the Nigerian and African ecosystem is getting the right mix of talented teams and factors like dealing with educational system, socio-cultural, and economic system, play important roles in managing investment risks.'*

Another participant A0008PVC05 (venture capitalist) noted *'we do have an investment framework where we allocate points and weights to certain criteria and experience plus team capabilities have a higher rating.'* The other problem related to inexperience is the lack of knowledge about business in general and entrepreneurial finance plus the lack of formal education and training. One participant A00017PEN06 (entrepreneur) noted '*an investor gets to select that this is the right team to invest in or support. A team with relevant knowledge who are capable of generating profit or revenues for the investors whilst creating values.'* Participant A0009PVC06 (venture capitalist) said *'we provide entrepreneurial education, particularly around venture financing – we educate entrepreneurs in business growth paths and various kinds of funding available at different stages.'* Participant A00014PEN03 (entrepreneur) said that *'to engage with investors, entrepreneurs need to read a lot more about investing and be knowledgeable about designing investment contracts.'*

The lack of reliable records of past business activities is also a reason for low engagement as investors want to work with entrepreneurs who are disciplined and transparent. Participant A00010PVC07 (venture capitalist) pointed out *'to attract investors and investment, entrepreneurs must keep their books – registration, operations, and accounting.'* Participant A00010PVC04 (venture capitalist) said *'I can't stress this enough, the more data entrepreneurs have, the better* *their chances of connecting and engaging with investors.'* One of the promoters who was interviewed, participant A00022PPM01 encouraged entrepreneurs to *'keep track records of their enterprise progress and report regularly to their existing investors or potential investors.'*

The researcher found out that another reason for low engagement is the entrepreneurs' lack of passion and investors can easily detect those entrepreneurs who are not very passionate about their businesses. In general, the entrepreneurial journey is a difficult one full of many challenges and investors want to engage with only those entrepreneurs who are genuinely committed, motivated, and passionate about achieving desired outcomes or results. One participant noted A00017PEN06 (entrepreneur) noted that *'it is the drive, dedication, and passion that makes entrepreneurs excel in growing their businesses at all costs.'* A reason for low engagement is that some entrepreneurs are not ambitious enough. Participant A0001PBA01 (business angel) mentioned that *a couple of the investors have said that some entrepreneurs that they wish to engage with don't think big enough when they're looking at their businesses and projects.'*

8.5 Enterprise Characteristics

The research showed that every business has unique characteristics regardless of its age or current size, growth stage, and economic sector of operation. This section addresses the third research objective - to identify the barriers within each of the start-up or scaleup ventures and enterprises that hinder the engagement between equity investors and entrepreneurs. These key barriers are discussed below under these four sub-headings.

8.5.1 Due Diligence Issues

From this study, the researcher found that a critical reason for low engagement is the difficulties that investors face in conducting effective due diligence prior to investing. So, when conducting due diligence on start-up companies, the business angels and venture capitalists get frustrated and discouraged because they are unable to obtain some of the necessary information they require. Participant A0001PBA01 (business angel) noted '*reason for low engagement would be around being unable to verify the different businesses on the ground because not all the mechanisms are put in place that would enable effective due diligence.'* Again, participant A0005PVC02 (venture capitalist) outlined that *'pre-investment relation is about – lots of interactions to get to know more about the entrepreneur through due diligence exercises. 'Yeah, investment relationship takes time and decisions are not made immediately but this is because it takes a long time to go through all the basics - including legal due diligence by the investment committee.'*

Furthermore, the researcher discovered that the cost of conducting such due diligence is high. As participant A0008PVC05 (venture capitalist) mentioned *'due diligence process costs both time and money – sometimes it can be quite expensive to implement appropriate and detailed due diligence. The process is financially demanding because investors need legal expertise to review certain things, write certain relevant documents, and need financial experts and risk analysts to evaluate investment opportunities.'* Participant A00010PVC07 (venture capitalist) noted *'we conduct entrepreneur screening, detailed due diligence checks on promoters and partners which can be expensive.'* All the above causes low engagement as most investors are forced to ignore small investment deals of start-up companies and instead seek out the bigger, more lucrative deals in established or matured companies. Participant A0001PBA01 (business angel) concluded that *'engaging with young start-up ventures isn't always attractive to investors because it means that more time and higher cost are involved in performing due diligence.'*

Equally, the research revealed that low engagement can arise when entrepreneurs fail to show track records of their business activities which investors need to make certain investment decisions.

Participant A0001PBA01 (business angel) said that '*entrepreneurs seeking engagement and investment must keep track records of everything they've done.'* Also, participant A00016PEN05 (entrepreneur) mentioned that *'investors ask for working systems and business processes - our financial records and audited accounts.'* Participant A0009PVC06 (venture capitalists) stated that '*entrepreneurs must have track records of performance for successful engagement and investment from investors.'* Participant A0001PBA01 (business angel) mentioned that *'to engage investors, entrepreneurs need tangible tractions and ways to capture, organize, and verify their outputs by leveraging digital technology.'*

8.5.2 Governance Structure

Based on the interview responses, it was revealed that the start-up companies lack functioning business structures, and this can easily alienate equity investors. One participant A0009PVC06 (venture capitalists) maintained that *'small enterprises seeking financing often lack boards and management teams.'* Participant A0001PBA01 (business angel) confirmed that *'the need to have structures in place is often overlooked by many entrepreneurs.'* Participant A00023PPM02 (promoter) also mentioned that *'small businesses face problems because there are no structures in place and investors find it difficult to engage with their entrepreneurs/managers.*

The research showed that even though the start-up companies in terms of age and size, are still young and small respectively, it is vital to promote corporate governance to improve engagement with investors. As participant A0007PVC04 (venture capitalist) noted *'entrepreneurs should plan and organize their companies; put corporate governance in place and have board meetings, maybe quarterly, where they discuss many important issues relevant to their businesses.'* Participant A0007PVC04 (venture capitalist) stated clearly *'to invest, we want to know who is in their* *management teams, directors, advisers, and are there any form of corporate governance, any audited accounts?'*

The interview data showed that the start-up companies which lack strong, balanced, and effective teams find it harder to engage with and attract investors. Participant A00023PPM02 (promoter) indicated that *'to engage with investors, entrepreneurs should build teams and put in place systems and processes to help drive efficiency of operations.* This study revealed that at the early start-up and scaleup stages, young companies that have small teams with diverse skill sets in operations, human resources, customer relations, finance, sales and marketing plus information technology and project management will attract and engage with investors more than those with limited and unbalanced teams. The researcher found out that non-compliance with regulatory authorities is another cause of low engagement. As participant A00010PVC07 (venture capitalist) pointed out *'the start-ups we engage with are those that are incorporated, pay their taxes and comply with regulatory authorities.'* He stated further '*we don't support illegality and don't fund any start-up company in the country that deliberately avoids meeting their tax obligations.'* Again, participant A00016PEN05 (entrepreneur) confirmed that compliance improved their engagement when he said, *'to align with investors, we complied with everything – labour law, insurance, taxes – we pay all forms of taxes.'* Entrepreneurs must provide reliable information and separate their personal financial information from those of their companies'.

8.5.3 Illiquidity Challenge

The research further revealed that one of the main reasons for poor alignment between investors and entrepreneurs is the illiquid nature of the start-up companies as a valuable and vital asset class. The interview data revealed that investors are reluctant to engage with entrepreneurs promoting these small businesses because it is usually difficult to invest (enter) and divest (exit) from such private businesses. Unlike the big and mature public quoted enterprises with high liquidity, small and young privately-owned enterprises have low liquidity which implies that their ownership is not easily converted into cash as they are non-frequently traded – their shares are not tradeable in the stock exchanges for example.

Participant A0009PVC06 (venture capital) mentioned that *'divestment from start-up companies is hard and we want to exit at values that maximize our return – but unfortunately – often we can only optimize a little without the company going down.'* He further stated, *'only a few start-ups can grow and be prepared to go public through IPO (initial public offers), thus our best exit options are to sell to strategic buyers or empower the management of the funded company to buy us out.'* Another participant A0007PVC04 (venture capitalist) added *'the most likely exit option is to allow management buyback because a lot of these small companies aren't able to do an IPO by the time we want to exit'*. Also, participant A0001PBA01 (business angel) noted *that 'exit is a big challenge because small businesses are highly illiquid assets – in other words, their ownership shares are not easily converted to money through traded and exchange.'*

The researcher found out that equity investors have recently begun empowering management teams of some private companies to do equity repurchase or ownership buyback by introducing the idea of gradual staged investment exits. This is a new scheme where investors exit slowly by allowing the entrepreneurs or managers to buy certain fractions of ownership each time over an agreed period. This approach is required to address investment harvesting or pay-out and exit, or divestment problems faced by investors financing start-up ventures in Nigeria. So, when funding is provided, investors explain the pay-out and exit options to the entrepreneur, and it is included in the legally binding contract agreements. Thus, investors can choose to divest at once or in multiples of small fractions of ownership. The exit depends on investors' appetite for risk plus patience for long-term investment. This study showed that a staged exit strategy happens when investors think that funded ventures have future growth opportunities.

The researcher observed that another cause of low engagement is that like in other countries across Africa, the Nigerian stock market is under-developed. So, investors know that the transition from privately-owned micro/small companies to public quoted medium/large enterprises is hard. Hence, the motivation to support and fund these start-ups is not strong leading to poor alignment between investors and entrepreneurs. As participant A0001PBA01 (business angel) mentioned *'we worry about how to exit because the Nigerian stock market ecosystem is still not well developed, so we cannot sell the ownership of young companies in the public space.'* The other reason for low engagement that the researcher discovered is the disagreement that often arises between equity investors and entrepreneurs over the enterprises' valuation. Participant A00011PVC08 (venture capitalist) noted that '*entrepreneurs and investors frequently disagree on the valuation of companies.'* Again, participant A00012PEN02 (entrepreneur) outlined that *'there are always disagreements over an enterprise's valuation.'* Based on participants' responses, the researcher noticed that the problem of valuation is linked to issues like a lack of shared goal and vision about the start-up companies' future as well as difficulties in determining the actual values of privately-owned small but growing enterprises.

8.5.4 Exponential Growth-oriented Businesses

The research showed that alignment between investors and entrepreneurs is based on whether the businesses promoted by the entrepreneurs are viable, high growth ventures in the right markets or sectors of the economy. Low engagement occurs when entrepreneurs are promoting ventures that are not high growth as they will not attract many investors. Participant A00011PVC08 (venture capitalist) noted that *'most business angels and venture capitalists focus only on technology companies and tech-enabled ventures due to their potential for high growth.'* However, three of the entrepreneurs interviewed confirmed that most start-up companies in Nigeria follow the incremental (slow and steady) growth pathway and not the much desired rapid, exponential growth of a few technology businesses that investors focus on.

Furthermore, participant A0005PVC02 (venture capitalist) stated *'we invest only in high growth businesses that are solving some of the largest market problems in Africa – these are growth-oriented and impactful enterprises addressing large markets.'* Participant A0008PVC05 (venture capitalist) stated *'that the size of the market is important because investors want to be able to get their money out; they want to be able to put money into a business that can grow comfortably and can double or expand over time.'* Again, low engagement can arise if the size of the market is small with limited potential to scale. Participant A0005PVC02 (venture capitalist) noted that *'sometimes investors see intelligent entrepreneurs with brilliant ideas, but the market size is too small to attract the investors' interest.'* Unfortunately, there is a correlation between the market size and growth potential of a start-up venture or business.

Equally important is the viability of the business. According to information shared by participant A00010PVC07 (venture capitalist) *'low engagement can arise when the enterprise is not viable – not able to generate enough revenues regularly.'* Often, some investors place a lot of emphasis on the impact of the business on society. Participant A0005PVC02 (venture capitalist) said *'we look out for and provide the right capital to entrepreneurs using business to address societal problems and create huge impacts such as increased employment generation.'* Participant A0009PVC06 (venture capitalist) said *'we set the investment criteria for our funds in terms of the market or* *sector of operation, cash flow, and environmental impact.'* Nowadays, some investors specifically promote green business models and strategies for the benefit of society.

8.6 Environmental Factors

This section addresses the fourth research objective - to understand key environmental factors that hinder the engagement between investors and entrepreneurs. The researcher found out that many environmental factors influence the engagement between investors and entrepreneurs in Nigeria, and these are discussed below under these two sub-headings.

8.6.1 Weak Legal System

From this study, the researcher found out that the business operating environment in Nigeria is harsh for start-up ventures and this does not favour the smooth engagement between investors and entrepreneurs. The weak legal system and other institutions like the Nigerian system of policing lower alignment between investors and entrepreneurs. Under this circumstance, it is more difficult to uphold contract agreements. Participant A00019PEN8 (entrepreneur) confirmed that *'there's little trust in the Nigerian legal system and the judicial process.'* Participant A00024PPM03 (promoter) noted that *'conflict resolution is difficult because there is no transparent legal system.'* Participant A00019PEN08 (entrepreneur) noted that *'Nigeria is an entrepreneurial country, but entrepreneurs are always viewed as being fraudulent, so they fail to attract early-stage investment from global investors.'* The researcher found that business operations in Nigeria especially for small enterprises involve cumbersome and time-consuming processes which have negative effects on the alignment between entrepreneurs and investors. As one participant A00010PVC07 (venture capitalist) put it *'typically, there are many issues that entrepreneurs pass through in Nigeria, and it is like going through hell to accomplish simple tasks.'* Participant A00020PEN09 (entrepreneur) remarked that *'simple processes like payment of taxes can be burdensome.'* The Nigerian justice system is not as efficient as those of advanced countries in Europe and North America thus posing a lot of problems for the investment climate.

8.6.2 Operational Risks

In this study, the researcher found out that the Nigerian business environment is full of all kinds of operational risks that lead to low engagement between investors and entrepreneurs. There are many economic risks – for example, high-interest rates, high rate of inflation, and a volatile, unstable market with unsteady prices for goods and services. These multiple economic risks cause low engagement between investors and entrepreneurs. As one of the participants - A00024PPM03 (promoter) puts it *'a problem peculiar to developing countries like Nigeria is stakeholders' inability to make accurate economic forecasts for the future unlike the advanced countries where there is relative stability and one can make projections, make forecasts and rely on them.'*

Also, the researcher found that lack of infrastructure especially electricity generation that supports business operations is another cause of low engagement between investors and entrepreneurs. Participant A00011PVC08 (venture capitalist) noted that *'local investors and entrepreneurs face challenges relating to environment – in terms of access to power and other infrastructure.'* Again, another participant A0008PVC05 (venture capitalist) said *a major barrier to engagement is infrastructure challenges - for example, transportation business, an entrepreneur wants to go into the transport business, and then we see that the government is not fixing the roads, we see that there are lots of insecurity problems in the country – these issues will not attract investors to such entrepreneur.'*

The researcher found that the Nigerian government's constant policy changes are another cause of low engagement between equity investors and entrepreneurs. One participant A00019PEN08 (entrepreneur) pointed out that *frequent policy changes present an uncertain future which is unhelpful to entrepreneurs – the political and economic systems are not working for aspiring entrepreneurs.'* Another reason for low engagement is when entrepreneurs are operating in a heavily regulated market space. Participant A0008PVC05 (venture capitalist) said *'you see a brilliant idea promoted by an intelligent entrepreneur, but operating in a sector that is regulated, maybe the medical field – most investors will decline to invest because the risks are high and there will be too many hassles dealing with regulators.'* So, frequent policy changes, regulations, unfavourable debt facilities or high criteria for accessing credit combine to make it harder for entrepreneurs and investors to build a mutually beneficial business relationship.

8.7 Engagement Promotion

This section addresses the fifth research objective - to propose systematic interventions and develop a mechanism and platform for smart, easy engagement between business angels and venture capitalists and entrepreneurs in Nigeria. Participants were encouraged to come up with some possible solutions for the numerous challenges they have identified as facing the investors-entrepreneurship relationship and entrepreneurial finance in Nigeria. The potential solutions that were suggested by the research participants are outlined below under these five sub-headings.

8.7.1 New Funding Model and Financing Approach

Some participants suggested the design, development, and promotion of a new funding model and financing approach especially the ones that will take full advantage of creativity, intelligence, data (information), and digital (technology). Participant A00010PVC07 (venture capitalist) said that *'we don't provide free or repayable grants – though we collaborate with some organizations we have worked with who provide grants – also with governmental agencies that we partner with who* *can provide some grants to the entrepreneurs.'* He went further to state *'the offer of grant finance from donors prepares the entrepreneurs to accept equity financing.'* Participant A0001PBA01 (business angel) mentioned '*that one of the things we do is to offer alternative finance – some grant assistance to support several organizations, over the last five (5) years in Ethiopia, Nigeria, Rwanda, Sierra Leone, and Zimbabwe, to help support and grow their businesses.'* She also noted *'you are finding people looking at different ways of raising funds – for example, the crowdfunding approach is becoming increasingly popular and where businesses, put out their funding needs to the public, of interested people.'* Participant A00015PEN04 (entrepreneur) outlined that *many entrepreneurs will fancy a hybrid finance structure - a mixture of debt and equity-based financing instruments.'* He maintained that *'locally, entrepreneurs will want to know the cost of debt and be able to factor the cost into their business models and determine if they can afford to pay their financiers – the required or agreed principal plus interest or any top-up and still retain some profits from their business transactions.'*

Also, participant A0008PVC05 (venture capitalist) said *'so funding depends on multiple factors - if the venture is early stage, I use the convertible model, which is a hybrid convertible note to address the problems and risks of equity finance.'* One of the intermediaries – a promoter and participant A00023PPM02 advised that *'financiers and entrepreneurs should engage in designing a framework for entrepreneurial financing at the early stage which benefits significantly from improved methods and innovations around digital payments to advance entrepreneur-friendly financing model for the digital economy.'*

The researcher found out that both investors and entrepreneurs are interested in championing more strategic partnerships among the major stakeholders in entrepreneurial finance. For example, as participant A0001PBA01 (business angel) noted *'we work in partnership with some private equity* *firms that we've identified with an interest in Africa and trying to link them with other partners and some of the businesses we've worked with, who are perhaps ready for larger financing, and we currently looking at how can we get diaspora people, to be able to invest directly with different businesses in Africa, who aren't looking for the large amount that larger institutions would provide.* Participant A00015PEN04 (entrepreneur) stated *'in my opinion, there should be properly laid down rules and terms/conditions for partnerships and collaborations and entrepreneurs should be encouraged in this time to build relationships linking investors, lenders, donors etc together to fund projects.'* Participant A00025PPM04 (promoter) explained that *'now, the local investors must leverage technology and social networks to connect with foreign investors to collaborate and increase the available finance for entrepreneurs.*

Besides, the researcher found out that most investors are interested in using staged financing where possible to address their exposures to investment risks in the early stages of micro/small enterprises. Participant A0002PBA02 (business angel) identified that *'the choice between bulk and staged financing depends on several factors but staging is used more often because it allows investors to tie investment to the performance and progress of the funded ventures.'* Participant A0008PVC05 venture capitalist) maintained that *'the use of staging and syndication depends on the project and stage of start-up – for instance, the use of funds sometimes might be for asset financing which will require bulk financing whereas working capital can be scattered over time based on performance.'*

However, participant A00015PEN04 (entrepreneur) observed that *'some entrepreneurs may want in bulk if their upfront cost is so high but, staged financing is good for the entrepreneur because if they obtain all money at once, they will have access to excessive funds and there will be a tendency to spend lavishly on things they don't need.'*

Again, the researcher realized that apart from staging, investors always seek to use syndication with other investors to share investment risks and rewards. For example, one participant A0008PVC05 (venture capitalist) stated that *'if an entrepreneur is looking for small funds, I can go alone. But it's always advisable to syndicate - go in with partners – as a group, you know, that way you know that two good heads up is better than one because when there is something you don't see someone else will see it.'* Participant A0008PVC05 (venture capitalist) said we co-invest with others to reduce and share the risks of investing in many small enterprises. But participant A00014PEN03 (entrepreneur) stated *'both single investor and syndication are fine provided there is alignment among a group of investors, so that it makes things easier, because if we have to deal with so many investors at the same time, you know, sometimes it may be difficult in terms of strategic plans and decision making for the venture's success.*'

8.6.2 Innovative Exit Strategy

The researcher found out that both business angels and venture capitalists are working towards the promotion of an innovative exit strategy whereby the investment risk of the investors in the funded enterprise reduces slowly over time. The researcher noticed that to realize this objective, investors and entrepreneurs must agree in contracts that investors exit slowly by enabling the promoters or entrepreneurs to gradually buyback the equity of their enterprises in small fractions at a time over a certain period. Participant A0007PVC04 (venture capitalist) stated that *'the best exit scenario is when a company buys itself out gradually – it is agreed in a put option contract agreement that the entrepreneur start buying his/her company over several years.'* A second participant A00010PVC07 (venture capitalist) mentioned that *'we exit at the best time when the capacity of the business has been established and the company can run on its own.'* He continued *'yeah, we usually structure our investment agreements so that we have a clause which allows entrepreneurs* *to buy fractions of ownership whenever they can afford and the reason, we are doing so is to avoid putting entrepreneurs under too much of a burden on their cash flows, hence we spread purchasing and payment over several years like four to five years or more in advance.'* Participant A00017PEN06 (entrepreneur) stated *'when investors want to exit, I prefer that they exit in small batches and not at once. I mean step by step and not all at once as I do not want them to take away their funds out at once.'* Participant A0007PVC04 (venture capitalist) noted that *'we developed a contract to structure purchasing and payments for equity (ownership) alongside what works for the entrepreneurs as we don't want to stifle the business because of an improper payment plan or squeeze the cash flow of business when it not appropriate. We are aware that if the payment plan squeezes a business, it also squeezes your own investment. And if an entrepreneur is not able to repay, both the business and our investment will go under. If we put an entrepreneur under pressure, then it's no longer a 'win-win' for anybody.'* Participant A0009PVC06 (venture capitalist) explained *'we maintain a mutually beneficial relationship with entrepreneurs and as early-stage investors, we want to help young enterprises to continue the growth path by having skin in the game – we don't want to exit and see the company fail'. And we want to exit at values that maximize our return– but often we can only optimize without the company going down.'*

8.7.3 Technology and Platforms

The researcher found out that investors and entrepreneurs use new technologies to improve engagement and manage investment relationships in many ways. As participant A0001PBA01 (business angel) mentioned *'technology plays a key role in connection and collaboration between entrepreneurs and funders, for example, an interesting crowdfunding scheme using technology to connect different forms of investors including those in the diaspora thus opening up available* *investors pool.'* She went further to explain that *'entrepreneurs can use technology to build profiles of themselves and their enterprises on various online platforms.' And so, it assists me as a business angel that if I can at least find an entrepreneur's website, it gives me a point of looking to see that he or she is an entity, be able to see through pictures and video clips and hopefully provide funds.'* Participant A00010PVC07 (venture capital) noted *'with technology, it is easy for you to relate with your portfolio companies, you know, all the companies we have funded, as we have a dashboard for one. Also, we exchange documents as virtual documents with entrepreneurs. We have a robust electronic platform where we can view and keep track of the recent developments with the ventures and monitor different portfolios operations on daily basis.'*

As participant A00011PVC08 (venture capital) stated *'technology assists both investors and their portfolio companies to keep investment and business records plus generate necessary reports. Also, technology plays a significant role in network building, (searching/selecting), due diligence execution, fundraising, and entrepreneur training.'* Participant A00014PEN03 (entrepreneur) said that *'during the last 10 to 20 years, technology has advanced rapidly, and it has a significant role to play in my relationship with investors. I believe that every entrepreneur should embrace digital technology as it brings automation, efficiency, and transparency. It is useful for communicating and sharing information with investors who can visit our website to browse and glance through the information we have provided. Many entrepreneurs are now developing apps that will support their relationships with investors to share regular updates and first-hand information about their projects.* Participant A0001PBA01 (business angel) noted 'the *role of technology in addressing various gaps in the relationship between investors and entrepreneur - due diligence, fundraising and management gaps. In the management gap, even there are so many spaces that tech can step in, even for many people in the Diaspora who use varying social media platforms to help their* *portfolio firms with things like management using Twitter, WhatsApp, Zoom for meetings, and having people be able to even have some videos.'* Participant A0008PVC05 (venture capital) said *'that with social network and software technology, investors can strengthen referral networks, engage with entrepreneurs, you know, discuss with them, interact with them and some of the contents they are sharing online. I believe that absolutely, technology so critical for building relationships.'*

Participant A00023PPM02 (promoter) suggested *'a one-stop-shop or platform on the web where investors from around the world can view the summaries of business plans and entrepreneurs in Nigeria can create their online presence – showcase their logo/brand, present their one-page business plans and search/view all available equity finance sources in Nigeria and overseas. Also, some advisory consultants can support entrepreneurs like the 'YouWin' programme of the federal government of Nigeria.'*

8.7.4 Training, Communication and Conflict Resolution

With regards to the role of entrepreneurial education in advancing engagement between investors and entrepreneurs, the researcher found out that training is critical and is delivered in various formats through venture builders, investors, or formal institutions. Participant A0001PBA01 (business angel) noted *'we have the Afford Business Club, which is what I run, and they can see training as being a good relationship builder to provide those business skills that the entrepreneur looking for investment but maybe lacking the knowledge of how to prepare a business plan, financial structures, cash flows, and projections. And the training involves getting entrepreneurs to recognize the importance of getting things ready for attracting investment – providing education on those things that would make them more attractive to investors.'*

Participant A00023PPM02 (promoter) said *'as active promoters, we are trying to build an entrepreneurial ecosystem in Nigeria as connecting stakeholders – public/private sectors, looking to build a working environment for advancing entrepreneurship – teaching entrepreneurship and training entrepreneurs formally in schools and colleges and informally outside the school system. We know that entrepreneurship requires a lot of ingenuity and research into new discoveries, and we train entrepreneurs and investors about engagement and relationships through various networking sessions to connect and share information.'* She also explained further that *'separate organizations like LEAP Africa, Founders Institute Nigeria, EDC Enterprise Development Centre (Lagos Business School) that can act as venture builders providing training mentoring, and advisory as well as providing internship to teach everything about basics of entrepreneurship and build a viable entrepreneurial ecosystem to address environmental challenges.'*

Again, the researcher found out that a lack of efficient communication causes low engagement so open and honest communication is essential. Participant A0007PVC04 (venture capitalist) noted *'we always have regular interactions with entrepreneurs during their pre-and post-investment periods – we frequently speak with entrepreneurs to understand what their motives are as founders and what drives them to understand their background, motivation for setting up their companies, their visions, and challenges.'* Furthermore, participant A00017PEN06 (entrepreneur) indicated that *'to build long-lasting relationships with investors, that can last long we seek to communicate clearly so investors may understand the market, how the business run and how revenue is generated. So, at the end of each year, we will send out operations and financial reports and investors will easily understand most, of the information shared in the documents.'*

The entrepreneur added that *'because it takes a long term to raise funds which often is a distraction for entrepreneurs, it is prudent for entrepreneurs to know which investors are likely to fund them* *based on their communications or correspondences. This helps save time for entrepreneurs and assist them to engage better with investors.'* Another entrepreneur - participant A00021PEN10 said *'it is extremely important to communicate with your investors, your directors, your team, and partners using various media.'* Participant A00019PEN08 (entrepreneur) noted that *to 'maintain a good relationship with investors, openness and truthfulness is crucial in terms of sharing vital information – in an engagement in which both parties communicate plans and strategies.'*

Also, the researcher found that in Nigeria, investors and entrepreneurs apply risk management approaches to improve engagement and build relationships – for instance documenting steps to identify and manage risks as well as resolve conflicts. Participant A00017PEN06 (entrepreneur) noted *'both investors and entrepreneurs need to engage better by working together to design contract which shows how risks are managed and conflicts resolved in ways that are mutually beneficial.'* He maintained that *'managing conflicts are critical because the investors are embarking on risk engagements with their scarce capital – using hard-earned capital to support small businesses and entrepreneurs are also taking some risks with their non-financial capital as time and skills.'*

Participant A0007PVC04 (venture capitalist) stated that *'there are different types of risks related to financing MSMEs - some of which can be de-risked and managed while others like regulatory risk and technology risk are more difficult.'* He pointed out that *'often investors and entrepreneurs can work around certain risks whereas others cannot be managed - for example, when you're trying to build something which will require a significant amount of sophistication from a technology standpoint, and you don't get that quality of resources in terms of developers and human talent to build the product for you in Nigeria, there's nothing you're going to be able to do about it.'*

8.7.5 Package of Assistance

The researcher found out from the interviewed participants that most investors, as well as entrepreneurs, believe that improving engagement between the investors, entrepreneurs and other key players in entrepreneurship development requires enabling environments and a package of assistance from various stakeholders.

One of the business angels interviewed, participant A0001PBA01 outlined that '*with regards to the challenges that investors and entrepreneurs face in engaging with one another, some people bring up many interesting things to respond to these challenges*. *For instance, in terms of the management gap, there is an equity firm in Nigeria and what they do with their businesses that they want to invest in is both look at the financial needs and also the human resource need.* '*Several investors who have a real interest in African projects provide a package of assistance to fill that gap and do go the extra mile in helping to develop the vital infrastructure and needed structural skills to address various gaps.'* Participant A00018PEN07 (entrepreneur) noted that *various online communities and networks are emerging which serve as great ways to engage investors too – though entrepreneurs may need an intermediary entity like venture builders as fundraisers and matchmakers.'*

As participant A00010PVC07 (venture capitalist) pointed out *'our approach is unique as we provide multiple supports beyond finance, we have industry experts in every sector in every business that we invested, and each investment manager is properly trained to be on this path.'*

The researcher noticed that some business angels and venture capitalists talked about 'holding the hands of entrepreneurs' and facilitating the provision of various assistances. Participant A0007PVC04 (venture capitalist) mentioned *'we do a lot of hand-holding – provide support, mentorship, and advice, strategic decision, technical assistance, board strength and so on.' We* *offer a wealth of experience, expertise and relationships, and social capital, those small companies that we invest in, can leverage to grow, and become profitable.* He went on to explain *'so, in terms of cooperation and partnerships, in terms of holding entrepreneurs' hands for the challenges that they face, these are some of the things we bring to the table. It's not just about money. So, they need money, but at the same time to they also need advice, a lot of advice, especially in a market like Nigeria, where building a business is difficult because you're dealing with several local challenges, including infrastructure challenges. So, young entrepreneurs need partners who can hold their hands, not just give them money, but also guide them along the journey.'*

8.8 Chapter Summary

This chapter presented the research findings which show that in Nigeria, several factors contribute to the low engagement witnessed between entrepreneurs and investors which further results in an equity capital gap in early-stage enterprises. The most important step in addressing the alignment problem is for investors to provide an appropriate financing instrument that is entrepreneur-friendly at the initial investment engagement. Equally essential is that government should provide enabling environment that is attractive to investors plus supports entrepreneurial education. In the next chapter, discussions of the research results are presented.

CHAPTER NINE

Discussion of Results

9.1 Introduction

In the previous chapter, the empirical results or findings of this research were presented which showed that multiple factors are identified as responsible for low engagement between investors and entrepreneurs in Nigeria. In this chapter, the discussions on the interpretation and significance of these research results are presented. This includes how the research findings have contributed to the research objectives and thus, some existing practice, research, and theory. These discussions involve some appropriate elucidation and interpretation of the empirical results/findings presented in the last chapter. What the researcher believes are the reasons why the results occurred will be explained and the contributions to the field of knowledge evaluated with a focus on entrepreneurial finance. The findings will be compared with the scholarly literature and the conceptual framework that was previously developed in chapter 4 of this thesis.

9.2 Interpretation of Research Findings

The results of this exploratory research study confirmed that the relationship between investors and entrepreneurs is a difficult and complex one for several reasons. Again, the existing knowledge in entrepreneurial finance, many of which were highlighted in the literature review in Chapters 2 and 3 are limited. The discussions are presented based on the format of the research objectives. The result of the research analysis showed that several key issues hinder a mutually beneficial engagement between the Nigerian entrepreneurs and their local and international investors. Thus, improving the critical engagement or alignment between these stakeholders requires purposeful transformational changes which will in turn address the equity capital gap caused by the low engagement. There is a need for multi-stakeholder cooperation and collaboration to drive these changes at local, national, and continental levels. The changes will include the implementation of codification, digitization, and automation of ownership of funded start-up ventures which will be linked to creative financing, innovative ownership, smarter sharing, and more intelligent trading of the enterprises' ownership (equities or securities) in a unique way at either the start-up or scaleup stages.

Although the research findings indicate several separate causes of low engagement, however, on closer observation, it will be discovered that these causes are integrated. In general, it is all about the high risks and costs associated with investing in micro/small businesses and the illiquid nature of these businesses that increases the risks. At the root of low engagement between investors and entrepreneurs is the nature of entrepreneurial finance which is different from the more traditional corporate finance. The investor-entrepreneur engagement is viewed as managing the investment relationship which in turn relates to managing the risks and rewards of investing in a venture. Again, because this unique relationship is a complex one, many issues are collectively as well as independently considered by both the investors and entrepreneurs involved. Many scholars have argued that a good investor-entrepreneur relationship is vital to the survival of new ventures and not just the capital that investors provide (Shepherd & Zacharis, 2001; Cable & Shane, 1997; Sapienza & Korsgaard, 1996; Greenwood, 1995; Timmons & Bygrave, 1986;). Most of them believe that an investment relationship is more important than capital because, without a suitable relationship, it is impossible to obtain any financing from investors or grow the business and harvest associated investment rewards or return opportunities.

The available empirical evidence shows that the market for entrepreneurial finance is incomplete. For example, investors delay the provision of equity finance until entrepreneurs can prove that there are tractions for their products/services. However, many entrepreneurs need external equity finance as soon as possible to develop their products/services and achieve the necessary tractions faster. Also, the application of pure equity by investors in the financing of early-stage enterprises is inappropriate because of the peculiarities of equity finance, especially in terms of dilution and control. With the advancement of technology and the emergence of innovative payment platforms, new funding models are genuinely needed to address the issues that hinder entrepreneurs from accessing conventional debt and equity-based finance. This research work seeks to bring out an awareness on the need for stakeholders to combine data (information) and digital (technology) to facilitate the concept of structured finance as tradeable hybrid funds or investments for early-stage start-up and scaleup ventures in developing economies like Nigeria.

Although, several key issues have been identified from the research as the causes of poor alignment or low engagement in the relationships between equity investors and managers/entrepreneurs. All these factors do not influence their relationships in a similar way or even at the same level. The research results show that in general, some factors such as investment size, due diligence cost, low liquidity (illiquidity), trust issues, limited growth potential, and investment ownership have higher level of influence on the relationships between equity investors and entrepreneurs. The researcher observed that the four most influential issues from this doctoral research result on the investor-entrepreneur relationships are firstly equity or ownership of the private companies and the liquidity of the ownership. The other two issues are the exponential growth potential and market opportunity – that is how large is the target market for the entrepreneur's product or service. Figures 9.1 shows the coding matrix of the various factors.

A = New funding model (T)
B = New funding model (T)
Freq of A = 62
Freq of B = 62
Expected Freq = 5.7
B follows A = 19 (30.6%)
A precedes B = 19 (30.6%)
% of sequences = 32.2%
Z value = 5.88
P = .000

	New funding model (T)	Technology and platform (T)	Communication (T)	Package of assistance (T)	Due diligence (T)	Governance structure (T)	Illiquidity (T)	Growth-oriented business (T)	Goal incompatibility (T)	Trust issues (T)	Information asymmetry (T)	Inexperience team (T)	Investment size (T)	Control and micro-management (T)
New funding model (T)	5.88			1.53			3.9			-1.5				
Technology and platform (T)		6.62		2.31						0.9				
Communication (T)	1.67		1.03	2.58										
Package of assistance (T)	1.62	2.13	1.35	2.6										
Due diligence (T)					5.99					2.34	4.24			
Governance structure (T)						4.65					1.83			
Illiquidity (T)				1.14		1.63	2.38						1.24	
Growth-oriented business (T)								5.24						
Goal incompatibility (T)								2.24	1.41			1.91		
Trust issues (T)									1.36	2.59				1.04
Information asymmetry (T)					1.19				1.54			1.45	1.54	1.29
Inexperience team (T)						1.17	1.17		0.79		2.29	0.69	0.79	
Investment size (T)									0.79			0.69		1.1
Control and micro-management (T)								1.17	2.14	2.14				
Investment ownership (T)			0.98				0.87							0.96
Weak legal system (T)		1.2		1.65								1.65		
Operational risks (T)	-1.39											1.02	1.79	

Figure 9.1 Coding Matrix and Charting

9.3 Overview of Research Aims and Objectives

To proceed with the research discussions, it is important to first highlight the research aim and main objectives. As the researcher outlined in chapter 1, the aim of this research is - to investigate the dynamics of the complex investor-entrepreneur relationships in business angels and venture capital financing start-up companies in Nigeria. The summaries of the research objectives are:

To investigate how the problems of equity capital as a dilutive non-debt finance instrument hinders appropriate engagement between entrepreneurs and business angels plus venture capitalists

To explore entrepreneurs' preparedness and readiness for accessing equity investments from business angels plus venture capitalists within and outside Nigeria

To examine the barriers within the start-up companies or ventures that hinder engagement between investors and entrepreneurs

To study key environmental factors that hinder the engagement between equity investors and entrepreneurs.

To propose systematic interventions which will develop a mechanism and platform for smart, easy engagement of entrepreneurs of start-up ventures in Nigeria and investors – angel investors and venture capitalists.

9.4 Equity Finance Features

In this section, the discussion is on the first research objective – which is about how the issues around equity finance features hinder the engagement between Nigerian start-up entrepreneurs and local/international investors. The result showed that there are multiple problems with equity capital as a dilutive, non-debt finance instrument that hinder the engagement between entrepreneurs and business angels or venture capitalists. The foremost reason for low engagement between investors and entrepreneurs in the application of equity finance instruments at the early start-up or scaleup of young enterprises is that equity leads to the dilution of ownership of the funded enterprises. From the research result, entrepreneurs are usually reluctant to dilute or share ownership of their ventures which is mostly out of ignorance and sometimes due to greed. Also, raising equity from business angels and venture capitalists is both time consuming and expensive for entrepreneurs. However, a lot of entrepreneurs are always impatient when seeking external investments to start or scale their enterprises, and many of them do not understand that they need to prepare well in advance of seeking external investments – possibly up to one-year preparation is required.

Furthermore, equity capital investment requires that entrepreneurs provide detailed background information about their business activities before the enterprises are funded. Even though such information is critical in assisting investors to make informed investment decisions, unfortunately, results showed that such vital data often do not exist at the early stages of enterprise development. Some other times, it may be that the entrepreneurs do not have the know-how, or the tools required to generate and manipulate enterprise data emerging from business operations. Again, in Nigeria, there are multiple, unattractive regulatory and legal issues around raising equity for entrepreneurs as well as for local and international investors seeking to provide equity investment to enterprises at the early stages. The key research findings around the problems of equity finance features are discussed below under these three sub-headings.

9.4.1 Investment Deal Size

Considering the issues mentioned earlier that entrepreneurs and investors face with regard to raising equity finance, especially problems around costs, time, and legal and regulatory issues, the research result showed that most investors prefer large investment deal sizes. But, at the start-up stages, the investment sizes of deals presented by entrepreneurs to investors are often quite small and not attractive hence this leads to low engagement between entrepreneurs and investors. It is difficult to convince most investors to support small deals because the cost, time, and stress required are the same as those of larger deals. However, large individual projects and deals are scarce within the Nigerian start-up entrepreneurial ecosystem. An approach that some investors will need to deploy is to form syndicates of like-minded investors who invest in small clusters of multiple projects. For instance, if 10 entrepreneurs need investments of US$5 million in total - an average of US$500,000 each, between two to four investors can syndicate to provide these funds. This syndication and diversification approach will help investors to spread and share the associated risks and rewards of co-investing and joint ownership of multiple start-up ventures.

The empirical result also showed that another cause of low engagement is that equity finance is perpetual which is unattractive to many entrepreneurs. This implies that an entrepreneur will not be able to disengage with the investors when he or she wishes. This indicates that if for example, the enterprise is performing well, an investor may decide not to exit, even when the entrepreneur wants the buyback of the equity from such an investor. For this single reason, some entrepreneurs would prefer to seek straight debt finance which offers more freedom instead of equity finance. But each start-up venture with a potential for success will need a balance capital structure to avoid high debt burden as well as excessive, pre-mature dilution.

9.4.2 Control and Micro-management

Control and management of funded enterprises are important issues in an investor-entrepreneur relationship in Nigeria. The result indicated that many entrepreneurs are reluctant to relinquish control of their enterprises. This also leads to low engagement because, on one hand, entrepreneurs may not want investors to be involved in major business and management decisions while on the other hand, investors want to have a certain amount of power over the decisions made in funded enterprises. With regards to control, it is difficult to draw a fine line between when an entrepreneur and his/her team are being guided and when the team feel they are being micromanaged. As investors provide risk capital in the form of equity finance to entrepreneurs, they should have the right to exercise some level of control over the management of the funded company. But every entrepreneur's biggest fear is the loss of control of the venture being promoted. Investors are risk-averse and as a result, usually have high investment criteria which most entrepreneurs find hard to meet. The data from the research showed that most investors are reluctant to invest in brand new, pre-revenue enterprises and always prefer to fund already successful and proven ventures. There is a genuine need for a new funding model which will reduce the requirement for control as well as enable investors to support entrepreneurs and their teams at the earliest pre-revenue period.

9.4.3 Investment Ownership

This research showed that ownership related issues are another cause of low engagement that exists between entrepreneurs as owners of non-financial capital and their investors as owners of financial capital. Many entrepreneurs with limited knowledge of how equity-based financing works, do not want to give up ownership of their enterprises to investors. The lack of knowledge on how the equity finance model works and how it is closely tied to the ownership of the enterprise seeking funding can be costly for entrepreneurs. Entrepreneurs lacking adequate knowledge are usually unwilling to dilute the ownership of their companies. Yet, without such ownership dilution, it is impossible to obtain equity-based financing from conventional early-stage investors such as business angels and venture capitalists. This is a big challenge because investors must dilute the ownership of ventures to legally protect their investments. Again, entrepreneurs often fail to give enough time – as some investors suggested - up to one year or more in advance to prepare for the start and finish of the fundraising round. The research finding showed that it normally takes a long period for investors and entrepreneurs seeking financing to finalize negotiations, engagements, and processes leading to the provision of equity capital.

The result showed that overall, the process of obtaining equity financing from investors is not as straightforward as obtaining a loan from a lender. This is the major reason for low engagement between entrepreneurs and investors as many entrepreneurs get easily disinterested by the stringent conditions for accessing typical equity finance. An entrepreneur cannot just terminate an existing relationship with an investor as they can do with a bank by simply repaying the funds obtained. The research results showed that with equity finance, it is sometimes difficult for entrepreneurs to disengage relationships with their investors whenever they desire to do so. Hence, they are always reluctant to engage with investors in the first place even though they need financing support for their new enterprises.

What can the various stakeholders do to improve ownership and enhance investor-entrepreneur relations? What new alternative approaches can be applied to deal with excessive dilution and keep start-up entrepreneurs motivated to build profitable ventures? What roles can the combination of creativity, innovation, strategy, and technology play in enhancing ventures' ownership to improve the investor-entrepreneur relationship? Fresh approaches will include how to value a new or young company, how to execute the best dilution that is mutually beneficial, how to prevent investors from taking permanent, majority ownership shares at the early stages of enterprise development, and how to tackle cultural issues around ownership, and equally important how to creatively manage the risks plus costs associated with the ownership of funded ventures. Addressing these issues will assist unlock access to entrepreneur-friendly finance – one which possesses the best features of debt and equity finance and will be accessible and more affordable for entrepreneurs.

9.5 Entrepreneurs' Readiness for Equity Investments

The data from the research result indicated that entrepreneurs and their companies are often not investment ready when they approach external investors. The entrepreneurs' lack of investment preparedness or readiness proved to be one of the main reasons for a low engagement in the entrepreneur-investor relationship. This is further evidenced by the fact that at the early stages, investors provide funding to teams with certain soft skills, potential, and capabilities to manage both the financial and non-financial resources necessary to create values in the form of profitable growth-oriented businesses. The main research findings under entrepreneurs' preparedness are discussed below under the following four sub-headings.

9.5.1 Goal Incompatibility

The findings show that the incompatibility of entrepreneurs' and investors' goals is another reason for low engagement. This happens when investors and entrepreneurs openly and/or secretly pursue differing goals for themselves often to the economic disadvantage of the other partner. Improving engagement between investors and entrepreneurs will require fresh approaches which can assist in streamlining expectations and aligning the goals of both parties. Building a better relationship will be a new strategy which ensures that the goals pursued by an investor do not harm or hamper the goals of an entrepreneur. This can be difficult to accomplish and will require proper negotiations and compromise to achieve a win-win agreement.

The results suggest that it would be beneficial to the investment community if a system is put in place to discourage selfishness and greed as well as prevent investors and entrepreneurs from secretly benefiting from hidden pursuits. The findings indicate that low engagement can arise when the investors and entrepreneurs are motivated by greed and selfishness. The results confirm earlier findings that investors and entrepreneurs may act opportunistically towards each other. Also, there is evidence that in the Nigerian business environment, equity investors are often more powerful than entrepreneurs and will usually have the upper hand in contract negotiations and finalizing investment deals. Low engagement can emerge when investors and entrepreneurs expect or believe that one party will act opportunistically towards the other party. Dealing with goal incompatibility will require drafting the best investment contract that properly defines roles and responsibilities as well as outlines the expectations of both parties.

Available evidence confirms that investors find it difficult to engage with entrepreneurs who have little or no skin in the game and view such entrepreneurs as not fully committed or motivated if funded. One explanation is that if the proposed business or investment opportunity does not go well as expected, the entrepreneurs will walk away unharmed both personally and professionally. The findings show that most investors prefer to engage with only entrepreneurs who are dedicated and determined to succeed against all odds – those who have taken some initial risks and made personal sacrifices of efforts, time, and money prior to seeking equity investments from external sources. Hence, low engagement arises when entrepreneurs have not created enough equity and value in their ventures to attract suitable investors.

Improving the engagement between investors and entrepreneurs will require that both parties are bringing measurable values and making tangible contributions to the relationship. The result shows that entrepreneurs must refrain from seeking external equity financing too early or there should be a novel funding model provided to start-up entrepreneurs which will be somehow different from conventional equity instruments. The researcher proposes a structured finance instrument in the form of hybrid capital as a new flexible funding model from investors which is founder-friendly and have a medium to long-term view thereby assisting the entrepreneurs and founders to plan and progress on the entrepreneurial journey.

9.5.2 Trust Issues

Trust is an interesting topic in the engagement between entrepreneurs and their investors. The research results indicated that trust is central to a mutual relationship between investors and entrepreneurs. All the participants interviewed confirmed that in an environment of low trust, the engagement between investors and entrepreneurs will also be too low. Indeed, most business angels and venture capitalists believe that although the number of entrepreneurs in Nigeria seeking equity investment is high, only a few of them have the character necessary to attract investments from external sources. The findings confirmed that it takes time to build trust in any relationship. Therefore, equity investors must rely on past events or recent history and third-party references to predict the characters of entrepreneurs.

The results further showed that because equity investment is about the exchange of values – as venture ownership and money - the issue of trust is crucial for such exchange. Again, the findings suggested that there is a strong link between character and trust. However, in reality, both are difficult to predict or measure. To improve engagement between investors and entrepreneurs, it is essential that investors create models which can help to predict the character of entrepreneurs and how good or bad an entrepreneur can be at managing core resources, especially money.

The result showed that there is a link between trust and strength or weakness in the various Nigerian institutions. For example, the country's policing and legal system are weak, thus, the level of trust among individuals and groups is also low. Hence, engagement between entrepreneurs and investors in the country is usually low. Most investors are always reluctant to engage with the entrepreneurs operating in such an environment where the level of trust is low. This is a major reason for low engagement between investors and entrepreneurs in Nigeria. There is evidence from the empirical result that having some already existing social ties – like family, friends, and networks - can improve trust and enhance engagement between investors and entrepreneurs.

9.5.3. Information Asymmetry

This research result confirmed the findings of earlier scholars that outside investors often suffer from information disadvantages in their relationship with entrepreneurs especially at the early stages because whereas entrepreneurs know a lot about their companies as promoters, the investors know little and will depend so much on whatever information about the ventures is provided to them by entrepreneurs. The problem, therefore, is that investors do not believe that entrepreneurs seeking to attract financing are able to provide accurate pictures of their businesses, especially information about each company's products, customers, legal, structural, operational, and financial performance. The research indicated that sometimes entrepreneurs will intentionally hide certain useful information, but experienced investors use many different approaches to uncover the truth. Overall, investors rely so much on available information about enterprises that are of interest to them when thinking about any financing deals and making investment decisions. In view of this, a lack of access to useful information about an enterprise's past business activities or financial performance is a major cause of low engagement between investors and entrepreneurs.

Unfortunately, most entrepreneurs in Nigeria lack the knowledge or skill set on how to package relevant business data and present their companies' information in ways that will be interesting and attractive to investors. The role of trusted intermediaries like venture builders, accounting, and consulting firms is, therefore, to assist the entrepreneurs in this regard but there was evidence indicating that such intermediaries are scarce in Nigeria.

The findings confirmed that investors require entrepreneurs to provide full disclosures to facilitate the execution of investment transactions and if entrepreneurs fail to provide evidence-based facts not assumptions or hide vital information, most investors will most certainly refuse to engage with the entrepreneurs or withhold their investments. When there is a high information gap between investors and entrepreneurs for example due to a lack of financial, operational, and customer data, the engagement between investors and entrepreneurs becomes low. The research showed that the way forward is for entrepreneurs to leverage new technologies like accounting and project management software solutions to begin as early as possible to gather and record relevant data about their enterprise activities. This will allow the quick generation of required business reports that enable investors to conduct due diligence and background checks on entrepreneurs, their teams, and enterprises.

To address issues around information asymmetry for start-ups and scaleup ventures in Nigeria, one approach will be for stakeholders to support the promotion of a centralized national database management system where citizens' records including those of entrepreneurs can easily be checked as applicable in the more advanced countries. There is also a need to create a centralized national database of startup companies and MSMEs that stores regularly updated business records and make them easily accessible to key players like entrepreneurs, investors, creditors, and promoters.

9.5.4 Inexperienced Team

The research findings confirmed that at the early stages of venture formation, business angels and venture capitalists believe that teams and teamwork play a significant role in the success or failure of a young enterprise. Hence, they always look out for team dynamics – teams with some essential complementary skills. In view of this, an entrepreneur or a team's lack of experience is another major reason for low engagement between investors and entrepreneurs. Most of the investors – both business angels and venture capitalists - always insist on helping entrepreneurs to address any experience gap by recruiting the right talents – that is people with relevant but missing skillsets. The result indicated that no equity investors would take the risk of investing in inexperienced entrepreneurs or teams with little or no proven track record of success in their businesses or elsewhere. Deduced from previous discussions, it is nearly impossible for new ventures in Nigeria to obtain equity finance and this is a big challenge to funding of entrepreneurship in the country and Africa in general.

One critical issue that is tightly linked to a lack of experience is the passion and dedication of the entrepreneurs and teams. The result showed that investors can easily find out if or when a team is not highly motivated or passionate enough about the venture they are promoting and this leads to low engagement as investors prefer self-driven, dedicated, and determined entrepreneurs willing to grow their businesses at all costs and regardless of the obstacles on their entrepreneurial journey. The other issue from the research is limited knowledge of teams about entrepreneurship and entrepreneurial finance due to a lack of entrepreneurship education and training. This has been discussed in a separate section at the end of this chapter.

9.6 Enterprise Characteristics

The most revealing discovery of this research work is the fact that all business angels and venture capitalists simply do not invest in traditional MSMEs. Yet, based on information from the Nigeria Bureau of Statistics and PWC MSMEs survey (2020), there were over 17 million of these MSMEs in Nigeria as of 2019. The result of this research proved the existing literature that investors look for businesses with certain basic characteristics such as those that have the potential for rapid, exponential growth. Specifically, they search for technology businesses or tech-enabled ventures with many innovative and often disruptive business models whose customer base can increase quickly and expand nationwide. Unfortunately, majority of the Nigerian MSMEs fall outside these characteristics and often operate locally within their communities or regions. Hence, this is a major cause of low engagement or poor alignment between entrepreneurs and investors. One possible solution is to encourage the cluster of MSMEs under suitable venture builders which can assist investors monitor these MSMEs and manage the associated investment risks. The key research findings on enterprise characteristics are discussed under the following four sub-headings.

9.6.1 Due Diligence

To engage with entrepreneurs and their ventures, investors must search, screen, select and conduct due diligence on the targeted enterprises. Regrettably, the research result showed that one of the major reasons for low engagement is the difficulties and frustrations that investors experience in conducting effective due diligence as well as the related costs and time to perform the inevitable exercises. This is because investors fail to gather the relevant enterprise data quickly and efficiently either because entrepreneurs withhold necessary information or do not have such data that investors require to make informed investment decisions. The findings revealed that not all investors have the time and/or patience to conduct basic legal, team, and financial due diligence when required information is scarce or unavailable. Occasionally, there are arguments over who will pay the legal fees and other costs of conducting detailed due diligence.

Another cause of low engagement that emerged from the result is that investors prefer to search for investment opportunities within already profitable ventures with verifiable track records and customer tractions. Hence, new, young, and micro/small-sized enterprises do not survive the competition for investors' funds. These enterprises often fail or remain stagnant as they are unable to overcome the dilemma of not finding the financial capital to grow and on the other hand, not growing because of a lack of funds. The result indicated that another reason for low engagement is that entrepreneurs believe that investors simply do not want to take any investment risk and usually ask for all kinds of data – like evidence of business operations/processes, financial records, and audited accounts even when the ventures are not yet ready to provide such information due to the current stage which they are in their entrepreneurial journey.

9.6.2 Governance Structure

From the findings, entrepreneurs face multiple problems in promoting their enterprises and making them attractive to equity investors. One of such problems is their inability to organize desired management and governance structures which from the research is linked to the inability to find the financial resources required to hire various talents – build management teams, set up a board of directors as well as an advisory board. Most start-ups lack properly organized and functioning structures and will rarely succeed in attracting external investments. The lack of appropriate structures is thus a major cause of low engagement between investors and entrepreneurs. Many investors believe that entrepreneurs overlook the need to create structures however the evidence suggests that entrepreneurs are just helpless because they lack the financial capacity to build efficient and integrated management structures. The establishment of a well-balanced corporate governance structure is crucial to every enterprise regardless of age or size and vital for enhancing engagement between investors and entrepreneurs. The corporate governance structure assists managers and entrepreneurs to comply with the requirements of regulatory authorities in Nigeria and facilitates corporate banking, insurance, plus payment of taxes and meeting other obligations to the government. To address these multiple issues around structures for new and young companies, there is a genuine need for stakeholders to promote the emergence of venture builders as intermediary entities that provide such corporate governance structure. The roles of venture builders are discussed elsewhere in chapter 2 on review of the literature.

9.6.3 Illiquidity Challenge

The findings confirm that the illiquidity of young private companies, as a unique asset class, especially those at the early start-up stage is a major cause of low engagement between investors and entrepreneurs. Illiquidity simply means that the equities or ownership of start-up ventures are not easily or readily converted into money. This implies that investors cannot quickly trade the equities of these companies in the market. Investors are not attracted to small enterprises because they are highly illiquid, however, this challenge is worldwide and not one that is only peculiar to Nigeria. Most big businesses and publicly quoted companies are liquid as their equities can be purchased and sold on exchanges like the various stock markets in many cities worldwide. But private micro/small businesses do not enjoy this privilege as they face liquidity constraints that increase their risks. This research corresponds with existing literature which indicated that a major reason for the poor alignment between investors and entrepreneurs is the illiquid nature of start-up ventures. Investors always take various precautions when engaging with entrepreneurs because they are aware that once they invest, it is harder to divest or exit from the portfolio companies.

Hence, all investors take several measures in advance to ensure that their investments will not fail or be trapped in under-performing ventures. The findings suggest that occasionally investors are unable to exit when they want because doing so will lead to the collapse of the enterprises. In Nigeria for example, there is evidence that it is so difficult to sell private companies to other investors particularly when such companies are facing growth or management problems. To worsen the situation the stock market in Nigeria is still under-developed and most private companies are unprepared to issue initial public offers (IPOs) as a lot of processes are involved. Again, the management teams are usually not ready or even willing to buyback the ownership of their ventures from the investors. All the above challenges have made investing in small enterprises unattractive to both the local and international investors thereby lowering the engagement between entrepreneurs and investors.

The research findings indicate that stakeholders in entrepreneurial finance are taking advantage of data (information) and rapid advancements in digital technology especially emerging digital payment technology platforms to rethink and reimagine the relationship between owners of financial capital and owners of non-financial capital as investors and entrepreneurs respectively. For instance, they are developing creative systems and innovative strategies that address the illiquidity issues of young, private companies and other challenges within the entrepreneurial ecosystem. For example, many smart investors are designing innovative models to empower and encourage the management teams of funded enterprises to execute gradual equity buyback in such a way that investors can exit slowly over time. This is beneficial because gradual equity buyback and associated planned multiple exits by investors make the ownership of such funded ventures available, accessible, and affordable for the entrepreneurs and their teams to purchase in small fractions at a time over agreed periods which will be documented in the investment and ownership contracts. This approach is discussed further under the section on emerging innovative exit strategies that leverage technological advancements such as artificial intelligence.

9.6.4 Exponential Growth-oriented Business

At the beginning of the discussion on enterprise characteristics, it was noted that investors search for technology businesses or tech-enabled ventures with innovative and disruptive business models. The findings also prove that most investors look out for growth-oriented ventures – those with great potential to grow rapidly nationwide and where possible continent-wide. Many investors associate enterprise growth with the viability of such a venture and the market or sector in which it operates. The result showed that one other reason for low engagement between investors and entrepreneurs is that most start-ups are not high growth enterprises and therefore unattractive to investors. The size of the market is vital because investors are usually interested in ventures operating in large markets or sectors.

Thus, another reason for low engagement is that some start-ups operate in high risk and low return sectors of the economy and/or in markets that are not large. As the majority of these small businesses follow a slow but steady growth path instead of exponential growth, there is little or no engagement with investors. The challenge for entrepreneurs and promoters of start-up ventures is to figure out how to build start-up clusters to increase their success in attracting investors. The findings revealed that one of the best approaches is to create a holding company and enable multiple start-up enterprises to be connected to this holding company. A typical example of such a holding company will be a venture builder. Each company will operate independently but share certain resources. The holding company will assist each small enterprise to fundraise, provide investment monitoring and manage the relationship with investors. This significantly minimizes investment risks to investors and reduces costs to entrepreneurs. Venture builders are discussed later in this chapter.

9.7 Environmental Factors

In this section, the fourth research objective is discussed – which is about the environmental factors that hinder the engagement between investors and entrepreneurs in Nigeria. There are several environmental factors that influence the investor-entrepreneur engagements in Nigeria, and these are discussed under these two sub-headings.

9.7.1 Weak Legal System

This research confirms the literature with regards to the weakness of the Nigerian institutions especially the legal system. Small enterprises are particularly in a disadvantaged position because the business operating environment in Nigeria is harsh to them in many ways. For instance, there is evidence that the justice system favours only those big business entities with money and good connections. Most of the big businesses tend to suppress the small ones in contract decisions and executions because they have the financial muscles and networks. The weakness of the legal system and other institutions like the corrupt system of policing lead to low engagement between investors and entrepreneurs. This is because investors especially those from overseas do not trust the Nigerian legal system and are always concerned that contract agreements may not be upheld in case of disputes. The lack of a transparent justice system makes conflict resolution difficult – time-consuming and costly.

In addition, the findings suggest that the inefficient and wasteful business processes further lower the engagement between investors and entrepreneurs as it takes money, time, and connections to get most things done within the operating business environment. This leads to increased dishonest and fraudulent activities as many entrepreneurs try to cut corners to win contracts or get other things done. The research findings show that accomplishing some basic tasks, especially things linked to the government like registering businesses or paying taxes are burdensome and make the investment climate so unfriendly to investors thus reducing the entrepreneur-investor engagement.

9.7.2 Operational Risks

The research results confirmed that the ease of doing business in Nigeria is low while the cost of doing business is extremely high. According to reports from the World Bank, Nigeria is among the countries ranked in the bottom table of a 'global ease of doing business' hierarchy (World Bank, 2020). The Nigerian business environment is full of multiple economic and operational risks that lead to low engagement between investors and entrepreneurs. Some of the examples of economic risks from the findings include high-interest rates, minimum wage, currency exchange and foreign transfer controls, high rate of inflation, and a volatile, unstable market with unsteady prices for goods and services. Also, some business operational risks identified include poor quality assurance control, frequent policy changes, and general instability among others – all of which make it impossible to project accurate economic forecasts for the future.

Another source of frustration for big and small businesses is the insecurity challenge and lack of infrastructure facilities, particularly power generation which increases the cost of doing business. The results show that this directly causes low engagement between investors and entrepreneurs as most investors are aware that security issues and lack of basic facilities increase expenses for businesses. Again, certain heavily regulated markets or sectors cause low engagement as most investors are reluctant to invest in such markets. Overall, the findings reveal that the general socio-political, financial, and economic systems in Nigeria are unfavourable to small enterprises and investors desiring to support them. For instance, it is always difficult for entrepreneurs and their small businesses to access credit from the local bank and investors know that if they invest, it will not be easy for them to exit by encouraging the entrepreneurs to take up loans in order to buy the investors out. This predicament lowers investor-entrepreneur engagement making it impossible for reliable connections linking entrepreneurs, investors, and creditors together in a networked, mutually beneficial business relationship.

9.8 Engagement Promotion

In this section, the results of the fifth research objective are presented – which are about the systematic interventions proposed by the interview participants for addressing the various causes of poor alignment or low engagement experienced in the investor-entrepreneur relationship in Nigeria. These suggested solutions are designed to enable stakeholders to plan, design, and develop a new mechanism and platform for smart and easy engagement between Nigerian entrepreneurs and investors (business angels and venture capitalists). The suggested proposals for solving the investor-entrepreneur engagement problems are discussed under the following five sub-headings below.

9.8.1 New Funding Models and Approaches

It is clear from this research work that a pure equity-based financing contract is inappropriate for most early-stage, young ventures in Nigeria and other developing countries in view of the various early-stage financing challenges that face both investors and entrepreneurs. The findings indicated that it is possible to leverage data and digital to facilitate the design, development, and promotion of new funding models that can overcome some of the problems of a conventional equity-based finance instrument. Furthermore, the research study confirmed that investors can introduce a novel hybrid finance instrument as structured finance that is anchored on innovative ownership and intelligent trade and exchange whereby entrepreneurs are empowered to gradually buyback the ownership of funded ventures in small fractions each time over an agreed period (trading window). This gradual ownership buyback or equity repurchase will happen at an agreed fixed price (valuation) and fixed period (duration). This will be an entrepreneur-friendly financing approach that can leverage cloud-based software (financial technology) solutions plus emerging digital payment innovation and technology to enhance more efficient purchase and repurchase of start-up companies' ownership. In addition, by advancing more strategic collaborations, it is possible to mix up equity from investors with a repayable grant from other non-profit organizations and supporters of micro/small enterprises such as governments and non-governmental organizations.

The worldwide reach of digital technology and social networks means that traditional investment risk management approaches like staging and syndication as well as more recent crowdfunding models can be improved to enable more efficient sharing of investment and ownership risks and rewards within the start-up space. The trading of ownership of private start-up companies via the equity purchase and repurchase transaction cycles will be critical to investment risk management for these companies when funded with structured finance as hybrid capital.

9.8.2 Innovative Exit Strategy

The findings confirm that investors are concerned about exit (divestment) from start-up enterprises as much as they are about the entry (investment) in such enterprises. As it was revealed in the discussions under illiquidity challenge, exiting from small businesses especially those in many of the developing countries like Nigeria is a predicament facing investors. The connected problems around exit difficulties and illiquidity or non-tradeable features associated with small enterprises lead to low engagement between investors and entrepreneurs. The research results suggest that the processes through which stakeholders in Nigeria and other countries in Africa seek to fund, incubate, and nurture the start-up and scale-up of young privately-owned enterprises are outdated. The participants who were interviewed maintained that with advances in data, digital, and social, the time is right for more creative ideas that integrate digital technology, innovation, strategy, and transformational entrepreneurship to improve efficiency in the utilization of the limited financial capital available to Nigerian start-up businesses as equity-based finance.

As narrated by the research participants, a few business angels and venture capitalists recently started fresh initiatives in Nigeria aimed at promoting an innovative exit strategy whereby the equity investors' risk exposures to the funded enterprise are firstly insured by using some of the enterprise ownership portions as collateral or security. Secondly, the risk exposure reduces slowly over time as the collateralized ownership portion is traded. This can be viewed as an intelligent trade and exchange scheme whereby the investors empower entrepreneurs via a new type of investment, ownership, and trading contract agreement to gradually buyback the ownership of their funded ventures. This model is presently at an early pilot stage and will be tested against potential legal and regulatory issues and other possible implementation challenges. The underlining concept is that investors and entrepreneurs frequently and privately trade and exchange ownership (securities) of funded enterprises. Investors and entrepreneurs are expected to discuss and document the terms and conditions for engaging in this unique tradeable investment as well as understand the various exit options available prior to signing financing contracts and finalizing such investment deals. An entrepreneur repurchases equities in small fractions at a time as the enterprise generates steady recurring revenues from business activities. However, one possible predicament for entrepreneurs which has been observed by participants is that their enterprises may not be able to constantly generate enough revenues to meet the required regular repayment obligation. The other challenge with this unique multiple small exit scheme and gradual equity buyback is how to determine the appropriate valuations of the enterprises that are traded in this way. The research confirms the existing literature that valuation has always been a source of conflicts and disagreement between investors and entrepreneurs.

9.8.3 Technology and Platforms

The findings confirm that investors and entrepreneurs should use new technologies to address management gaps and improve engagement plus manage investment relationships better. There are many useful online platforms for fundraising. Specifically, new technology has revolutionized crowdfunding which enables financiers to share the risks and rewards of investing in high-risk micro/small enterprises. It is now possible for entrepreneurs to create online profiles for their private companies to make it easy for investors to find more information about them. In addition, entrepreneurs can privately and securely share sensitive enterprise data directly with investors using the power of technology. With the help of accounting software, it is easier and faster for entrepreneurs to generate and share certain financial data/documents with their investors. Also, advanced technologies assist both investors and entrepreneurs to maintain updated records of investment and business activities enabling reliability, automation, efficiency, and transparency.

The research results suggest a local one-stop-shop and/or online platform on the web where investors from around the world can view the summaries of business plans of enterprises and the entrepreneurs in Nigeria promoting them. On such a platform, entrepreneurs will create their online presence – showcase their logo/brand, present their one-page business plans, and search/view all available structured finance and equity finance sources in Nigeria and overseas. The platform will have a full list of trusted intermediary entities promoting entrepreneurship in Nigeria – such as venture builders, fund managers, banks, and insurers plus consulting, legal, accounting, and technology firms.

The findings prove that the development of new technologies and online platforms can play multiple roles in improving the engagement between investors and entrepreneurs. There are now various software technology solutions that investors can use to search, screen, profile, and select companies to invest in and manage investment contracts with portfolio companies. Cloud-based computing and software revolution enables enhanced interaction, collaboration, and partnership. Emerging mobile and digital payment technologies will enable more open and efficient investment transactions. Online platforms like WhatsApp, Zoom, and Skype facilitate cheaper communication while Twitter and LinkedIn are powerful social network platforms for connecting and cooperating.

9.8.4 Training, Communication, and Conflict Resolution

The research results show that entrepreneurs should obtain mandatory entrepreneurial education to stand the best chance of succeeding in their entrepreneurial journey. Specifically, those seeking to engage with external financing at the early stages of their ventures must obtain relevant training in entrepreneurial finance and fundraising to engage better with providers of financial capital especially business angels and venture capitalists. The findings suggest that the focus of such training should be on enterprise management and non-technical, soft skills or interpersonal skills that are required to manage the resources of small enterprises. Some of these transferable skills are negotiation, problem-solving, communication, conflict resolution, networking, teamwork, work ethics, leadership, time management, creative thinking, and resourcefulness among others. Again, there is evidence that education and training will assist entrepreneurs to build their characters and show positive attitudes like resourcefulness, compassion, respect, honesty, trust, friendliness, courtesy, confidence, integrity, loyalty, politeness, humility, fairness, kindness, reliability, conscientiousness, and self-discipline.

The research findings maintain that nowadays, there are various ways to deliver training through online and offline modes as well as through informal and formal training agencies including trusted intermediaries like venture builders and other promoters of entrepreneurship in Nigeria. The results show that both the investors and entrepreneurs should participate in teaching around engagement issues and challenges to establish trust and build long-lasting, mutually beneficial relationships. Entrepreneurship education and training are discussed further in the section below.

9.8.5 Package of Assistance

The findings indicate that in Nigeria, entrepreneurs and their start-up companies operate their business activities in an environment that is harsh and unfavourable, and where the entrepreneurial ecosystem is not networked together as one would expect. The providers of financial and non-financial resources are not efficiently cooperating and collaborating to reduce the challenges that these entrepreneurs face. Because of this, empirical results show that there is a need for a package of assistance provided to entrepreneurs by multiple stakeholders to reduce and manage risks in the operating environment. In particular, both the local and national governments should provide an enabling environment that supports entrepreneurs and their start-ups as well as helps them relate better with domestic and foreign investors.

At the early start-up and scaleup stages, entrepreneurs need human resources as well as financial resources to build the foundation of their businesses. The stakeholders – government and trusted intermediary entities or promoters like fund managers, venture builders, insurers, bankers, plus consulting, legal, and accounting firms should provide multiple supports and assist the entrepreneurs to address management gaps and infrastructure issues, plus building online communities. Everyone including the business angels, venture capitalists, and venture builders should be actively involved in hand-holding of inexperienced entrepreneurs and their teams and facilitating the provision of various assistances – fundraising, mentoring, guardian, technical support, and board strength. These supports will require purposeful, strategic cooperation, collaboration, and partnerships.

9.9 Stewardship-Trust-Agency Framework for Investor-Entrepreneur Relationships

In chapter 4, the stewardship-trust-agency framework was designed as the conceptual framework for this doctoral study. Based on the framework, the researcher makes a research proposal for a multiple-step investment entry linked to investment harvesting, and multi-stage divestment or exit relationships between entrepreneurs and investors – BAs and VCs. The research proposal is a 'three-step investment model or process' for young start-ups in certain high-risk business environments like Nigeria where there is low trust, high agency cost, low liquidity of small private companies' equities, plus high operating risks and transaction costs among many others. The goal of three-step financing is to address these issues plus others which came out from the results of this research as the root cause of poor alignments between the investors and entrepreneurs. In this section, the stewardship-trust-agency framework is discussed as an approach for promoting the three-step financing model for early-stage investing in Nigerian start-up companies.

A typical scenario is where investors provide three investment instruments with varying ownership features at different periods over the lifetime of the investment relationship with the targeted entrepreneurs and their ventures. In the early and mid-stages of entrepreneurial finance, the majority liquid ownership portion of the funded venture is mobile initially when the entrepreneur acts as a steward – that is part of ownership is traded and exchanged in a certain way as agreed in investment contracts between investors and entrepreneurs. Thereafter, the ownership becomes static in the second stage of financing when the investors as principals provide equity capital and the entrepreneur as an agent receives the funds. As the relationship develops over time, the trust between investors and entrepreneurs increases and entrepreneurs acts as more reliable trustee towards the late stages of the engagement. At this last stage, there is zero ownership contract – that is no ownership is directly involved – that is investors do not own the venture because they provide venture debt. The above explanation means that there will be three separate funding steps for three different funding types in the investment and ownership relationships between investors and entrepreneurs. Therefore, the researcher proposes that investors and entrepreneurs should engage in all three steps to build a cooperative and mutually beneficial relationship. As shown in Figure Table 4.3 below, the first and most important funding type is flexible structured finance in form of hybrid capital whereby the equity ownership of the invested funds and funded companies are partially liquid and tradeable.

This first step of the three steps is useful for building trusted relationships between investors and entrepreneurs. In this first step, the harvesting option is through the revenues generated by the ventures and their entrepreneurs. Also, the exit is in the form of a simple, gradual equity buyback whereby the entrepreneur is empowered to slowly buyback the ownership of the funded company. The second step of financing is based on equity finance after the entrepreneurs have achieved some pre-agreed business milestones and performance targets. Thus, the equity finance is provided by investors as follow-on funding anchored on static ownership and dilution of ownership. In the third and last step, an entrepreneur who needs additional financing but prefers not to further dilute the funded company's ownership will request debt-based finance often called venture debt.

Overall, the three-step financing model which is anchored on the stewardship-trust-agency framework addresses the problems associated with profit and interest as harvesting or pay-out options in early-stage ventures in developing countries like Nigeria. Also, the challenge of exit and illiquidity of these start-up companies. Lastly, the capital structure problem of underleveraged or overleveraged private companies. The three-step financing promotes revenue-based, gradual equity repurchase (ownership buyback) as the pay-out and exit options of choice for initial external investments into young private companies at start-up and scaleup growth stages. The use of hybrid capital (structured finance) in the first of the three-step removes issues around leverage plus the problems associated with conventional investment harvesting through profit and interest of equity finance and venture debt respectively because the first step hybrid finance is performance-based and revenue-based. In other words, it measures the entrepreneurs' business performance through payment of revenues which also assists them to achieve the desired investment readiness.

The goal of three-step financing is to leverage innovation and technology to tackle the problems of liquidity, risks, leverage, and various gaps at financing levels such as wealth gap, equity-debt finance gap, plus equity and debt supply and demand gap. In terms of leverage, millions of private companies in Nigeria are either underleveraged or overleveraged. These are new or existing companies of various sizes, at different growth stages, and operating in multiple sectors of the economy. For several complex reasons including low liquidity and high risks, underleveraged private companies have too little debt (insufficient debt) because they fail to raise debt and equity-based finance from creditors and investors. On the other hand, overleveraged private companies have too much debt (suffer from excessive debt burden) because they fail to raise equity finance from investors. The failure to raise equity and debt leads to a huge gap in the supply and demand for equity and debt finance in Nigeria and in other African countries. While most underleveraged private companies fail to take the corporate tax benefit of debt investment, overleveraged private companies fail to take the risk-sharing benefit of equity investment. The best model for start-up private companies will be one whereby optimal balance capital structured is achieved.

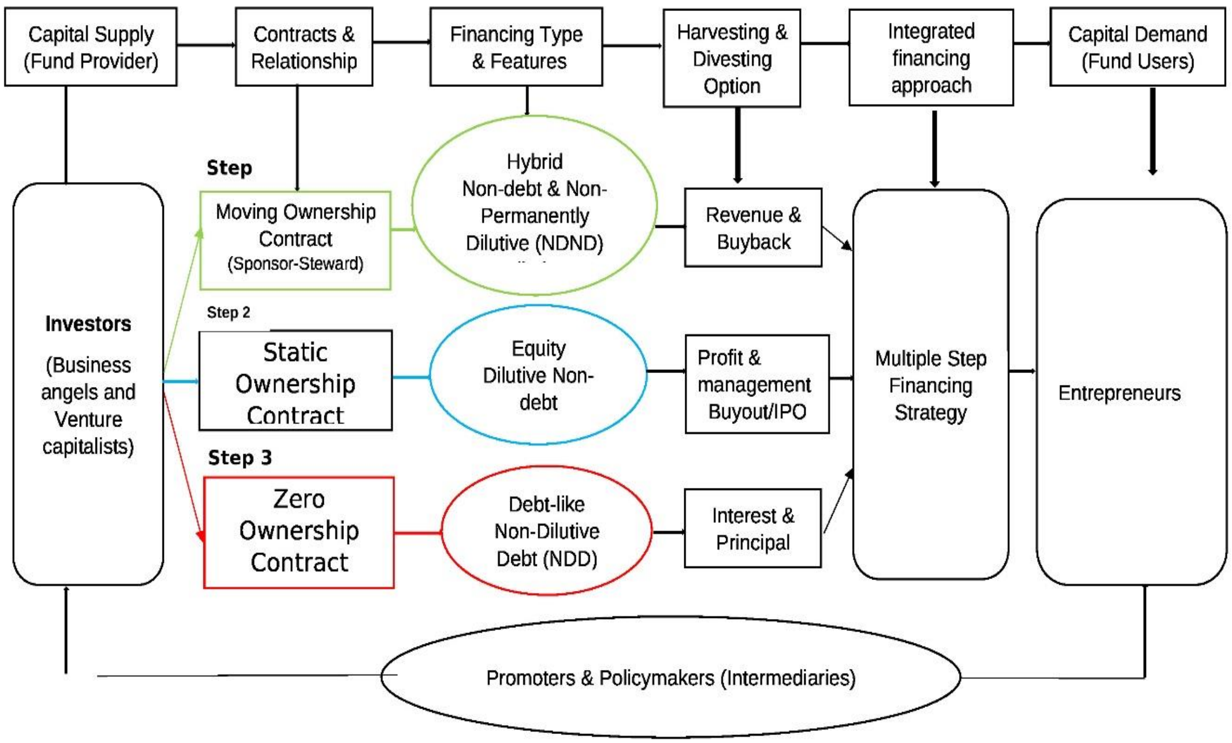

Fig. 9.2 The three-step financing model of the stewardship-trust-agency framework

9.10 Stewardship-Trust-Agency Framework as Performance and Revenue-based

This research study maintains that an improved investor-entrepreneur relationship should use data (information), digital (technology), and social (cooperation) to advance investment and trade. Thus, it is important for entrepreneurs as stewards to sell majority ownership to investors to receive tradeable hybrid capital investment from the investors – acting as sponsors. Thereafter, stewards will buyback the majority ownership over an agreed price and period (trading window) based on revenues. In this framework, the investors will provide hybrid funding as individuals or syndicates as well as in multiple stages based on the performance of entrepreneurs and their ventures. At the end of the trading window for hybrid finance, investors can decline to re-invest for any reason including performance or decide to invest in equity finance which can be followed by debt finance. Thus, the multiple steps financing framework is a performance-driven and reward-based funding scheme developed by the researcher to champion the integration of revenue-based, profit-based, and interest-based approaches as the hybrid, equity, and debt financing respectively in promoting more inclusive entrepreneurial financing.

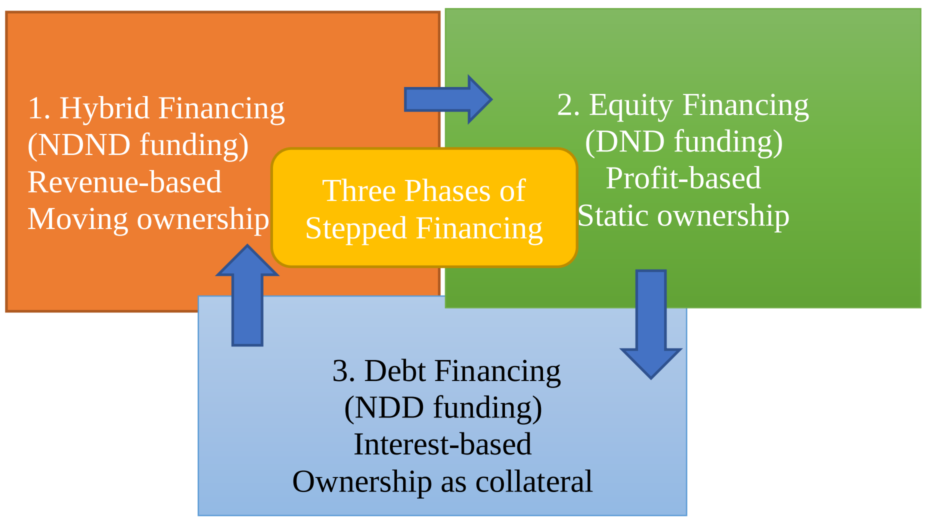

Figure 9.3 The Three-Step Financing of Sponsorship-Stewardship Framework

The figure shows the flow from hybrid finance (step one) to equity finance (step two) and venture debt finance (step three).

The linkage of the three-step financing types – from hybrid to equity to debt is shown in the three interconnected blocks in figure 9.2 above.

9.10.1 Ownership, Management/Control, and Cashflow

In this section, the proposed three-step financing relationship between entrepreneurs and investors is examined further in relation to what happens to the venture's ownership, management/control, and cash flow and with regards to what has been studied by early scholars such as Jensen & Meckling (1976) and Grossman & Hart (1986). Indeed, the role of ownership and control of companies in understanding the investment relationship between investors and entrepreneurs has been of interest to scholars for a long time. Ownership is simply a combination of rights and responsibilities associated with a specific asset (Yin, 2000) and the scholar states that these rights and responsibilities may or may not be clearly defined in many legal and socio-economic terms. Ownership as presented by Grossman & Hart (1986) is the ability of an owner to prevent the access and use of assets by other entities and the researchers maintain that ownership is vital in entrepreneurial financing as it helps to design financial securities in ways that reflect ownership, control, and cash flow rights. In his research on ownership and control rights in entrepreneurial financing, Gompers (1997) notes that investors use convertible securities to limit the entrepreneurs' incentives to take unnecessary business risks.

According to Salman (1990), control gives a summary of the common governance structures that typify the VC industry. Gompers (1995) explores the periodic reviews by venture capitalists and shows that staged capital infusion is a means of control that is important in minimizing agency costs. Cash flow refers to revenue generated by a company minus the cost of delivering a product or service demanded by customers at the lowest possible price. Positive cash flow companies will usually survive and thrive in an economy. In the new three-step relationship model, what happens to management/control and cash flow depends on whether ownership of the funded venture is partially mobile or static. For example, in hybrid financing - non-permanently dilutive, non-debt (NDND) contract with moving ownership, this research proposes high stewardship and flexible control with frequent cash-flow and regular payments made by entrepreneurs to investors because the contract is revenue-based and performance-dependent. On the other hand, in equity financing

– dilutive non-debt (DND) contract with static ownership, the agency is high and there is rigid control with unsteady cash flow and irregular payments by entrepreneurs to investors because the contract is profit-based. Lastly, in venture debt financing - a non-dilutive, debt contract, there is zero ownership and rigid control as investors have already invested equity in the venture. As shown in Table 9.1 below, there is regular repayment of the debt by entrepreneurs.

Table 9.1 The Ownership, Control and Cash flow features of three-step financing contracts

Financing Contract Types	**Ownership**	**Control**	**Cashflow**
Step 1: NDND – hybrid finance	Moving ownership	Flexible control	Revenue-based (steady cash-flow)
Step 2: DND – equity finance	Static ownership	Rigid/Tight control	Profit-based (unsteady cashflow)
Step 3: NDD – venture debt finance	Zero (No ownership)	Rigid control	Interest-based (steady cash-flow)

9.11 The Challenges of Investment Harvesting and Exits

In investment strategies for young private companies, harvesting of profits, and subsequent exits (divestment) are hard. For example, according to Mason & Botelho (2016), many business angels and venture capitalists will inevitably have in their portfolios, certain companies which will likely fail; some of which are described as 'living dead' because even though they will continue to trade, they are unable to generate a profitable exit and others which offer good prospects of achieving a successful exit. In view of this, successful investing is all about how to prudently adopt tactics to minimize investment losses and maximize profitable returns. McKaskill (2009) suggest that it is important that investors avoid any additional losses from the investments other than the money invested. For example, a damaged reputation from a broken relationship, ongoing legal expenses arising from disputes, and costs of winding down failed ventures must be minimised. To build a stronger relationship, investors and entrepreneurs need to plan together and agree on the best pay-out option and exit route. The use of tradeable hybrid finance during the first step of financing, assist investors and entrepreneurs know in advance the exact expectation in terms of the price of equity repurchase and also be clear about the exit pathway thus making them smart and successful. This approach helps investors to know which teams and companies will most likely survive and excel. As suggested by May & Simmons (2001), investors must be able to identify any living dead private company at an early stage and take one of these actions – sell their equity, merge with a competitor, turn it over to the management or simply close it down. Interestingly, the challenge of managing 'living dead' investments has not attracted enough attention in the entrepreneurial finance literature (Ruhnka & Feldman, 1992).

9.12 Chapter Summary

This chapter presents an overview of the research findings which fulfilled the research questions posed by this study. The first research question on equity finance features presents findings in three areas as investment deal size, control and micro-management, and investment ownership. Also, the second research question on entrepreneurs' investment readiness presents results on four key issues - goal incompatibility, trust, information asymmetry, and inexperienced team. Again, the third research on enterprise characteristics discusses findings on due diligence, governance structure, illiquidity, and growth-oriented business. Furthermore, the fourth research question on environmental factors presents results on issues around weak legal systems and business operating risks. Lastly, research findings on engagement promotion discussed the new funding models and approaches with alternative investing, controlling, harvesting, and innovative exit strategy enabled by technology and platforms plus training, communication, and conflict resolution as well as a package of assistance to start-up ventures.

CHAPTER TEN

Conclusions & Recommendations

10.1 Introduction

In the previous chapter, the interpretations of the research findings were presented. In this chapter, a conclusion is drawn to the research focusing on the key contributions, main recommendations, limitations, reflections on this study, and directions for future research. This study explored the dynamics of a complex investor-entrepreneur relationship in business angel and venture capital financing of start-up companies in Nigeria. Theoretically, it presented some of the theories relevant to entrepreneurial finance like agency, trust, stewardship, and capital structure theories among others. In the previous chapters, the various steps and stages of this exploratory study linking the review of academic literature to methodology, data collection and analysis to research findings and discussions were discussed. One would expect to see mutually beneficial engagements, full alignments, and agreements but what is mostly obtainable is a low engagement (disengagement or non-alignment) between equity investors and entrepreneurs. This chapter concludes the study by presenting the summary of research findings, and key contributions – theoretical, policy and practical plus the recommendations and suggested future research are presented.

10.2 Summary of Research Findings

This empirical research acknowledges the vital role of a good relationship between entrepreneurs and equity investors in the successful financing and development of start-up ventures in Nigeria. However, this work notes that several issues cause poor alignment between entrepreneurs and investors. This study has identified and grouped the multiple complex problems and challenges in the investment relationship between Nigerian entrepreneurs and their equity investors into four main categories as equity finance features, entrepreneur's investment readiness, the characteristics of the enterprise, and environmental factors.

- For equity finance issues, the research found that pure equity-based finance is not the most appropriate first external funding model for start-up companies in Nigeria due to the challenges around raising equity-based funding faced by entrepreneurs of start-up ventures who have little or no track record of business success. In addition, available investment deal sizes are always too small for most investors considering the high transaction costs like the costs of due diligence and contracting prior to investing in a venture. Furthermore, equity finance is long-term and an expensive form of finance unsuitable for young start-ups especially in terms of meeting the investors' pay-out and exit expectations as well as the requirements for successful due diligence and investment negotiations. The other problem with equity finance is loss of control because many entrepreneurs resist being controlled and micro-managed. Ownership dilution and equity sharing are also other issues that cause low engagement between investors and entrepreneurs who are reluctant to give away equities in their small private companies at the early stages.

- In terms of the entrepreneurs' investment readiness, the findings indicate that poor alignment exists because entrepreneurs are often unprepared and not ready to attract equity financing to their start-up companies. For example, an entrepreneur's and an investor's interests may be divergent and their goals incompatible and unaligned. There is potential for opportunistic behaviours towards each other. Low engagement arises when investors believe that the entrepreneur has little or no commitment to the venture especially financially which implies that the entrepreneur has not taken sufficient financial risks by investing in the venture. There is the issue of trust, especially regarding the character of the entrepreneurs seeking funding. The research showed that trust is at the core of all investor-entrepreneur relationships and that trust takes time to be developed and established. But the research confirmed that within the Nigerian business environment, the level of trust is low even though trust is the engine of business transactions. As a result, the lack of trust causes low engagement in the relationship between entrepreneurs and investors. Information asymmetry also leads to poor alignment as the research result show that entrepreneurs know a lot about their ventures whereas investors often lack relevant knowledge about the ventures seeking funding. This is mainly because entrepreneurs fail to keep sufficient records of their business transactions, or they purposefully refuse to disclose certain vital information. Again, the findings revealed that start-up ventures are often made up of teams of inexperienced entrepreneurs who lack the core competencies and capabilities required to attract and manage equity investments.

- On enterprise characteristics, the research findings showed that because start-up companies are new ventures, they often lack adequate governance structures necessary to attract external equity financing from business angels and venture capitalists. These companies also lack a track record of business transactions with financial intermediaries like banks and established ventures to prove their trustworthiness and creditworthiness. Another finding from this study is that private start-up companies are generally high risk and low liquidity ventures and thus difficult for investors to enter and exit from these companies. Illiquidity due to the inability to easily trade these small enterprises as valuable assets like trading securities of the public quoted large businesses leads to low engagement between entrepreneurs and investors. The findings indicate that another cause of poor alignment is that many start-up companies do not have the potential to achieve exponential growth over time within a short period.

- Regarding the issue with the environmental factors – the result of this study revealed that the business operating environment in Nigeria is harsh and unfriendly to entrepreneurs. The legal system is weak, and it is difficult to uphold legally binding contract agreements. In addition, new businesses as startups often are faced with high transaction costs and high operating risks. There is a lack of access to basic infrastructure like electricity and the limited access increase the cost of doing business. Another cause of low engagement is the constant changes in tight policies and strict regulations by the government. The research findings showed that in the Nigerian business environment, there are uncertainties around many issues that affect start-up companies thus making them unattractive for the traditional equity investors.

10.3 Conclusion

This empirical research has shown that it is hard for Nigerian entrepreneurs to raise external equity finance to fund their start-up and scale-up companies. This confirms the previous findings of other scholars like Cumming & Hughes (2009) and Cassar (2004) and this is the same for entrepreneurs in Nigeria. The thematic analysis of this exploratory research has proven that investors and entrepreneurs seeking to engage and relate better in the Nigerian entrepreneurial environment face multiple challenges leading to low engagement. Yet, both need each other to successfully align financial and non-financial capital to build private companies that create values in the present digital economy. The business angels and venture capitalists need new and more creative ways to provide financial capital to the entrepreneur's abundant non-financial capital - entrepreneurship, knowledge, skills, experience, intellectual property, time, and labour among many others.

In Nigeria, the interviewed equity investors maintain that 'investment is simply not charity' in which free money is distributed and that investors are not out there to throw away funds to any untested ideas without tractions or track records. Under this circumstance, this study has proposed that tradeable hybrid capital – as creative, flexible structured finance are provided during the first of a three-step funding model whereby funders become sponsors (hybrid capital investors) who blend both equity and debt finance features to mix cheap and expensive money for the start-up companies. This approach enables the hybrid investors to reserve ownership and then deliver some funds in multiple stages where the first stage would be catalytic first-loss capital so they can take the initial risks of investing in unproven entrepreneurs. Investors are encouraged to invest in high risk and high reward start-ups using a performance-based approach instead of investing all their funds only in low-risk ventures and other investments like government bonds and treasury bills. Above all, the first step financing favours multiple small exits through payment and receipt of regular revenues so that entrepreneurs can showcase their competencies and characters.

10.4 Research Implications

This section outlines some implications of the research findings. The results have significant implications for key stakeholders directly connected to the Nigerian economy and the African economy in general especially the national governments, private sector companies, research institutions, investors, and entrepreneurs. Start-up companies require nurturing by both private and public sector entities as matured companies and government agencies respectively. However, the provision of traditional equity-based financing to start-up and scaleup companies is difficult because of the peculiar challenges that they face. The implications of this research to literature are a new knowledge base on the early-stage funding of small enterprises in Nigeria using a three-step financing model starting with hybrid finance. This is an important proposition that no previous empirical studies or knowledge have produced whereby entrepreneurs can gradually buyback the ownership of their companies from the strategic sponsors as the hybrid finance providers.

Extensive empirical studies and pieces of literature are available on ownership buyback scheme in matured, public companies and shows that this is an important topic in the financing and management of enterprises. For the big businesses, the gradual ownership buyback (instalment equity repurchase) programme has been developed as an essential method of pay-out to investors – and an investment harvesting alternative to conventional dividends or profits and interests. In their research work on the long-term performance of ownership buyback programmes in India, Seal & Matharu (2018) identified various reasons why public quoted companies engage in ownership buyback initiatives – for example, these scholars note that buyback or repurchase assists the company's promoters to improve their shareholding, reduce public shareholding to stop share price from falling, and also to increase the company's earnings per share. For the proposed gradual ownership buyback in small private companies, the motivations for the equity repurchase are different. Some of the reasons for ownership buyback in start-up ventures are: to make ownership more accessible and affordable for entrepreneurs, to promote cooperation and collaboration between entrepreneurs and investors as well as investors and investors, plus create an alternative pay-out for early-stage investors (substitute for profit), tackle issues around deal sizes, ownership dilution, also address agency problems and trust issues, moral hazard, and information asymmetry, also to encourage performance, generate track record, provide motivation to become majority owners, build trustworthiness, and creditworthiness, drive change for new ways of making financing available leveraging data and digital technology.

The most important part of the investor-entrepreneur relationship is linking investment entry to investment harvesting or pay-out and investment exit. This is what the 'first-step finance' using hybrid capital will seek to accomplish because investors and entrepreneurs will know at the start of the relationship exactly how the entrepreneur will pay and for how long as well as how investors will exit via multiple small exits schemes. This approach assists investors to plan and manage risks plus make the investments relatively liquid so that investors can have both the incentive and financial liquidity to choose when and how to re-invest the funds in the same company or another company. The lack of these small exits in conventional equity finance prevents investors from making frequent re-investments. This confirms the earlier study of Mason & Brown (2014) on the major determinants of the vibrancy of entrepreneurial ecosystems is the investors' ability to achieve exits.

Attracting equity investments to small but growing, young, private companies in Nigeria is critical but the other problem that is often hidden and rarely discussed is the problem of how to achieve successful exits. Unfortunately, the lack of clear exit strategies has many direct negative impacts on future investment activities. Therefore, it is essential to develop and promote new models for realizing profitable exits that benefit both the investors and entrepreneurs such as the use of the proposed three-step financing approach. Overall, the implication of this research is that tradeable hybrid finance should be designed to drive gradual equity repurchase should be pursued and promoted because it provides substitute pay-out or investment harvesting and an alternative exit pathway during the early start-up stages of private companies. Hence, clearly defined pay-out or harvest option and exit strategy are central to building mutually beneficial investor-entrepreneur relationships as the alignment of the interests and expectations of entrepreneurs and investors are significantly improved. Thus, both parties should always aspire to use a sponsorship-stewardship framework to execute gradual buyback schemes for agreed pay-outs and exits.

10.5 Research Contributions

Prior to the conduct of this research study, there was no rigorous, theory-based empirical research that has explored the main factors influencing the investment and ownership relationship between entrepreneurs and their start-up companies in Nigeria and business angels plus venture capitalists. This is so despite the recognized need for a collaborative and cooperative relationship between the financiers and entrepreneurs in the developing countries who are affected by the non-perfect and high-risk entrepreneurial ecosystem.

10.5.1 Theoretical Contributions

Despite the increased research on entrepreneurial finance and recent globalization of the business angel and venture capital concepts which are at the heart of private equity initiatives, several topics in entrepreneurial finance are still under-researched in many regions of the world. Researchers like Fried & Manigart (2005) have identified the existence of a gap in the literature on private equity finance in developing countries. This doctoral study contributes to knowledge of entrepreneurial finance focusing on the trusted but complex relationships between investors and entrepreneurs in high agency business environments like Nigeria.

The researcher's theoretical contribution is a strategic sponsorship-stewardship framework which is necessary for developing an integrated three-step financing structure. In the proposed integrated three-step mechanism, the first step is a structured finance model (tradeable hybrid capital), the second step is equity finance, and the third step is debt finance (venture debt).

Essentially, the three-step financing is based on what usually happens in an investor-entrepreneur relationship, especially during deal negotiation and contract agreement with regards to investment entry, ownership, management/control, agency, and trust, investment harvesting (cash flow or pay-out), decision making or voting rights, and investment exit among others. The researcher proposes revenue-based equity repurchase or buyback as the main divestment or exit strategy linked to multiple revenue-based payments (income) as the preferred pay-out or harvesting option of choice for early-stage business angels and venture capitalists. This approach requires these investors to temporarily play the roles of strategic sponsors (hybrid investors) in the early-stage start-up and scaleup investments in the present digital economy. The approach as outlined in Table 10.1 below shows that investing, managing, controlling, harvesting, and divesting are all different in the three steps. This is crucial for driving Nigeria's and indeed Africa's inclusive and transformational entrepreneurship in today's digital economy. The sponsorship-stewardship framework seeks to build the foundation of entrepreneurial finance in the developing countries on stewardship of the trusted and resourceful stewards (entrepreneurs and managers) in which the investors (sponsors) provide initial structured funding which has unique characteristics of being catalytic and patient.

Table 10.1 The Stepped Financing and Stewardship-Trust-Agency (STA) framework

	Financing steps	Step 1	Step 2	Step 3
1	**Company lifecycle Activities**	**Sponsors (hybrid investors)**	**Equity Investors**	**Debt Investor (creditors)**
2	Investing (entry)	Structured finance - tradeable hybrid capital (catalytic patient capital)	Equity finance	Venture debt finance
3	Ownership	Moving/mobile	Static	Not applicable
4	Managing (control)	Flexible (Fund managers/venture builders)	Rigid (Fund manager)	Rigid (Fund manager, Banks)
5	Harvesting (pay-out)	Revenue	Profit (dividend)	Interest
6	Divesting (exit)	Buyback (repurchase)	IPO (and trade sale)	Principal
7	Stage/syndicate/diversify	Yes	Yes	Yes

10.5.2 Contributions to Policy

The proposed three-step financing anchored on a sponsorship-stewardship framework has clear investment entry, control, harvesting, and exit incentives that have some important implications for policymakers. Hence, the weak legal system and challenges around ownership, require that policymakers must take fresh approaches to improve investment contracting relating to start-up companies. This is critical to ensure that all stakeholders understand that with tradeable hybrid investment, there is dual equity ownership – with liquid and illiquid ownership portions – whereby the liquid portion moves gradually in small fractions from investors back to entrepreneurs as the latter makes recurring payments. Leveraging data and digital technologies, policymakers should ensure that contract agreements are captured and stored digitally. Surely, the research will drive a shift in policy around investment and equity sharing in start-up companies. This thesis concludes that attracting investment to small enterprises and creating new jobs are tightly linked to promoting the best harvesting and divestment strategies. Therefore, a strategy for funders to achieve more profitable investment harvesting and the best exit options should be a significant issue for the Nigerian governments and the various governments across Africa. The conceptual framework developed in this study will be particularly useful for government agencies aspiring to promote co-investments with the matured, medium and large sized private sector companies interested in supporting entrepreneurship.

10.5.3 Practical Contributions

The findings derived from this study have many practical contributions for stakeholders – business angels, venture capitalists, entrepreneurs, and promoters. The study has outlined the challenges investors and entrepreneurs always face in building and managing dynamic relationships, which are profitable, durable, and trusted. The proposed sponsorship-stewardship framework for the three-step financing model will assist investors and entrepreneurs to more practically address these various complex issues. Using three-step financing, better investment deals can be structured by entrepreneurs and their business angels plus venture capitalists. This way, the right amount of funds can be available to entrepreneurs to fund their ventures and projects. In this approach, investors start as hybrid investors, not typical equity investors by simultaneously playing the role of investors, lenders, and traders. So, at the early stages, hybrid investors take an alternative route to invest (enter), harvest (receive pay-out) and exit (divest) from investments using tradeable hybrid finance anchored on revenue-based gradual ownership buyback (equity repurchase). This approach can significantly improve the entrepreneurial finance ecosystem in the present digital economy because ownership of a company serves as collateral or security and most of the equity or ownership will be liquid and tradeable. Furthermore, the result reveals that in building a successful relationship between investors and entrepreneurs, all parties must be truly committed to making it work. This involves making provisions for the exchange of relevant information through excellent, frequent communication, and better negotiation.

In entrepreneurs' guide to the venture capital galaxy, De Clercq et al (2006), outlined the various practical steps that entrepreneurs must take to build trusting long-term relationships with equity investors. De Clercq et al (2006) suggest that during the pre-investment stage, both the investors and entrepreneurs should conduct pre-investment due diligence on each other. The use of tradeable hybrid finance by the big corporates within and outside Nigeria, wealthy private individuals or groups, Nigerians in the diaspora and Nigerian friends around the world will support local private companies at the start-up stages to survive and succeed. This assistance should be in the form of taking the three-step approach to funding start-up companies. Building a trustworthy relationship that reduces the agency cost and moral hazard will empower the investors and entrepreneurs to practically drive the dynamics of their relationships to establish successful and profitable ventures that deliver values for all stakeholders (De Clercq, et al, 2006).

10.6 Research Recommendations

In this section, the recommendations for this study are summarized in a way that is linked to the various sections of the research objectives.

Firstly, this research recommends that business angels and venture capitalists who are interested in funding start-up companies in Nigeria and other developing countries should adopt a three-step financing approach discussed in this study. The first step should be hybrid finance which can be promoted as a tradeable catalytic, patient capital to enable the investors and entrepreneurs to build a durable and mutually beneficial relationship. In the research work on 'patient capital in entrepreneurial finance', Harrison, et al (2016) noted that patient capital is that type of funds which the funders can provide to entrepreneurs and projects but with long time horizons – extended periods that can be several years ahead and as a result the funders must endure the uncertain early years of the investments. Harrison, et al (2016) observed that the funds are also catalytic which implies they attract follow-on financing from more traditional debt and equity-based finance providers. Hence, the use of this catalytic fund at the early stage is crucial for more inclusive and transformational entrepreneurship that champions sustainable economic development.

Secondly, this study recommends more strategic collaboration between corporate Nigeria (private companies nationwide) and government to design and develop a new, comprehensive framework for start-up companies' development in today's data-driven digital economy. Both government agencies and matured businesses should become the first strategic sponsors who provide the bulk of proposed tradeable hybrid finance to entrepreneurs and their start-ups. Thereafter, Nigerians in the Diaspora can be encouraged and nudged to also sponsor local entrepreneurs.

Thirdly, the two principal stakeholders - established big businesses and the government should promote trade and exchange views in early-stage start-up companies. Based on the findings from this empirical research, it is essential to promote the gradual equity repurchase by entrepreneurs to improve the investor-entrepreneur relationship in advancing entrepreneurial finance in Nigeria. Equity repurchase programme anchored on sponsorship-stewardship framework drives trade and exchange view that is grounded in exchange theory as advanced by earlier scholars like Cropanzano & Mitchell (2005), Emerson (1976), and Blau (1964). As outlined in this study, the proposed gradual ownership buyback is a simple trade and exchange process through which capital from investors and ownership of an entrepreneur's venture is frequently and privately traded and exchanged. This proposal is necessary to serve as the building block for the investor-entrepreneur relationship at the early stage and assist to prepare the enterprises for follow-on equity investments. Fourthly, it is important that the stakeholders must champion the development of Nigeria's entrepreneurial ecosystem. This is because the success of entrepreneurs and the growth of their enterprises in Nigeria are hinged on the vibrancy of the local entrepreneurial ecosystem in which the business angels, venture capitalists, local banks, insurers, and promoters of entrepreneurship can connect, interact, and collaborate to share resources. At the heart of a functional entrepreneurial ecosystem in Nigeria will be a network of venture builders whose primary function is to prepare entrepreneurs and their enterprises and present them to the local business angels and venture capitalists for investment opportunities. This will happen through more collaborative partnerships connecting the entrepreneurs to investors, entrepreneurship training centers, business associations, consulting, accounting, and legal firms plus business development service providers. Fifthly, both the private and public sectors should support entrepreneurial education in Nigeria. Education and training in entrepreneurship including knowledge of entrepreneurial financing will play a significant role in addressing some of the problems of low engagement between investors and entrepreneurs in Nigeria. The investors interviewed in this study indicated the need for all young people aspiring to become entrepreneurs to obtain the relevant enterprise knowledge required to excel in the profession. There are many formal and informal ways that entrepreneurial skills and knowledge can be acquired to improve the chances that entrepreneurs and their teams will succeed in their efforts to build scalable, profitable enterprises that create real values in the country and wider society. Entrepreneurship education development and promotion is a powerful instrument for empowering young adults to build a relationship with investors in order to find the financial resources they require to create values and generate employment opportunities in society. As Mba & Godday (2014) pointed out, entrepreneurship education can become a vital tool for reducing joblessness, creating wealth, and advancing relationships between entrepreneurship development and socio-economic opportunities.

10.7 Research Limitations

This research was designed to investigate the reasons for low engagement between investors and entrepreneurs in Nigeria as a developing country. Then, recommend a possible solution that can be applied in Nigeria and other developing countries. However, there were some limitations during the conduct of the research work. This section discusses these research limitations and steps taken to address them or minimise their impacts on the research results. The first limitation of the research is in terms of data collected - the size of the sample population was sufficient to generate relevant research results but small to generalise the findings for the qualitative research conducted in Nigeria in terms of overall relevance or impact. The number of participants who were eventually interviewed was small because a lot of potential interviewees refused to be interviewed and some cancelled their appointments. The researcher proposes that a similar study should be conducted in other African countries, if possible, with a larger data set. The other limitation of this study is the environment where the research was conducted. Although Nigeria has some of the characteristics of the other developing nations, these countries are not homogenous. There are issues around culture, trust, governance, economic progress, and infrastructural development which will make it difficult to generalize the research findings across the rest of developing countries. Nonetheless, these limitations do not negatively influence the aim and objectives of this research and the outcome in terms of the contribution to policy, theory, and practice will be valuable. The research work is based on data collected from participants most of whom reside in Nigeria. It would be interesting to investigate the causes of low engagement and the resulting equity capital gap in other African countries and if feasible conduct a cross-regional study connecting several countries in the four regions of the continent. This will require more resources including time and personnel as well as a technological tool for data collection and analysis. The research recognized and organized the main factors responsible for low engagement into four groups and included participant observation in the interviews conducted. However, well-planned case study research especially for investors - business angels and venture capitalists would provide additional knowledge on the issues investigated. It is important to mention that the limitations outlined in this section have not affected the results of this study which should be valuable to academia, policymakers, and practitioners.

10.8 Proposed Ownership System in Sponsorship-Stewardship for Hybrid Finance

This research work proposes a new ownership system for start-up and scaleup private companies receiving structured finance as tradeable hybrid capital. The study promotes an innovative dual ownership system which requires that ownership of micro/small private companies to be funded with structured finance (hybrid capital) should be codified and exist in multiple small fractions or shares – like 100 or 1000 shares. The ownership should also exist in two main parts - the liquid majority portions and illiquid minority portions. For each company ready to receive tradeable hybrid investment, managers will offer the funders (sponsors) some of the illiquid ownership parts for the equity part of the hybrid capital and all the liquid ownership portions for the debt part of the hybrid capital (this liquid ownership is the ownership portion that will be repurchased by the managers). In a way, liquid ownership serves as security or collateral for sponsors' investments. Next, each manager will keep the remaining illiquid minority ownership in exchange for the non-financial capital already provided and/or to be provided for building and growing the company. Now, the provision of tradeable hybrid capital requires that a manager must buyback or repurchase the liquid majority ownership portions originally offered to sponsors for a fixed price and over a fixed or flexible period.

The above approaches mean that to receive any structured finance, entrepreneurs/managers will trade and exchange some illiquid and all liquid ownership portions of their companies with funders (sponsors) for hybrid capital – a structured finance model from the sponsors. For example, the manager sells 80% ownership in exchange for investment from sponsors which will be made up of about 10% illiquid minority ownership (to be retained by sponsors) and 70% liquid majority ownership (to be repurchased by the entrepreneur/manager). Lastly, the manager reserves 20% (100% minus 80%) for his/her contributions to building and growing the company. Next, the sponsors will temporarily hold the liquid majority ownership part and empower managers to gradually repurchase or buyback in small fractions of all liquid majority ownership at the agreed fixed price and over a fixed/flexible period. During each repurchase transaction, the managers make revenue-based payments to receive some portions of the liquid majority ownership while the funders retain the illiquid ownership that covers the equity part of the hybrid finance and serves as a reward for sponsors who provided the hybrid capital in the first place. All the transaction processes involved when managers make revenue-based instalment payments to repurchase the liquid ownership portions lead to a structured simultaneous increasing and decreasing ownership (SIDO) system.

The SIDO system simply means unique transaction processes whereby the ownership share of the manager increases whereas that of funders (sponsors) decreases simultaneously during each repurchase or buyback and payment cycle. In the end, the liquid ownership repurchased by the managers becomes illiquid ownership and adds to the existing illiquid ownership initially retained by managers. Any liquid ownership not repurchased by the manager during the allowed repurchase or buyback period returns to sponsors as illiquid ownership to add to the original illiquid ownership reserved by the sponsors (if a reservation is required or permitted). In future, funders may require managers to use a 'simplified management buyout' process to purchase some or all the reserved illiquid ownership share of funders (sponsors).

10.9 Directions for Future Research

As this research is conducted, there were topics in the area of entrepreneurial finance that are linked to the investor-entrepreneur relationship which will be useful as research topics in the future. Thus, this entrepreneurial finance research is incomplete without follow-on investigations into the causes of low engagement between the creditors and entrepreneurs as well as creditors and investors. Hence, understanding the reasons for equity finance supply and demand gap in investors-manager relationships, debt finance supply and demand gap in creditor and entrepreneur relationships and lastly, debt-equity finance gap in creditor and investor relationships are crucial. The directions for further research are discussed in consideration of the issues connected to developments in the entrepreneurial finance landscape with special attention to research on relationships between entrepreneurs and creditors as well as between investors and creditors which are required to address the funding gaps in early-stage entrepreneurial ventures.

10.9.1 Debt Finance in Entrepreneurial Funding Gap

Access to both debt and equity-based finance has always been a challenge for start-up companies in Nigeria. Cosh et al., (2009) and Lockett et al., (2002) among other scholars note that start-up entrepreneurial firms face funding constraints. However, according to Cressy (2012), empirical evidence on the complexity of the entrepreneurial funding gap is still limited. This research has explored the reasons for low engagement between investors and entrepreneurs but in addition to the role of the entrepreneur-investor relationship in the equity finance gap, further research is required to explore the nature of an entrepreneur-creditor relationship in deepening the existing debt finance gap to obtain a better picture of the entrepreneurial funding gap in the Nigeria context. What causes low engagement between entrepreneurs and local banks or other non-bank lenders? Recent experiences within the country point to a need to study the root causes of debt funding gaps among Nigerian MSMEs to understand the link to the causes of the equity funding gap conducted in this research.

Fraser et al., (2015) studied how and to what extent, the emergence of new forms of start-up finance like crowdfunding can fill the funding gap created by the rejections from debt and equity finance providers. The recent studies by researchers like Lopez de Silanes et al. (2015) on the funding gap in small businesses and knowledge-intensive entrepreneurial growth businesses respectively were focused on the developed economies. But what happens in developing economies like Nigeria with high-interest bank lending? Above all, why are the local banks in Nigeria reluctant to lend to start-up companies despite the high interest charged? These banks are supposed to be filling the equity gap that exists in start-up companies' finance created by the rejections from equity investors. But, as banks continually fail to meet the lending needs of start-up companies, the resulting debt finance gap combines with the equity finance gap to worsen the funding gap for entrepreneurs and their small enterprises.

10.9.2 Funders' Cooperation/Collaborations and Entrepreneurial Funding Gap

In Nigeria, the engagement between the two main financiers of start-up companies as investors and creditors is low. There is rarely any mutually beneficial collaboration between the two and this development worsens the entrepreneurial finance gap in the country. Indeed, without better-organized cooperation between lenders and investors, it will be impossible to tackle the funding gap in startup financing of private companies. Therefore, there is a need for research on the factors that cause low engagement between equity and debt financiers in Nigeria. Several scholars like Cassar (2004), Cosh et al. (2009), Robb & Robinson (2014), and Walz & Hirsch (2019) have pointed out the role of bank lending and other kinds of non-bank debts for micro/small enterprises. Furthermore, Neckebrouck et al., (2018) maintained that there are many types of investors with different goals, objectives, financial resources, and investment methods. So, why are investors and banks not working together in Nigeria to address the funding challenges facing small enterprises? We need to understand the interplay between investors and creditors in Nigeria and how their relationship affects entrepreneurs and their enterprises. More insight is required to understand how the relationship between investors and creditors can be improved so that their interactions can benefit entrepreneurs positively and create real value for their enterprises. Entrepreneurs in Nigeria need more efficient investor-creditor partnerships such that those small enterprises that had earlier received investments from investors at the startup stage can easily be connected to lenders to obtain the credit they require to scale-up and grow faster. Surely, the intersections between equity and debt providers offer a new pathway for future research. Cumming et al., (2019) argue that these intersections are important for forming appropriate policy responses to apparent financing gaps and government programs and regulations designed to fill these gaps.

10.9.3 Motivations and Mechanics for Equity Repurchase in Startup Companies

Several scholars like Dittmar & Field (2015), Peyer & Vermaelen (2009), Grullon & Ikenberry (2000); Nohel & Tarhan (1998) Ikenberry, Lakonishok, & Vermaelen (1995) among others have studied ownership buyback (equity repurchase) in public companies to understand the mechanics and motives behind such buyback initiatives around the world. The following are some of their findings regarding the major reasons or motivations for engaging in buyback transactions. Firstly, Grullon & Ikenberry (2000) showed that ownership buyback indicates that the management of a public company is confident about the future earning potential and cash flow of the company. Asquith & Mullins (1986) also noted that ownership buyback signals that a company's future revenue expectations are good as the researchers maintained that in general, buyback has a positive effect on signalling. Secondly, researchers such as Bagwell & Shoven (1989) stated that equity repurchase is important in assisting a public company to achieve an optimally balanced capital structure – an appropriate equity-debt ratio as there are transfers between the bondholders and stockholders.

Thirdly, Jung-Hua Hung & Yi-Pei Chen (2010) and Vermaelen (1981) observed that ownership buyback is related to the undervaluation of a company's stock and that share price performance is negatively linked to a company's equity repurchase – that is when the share price is low, there is a tendency for repurchase. Fourthly, scholars like Chan, Ikenberry & Lee (2000) noted that the company's management implements ownership buyback to provide incentives to the employees – for example, equity repurchase enables them to execute employee stock options. Kahle (2002) mentions that buyback is used to reduce the dilution of stock option programs arranged for employees. Fifthly, Dittmar (2000) observed that for some companies, ownership buyback can serve as a substitute for issuing dividends. This happens when the company management thinks that buyback is the best pay-out option, especially with respect to the impact on corporate taxation. It is appropriate to conduct research studies into the socio-economic context and entrepreneurial ecosystem which will enable the implementation of equity repurchase or gradual ownership buyback programmes in startup and scale-up private companies in Nigeria and other parts of

Africa. It is essential to investigate the policies, theories, and practical issues that will enable or hinder the execution of ownership buyback programmes in private companies. For example, what are the best funding strategy, ownership system, and trading scheme suitable for equity repurchase in private companies as well as potential regulatory issues? What will be the overall mechanics and motivation for ownership buyback programmes in certain private companies? If sample pilot projects are implemented in selected African countries, can financial technology software play a role in monitoring and measuring the purchasing and payment performances of managers of participating private companies?

10.10 Reflections on this Research

The researcher has gained invaluable lessons and experiences whilst conducting this study. Even though it was enjoyable exploratory work, there were multiple challenges that the researcher had to deal with while carrying out this work. There were multiple constraints particularly towards the end of the study primarily because twin babies arrived in the family. This increased pressure on the researcher's limited resources especially finance and time. Nevertheless, the major aim of this research as outlined from the onset was achieved in the end because personal/family time was successfully balanced. The research explored the relationship between entrepreneurs and investors to understand the reason for low engagement between these two in the Nigerian context. This entrepreneurial relationship is fundamental to unlocking access to equity-based finance for entrepreneurial ventures and the development of the Nigerian economy.

All the entrepreneurs who participated in this research noted that the target funders as business angels and venture capitalists always ask the entrepreneurs ‘what is your skin in the game? or do you have any skin in the game?’. According to the entrepreneurs, these kinds of questions imply that investors expect them to have put in some investment capital in their ventures before seeking external finance. Under this circumstance, it is difficult to justify the investors' expectations because whereas investors bring in financial capital to the funded businesses, each entrepreneur brings non-financial capital in various forms. For example, all the entrepreneurs contribute non-financial resources – time, efforts, entrepreneurship, experience, knowledge, talents, or skills among others. This shows that building a better relationship requires that both the investors and entrepreneurs must fully understand the vital roles of both the non-financial and financial resources contributed toward the startup and growth of the companies. This exploratory study will be carried forward into post-doctoral research if funding is secured to investigate the structured finance in form of tradeable hybrid finance in the equity repurchase programmes. Also, the findings from this study will be published in blogs, suitable academic journals as well as in chapters in some entrepreneurship finance textbooks.

10.11 Chapter Summary

This chapter presents the conclusion of the doctoral research conducted through semi-structured interviews of research participants. This research study explored the dynamics of a complex investor-entrepreneur relationship in formal and informal venture capital financing of start-up ventures in Nigeria. The empirical research successfully explored the issues in the entrepreneur-investor relationship and shows that multiple factors contribute to the low engagement between investors and entrepreneurs in Nigeria.

The study fully achieved the research aim and objectives as outlined in chapter 1 through data collected in chapter 6, analysed in chapter 7, and results obtained and discussed in chapters 8 and 9, respectively. Through empirical research and secondary sources, this study has expanded the understanding of entrepreneurial finance and the challenges that entrepreneurs face at the early-stage venture formation and fundraising. Because no previous research study has explored the relationship between investors and entrepreneurs in Nigeria, this study conceptualized a new framework for building a better, mutually beneficial relationship between entrepreneurs and their investors through structured finance, innovative dual ownership, and intelligent binary trade.

The review of academic literature in chapters 2 and 3 assisted the researcher to gain a deeper understanding of previous work on entrepreneurial finance in general and investor-entrepreneur relationships in particular. For instance, business angel financing and venture capital investing were investigated both globally and locally (Nigeria) from multiple sources. In chapter 4, this study discussed a theoretical framework in which various theories relating to entrepreneurial finance and the relationship between investors and entrepreneurs were presented. Thereafter, the researcher designed and developed a stewardship-agency-trust framework also in chapter 4 to explain the steps facilitating the relationship between the investors and entrepreneurs. This helped to develop the multiple-step financing strategy proposed in chapter 9 as solution for improving access to entrepreneurial finance. This study planned, investigated, and identified, some factors and made key recommendations to address low engagement in investor-entrepreneur relationships that leads to equity finance supply and demand gap in entrepreneurial finance in Nigeria and across Africa.

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Appendices

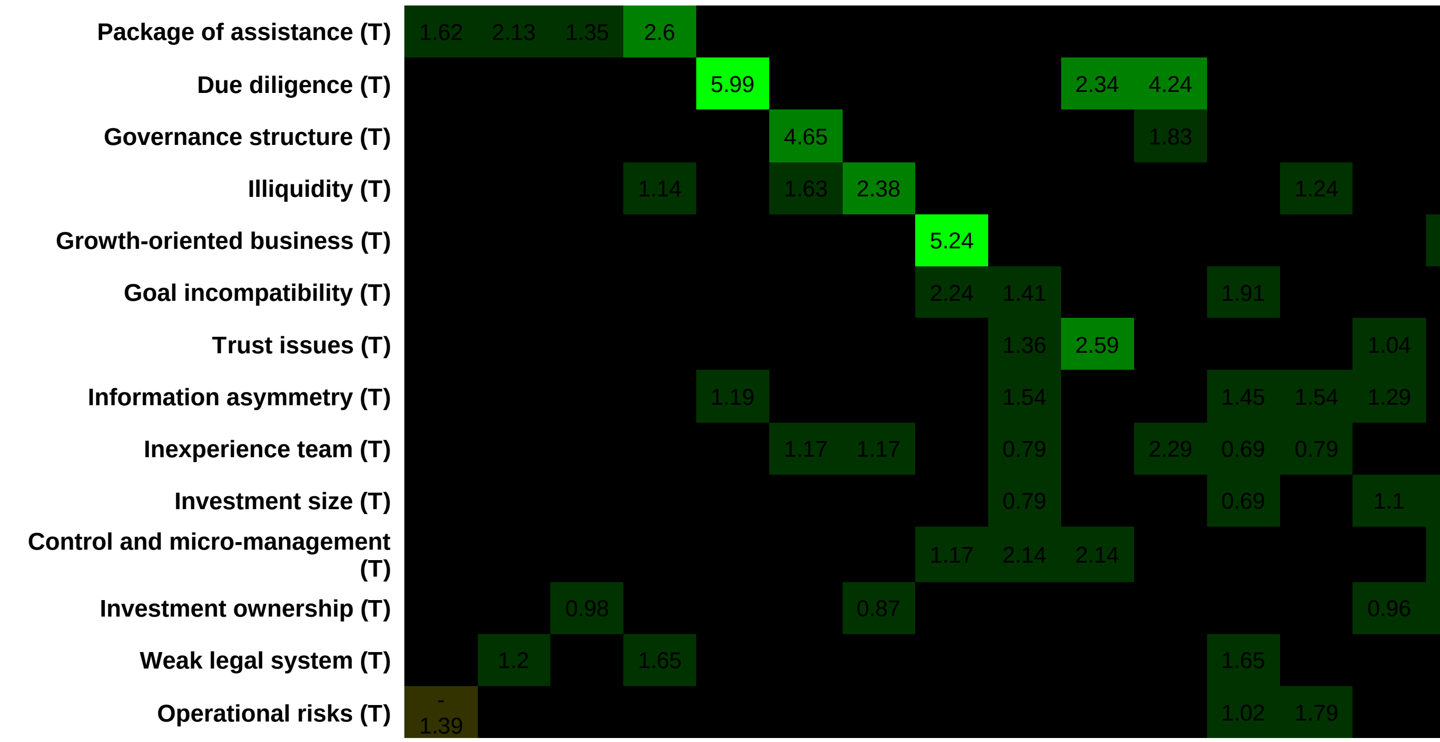
Appendix 1 – Code Frequency

Category	Code	Description
engagement promotion (RQ5)	New funding model (T)	New funding model and application of innovative exit strategies
engagement promotion (RQ5)	Technology and platform (T)	New technology and online platforms for negotiation and fundraising
engagement promotion (RQ5)	Communication (T)	honest, consistent, and open communication
engagement promotion (RQ5)	Package of assistance (T)	Various assistance from multiple stakeholders
enterprise characteristics (RQ3)	Due diligence (T)	difficulty in conducting effective due diligence
enterprise characteristics (RQ3)	Governance structure (T)	Lack of governance structure
enterprise characteristics (RQ3)	Illiquidity (T)	micro and small enterprises are highly illiquid assets
enterprise characteristics (RQ3)	Growth-oriented business (T)	most enterprises are not growth-oriented businesses
entrepreneurs readiness (RQ2)	Goal incompatibility (T)	Goals of investors and entrepreneurs are incompatible
entrepreneurs readiness (RQ2)	Trust issues (T)	issues of entrepreneurs character and trust
entrepreneurs readiness (RQ2)	Information asymmetry (T)	entrepreneur having access to more and better information about the en investors
entrepreneurs readiness (RQ2)	Inexperience team (T)	Entrepreneurs and teams are inexperienced and lack knowledge
equity features (RQ1)	Investment size (T)	the size of investment in SME is usually small
equity features (RQ1)	Control and micro-management (T)	investors controlling the entrepreneurs
equity features (RQ1)	Investment ownership (T)	ownership sharing disagreement and investors seeking majority owners
environmental factors (RQ4)	Weak legal system (T)	cumbersome and time-consuming processes with weak legal system
environmental factors (RQ4)	Operational risks (T)	High operating risks and lack of infrastructure

Appendix 2 - Coding Matrix

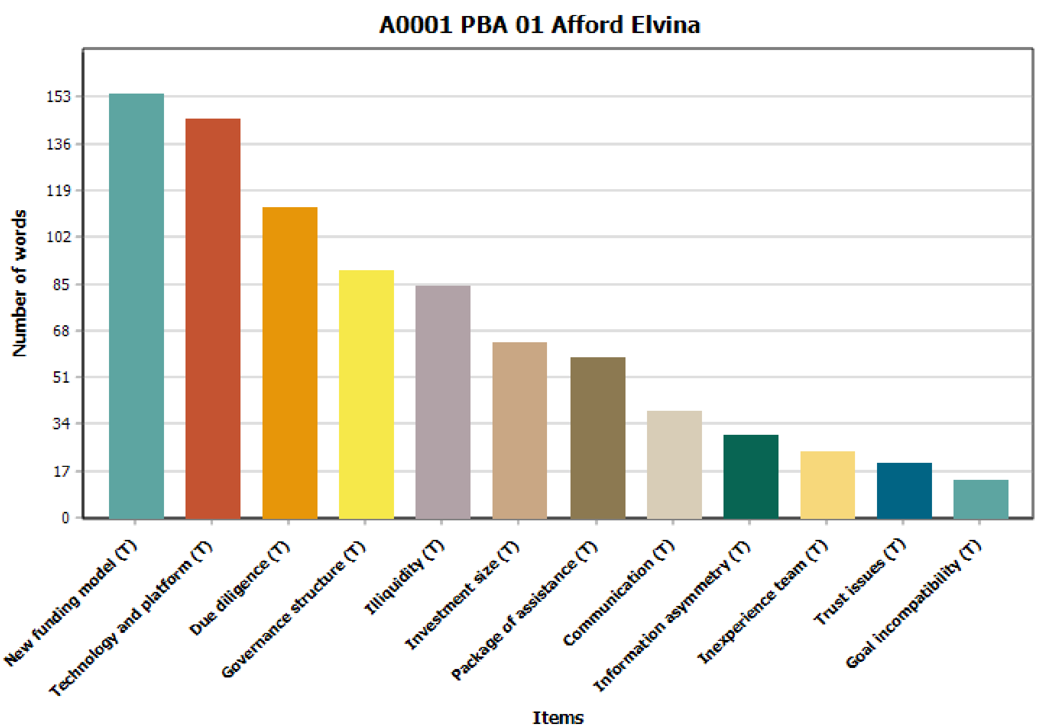
A = New funding model (T)
B = New funding model (T)
Freq of A = 62
Freq of B = 62
Expected Freq = 5.7
B follows A = 19 (30.6%)
A precedes B = 19 (30.6%)
% of sequences = 32.2%
Z value = 5.88
P = .000

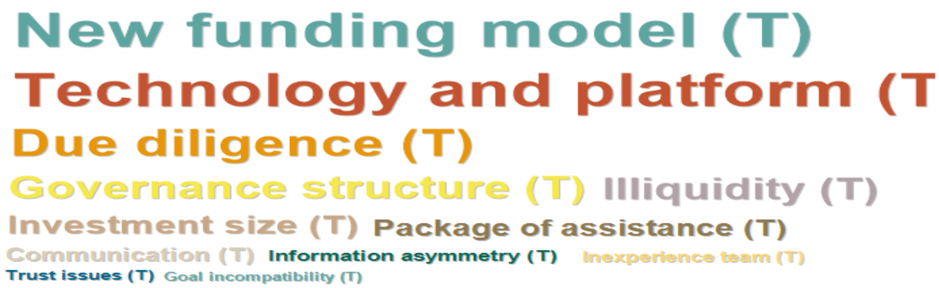
	New funding model (T)	Technology and platform (T)	Communication (T)	Package of assistance (T)	Due diligence (T)	Governance structure (T)	Illiquidity (T)	Growth-oriented business (T)	Goal incompatibility (T)	Trust issues (T)	Information asymmetry (T)	Inexperience team (T)	Investment size (T)	Control and micro-management (T)
New funding model (T)	5.88			1.53			3.9			-1.5				
Technology and platform (T)		6.62		2.31						0.9				
Communication (T)	1.67		1.03	2.58										



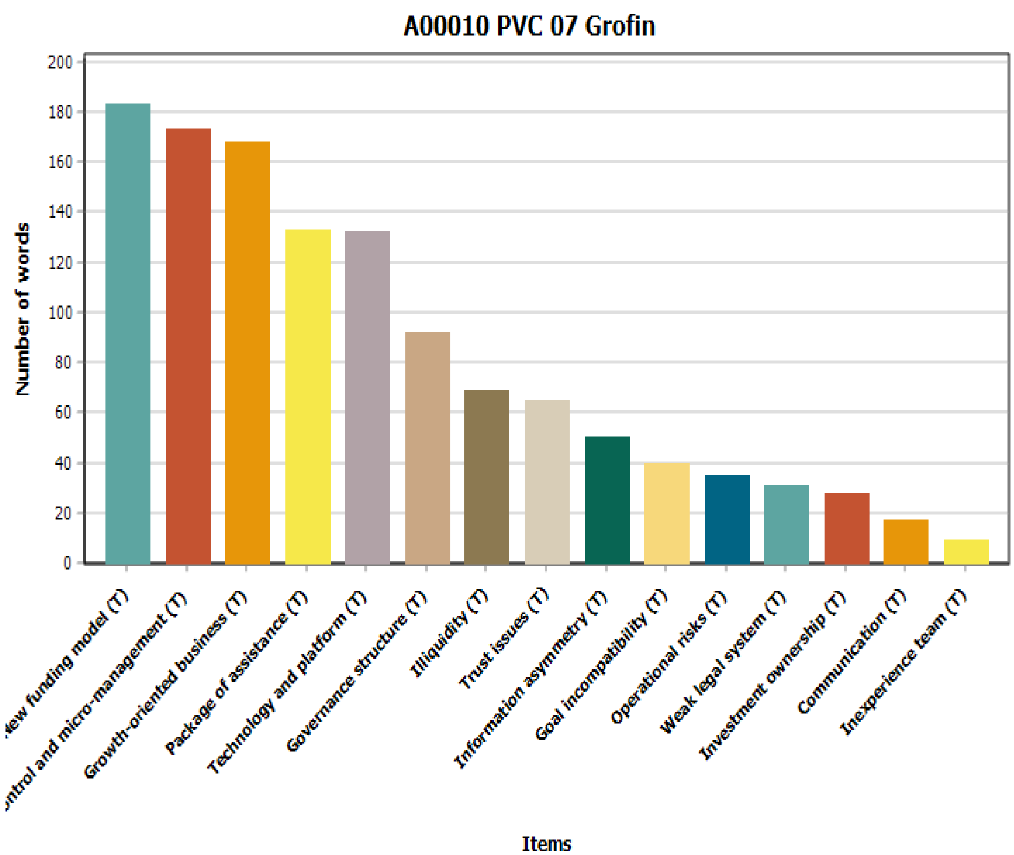
Appendix 3 – Charts and word clouds of selected cases (interview participants)

i) Business Angel

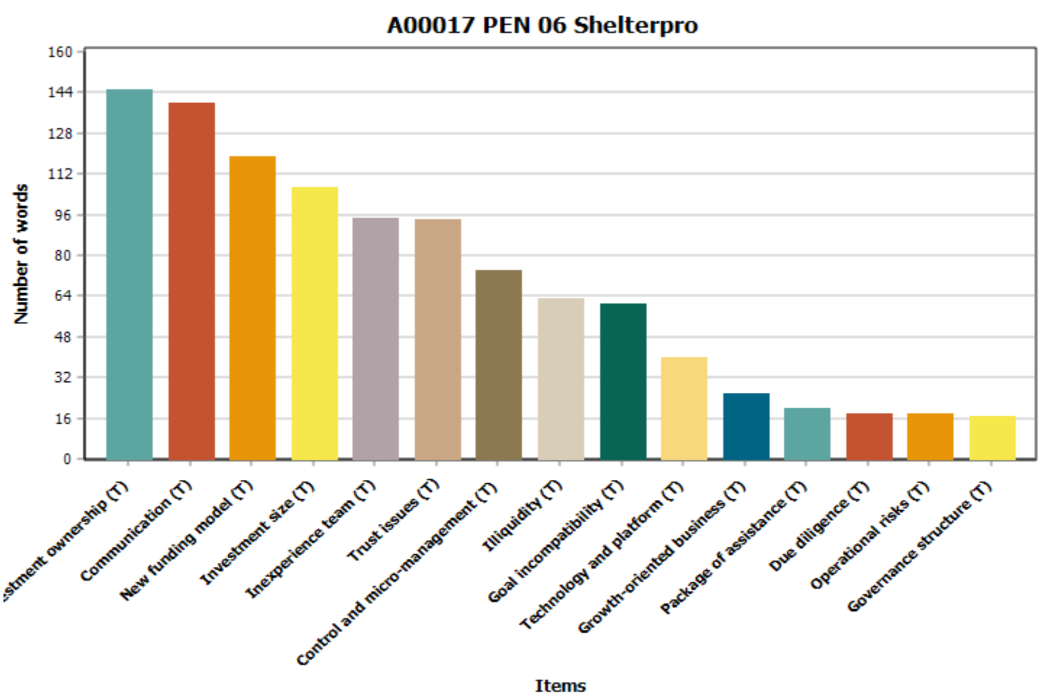




ii) Venture capitalist

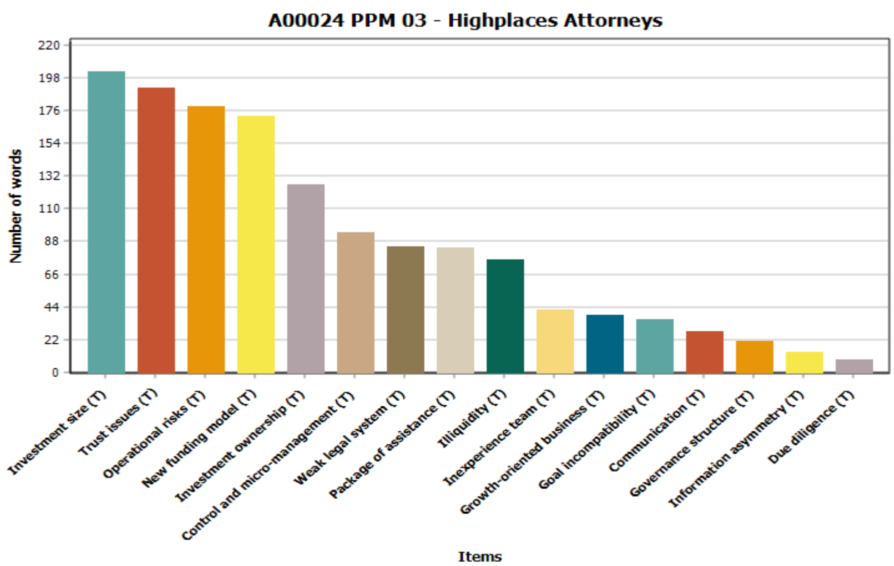


iii) Entrepreneur




Investment ownership (T)
Communication (T)
New funding model (T)
Investment size (T)
Inexperience team (T)
Trust issues (T)
Control and micro-management (T)
Illiquidity (T)
Goal incompatibility (T)
Technology and platform (T)
Growth-oriented business (T)
Package of assistance (T)
Due diligence (T)
Operational risks (T)
Governance structure (T)

v) **Promoter**


A00024 PPM 03 - Highplaces Attorneys
Number of words
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22
44
66
88
110
132
154
176
198
220
Investment size (T)
Trust issues (T)
Operational risks (T)
New funding model (T)
Investment ownership (T)
Control and micro-management (T)
Weak legal system (T)
Package of assistance (T)
Illiquidity (T)
Inexperience team (T)
Growth-oriented business (T)
Goal incompatibility (T)
Communication (T)
Governance structure (T)
Information asymmetry (T)
Due diligence (T)
Items


Investment size (T)
Trust issues (T)
Operational risks (T)
New funding model (T)
Investment ownership (T)
Control and micro-management (T)
Weak legal system (T)
Package of assistance (T)
Illiquidity (T)
Inexperience team (T)
Growth-oriented business (T)
Goal incompatibility (T)
Communication (T)
Governance structure (T)
Information asymmetry (T)
Due diligence (T)

Appendix 4: Interview Questionnaires for the study

Doctoral Research Interview Questions
Research Topic:

Exploring the Dynamics of Investor-Entrepreneur Relationship in Formal and Informal Venture Capital Financing of Small and Medium-sized Enterprises in Nigeria: A Combined Stewardship, Trust, and Agency Based Approach

<u>Introduction to the Research Project</u>

My name is Ignatius Duhu. I am a doctoral researcher in transformational entrepreneurship and entrepreneurial finance at Coventry University International Centre for Transformational Entrepreneurship (ICTE), Coventry, United Kingdom. My research topic is: Exploring the Dynamics of Investor-Entrepreneur Relationship in Formal and Informal Venture Capital Financing of Micro, small and medium-sized enterprises (MSMEs) in Nigeria. A Combined Stewardship, Trust, and Agency (STA) Based Approach. Please note that all information provided in this research will remain confidential and will be used anonymously for academic purposes only. Please also note that you have the option to continue to participate in the research or request to withdraw at any time. After the fieldwork, the result of this research project will be published in a doctoral thesis and subsequently in academic journals. In case you have any concerns regarding this research you may contact me or my Director of Studies as indicated below.

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CATEGORY ONE: INTERVIEW WITH INVESTORS

The interviews with financiers – formal and informal VCs as business angels and venture capitalists respectively are expected to last between 60 minutes and 90 minutes each. The researcher will make efforts to ensure that it is conducted in a serene environment devoid of distractions from normal office tasks. The interview questions will focus mainly on the relationship between the investor and entrepreneur but may touch on other aspects or issues such as investment strategies or funding models, value additions, and exit.

Section A: Investor Background

Question 1: Can you tell us a little more about yourself (individual/company name) – Who are you? Brief about your history and your experience in funding?

……………………………………………………………………………………………………

Question 2: Who are the decision-makers in your team? Are there any formal/informal mechanism for decision making when investing in entrepreneurs?

……………………………………………………………………………………………………

Question 3: What makes your company unique – mention some of the reasons why entrepreneurs and their MSMEs should consider seeking funding from you?

……………………………………………………………………………………………………

Section B: Contracts and Relationships

Question 4: What are the formal and/or informal processes you use in selecting investment opportunities in Nigeria?

……………………………………………………………………………………………………

Question 5: Do you experience any problems in selecting MSMEs for investments?

……………………………………………………………………………………………………

Question 6: How is the level of trust important in your investment relationship with entrepreneurs/MSMEs?

……………………………………………………………………………………………………

Question 7: What do you consider as the possible barriers that hinder you from engaging with entrepreneurs/managers and their MSMEs in Nigeria?

……………………………………………………………………………………………………

Question 8: What do you think are the most important steps you need to take in order to build mutually beneficial and effective relationships with entrepreneurs?

……………………………………………………………………………………………………

Question Section C: Financing steps and Types

Question 9: How do you profile or classify your investment risks?

……………………………………………………………………………………………………

Question 10: What are the criteria you apply to profile these risks and how do they impact on the relationship with MSMEs?

……………………………………………………………………………………………………

Question 11: What are the problems involved in the various financing models that you use when investing in entrepreneurs/MSMEs?

……………………………………………………………………………………………………

Question 12: How do you think that these problems can be creatively addressed?

……………………………………………………………………………………………………

Section D: Features of Financing steps and Types

Question 13: Can you describe the features of the financing types you know and are currently using or have used?

……………………………………………………………………………………………………

Question 14: What do you think are the challenges of these features?

……………………………………………………………………………………………………

Section E: Integration of Investment Approaches

Question 15: Do time and timing have any influence in your investment in MSMEs?

………………………………………………………………………………………………………

Question 16: Is your investment in 'one go' or in multiples (staging)? Please explain

………………………………………………………………………………………………………

Question 17: Do you join other investors – that is syndicate your investment in MSMEs?

………………………………………………………………………………………………………

Question 18: What investment exit strategy do you prefer to apply in your investment? What are your reasons?

………………………………………………………………………………………………………

Question 19: Please can you explain your exit strategy in relation to contract agreement and subsequent investment in the future?

………………………………………………………………………………………………………

Question 20: What do you think are the role of government policies in the development of angel investing and/or venture capital finance in Nigeria?

………………………………………………………………………………………………………

Question 21: How do you perceive the future of angel investing (venture capital financing) in relation to rapid advancement of technology?

………………………………………………………………………………………………………

Appendix 2

CATEGORY 2: INTERVIEW WITH ENTREPRENEURS

The interviews with entrepreneurs will be around 45 to 60 mins depending on the response from entrepreneurs. Again, the focus will be on the investor-entrepreneur investment relationship. The MSMEs will be selected from multiple economic sectors and based on a set of criteria defined in the research methodology. Though, the concentration will be on sectors that are more attractive to informal and formal VCs as business angels and venture capitalists respectively.

Section A: Background (About Investor Entrepreneur/SME)

Question 1: Can you tell us about yourself (entrepreneur/SME)? Who are you – age, interests? What are your experiences in enterprise? Your management team? Your employees?

………………………………………………………………………………………………………

Question 2: What is the business or market problem are you addressing for your customers?

………………………………………………………………………………………………………

Question 3: Have you received any external financing? If yes, can you share your experiences? Who funded you? What documents did you provide?

………………………………………………………………………………………………………

Section B: Contracts and Relationships

Question 4: What are the formal and/or informal processes and strategies that you apply to search and access angel investment and venture capital financing opportunities in Nigeria or from overseas?

………………………………………………………………………………………………………

Question 5: Do you experience any problems in searching for and finding investments or funding?

……………………………………………………………………………………………………

Question 6: How is the level of trust important in your investment relationship with investors?

……………………………………………………………………………………………………

Question 7: What do you consider as the possible barriers that hinder you from engaging with potential investors locally (in Nigeria) or internationally?

……………………………………………………………………………………………………

Question 8: What do you think are the most important steps you need to build mutually beneficial and effective relationships with investors?

……………………………………………………………………………………………………

Section C: Financing steps and Types

Question 9: What are the various sources of MSMEs financing that you know?

……………………………………………………………………………………………………

Question 10: Why do you seek external financing from financiers – angel investors and/or venture capitalists?

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Question 11: What do you think are some of the problems of obtaining money from investors instead of applying for bank loans? Share your views about equity and debt financing

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Question 12: How can these problems of equity and debt financing be solved? Are there any contribution or alternative approaches you can recommend?

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Section D: Features of Financing steps and Types

Question 13: How do you view the contracts with investors? Are they difficult and provide obstacles in your relationship with investors?

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Question 14: Do you make sufficient contributions in designing the contract? Does it give you the scope to perform? For example, control the business and claim ownership?

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Question 15: What are the future financing plans that you have for your company?

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Section E: Integration of Investment Approaches

Question 16: When do you start searching for external financing? Does time and timing have influence in your search for investments from funders?

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Question 17: Do you prefer that investors provide investment in one go or in multiples (staging)?

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Question 18: Do you prefer that investors join together (syndicate their investments)? What do you think are the merits and demerits?

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Question 19: What investment exit strategy do you prefer in contracts with investors? Please give reasons.

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Question 20: What do you think are the role of government policies in the development of angel investing (venture capital financing) in Nigeria?

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Question 21: How do you perceive the future of angel investing (venture capital financing) in relation to advancement of technology?

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Appendix 3

CATEGIRY THREE: INDUSTRY PROFESSIONALS AND POLICY MAKERS

This group of interviews is shorter and each lasting between 30 and 45 minutes. Those to be interviewed include industry professional as promoters and senior executives in government as policymakers. The interview shall focus on policy direction and pursuance of the more viable entrepreneurial ecosystem in the country. Government agencies/bodies like Nigerian Investment Promotion Commission (NIPC), Bank of Industry (BOI) and industry bodies like SeedSpace, Connect Nigeria, Lagos Angel Network (LAN), LeadSpace, and Association of Venture Capital Firms in Nigeria

Section A: About the Promoters and Policymakers

Question 1: Who are you and what is your primary function in your organization?

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Question 2: What role does your organization play in MSMEs financing policy formulations and implementation?

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Question 3: What does the existing policies say about the financing of MSMEs by angel investors and venture capitalists

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Question 4: How do you think these policies can be enforced?

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Question 5: What are the main obstacles to the implementation of these policies?

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Question 6: What feedback do you receive from investors and entrepreneurs/MSMEs regarding policy improvement?

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Question 7: How can promoters and policy makers support the building of a viable entrepreneurial ecosystem in Nigeria?

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Question 8: Are there any specific means which you apply to bring investors and entrepreneurs together?

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Question 9: How can promoters and policy makers help to improve engagement and promote the relationship between investors and entrepreneurs/MSMEs in Nigeria?

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Question 10: What do you think are the current obstacles hindering the development of angel investment and venture capital in Nigeria?

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Question 11: What other policies such as taxation policy like tax waivers have been provided to attract investors to finance MSMEs in Nigeria?

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Question 12: What schemes within the public and private sectors do you think need to be designed and developed to encourage new ideas and innovation in entrepreneurial financing in Nigeria?

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