Innovations

Effect of Foreign Finance on Employment Generation of Small and Medium Enterprises (SMEs) in Lagos, Nigeria

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Abstract: *This study explored the effect of foreign finance on employment generation of small and medium enterprises in Lagos, Nigeria. Adopting Pecking Order Theory and the Resource-Based Theory, the study hypothesised links between foreign finance and SMEs performance variables. The study employed a survey design using random sampling technique with 361sample size out of a population of 5,344. Primary data were collected with the aid of a questionnaire on a five-point Likert scale distributed through hard and electronic means to SMEs in Lagos State. Both descriptive and inferential statistics with regression analysis were employed to examine the four hypotheses with the aid of Statistical Package for Social Sciences. All foreign finance element shows significant impact on employment generation with adjusted* $R^2 = 0.915$, $F = 778.668$, $p < 0.050$). *The study concluded that changes inforeign finance elements have significant effects on SMEs performance with emphasis on employment generationin Lagos State; which implies that SME owners can draw on the empirical evidence and conclusions of this study to explore foreign finance as an alternative source to the conventional domestic and government sources. SMEs can draw insight from this study to engage in structuring their business to attract foreign investors. The study fills existing gaps and provides a foundation for further research on moderating role of firm characteristics such as management practices and industry type in determining the impact of foreign financing on SME performance as well as explore how foreign finance can drive internationalisation of Nigeria SMEs.*

Keyword: *Small and Medium Enterprises (SMEs), Foreign Finance, SMEs Performance, Employment Generation.*

Introduction

One of the key responsibilities of governments all over the world is improving the standard of living of their citizens. One way of achieving this is to continually improve the gross domestic product (GDP) of the country and create optimal employment among its citizens. Small and medium enterprises is a veritable channel

of achieving this all-important government obligation through the generation of economic activities and job generation, stimulating growth and economic prosperity across most countries, especially in the African continent (Awaad, 2022; Adeniran & Obembe, 2020). However, this very important sector has been hampered by lack of access to finance (Fowowe, 2017). Though there are several sources of finance open to SMEs, including local and foreign, yet this problem persists.

SMEs sector is acknowledged for having huge potential and for making a significant contribution to sustainable economic growth but its performance in many developing nations still falls short of expectations (Adeniran & Olorunfemi, 2020; Okonkwo & Obidike, 2016). This suggests that despite the existence of many financial support programmes to SMEs, they continue to experience high failure rate (Kehinde, Abiodun & Adegbuyi, 2016). While some level of contribution of financial assistance is not in doubt, however, there is a little empirical evidence in Nigeria on the extent to which financial assistance improves performance of SMEs.It is also critical to note that researchers have argued for financial support to advance and improve the performance of SMEs., however, given the critical role that finance plays in the growth of SMEs, it is necessary to place the empirical assessment of the effects of various forms of finance in a more focused framework, particularly with regard to Nigeria.

Expectedly, the growing importance of SMEs in an economy and the persistent problem of access to finance have attracted many research in this field. Researchers in the past have concentrated more on access to finance and its various forms available to SMEs but not much has been done on the impact of finance on SMEs performance (Piza,Cravo,Taylor, Gonzalez, Musse, Furtado& Abdelnour, 2016; Bradley, Kim, Klein, McMullen & Wennberg, 2021). Majority of studies of SMEs finance and performance in Nigeria centred on domestic sources despite the inadequacy of these funding strategies. (Saidi, Uchenna & Ayodele, 2019; Ugwuanyi & Agbo, 2013; Eze &Apiri, 2020; Adeyinka, Abdulkarim & Odi,2019; Abdullahi, Abubakar, Aliyu, Umar, Umar, Sabiu, and Abubakar, 2015). These studies failed to explicitly explore cross boarder financing of SMEs as alternative to solving this perennial problem of lack of access to finance.

Some researchers though have responded to the need to go beyond the important of access to finance by SMEs to studying the effect of finance on SMEs performance. For instance, while Wiik & Torvund (2022) and Muraközy & Telegdy (2023) studied on the effect of grants on SMEs performance, Walter, Offiong & Udoka (2018) carried out a study on impact of Joint venture Capitals on SMEs performance. Others authors that have researched on effect of specific financing types on SMEs performance include Adeyinka, Abdulkarim & Odi (2019), Eze & Apiri (2020), Wiik & Torvund

(2022). This research intends to contribute to this existing research by concentrating on foreign sources of finance to SMEs in Nigeria and to see if foreign financing has any impact on the performance of SMEs.

This study was informed by the declining performance of SMEs in Nigeria in term of survival rate and contribution to Gross Domestic Product. One major factor contributing to this declining performance is access to finance/capital as has been shown by researchers. However, as a gap in the literature, which this study intends to fill, proper attentionis yet to be paid to the effect of various forms of finance on performance of SMEs in Nigeria especially foreign finance (Anigbogu, Okoli & Nwakoby, 2015).

A deeper examination especially at more recent studies on the effect of foreign ownership and finance shows that the literature is not completely unanimous in this regard. Not only is there evidence that foreign ownership significantly increase a company's performance, but some studies also show the contrary. Moreover, some studies paint a mixed picture where the positive association between foreign ownership and firm performance is limited to certain select measures of firm performance or contingent upon specific conditions (Adeniran, Stephens & Akinsehinwa, 2020; Bentivogli & Mirenda, 2017; Mihai & Mihai, 2013).

Nigerian SMEs, facing financial constraints, seek external funding sources, including foreign investment, loans, and grants, to boost their operations and expansion initiatives; however, the effectiveness and implications of this foreign financing for the SME sector remain a topic requiring in-depth investigation (Bradley, Kim, Klein, McMullen & Wennberg, 2021).The impact of foreign financing on the performance and growth of Small and Medium Enterprises (SMEs) in Nigeria is a vital concern that demands a comprehensive examination. The primary problem stems from the uncertainty regarding how foreign financing influences SMEs in Nigeria. Despite the potential benefits of access to foreign capital, challenges such as limited understanding of foreign financial mechanisms, varying terms and conditions, potential dependency, and inadequate knowledge on utilizing these funds optimally hinder SMEs from fully capitalizing on these opportunities.

In Nigeria, the researchers that attempted to explore foreign financing and effect on SMEs performance concentrated only on foreign direct investments (FDI) excluding other sources of foreign finance for SMEs like loans, grants and special funding from foreign development finance institutions. Edeh and Ugwuanyi (2020) focused on impact of FDI in the Agricultural sector. Awobejo, Worku, Muchie and Temitope (2017) expanded their studies to include the impact of foreign investment on the macro-economy of Nigeria. Many Asian authors also focused their studies on the impact of FDI on SMEs and in their countries' economies at large (Munemo, 2017,

Yunus & Masron, 2020 & Kholmukhamedex, 2022). This limitation in variables is one of the concerns of this study as other variables like foreign grants, foreign loans will be included.

Considering the alarming failures of SMEs in Nigeria that necessitates indebt study coupled with the fact that lack of measurement of the effect of finance generally will becloud other sources of SMEs'failures; this study therefore investigates the effectvarious forms of foreign finance have on the performance of SMEs in Nigeria as it relates to employment generation. By doing so, it seeks to shed light on actionable insights that can empower SMEs to harness foreign funding effectively and contribute substantially to the economic development of Nigeria.

Literature Review

Definitions of small and medium enterprises

Just as there are tons of literature on SMEs, so also there are varied definitions and descriptions of companies that are regarded as SMEs. As many countries and different jurisdictions are characterized by peculiar and different business and economic environment, so also is the ways they see SMEs. Consequently, SMEs have been defined by different countries and their agencies, jurisdictions, and institutions. The diversity of nations resulted in multiple definitions for small business among nations. This poses a challenge in performing a cross-country analysis of SME data in the absence of a universal definition of what constitutes an SME. A number of efforts aim to streamline and harmonize SME definitions, although the heterogeneity of SMEs themselves and the nature of the economy they operate in might mean that establishing a global definition is not feasible (OECD, 2004). Small businesses are often defined based on the workforce, the amount of capital invested, and the management structure (Lucky & Olusegun, 2012)

The world bank in its document written by Parth, David, Pranav& Zack (2013) described SMEs as enterprises employing less than 300 with revenue and assets not exceeding $15m. According to the United Nations (2020), SMEs can be considered as having, say, between five to two hundred employees and are found in the formal sector (i.e., they are formally registered as a business organization). For OECD (2015), SMEs employ fewer than 250 people.Nigeria is among the countries with many internal SMEs description. SMEs in Nigeria has been described differently by several government institutions.SMEDAN defined medium scale enterprises in Nigeria as enterprises with employees from 50 to 199, and capital ranging from 50 to 100 million Naira (US$100,000 to US$1,000,000) (Ogunyomi& Bruning, 2015). The Central Bank of Nigeria (CBN) defined small businesses with capital ranging from 1.0 million Naira to 10.0 million Naira (US$2,000 to US$20,000) and employed not

more than 50 individuals (Juliana, 2013). This study considers the definition of small businesses by SMEDAN because it focuses on two fundamental aspects of this study, namely capital and employees, but adopted the definition of SMEs from the 2021 – 2025 revised national policy on MSMEs by the Nigerian government. This definition is summarized in the table:

Table 1: SMEs definition by Nigerian National Policy on MSMEs

S/N	Size category	Employment	Turn over (N million)
1	Nano/ Homestead Enterprises	1-2	Less than 3
2	Micro Enterprises	3-9	3-25 million
3	Small Enterprises	10-49	25+ but less than 100
4	Medium	50-199	100+ but less than 1000

Performance measures

Performance can be seen from financial and non-financial perspectives. Most financial measures are quantitative while many non-financials measures can be qualitative with a likelihood of some being quantitative too. There are also market related measures as alluded by Wiik &Torvund, (2022) such as sales growth and market share and future positioning of the firm. An ideal measure of firm performance would be a combination of both financial and non-financial measures. Financial measures can be represented by profit,revenue, returns on investment (ROI), returns on equity (ROE), earnings per share (EPS) (Santos and Brito, 2012; Chong, 2008). They have the advantage of being objective, simple and easy to understand. However, they have the drawback of being not easily available and being historical, therefore offering only lagged information. They can also be subject to manipulations, and incompleteness (Santos and Brito, 2012; Chong, 2008). Non-financial measures include number of employees, revenue growth, revenue per employee, market share, customers' satisfaction, customers' referral rates, employees' satisfaction, social and environmental performance. The non-financial measures have the disadvantage of being subjective (Santos and Brito, 2012; Chong, 2008). Owing to the limitations of the financial and non-financial measures, it has become the generally acceptable standard to employ a hybrid approach combining both financial and non-financial measures of performance. Nevertheless, the primary outcome of organizational success is financial performance. Even though these performance standards are important, they are insufficient to assess overall efficacy. Accounting-based measures financial success by considering profitability in terms of Return on Sales (ROS), Return on Assets (ROA), and Return on Equity (ROE). Measures of organizational effectiveness typically focus more on stakeholders than on shareholders.

Various organizational resources have been employed in related studies to measure the performance of SMEs (Eze & Apiri, 2020). Fornoni et al, (2012) in their study used social capital as antecedents of firm performance. Similarly, Ahmad, Abdullah, & Roslan (2012) used short term debt, long term and total debt to measure SMEs performance. Al- Swidi and Mahmood (2012) examined the effect of total quality management and entrepreneurial orientation asSMEs performance. However, studies of Fatoki (2012) and Mutlu&Aksoy (2014) have shown that business orientation determines performance. While Mazanai and Fatoki (2012) in their study employed access to finance as a performance measure for SMEs. According to Fairlie, Miranda & Zolas, (2019), business performance is measured by different metrics from three perspectives namely; marketing, accounting and operations.

Different performance measures can also be applied to varying industries. While some measures may be appropriate to manufacturing, others may be suitable for service organisations. For instance, according to Malik, (2024), the most relevant and meaningful measurement of performance for the high technology sector and entrepreneurial activity is the return-on-employees (ROE), which shows the Generation and exploitation of knowledge resources. Service industry can employ number of customer complaints and repeat sales/services as performance measures.

Review of Sub-Variables

The focus of this study is the effect of foreign finance on the performance of SMEs in Lagos state, Nigeria with regard to employment generation. Foreign finance can affect the performance of SMEs in Nigerian, either positively or negatively. In essence, the independent and dependent variables can influence each other. In this section, the variables utilized to complete the analysis and construct our models are highlighted. Furthermore, the basis for the choices in the light of existing research, theory and data in the field is presented. The independent variables are forms of foreign finances, while dependent variables are the average performance metrics of employment Generation. We also control for firm-level data of size.

Independent Variable and Its Components (Proxies)

The independent variable is foreign finance sources. The components (proxies) of the independent variable which represent the forms foreign finance can flow to SMEs are:

1. Foreign Direct Investment (FDI)
2. Foreign Venture Capitals (FVC)
3. Foreign Private Loans (FPL)
4. Foreign Grants (FG)

Loans and equity include special funds from Development Financial Institutions (DFI)

1. Foreign Direct Investments (FDI)

FDI involves a long-lasting investment in a host country by a foreigner. An individual or firm from another nation may directly participate in production or business in another country through foreign direct investment (FDI), which might take the form of purchasing an existing company there or growing its operations; and is different from the portfolio investment which is a passive investment in the securities of another country such as stocks and bonds (Tülüce, & Doğan, 2014). Foreign direct investment (FDI) considered as cross-borders investment made by the direct investor which have significant control on the management, with a goal of establishing a sustainable enterprise (World-Bank, 2016; OECD, 2008). Significant control entails the ownership in the enterprise should be at least 10% or more of the voting stock (World-Bank, 2016). Generally, FDI involves participating in joint-ventures, management, expertise and technology transfer. Besides that, FDI is also known as the growth enhancing factor in developing countries and has been considered as potential source of development for the novel and small domestic firms

Foreign Venture Capital (FVC)

Venture capital (VC) is typically used to fund startups and other companies that have the potential to expand significantly and quickly. Venture capital is a type of private equity finance involving investments in unquoted companies with growth potential. It is generally medium to long term in nature made in exchange for a stake in a company. Venture capitalists take an active role in the management of the firm they fund and work in close collaboration with the stock market to take the firm they fund public. To invest in potential businesses or even larger venture funds, venture capital firms (VCs) raise capital from limited partners (LPs).VC financing is largely envisioned by many corporate finance researchers and practitioners as the best viable patient capital for the survival and success of SMEs in emerging economies (Kato, 2021). The available reviewed literature disclosed that VC financing positively influences the growth of VC- backed firms in terms of sales growth, job Generation and increase in returns on investment (Christian, 2018; Memba, 2011). Besides, the VC market in Africa is largely confined to South Africa, Nigeria and Kenya, accounting for over75% of the total VC investmentin the Africa continent (VC4Africa, 2015). In Africa, many VC are foreign and the quantum of funds can be significant.

Foreign loans (FL) are cross-border borrowings by SMEs from individuals and private companies. These foreign loans usually come in lower interest rate than domestic loans but are heavily affected by exchange rate movements. Sometime

also, they come in longer tenors to the SMEs. Because foreign loans come in usually lower rate and longer tenure, its benefits to SMEs operations can be enormous. Harash, Al-Timimi and Alsaadi, (2014) in their studies foundthat companies that had some foreign debt financing performed better than their counterparts. The authors also found that more companies depend on debt than equity for financing making long-term debt a major component of total debt. Furthermore, while some companies rely heavily on long-term debt as a financing scheme, companies in some economies on the other hand use more of short-term debt to finance their operations. However, it is noteworthy that foreign debt amplifies the negative effect of total leverage on company performance (Harash, Al-Timimi& Alsaadi, 2014).

Foreign Grants (FG)

Grant is usually financial award given by an individual, company, foundation to a company to facilitate a goal or incentivize performance. Grants are essentially gifts that usually do not have to be paid back.A grant scheme for small businesses is designed to be offered at no rates of interest such that the beneficiary firms can leverage the advantages to be productive and grow their businesses thus participating in the mainstream of the economy (Aluko&Bayai,2023). It becomes a foreign grant when the sources are beyond the shores of a country. Grants for small and medium businesses are usually targeted to a variety of purposes including starting a business, helping it run the business efficiently to supporting its expansion. Grants are not simply free money as they have conditions attached to them that need to be met. While some grant giving entities seek out qualified SMEs, many SMEs in turn look out for these donors to attract them by complying with certain conditions. Business development grants provide smaller grant amounts and can therefore get to a larger number of smaller beneficiaries, support acquisition of machinery, tools and equipment and firm's learning activities; and are targeted towards loosening capital constraints of smaller firms. (Srhoj, Lapinski& Walde, 2021). Grants can come from various sources, including government agencies, nonprofit organizations, and private corporations. Each type of grant has its own set of eligibility criteria, application processes, and funding amounts. Grants can come in many ways including Development grant, Start-up grant, Export program, Research and Development (R&D) grants, Development of knowledge and skills and Technology investment program for industrial enterprises.

Dependent Variable and their Indicators

Employment Generation (EG)

Employment Generation by SMEs has been a fundamental agreement among scholars and researchers one known way SMEs contribute to economic development is Generation of employment. (Bartolacci, Caputo & Soverchia, 2020, UNDESA, 2020,

SMEDAN, 2022 and Rao, Kumar, Chavan and Lim, 2021). There is a growing body of empirical literature that supported the fact that small firms employ a large share of workers and create most jobs in developing economies, thereby positioning SMEs development as a key priority for authorities (Nasr & Rostom, 2013). Consequently, the impact of foreign finance on the ability of SMEs to create employment becomes a good measure of performance. Researchers who have used this variable as a measure of SMEs performance include Eze & Apiri (2020), Šelebaj & Bule (2021), Fowowe (2017), Kato (2021), Nyikos et al (2020), Pizaet al., (2016).

Control Variables

As suggested by existing literature, there are many factors that might impact firm performance beyond finance. To account for other variables that might influence the results, and to ensure correct conclusion, this study will account for factors such as firm characteristics which have demonstrated possible impact on firm performance. At firm-level, the researcher included firm size as a control variable.

Theoretical Review

The theoretical basis used for this study emanates from the extensive literature review carried out on this study. These theories helped in establishing a sound theoretical foundation for the study. The study x-rays the theories which explain SME financing and perfprmanceof SMEs in Lagos, Nigeria. Two major theories underpinning this study are Pecking Order Theory and Resource-Based Theory.

Pecking order theory (POT):

Pecking Order Theory has achieved some significant attention in descriptive literature. This theory was developed by Myers (1984) in the field of corporate finance as an alternate theory to trade-off theory where the firm has perfect hierarchy of financing decisions. Pecking order theory suggests that a firm must choose to self-finance internally in the inception of the business by the means of retained earnings. Where this is not sufficient or possible, then funds sourced from debt and then further funds must be procured by issuing a fresh equity. POT explains that the firm tries to utilize its retained earnings then issues debt and then followed by equity issue as a last resort. It is an indicator of the performance of a business and is essential to SMEs employing unconventional finance source (Altı & Sulaeman, 2012). This theory explains the financial decision making of the firms. According to Shyam-Sunder and Myers (1999) pecking order theory anticipates the impacts of profits correctly.

SMEs by their nature are typical affected by asymmetric information problems like adverse selection and moral hazard. Therefore, their financial behaviour can be

naturally described by the pecking order approach (Cosh and Hughes 1994; Frank and Goyal 2003). In credit markets where mainly short-term debt financing can be achieved, the problems mentioned above can create severe financial restrictions on SMEs. Another area where SMEs financial behaviousaligneds with the POT is the fact that the director-owners of SMEs may decide not to seek financing that dilutes their shareholding in the company and therefore limits their ability to act. As a result, they generally resort to debt once internal resources have exhausted. Furthermore, with the lack of organizational and managementpower in credit markets among SMEs, the transaction costs of external financing especially equity tends to be considerably higher for them. All these reasons together make SMEs perfect candidates to be described under the pecking order approach

Resource-Based Theory

One of the most well-known theories about company performance is the RBV theory (Galadanchi & Abubakar, 2022). RBV is a theory that explains company performance that is influenced by varied resources rather than market influence. Company resources should be able to confer some competitive advantage to the firm. Competitive advantage is described as a firm's capacity to implement value-creating strategies that are not being implemented by existing and potential competitors (Barney, 1991). Therefore, firm resources are assets or entities that can be strategically exploited by a company to have a competitive edge. As a result, when companies' resources differ, they can obtain a competitive edge. They are difficult to transfer from one company to another and are impossible to recreate before or after implementation. Resource based view (RBV) should be studied when the firm's focus is on its available resources, such financial resources and core competencies to attain and sustain competitive advantage in the same environment, while it also expounds the performance in firms (Nham & Hoang, 2011).

RBV is an effective tool for firms to use their resources and capabilities to make more profit or add more value to the firm on performance. The theory on RBV is important to this study since it can help explain why some firms outperform others and provides insights into an organization’s specific resources (Wiik& Torvund, 2022). SMEs possess a wide range of internal resources of which finance is one of them. These resources require entrepreneurial ingenuity to harness for optimal performance. Retained earnings is a key internal resource that many SMEs depend on especially at the initial stage.SMEs value and performance have been linked to the usage of their resources. Ruivo, Oliveira & Neto (2015) in their assessment of the value of ERP commercial-packages in SMEs using resource-based view theory concluded that behavior and capabilities exert structural influence on ERP value consistent with RBV theory.The totality of internal resources available to owner

manager SMEs and the owners' expertise, capabilities and other behavioral traits are consistent with the RBT.

The justification for adopting these theories is summarized in Table 1.

Table 2: Justification Theoretical Framework

S/N	Theory	Justification
1	Pecking order theory (POT)	i. The theory provides a kind of priority order of funding which will help SMEs in financial planning. ii. The order of financing espoused in the theory is very relevant to SMEs as most SMEs start off with personal savings and funds from families. iii. The theory guides funding types at any point in time of the SME development.
2	Resourced-based theory (RBT)	i. The theory provides basis for treatment of finances as a resource, required for analysis of performances of SMEs. ii. The theory highlights the capabilities that should be exploited by SMEs to manage the financial resources for optimal performance. iii. To harness the finance as a resource requires entrepreneurial view. The Resources-Based View theory is right to explain the relationship between Entrepreneurial Orientation and SME Performance (Dionysus & Arifin, 2020). iv. RBT related to the explanation of how firm-based resources beyond finance generate sustained competitive advantage differentiating various levels of performance among SMEs.

Source: Authors' survey (2024)

Empirical Review

Some past studies reviewed showed mixed findings leaving room for further studies while others have made some conclusions in their findings.

Dvouletý, Srhojand Pantea (2021) employing a systematic review of empirical evidence as their research design carried out a study on public SME grants and firm performance in European Union. The study focused only on European Union 28 member countries (EU 28) and grants supporting small and medium-sized enterprises (SMEs). The result of the study shows mostly the positive outcomes of the grants on firm-survival, employment, tangible/fixed assets, sales/ turnover, with

varied findings for labour productivity and total factor productivity (TFP)

Nyikos, Béres, Laposa andZávecz (2020). The authors examined micro-level effects of grants, and financial instruments (FIs) on SMEs access to finance in Hungary. A panel data with firm-years as the units of analysis sourced from European Union (EU) subsidies and yearly aggregated information on credits received by the firms were used. Findings shows that the use of subsidies has a positive impact on employment, sales and in certain settings on productivity.

Woo (2020) examined the influence of foreign VC firms on the internationalization of investee ventures and their performance. The study employed secondary data. The authors' findings show that foreign VC firms not only encourage their investee ventures to internationalize but also help the internationalization to achieve higher operating performance.

Faridi, Hussain, Imran and Ahmad (2021) studied the impact of Foreign Direct Investment on Small and Medium Scale Enterprises in Pakistan. This study is based on secondary data from 1982 to 2019 sourced from world development indicators and Pakistan economic survey. Descriptive and inferential statistics were used to analyse the data. The correlation analysis found that SME growth rate is positively correlated with foreign direct investment and exports while negatively correlated with gross savings and GDP growth rate.

Adebamiwi and Abubaka (2023) investigated the impact of foreign loans on Nigeria's economic growth. The study's data was obtained from the Statistical Bulletin of the Central Bank of Nigeria for the period 1995 - 2021 and evaluated using a multiple regression model and an Econometric approach. The study showed that while exchange rate has a little impact on the Nigerian economy, foreign loans and inflation rates has a negative and play a non-significant role in explaining the country's economic expansion.

The researcher observed from empirical reviews of literature that the findings from the subject matter still remain inconclusive. There were conflicting findings in the various studies carried out by different researchers. For instance, Adegboye and Iweriebor, (2018)) indicated a positive relationship between access to finance and innovation, the authors also concluded that increased finance may lead to productivity decline. Also, there were mixed results in the study carried out by Charoenrat and Harvie (2014) in Thailand with positive and significant impact of FDI on medium SMEs but negative impact on small SMEs. There were also mixed results across regions indicating need for further research. Alraja, Hammami and Al Samman, (2016) in their study found that FDI does not have effect on the ICT goods exports and imports. On other hand the study finds a positive and significant effect of

FDI on ICT service thus necessitating further studies. While Ekienabor, Aguwamba and Liman, (2016) from their study revealed positive and significant relationship between foreign direct investment (FDI) and manufacturing output in Nigeria, Subair & Salihu, (2011) in their study concluded that FDI on its own has contributed negatively to the development of small and medium scale enterprises in Nigeria through the MNCs.

Beyond finance, there are other factors that contribute to SMEs performance which should have been controlled. Such factors include firm age, size and experience of the manager. Many literatures reviewed have no control variable. Fowowe (2017) only adopted employment growth as firms' performance metric without employing any controlled variable. Galadanchi and Abubakar, (2022) did not use any performance variable. Sufyan, Imran, Atiso, Novak and Gavurova, (2023) did not specify the proxies for measuring SME development and so there was no control variable. Other authors that did not introduce any control variables include Belloumi and Touati, (2022); Sass, Gál and Juhász, (2018); Oforiand Asongu(2021) and Saidi, Uchenna and Ayodele, (2019).Dvouletý,Srhojand Pantea (2021) introduced some control variables but discovered the presence of heterogeneous effects concerning the firm size, firm age, region, industry, and intensity of public support, thus requiring more studies that would address the long-term effects of foreign finance on SMEs. The researcher will introduce a control variables namely firm size. Control variables help in achieving consistent and unbiased result.

The main objective of this study is to investigate the causality between foreign finance and employment Generation by SMEs in Nigeria. Many reviewed literatures concentrated only on foreign direct investment. Such researchers included Chodisettyand Babu (2022); Akinwale, Adekunleand Obagunwa (2018); Rawoof, Said, Irmak,Pelitand Shabbir(2023); Belloumiand Touati(2022); Edeh, Eze, andUgwuanyi, (2020). This researcher has added other forms of foreign finance including grants, foreign loans, funds from foreign development finance institutions and venture capitals. In Nigeria there are few studies on venture capitals as the concept is still evolving. This position was reinforced by Kato (2021) and Walter, Offiong and Udoka (2018) who suggested further work on venture capitals. This reinforced the gap the researcher intends to fill.

Researches backed by theories enjoy an added layer of credibility and support. A good number of reviewed studies were not backed by any theory. Such studies include Peter, Adegbuyi, Olokundun, Peter, Amaihian, and Ibidunni (2018); Saurav and Kuo (2020); Bruno and Cipollina(2018); Leitão and Baptista (2011).

Methodolgy

Research Design

The study adopted a survey research design. The type of survey design is research adopted is a cross-sectional design to evaluate relationship among variables (Adeniran, Asifat, Familusi & Folorunso, 2024) in the study and data was collected from various organizations at a single point in time and analysed according to set hypotheses (Adeniran, 2025). A substantial sample of business owners or a senior staff member from these companies participated in surveys and questionnaires, which included Likert scale questions to assess foreign finance and performance variables. The firm was the principal unit under investigation. The study operationalised independent variable foreign finance as proxied by FDI, FVC, FL and FG. The dependent variable of this study was firm's performance and was assessed using financial indicator. The data was sourced from one member of the top management preferably CEO or the staff in charge of finance or strategy who were considered knowledgeable about the issue under investigation. Their choice is consistent with similar studies conducted by Shabarati, Jawad and Bontis (2010) and Cabrita and Bontis (2008) who claim top managers are well-informed about organizational features.

This research adopted a quantitative method to investigate the effect of foreign finance on the performance of Nigerian SMEs with focus on Lagos State. Descriptive statistics was computed to represent general information and firm characteristics. Both descriptive and inferential statistics were utilized to analyse the data. Additionally, a series of regression analyses was conducted to assess the relationship between the independent and dependent variables to determine whether the results are significant or not

Population of the study

The population of the study is 3,744 SMEs in Lagos that are registered with Corporate Affairs Commission as private limited liability companies (SMEDAN, 2021). According to SMEDAN' 2021 survey report and as shown in the tables below, about 1.2m Micro, Small and Medium Enterprises (MSMEs) are formally registered. Out of this number 670,447 are small and medium enterprises which is the study focus. The state distribution shows Lagos state having 42,067. The SMEDAN reports also revealed that private limited companies constitute 8.9% of the registered 1.2m as shown in Table 2. Thus, the study population becomes 3,744 (8.9% of 42,067) SMEs.

Table 3: Formally registered enterprises in Nigeria in 2021 (SMEDAN)

FORMAL (REGISTERED) ENTERPRISES BY CATEGORIES AND STATES				
STATE	INFORMAL (NANO & MICRO)	FORMAL (SMALL & MEDIUM)	TOTAL	%
ABIA	11,540	14,905	26,445	2.1%
ADAMAWA	9,620	15,321	24,941	2.0%
AKWA-IBOM	18,105	17,263	35,368	2.9%
ANAMBRA	11,384	9,230	20,614	1.7%
BAUCHI	19,366	15,319	34,685	2.8%
BAYELSA	9,895	5,863	15,758	1.3%
BENUE	11,059	14,851	25,910	2.1%
BORNO	17,823	8,657	26,480	2.1%
CROSS RIVER	10,232	15,741	25,973	2.1%
DELTA	13,559	26,651	40,210	3.2%
EBONYI	8,942	13,949	22,891	1.8%
EDO	8,718	10,125	18,843	1.5%
EKITI	13,824	17,510	31,334	2.5%
ENUGU	13,830	10,603	24,433	2.0%
GOMBE	10,476	19,454	29,930	2.4%
IMO	9,779	8,348	18,127	1.5%
JIGAWA	8,944	13,912	22,856	1.8%
KADUNA	17,293	21,615	38,908	3.1%
KANO	36,359	42,969	79,328	**6.4%**
KATSINA	22,492	21,610	44,102	3.6%
KEBBI	7,466	9,841	17,307	1.4%
KOGI	9,882	12,517	22,399	1.8%
KWARA	17,206	25,356	42,562	3.4%
LAGOS	49,029	***42,067***	91,096	**7.3%**
NASARAWA	10,728	10,728	21,456	1.7%
NIGER	12,887	23,197	36,084	2.9%
OGUN	18,680	31,133	49,813	4.0%
ONDO	10,908	7,899	18,807	1.5%
OSUN	11,705	18,969	30,674	2.5%
OYO	23,805	31,739	55,544	4.5%
PLATEAU	10,676	21,352	32,028	2.6%
RIVER	42,307	42,306	84,613	**6.8%**
SOKOTO	14,877	14,114	28,991	2.3%
TARABA	9,250	9,606	18,856	1.5%
YOBE	13,146	9,279	22,425	1.8%
ZAMFARA	9,591	13,587	23,178	1.9%
FCT	15,142	22,861	38,003	3.1%
TOTAL	**570,520**	**670,447**	**1,240,965**	**100.0%**

Table 4. Ownership Structure of formally registered enterprises in Nigeria in 2022

OWNERSHIP STRUCTURE		
FORM OF OWNERSHIP	NUMBER	PERCENT
SOLE PROPRIETORSHIP	981,269	79.1
PARTNERSHIP	77,635	6.3
JOINT VENTURE	20,013	1.6
PRIVATE LIMITED LIABILITY COMPANY	110,979	8.9
COOPERATIVE	9,557	0.8
FAITH BASE ORGANISATION	25,226	2.0
OTHERS	16,287	1.3
Total	**1,240,965**	**100**

Source: SMEDAN (2022)

Sampling Techniques

The Researcher employed the probabilistic sampling techniques of random sampling. From the sampling frame/population of 3,744 SMEs, each SME will stand a chance of being selected into the sample from whence the questionnaires will be administered. The random sampling to select the required samples was executed using the random ( ) function in excel.

Sample Size Determination

This researcher used a total of 361 participants determined using Taro Yamane (1967) sample size determination represented as follows: 3,774/ (1+3,774(0.05)2 = 361

Reliability of Research Instrument

Cronbach's Alpha was employed for evaluating reliability and assessing the internal consistency of items within a scale (Adeniran & Fakunle, 2025; Adeniran, 2019). The coefficients of Cronbach alpha reliability test ranges from 0.00 to 1.00 with any value above 0.7 indicating that the research instrument is reliable. The pilot survey instrument was administered to 50 identified SMEs. The result of the test is above the threshold of 0.70 indicating the reliability of the instrument.

Table 5: Overall reliability statistics

Cronbach's Alpha	N of Items
.987	9

Source: Research Survey (2024)

Methods for data analysis and statistical treatment

Both descriptive and inferential statistics were applied in the analysis of the data. Demographic presentation of firms' data as well as preliminary analysis of diagnostic view of the data sets were carried out. Regression analysis was employed to examine the research hypotheses utilizing the Statistical Package for Social Sciences (SPSS) version 27.0. The regression model statistically measures the relationship between foreign financing and SMEs' performance. In measuring the SMEs' performance, the researcher considered Employment Generatedto determine the extent to which the independent variable influences the dependent variables. Firm size is employed as a control variable

The perceived functional forms shall be specified as follows:
EG = f (FDI, FVC, FL, FG, FS) ..... (1)

Where:

EG = Employment Generation

FDI =Foreign Direct Investments

FPE= Foreign Venture Capitals

FL= Foreign Loans

FG =Foreign Grants

FS = Firms Size (Control Variable)

The econometric model is functionally specified and re-stated as:

$EG_i = \beta_0 + \beta_1 FDIR_i + \beta_2 FVCR_i + \beta_3 FLR_i + \beta_4 FGA_i + \beta_5 FSA_i + \mu_i$.....(2)

Where:

β_0, α_0, Θ_0 = Constant parameter/Intercept

β_1 - β_2 = Coefficients of independent variables

μ_i, μ_i, μ_i, μ_i, = Error terms

Model selection

The dependent variable of this study is the SMEs' Performance (PF) with sub-dependent variable of Employment Generation (EG), while the independent variables consist of Foreign Direct Investments (FDI), Foreign Venture Capital (FVC), Foreign Loans (FL) and Foreign Grants (FG).Table below presents the model specification of the variables concerned.

Table 6: Description of model specification

Variable	Sub-Variables	Definition of Specification	Functions
Performance (PM)	Employment Generation (EG)	Foreign Finance (FF) model Employment Generation (EG)	EG= f(FF)

Measurement of the Variables

Table 7 presents how the variables will be measured.

Independent Variables

Table 7: Measurement of independent variables

Variable	Sub-Variables	Proxy	Measures
Foreign Finance (FF)	Foreign Direct Investment	(FDI)	Equity investment into the firm by individuals or entities of not less than 10% of the total shares of the firm
	Foreign Venture Capital	(FVC)	Funds brought in through venture capitals. This usually comes in form of equity investments made into the firm and can be less than 10%
	Foreign Loan	(FL)	Funds received by SMEs in the form of loan from foreign individuals and entities
	Foreign grants (FG)	(FG)	Grants received from foreign entities over a period of time measures as at date of research

Variable measurement by the Researcher

Dependent Variables

Table 8: Measurement of dependent variables

Variable	Sub-Variables	Proxy	Measures
SME Performance	Employment Generation	(EC)	Number of new hires resulting from foreign finance received.

Control Variables

Table 9: Measurement of control variables

Variable	Sub-Variables	Proxy	Measures
Firm Level	Firm Size	(FS)	Number of employees and size of Assets

Data Analysis

Questionnaires Administered

A total of 400 (four hundred) questionnaires were distributed out of which 361 were returned amounting to 90.25% success rate. The questionnaires as summarized in Table 10 were analysed with Statistical Packages for Social Sciences (SPSS) package version 27 (Adeniran & Tayo-Ladega, 2024). The questionnaires include section A, B and section C and analysis were made based on the response in the section B and C of the questionnaire.

Table 10: Questionnaires

Questionnaire	Copies	Response rate %
Administered	400	100%
Irrecoverable	28	7%
Unusable	11	2.75%
Used	361	90.25

Source: Research survey (2024)

Presentation of Demographic Data

The Table 11 presents the distribution of respondents based on the sector their companies operate in. A total of 361 respondents participated in the survey and their responses are categorized into different businesses. The largest proportion of respondents (23.8%) is from the "Others" category, which includes Media, Engineering, Renewable Energy, etc. This is followed by Information and Communication (15.2%) and Professional and Scientific (15.2%), indicating strong participation from knowledge-based industries. The agriculture sector accounts for 13.6%, showing a significant presence of businesses in this industry.

Table 11: Type of Sector of Company (Respondents)

S/N	Sector	Frequency	Percentage (%)	Cumulative Percentage (%)
1	Manufacturing	37	10.2	10.2
2	Agriculture	49	13.6	23.8
3	Wholesale / Retail Trade	29	8.0	31.8
4	Transport and Storage	23	6.4	38.2
5	Information and Communication	55	15.2	53.4
6	Professional and Scientific	55	15.2	68.7
7	Real Estate	22	6.1	74.8
8	Accommodation and Food Services	5	1.4	76.2
9	Others (Media, Engineering, Renewable Energy etc.	86	23.8	100.0
	Total	361	100	

Source: Research survey (2024)

The Manufacturing sector contributes 10.2% of the respondents. The Wholesale/Retail Trade sector makes up 8.0% of the sample; Real Estate (6.1%), Transport and Storage (6.4%), and Accommodation and Food Services (1.4%) have the lowest representation. The Accommodation and Food Services sector (1.4%) has

the fewest respondents, suggesting either a lower response rate from this industry or a smaller presence of such firms in the study population.

The Table 12 presents the distribution of companies based on their age, categorized into different year brackets. A total of 361 companies are represented in the study. The largest proportion of companies falls within the 6–10 years bracket, accounting for 33.0% of the total respondents. 23.0% of the companies are between 1–5 years old, indicating a significant number of relatively young businesses. Together, companies aged 1–10 years make up 56.0% of the sample, showing that more than half of the surveyed businesses are still in their early growth phase.12.4% of the companies have been in operation for 11–15 years.

Table 12: Age of Company

S/N	Age bracket	Frequency	Percentage (%)	Cumulative Percentage (%)
1	1 -5 years	83	23.0	23.0
2	6- 10 years	119	33.0	56.0
3	11- 15 years	45	12.4	68.4
4	16- 20 years	15	4.2	72.6
5	21- 30 years	1	0.3	72.9
6	Above 30 years	98	27.1	100
	Total	361		

Source: Research survey (2024)

Companies aged 16–20 years account for only 4.2%, showing a declining trend in older firms. Companies aged 21–30 years are the least represented (0.3%), suggesting either a lower number of such firms in the study or a lower response rate from them. Interestingly, 27.1% of the firms have been in operation for over 30 years, indicating the presence of well-established businesses in the sample.

The Table 13 presents the distribution of foreign financing types received by companies in the study. The total number of respondents is 361, and the responses cover different forms of foreign funding sources. Foreign Grants are the most frequently received form of foreign finance, with 95 companies (26.3%) benefiting from them. This suggests that grants play a significant role in supporting businesses, possibly due to their non-repayable nature. Foreign Loans follow with 56 companies (15.5%), indicating that many firms also rely on debt financing from foreign sources. Foreign Direct Investment (FDI) alone accounts for 14.1% of the respondents, highlighting its role in capital inflow for businesses. Foreign Venture Capital alone is the least common type of financing, with only 3.9% of businesses receiving it.

Table 13: Type of Foreign Finance Received

S/N	Type(s)	Frequency	Percentage (%)	Cumulative Percentage (%)
1	Foreign Direct Investment	51	14.1	14.1
2	Foreign Venture Capital	14	3.9	18.0
3	Foreign Grants	95	26.3	44.3
4	Foreign Loans	56	15.5	59.8
5	Foreign Direct Investment and Foreign Venture Capital	38	10.5	70.4
6	Foreign Direct Investment and Foreign Loan	34	9.4	79.8
7	Foreign Grant and Foreign Venture Capital	23	6.4	86.2
8	Foreign Direct Investment, Foreign Grants and Foreign Venture Capital	25	6.9	93.1
9	Foreign Direct Investment, Foreign Grants and Foreign Loans	25	6.9	100
		361		

Source: Research survey (2024)

This suggests that venture capital investments are relatively rare in this sample. Combinations of multiple financing sources (e.g., FDI + Grants, FDI + Loans, or a mix of three types) are also observed but at lower frequencies. 38 firms (10.5%) received both FDI and Foreign Venture Capital, while 34 firms (9.4%) received a mix of FDI and Foreign Loans, showing that some firms rely on a combination of foreign investments and loans. 25 firms (6.9%) reported receiving a mix of FDI, Grants, and Venture Capital, while another 25 firms (6.9%) received a mix of FDI, Grants, and Loans, reflecting a diversification of funding sources.

Normality Test

This segment investigated normality assessments applied to both the dependent and independent variables, gauged through the evaluation of skewness and kurtosis. Kurtosis determines whether the data series is heavy-tailed or light-tailed (See Table 14).

Table 14: Dependent and Independent Variables Normality Test

	Number	Skewness		Kurtosis	
		Statistic	Standard Error	Statistic	Standard Error
EG	50	0.387	0.122	0.387	0.122
FDI	50	0.237	0.122	0.237	0.122
FVC	50	0.359	0.122	0.359	0.122
FL	50	0.374	0.122	0.374	0.122
FG	50	0.376	0.122	0.376	0.122
FS	50	0.359	0.122	0.359	0.122
Valid	50				

Source: Research Survey (2024)

The results obtained from the pilot study revealed that all the variables of the study were normally distributed because the skewness index and the kurtosis index obtained for each of the variables was less than 1.0.

Descriptive Statistics

This section preceded regression analyses and hypothesis testing and delved into a thorough descriptive analysis of respondents' opinions on the dependent variable of the study (Employment Generation) and the independent variables of the study (Foreign Direct Investment, Foreign Venture Capital, Foreign Grant and Foreign loan). Through rigorous descriptive statistical techniques, this study presented a comprehensive overview of respondents' opinions on each element. In this analysis, respondents' opinions are distilled using a structured Likert scale, encompassing a spectrum from strongly agree (SA) to strongly disagree (SD).

Descriptive Analysis of Responses to Questions on effect of foreign finance on Employment Generation

The responses indicate a generally positive perception of the role of FDI in employment generation. A majority of respondents acknowledged that FDI has led to enterprise expansion, job Generation, and workforce diversity. On the enterprise expansion leading to employment, 76 (21.1%) strongly agreed, 191 (52.9%) agreed, 43 (11.9%) were undecided, 36 (10.0%) disagreed, and 15 (4.2%) strongly disagreed. Regarding Generation of new job opportunities, 73 (20.2%) strongly agreed, 160 (44.3%) agreed, 79 (21.9%) were undecided, 33 (9.1%) disagreed, and 16 (4.4%) strongly disagreed. Encouragement of Diverse Workforce Hiring shows 77 (21.3%) strongly agreed, 136 (37.7%) agreed, 72 (13.9%) were undecided, 62 (17.2%) disagreed, and 14 (3.9%) strongly disagreed. Overall Positive Impact on Employment Generation revealed 92 (25.5%) strongly agreed, 174 (48.2%) agreed,

55 (15.2%) were undecided, 28 (7.8%) disagreed, and 12 (3.3%) strongly disagreed (See Table 15).

Table 15: Descriptive Statistics of responses effect of foreign finance on Employment Generation

S/N	**Foreign Direct Investment and Employment Generation**	**SA 5**	**A 4**	**U 3**	**D 2**	**SD 1**	**Mean**	**Standard Deviation**
1	Foreign Direct Investment has contributed to the expansion of our enterprise, leading to more employment opportunities.	76 (21.1 %)	191 (52.9 %)	43 (11.9 %)	36 (10.0 %)	15 (4.2 %)	3.87	0.992
2	Foreign direct investment has enabled our enterprise to create new job opportunities.	73 (20.2 %	160 (44.3 %)	79 (21.9 %)	33 (9.1%)	16 (4.4 %)	3.75	1.034
3	Foreign investors' involvement has encouraged the hiring of diverse talent, enriching our workforce.	77 (21.3 %)	136 (37.7 %)	72 (13.9 %)	62 (17.2 %)	14 (3.9 %)	3.65	1.088
4	Overall, Foreign Direct Investment has positively impacted employment generation in our enterprise	92 (25.5 %)	174 (48.2 %)	55 (15.2 %)	28 (7.8%)	12 (3.3 %)	3.84	1.016
	Summary of results						**3.78**	**1.033**
	Foreign Venture Capital (FVC) and							

	Employment Generation							
1	Foreign Venture Capital has contributed to the expansion of our enterprise, leading to more employment opportunities.	62 (17.2 %)	183 (50.7 %)	60 (16.6 %)	49 (13.6 %)	7 (1.9 %)	3.68	0.976
2	The influx of Foreign Venture Capital has led to an increase in the number of employees in our enterprise.	50 (13.9 %)	192 (53.2 %)	62 (17.2 %)	42 (11.6 %)	15 (4,2 %)	3.61	1.000
3	Foreign Venture Capital has facilitated the recruitment of skilled labour in our enterprise.	63 (17.5 %)	155 (42.9 %)	63 (17.5 %)	67 (18.6 %)	13 (3.6 %)	3.52	1.090
4	Overall, Foreign Venture Capital has positively impacted employment generation in our enterprise	84 (23.3 %)	171 (47.4 %)	54 (15.0 %)	42 (11.6 %)	10 (2.8 %)	3.77	1.023
	Summary of results						**3.64**	**1.022**
	Foreign Loans (FL) and Employment Generation							
1	Foreign Loans have allowed us to expand our operations, leading to increased employment opportunities.	51 (14.1 %)	157 (43.5 %)	94 (26.0 %)	43 (11.9 %)	16 (4.4 %)	3.51	1020

2	Access to Foreign Loans has enabled us to offer better salaries and benefits, attracting more employees.	41 (11.4 %)	149 (41.3 %)	86 (23.8 %)	63 (17.5 %)	22 (6.1 %)	3.34	1.082
3	The availability of Foreign Loans has reduced our enterprise's need for layoffs or downsizing.	32 (8.9%)	160 (44.3 %)	84 (23.3 %)	62 (17.2 %)	23 (6.4 %)	3.32	1.060
4	Overall, Foreign Loans have positively impacted the growth and stability of employment in our enterprise.	30 (8.3%)	173 (47.9 %)	103 (28.5 %)	32 (8.9)	23 (6.4 %)	3.43	0.987
	Summary of results						**3.40**	**1.037**
	Foreign Grants (FG) and Employment Generation							
1	The availability of Foreign Grants has enabled us to create new job positions.	44 (12.2 %)	160 (44.3 %)	106 (29.4 %)	38 (10.5 %)	13 (3.6 %)	3.51	0.961
2	Foreign Grants have facilitated the recruitment of skilled labour within our enterprise.	42 (11.6 %)	145 (40.2 %)	110 (30.5 %)	45 (12.5 %)	19 (5.3 %)	3.40	1.021
3	Foreign Grants have supported the establishment of new departments or functions, resulting in additional	40 (11.1 %)	183 (50.7 %)	90 (24.9 %)	35 (9.7%)	13 3.6%)	3.56	0.938

	employment opportunities.							
4	Overall, Foreign Grants have had a positive impact on employment generation in our enterprise.	37 (10.2 %)	189 (52.4 %)	98 (27.1 %)	27 (7.5%)	10 (2.8 %)	3.60	0.864
	Summary of results						**3.52**	**0.946**

Respondents generally viewed foreign venture capital as beneficial to employment generation. The findings suggest that FVC has facilitated business expansion, increased the workforce, and improved recruitment of skilled labour. On enterprise expansion leading to more employment: 62 (17.2%) strongly agreed, 183 (50.7%) agreed, 60 (16.6%) were undecided, 49 (13.6%) disagreed while 7 (1.9%) strongly disagreed. Increase in employee numbers shows a 50 (13.9%) strongly agreement, 192 (53.2%) agreed, 62 (17.2%) were undecided, 42 (11.6%) disagreed, and 15 (4.2%) strongly disagreed. On facilitation of skilled labour recruitment, 63 (17.5%) strongly agreed, 155 (42.9%) agreed, 63 (17.5%) were undecided, 67 (18.6%) disagreed, and 13 (3.6%) strongly disagreed. Overall Positive Impact on employment generation shows that 84 (23.3%) strongly agreed, 171 (47.4%) agreed, 54 (15.0%) were undecided, 42 (11.6%) disagreed, and 10 (2.8%) strongly disagreed.

The perception of foreign loans in employment generation was mixed. While respondents acknowledged the expansion benefits, some were undecided or disagreed with its impact on salaries and job security. Expansion leading to increased employment shows that 51 (14.1%) strongly agreed, 157 (43.5%) agreed, 94 (26.0%) were undecided, 43 (11.9%) disagreed, and 16 (4.4%) strongly disagreed. On improved salaries and benefits, 41 (11.4%) strongly agreed, 149 (41.3%) agreed, 86 (23.8%) were undecided, 63 (17.5%) disagreed, and 22 (6.1%) strongly disagreed. Regarding reduction in layoffs or downsizing, 32 (8.9%) strongly agreed, 160 (44.3%) agreed, 84 (23.3%) were undecided, 62 (17.2%) disagreed, and 23 (6.4%) strongly disagreed. Overall positive impact on employment stability shows that 30 (8.3%) strongly agreed, 173 (47.9%) agreed, 103 (28.5%) were undecided, 32 (8.9%) disagreed, and 23 (6.4%) strongly disagreed.

Foreign grants were generally perceived positively in terms of job Generation and workforce development, though some respondents remained undecided. OnGeneration of new job positions, 44 (12.2%) strongly agreed, 160 (44.3%) agreed, 106 (29.4%) were undecided, 38 (10.5%) disagreed, and 13 (3.6%) strongly

disagreed. Recruitment of skilled labour shows that 42 (11.6%) strongly agreed, 145 (40.2%) agreed, 110 (30.5%) were undecided, 45 (12.5%) disagreed, and 19 (5.3%) strongly disagreed. Establishment of new departments leading to additional employment revealed that 40 (11.1%) strongly agreed, 183 (50.7%) agreed, 90 (24.9%) were undecided, 35 (9.7%) disagreed, and 13 (3.6%) strongly disagreed. On overall positive impact on employment generation, 37 (10.2%) strongly agreed, 189 (52.4%) agreed, 98 (27.1%) were undecided, 27 (7.5%) disagreed, and 10 (2.8%) strongly disagreed.

Inferential Analysis

Hypothesis H_0: There is no significant effect of foreign finance on the employment generation of SMEs in Lagos, Nigeria.

Tables 16(a): Linear Regression between foreign finance and employment generation of SMEs in Lagos State

Model Summary					
Model	**R**	**R-squared**	**Adjusted R**	**Standard Error Estimates**	**Durbin-Watson**
1	0.957	0.916	0.915	0.237	1.694

a. Predictors: (Constant): Foreign Direct Investment, Foreign Venture Capital, Foreign loans, Foreign grants and Firm Size

b. Dependent Variable: Employment Generation

Table 16(b): Anova

ANOVA						
		Sum of Squares	**Df**	**Mean Square**	**F**	**Sig**
Model	**Regression**	219.067	5	45.457	778.668	0.000
1	Residuals	19.975		355		
	Total	239.042		360		

a: Dependent Variables: Employment Generation

b: Predictors (Constant): Foreign Direct Investment, Foreign Venture Capital, Foreign loans, Foreign grants and Firm Size

Table 16(c): Coefficients

Coefficients						
		Unstandardized Coefficients		Standardized Coefficients	T-statistics	Probability
Model		B	Std. Error	B		
1	Constant	0.062	0.063		0.982	0.037
	Foreign Direct Investment	0.215	0.018	0.249	11.935	0.000
	Foreign Venture Capital	0.313	0.020	0.374	15.604	0.000
	Foreign Loans	0.239	0.019	0.287	12.814	0.000
	Foreign Grants	0.218	0.019	0.236	11.436	0.000
	Firm Size	0.020	0.108	0.024	1.098	0.273

a. Dependent Variable: Employment Generation

Table 4.16 (a): R (0.957) shows a very strong positive correlation between foreign finance (FDI, Foreign Venture Capital, Foreign Loans, Foreign Grants) and employment Generation. With R^2 of (0.916) the model explains 91.6% of the variation in employment Generation, indicating that foreign finance plays a significant role in job generation. The Adjusted R^2 of (0.915 is very close to R^2, confirming that the model does not suffer from over-fitting. Standard Error of Estimate value of (0.237) indicates that the model's predictions are fairly precise. The Durbin-Watson value of (1.694) falls within the acceptable range (1.5 - 2.5), indicating no severe autocorrelation in the residuals. F-statistic (778.668) with its corresponding p-value of (0.000) revealed that the model is highly significant ($p < 0.05$), meaning that at least one independent variable significantly affects employment Generation. The Constant (B = 0.062, p = 0.037) indicate that the intercept is significant, implying that employment Generation is not zero even when all independent variables are absent. Foreign Direct Investment (B = 0.215, p = 0.000) suggests that a 1-unit increase in FDI leads to a 0.215-unit increase in employment Generation, and this effect is statistically significant. Foreign Venture Capital (B = 0.313, p = 0.000) suggest that a 1-unit increase in FVC leads to a 0.313-unit increase in employment Generation, and this effect is statistically significant. Foreign Loans (B = 0.239, p = 0.000): A 1-unit increase in foreign loans leads to a 0.239-unit increase in employment Generation, and this effect is statistically significant. Foreign Grants (B = 0.218, p = 0.000) indicates a 1-unit increase in foreign grants leads to a 0.218-unit increase in employment Generation, and this

effect is statistically significant. Firm Size (B = 0.020, p = 0.273) size does not significantly impact employment Generation, as its p-value is above 0.05.

In conclusion, Foreign Direct Investment, Foreign Venture Capital, Foreign Loans, and Foreign Grants all have positive and statistically significant effects on employment Generation. Foreign Venture Capital has the strongest impact (B = 0.313), followed by Foreign Loans (B = 0.239), Foreign Grants (B = 0.218), and Foreign Direct Investment (B = 0.215). Firm size does not significantly influence employment Generation. The model is highly explanatory (R^2 = 91.6%) and statistically significant (F = 778.668, p < 0.05), suggesting that foreign finance is a major driver of job Generation for SMEs in Lagos State.

Pearson correlation coefficient (r) measures the strength and direction of the linear relationship between variables. The significance level (Sig. 2-tailed) determines whether the correlation is statistically meaningful. Significance at 0.01 level (p < 0.01) indicates strong statistical significance.

Table 17: Correlation matrix of the relationship between Foreign Finance and Corporate performance of SMEs in Lagos State

		Employment Generation
Foreign Direct Investment	Pearson Correlation	0.758**
	Sig. (2-tailed)	0.000
	N	361
Foreign Venture Capital	Pearson Correlation	0.860**
	Sig. (2-tailed)	0.000
	N	361
Foreign Loans	Pearson Correlation	0.787**
	Sig. (2-tailed)	0.000
	N	361
Foreign Grants	Pearson Correlation	0.698**
	Sig. (2-tailed)	0.000
	N	361
Firms Size	Pearson Correlation	0.120
	Sig. (2-tailed)	0.273
	N	361

Note: **. Correlation is significant at the 0.01 level (2-tailed)

The correlation matrix in Table 17 examines the relationship between various sources of foreign finance and key measures of corporate performance (Employment Generation) for SMEs in Lagos State. Foreign Direct Investment (FDI) has a strong and positive correlation with employment generation ($r = 0.758$, $p < 0.01$). This suggests that an increase in FDI is associated with improved performance across the indicator of performance namely employment generation. Foreign Venture Capital (FVC) has the highest correlation coefficients across all performance metrics: (Employment Generation ($r = 0.860$, $p < 0.01$). This indicates that foreign venture capital has the strongest positive impact on SMEs' financial performance and growth. Foreign Loans have a strong positive correlation with all corporate performance indicators: (EmploymentGeneration ($r = 0.787$, $p < 0.01$). This implies that access to foreign loans significantly contributes to business growth and financial success. Foreign Grants exhibit the lowest but still significant positive correlations withemployment generation ($r = 0.698$, $p < 0.01$). While grants positively influence employment, their impact is slightly weaker compared to other forms of foreign finance. Firm Size shows weak and insignificant correlations with SMEs ability to generate employment; Employment Generation ($r = 0.120$, $p > 0.05$). These results suggest that firm size does not play a significant role in employment generation of SMEs.

Discussion

The results from the analysis reveal a strong positive relationship between foreign finance and employment generation, supporting previous studies on the impact of external financing on SME job generation. The study shows that Foreign Direct Investment (FDI), Foreign Venture Capital (FVC), Foreign Loans (FL), and Foreign Grants (FG) significantly contribute to employment Generation, whereas firm size does not have a statistically significant effect. The correlation coefficient ($R = 0.957$) and the coefficient of determination ($R^2 = 0.916$) indicate that 91.6% of the variation in employment generation can be explained by foreign finance. This finding is in line with the studies of Ayyagari, Demirgüç-Kunt, and Maksimovic (2011), who argue that SMEs are crucial for job Generation, particularly when they have access to external funding. The high Adjusted R^2 (0.915) suggests that the model does not suffer from overfitting, reinforcing its robustness (Gujarati & Porter, 2009). The Durbin-Watson statistic (1.694) confirms that autocorrelation is not a significant issue, ensuring the reliability of the regression results.

The significant positive impact of FDI on employment generation is consistent with the findings of Bentivogli and Mirenda (2017), who argue that FDI promotes job generation by introducing new technologies, increasing productivity, and expanding business operations. Similarly, Mihai and Mihai (2013) found that FDI

inflows in developing countries contribute to direct and indirect employment through supply chain effects. The significant and strongest effect of FVC on employment generation aligns with Bradley et al. (2021), who found that venture capital-backed firms tend to expand rapidly and generate more jobs than non-venture-backed firms. FVC strong influence on employment suggests that venture capital investments facilitate the scaling of operations and workforce expansion. This significant impact of FVC on employment generation is in tandem with the works of Bigos and Michalik (2023), Paul, Uko and Asuru(2022), Mirza and Sabah(2018). The significant positive effect of foreign loans supports the conclusions of Moscalu, Girardone, and Calabrese (2020), who argue that loan accessibility enables SMEs to expand their workforce by providing financial resources needed for operational growth. Similarly, Fowowe (2017) found that in Nigeria, SMEs that accessed loans were more likely to increase employment than those relying solely on internal funding. The positive and statistically significant impact of foreign grants on employment generation aligns with Cusmano, Koreen, and Pissareva (2018), who noted that grants enable SMEs to hire additional employees by easing financial constraints. The employment generation of grants is also supported by Šelebaj and Bule(2021) in their analysis of EU grants in Croatia. Grants are particularly crucial for startups and small firms that may struggle to access other forms of financing. The insignificant effect of firm size (B = 0.020, p = 0.273) suggests that employment generation in SMEs is more dependent on financial resources than firm size alone.This finding supports the argument by Storey (1994) and Beck et al. (2005) that while larger firms may have more capacity, their ability to generate employment is primarily influenced by access to capital rather than their size. The results provide strong empirical evidence that foreign finance significantly contributes to employment generation among SMEs in Nigeria. Foreign Venture Capital has the strongest impact, followed by Foreign Loans, Foreign Grants, and Foreign Direct Investment. Firm size does not play a significant role in job Generation. These findings align with existing literature emphasizing the importance of external financing in fostering SME growth and employment generation.

Decision

With R^2 value 0.916, Adjusted $R^2$of 0.915, F-Statistics of 778.668 and P-Value of 0.000 which is <0.05, the result is statistically significant necessitating the rejection of the null hypothesis. Having R^2 value 0.916 meant that 91.6% variations in employment generation of SMEsin Lagos, Nigeria are attributed to the collective interactions of all the independent variables. The remaining 8.4% variation in employment generation (EG) is caused by other variables not considered in this study.

Conclusion and Resommendations

This study examined the relationship between foreign finance elements and the performance of SMEs through employment Generationin Lagos, Nigeria. It underscored the crucial role of foreign finance components in shaping overall performance within SMEs entities, expounding the intricate dynamics of foreign finance demonstrated through foreign direct investments, foreign venture capitals, foreign loans and foreign grants.

The study concludes that foreign financing is a crucial determinant of SME performance in creating employment in Nigeria. Specifically, foreign direct investment, foreign loans, and foreign grants significantly contribute to employment generation. The research underscores the need for improved access to foreign financing sources to foster SME growth and sustainability emphasizing that foreign finance is a window that should be explored by SMEs in Nigeria in general.

Recommendations

The following recommendations are made to the government, policy makers, foreign investors, and SMEs. The government are responsible for creating an enabling environment for businesses to strive. It is recommended that this group should do the following:

i. Establish regulatory frameworks that ease access to foreign loans while ensuring financial stability. The study will provide the basis for government to create further enabling environment to make it easier for SMEs to satisfy any conditions or requirements for accessing foreign finance.
ii. Create policy incentives to attract more FDI and foreign venture capital in key productive sectors.
iii. Develop loan guarantee schemes to reduce barriers to accessing foreign loans. Some foreign fund sources that will require counter party performance on the side of the government will be exposed for government necessary actions towards supporting access to finance for SMEs in Nigeria. enhancement in existing government SMEs support towards accessing funds beyond the shores of Nigeria.
iv. In order to increase the opportunities of significant returns, foreign investors are encouraged to explore targeted investment in SMEs by providing tailored funding options that will suit the particular SME and the sector.
v. Investments in foreign countries are usually made easier working with local partners. Foreign investors can align with domestic partners like Nigerian venture capitals and banks for crucial support relating to the domestic economy and business environment.

vi. A significant number of foreign investments in Nigeria have been in technology-driven SMEs. Foreign Investors should also explore other areas in the SMEs sector like agriculture and health service to maximize productivity improvements and returns.

vii. It is imperative for SMEs in Nigeria to start making themselves 'beautiful brides' for foreign investors by enhancing those features and characteristics that attract investors generally. This will include registering the business with the Corporate Affairs Commission and developing structures and management systems. Setting up a good system of financial reporting is a sine qua non. Overall, SMEs can develop strategic plans to align business objectives with foreign investments.

viii. SMEs can also expand or diversify their business into those sectors that are most attracted to foreign investors. Beyond the SMEs in the core Technology sector, opportunities abound where SMEs in any sector can implement technology to drive their business and this is an attraction point to foreign investors especially venture capitals. Other sectors attracting foreign investment in Nigeria include transport, trading and agriculture.

Contributions to Knowledge

1. This study has extended existing theories such as Pecking order theory and resource-based theoryused as the theoretical framework for this study. Identifying significant relationships between foreign finance variables such as foreign loans, foreign grants, foreign venture capitals, this research contributed to the refinement and expansion of theoretical models that seek to explain performance in foreign finance dynamics.
2. Empirically, the findings of this study offered valuable insights derived from rigorous statistical analyses conducted within the SMEs sector in Nigeria. The empirical validation of these findings enhances their credibility and applicability, thereby providing a solid foundation for future research and managerial decision-making in the field of change management.
3. Extant studies on foreign finance and performance of SMEs have primarily focused on foreign direct investments and domestic venture capitals. This study has expanded relevant variables to include the insufficiently explored foreign loans, foreign grants and foreign venture capitals and how they individually and together influence the performance of SMEs in Nigeria particularly in Lagos state.
4. No previous research in Nigeria to the best of author's knowledge and through search in peer-reviewed literature has empirically explored the effect of foreign finance on SMEs performance applying firm's size as a control variable with the outcomes in academic setting. However, research has shown that the size of a firm is a factor in access to funds and ultimately to performance.

Suggestions for Further Studies

1. Future studies could replicate this study in different geographical locations, states, or countries instead of Lagos State. This would enhance the generalisability of findings and contribute to the broader body of literature, considering the unique contextual factors at play in diverse settings.

2. Future research could explore the long-term effects of foreign financing in driving sustainability initiatives and environmental, social, and governance (ESG) considerations in Nigerian SME sector.

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