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**EFFECTS OF VENTURE CAPITAL FUNDING ON  
MANAGEMENT QUALITY OF STARTUPS IN NAIROBI CITY  
COUNTY**

**STELLAH NALIAKA WAKWOMA**

**REG: MDF/124275/2019**




**A THESIS SUBMITTED IN PARTIAL FULFILMENT OF THE  
REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER  
OF SCIENCE IN DEVELOPMENT FINANCE OF STRATHMORE  
UNIVERSITY BUSINESS SCHOOL**

**MAY 2024**

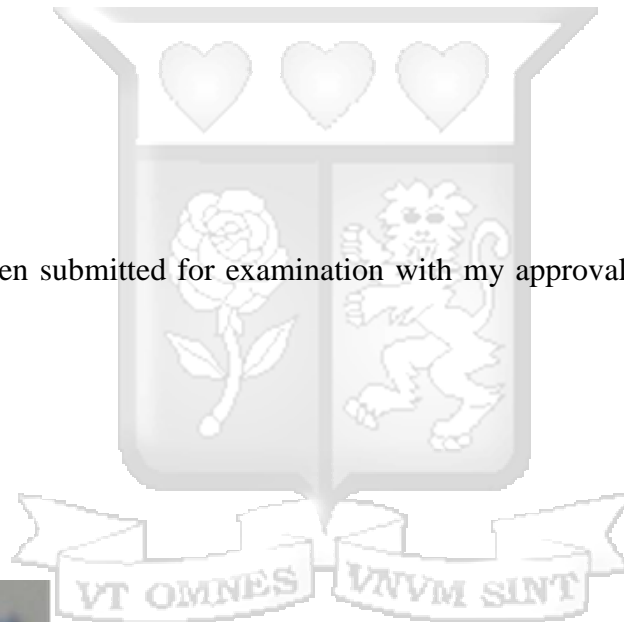
## DECLARATION

I, the undersigned, declare that this thesis is my original work and has not been submitted for examination in any other institution.

Sign:  \_\_\_\_\_ Date: ...**03/04/2024**.....  
Stellah Naliaka Wakwoma Reg. MDF/124275/2019

Approval

This thesis has been submitted for examination with my approval as the university supervisor.



Sign:  ..... Date: ...**3/4/24**.....

Dr. James Ndegwa  
Lecturer, Strathmore University

## DEDICATION

I wish to appreciate my family for their constant support for me.



## **ACKNOWLEDGEMENT**

The successful completion of this thesis was achieved with the help of numerous people whom I may not be able to fully acknowledge here. I express my gratitude to God Almighty for His abundant grace that sustained me throughout this endeavor, as He gave me all the knowledge and wisdom. I also extend my appreciation to my supervisor for their unwavering dedication, guidance, and valuable input that contributed to the submission of a well-crafted thesis.



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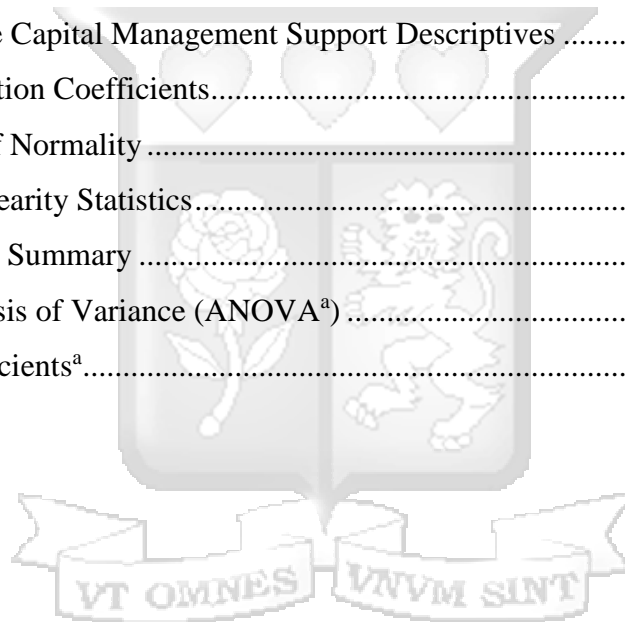
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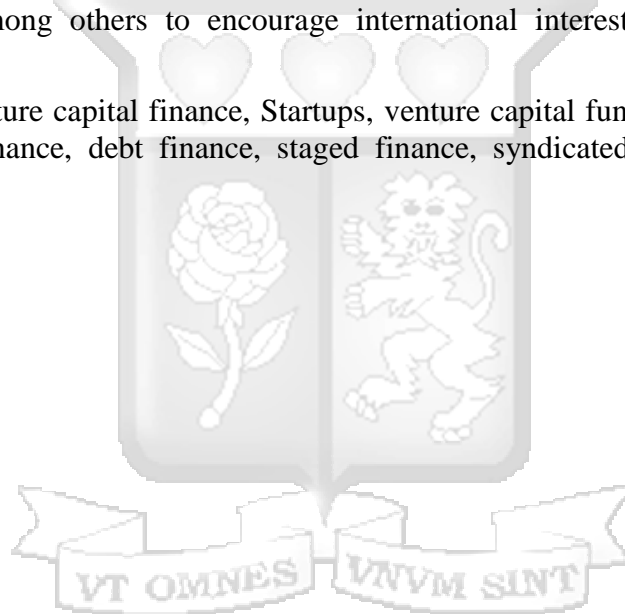
## DEFINITION OF TERMS

<b>Venture capital</b>	This is a financial in-between that aims to meet the needs of innovative and young companies with potential for high growth and are facing uncertainty in terms of guidance and funding.
<b>Venture capital funding</b>	This is a specialized form of financial intermediation that often provides funding for costly technological innovation. It is provided to startup companies and small businesses with high growth potential
<b>Venture capital financial support</b>	This refers to the financial assistance provided to startups as a form of debt form of financing
<b>Venture capital technical support</b>	This refers to professional empowerment and assistance provided by VCs to those organisations that they have invested in
<b>Venture capital management support</b>	This refers to the managerial empowerment provided for startups from VCs by means of training or mentoring in managing people and resources for better performance.
<b>Management quality</b>	This refers to how well individuals or teams lead and manage the operations, resources, and people in an organization.
<b>Startups</b>	Startups refer to temporary entities that focus on discovering a business model that is both profitable, scalable, and repeatable.

## ABSTRACT

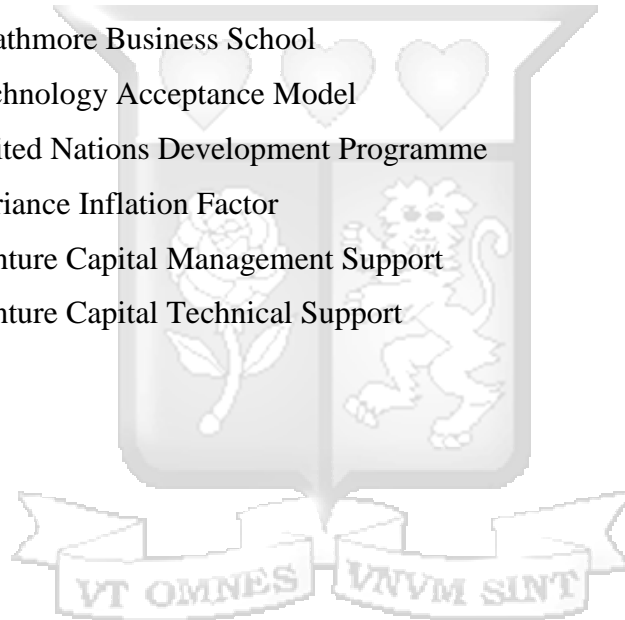
Venture capitalists provide assistance to startups in an effort to address their financial and management failures. Therefore, this study examined effects of venture capital funding (venture capital financial; technical; and management support) on management quality of startups in Nairobi City County. The study adopted positivist research philosophy and employed a descriptive research design. The target population was 308 startups from which a sample size of 174 was calculated. chief executive officers, chief financial officers, or chief operating officers were purposefully selected as respondents. The findings indicated a positive and significant effect of venture capital financial support and management support on management quality. The study recommends for venture capitalists to provide ad hoc management support due to the diverse and unique nature of startups and the environment in which they are operating. This means flexible management support should be tailored to an enterprise and not undertaking a one-fits-all approach to providing management support. The study recommends for fiscal policies that will encourage international venture capitalists to invest in local startup firms. These policies can include having tax incentives among others to encourage international interest into the venture capital market.

**Key Words:** Venture capital finance, Startups, venture capital funding, management quality, equity finance, debt finance, staged finance, syndicated finance, Venture Capitalists.



## LIST OF ABBREVIATIONS

<b>EGR</b>	Economic Growth Rate
<b>EU</b>	European Union
<b>HR</b>	human resource
<b>HRM</b>	human resource management
<b>ICT</b>	Information Communication & Technology
<b>IPO</b>	initial public offering
<b>MQL</b>	Management Quality
<b>MSMEs</b>	Micro and Small and Medium Enterprises
<b>POT</b>	Pecking Order Theory
<b>RBV</b>	Resource Based View
<b>SBS</b>	Strathmore Business School
<b>TAM</b>	Technology Acceptance Model
<b>UNDP</b>	United Nations Development Programme
<b>VIF</b>	Variance Inflation Factor
<b>VMS</b>	Venture Capital Management Support
<b>VTs</b>	Venture Capital Technical Support



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Start-ups are brief establishments that are in the process of searching for a repeatable, scalable, and profitable model of enterprise. Scalable enterprises are those that can grow and expand without requiring a proportional increase in resources or costs. A repeatable business model is one that can be consistently replicated and duplicated, ensuring that the organization can reliably generate revenue. Finally, a profitable business model is one that generates more revenue than it costs to operate, ensuring the long-term viability of the organization (Blank & Bob, 2020). This definition highlights the importance of innovation and the need for startups to search for and validate their business models in order to achieve long-term success (Ries, 2011).

Startups provide a major benefit for nations today in their creating employment, create innovation, and increasing economic development. The benefits of startups go beyond economic aspects as they assist in overcoming social issues such as poverty and income inequality that are pertinent for growth of nations. These firms can exploit their accessibility to the business environment and identify new opportunities in the market, access funding, create modern technologies, and gain formality. Startups are also best suited to promote flexible and extremely means of meeting emerging market needs (Skawińska & Zalewski, 2020).

However, startups failure is common. In the European Union (E.U.), failure of startups has been estimated to be as high as 75–90% (Skawińska and Zalewski, 2020). In the United States (U.S.), approximately 20% of startups fail during the second year, 45% in the fifth year, and 65% in the tenth year (Öndas, 2021). Startups' rate of failure ranges from 50% to 95% in Malaysia (Kee et al., 2019). In Egypt, discontinuation of startups rose from 2.7% in 2010 to 10.2% in 2017, (Malak et al., 2021). In Kenya, statistics indicate about 90% of start-ups fail within the first year (United Nations Development Programme [UNDP], 2023).

The failure of startups in Africa can be attributed to insufficient commercial knowledge, poor capitalization, access to funding, access to workers, lack of access to technical expertise (consultants), insufficiency of resources, lack of government

support, inability to respond and identify market opportunities and a failing to take quick action due to unpreparedness for emerging opportunities (Odufuwa & Mureithi, 2023). In view of these causes to failure, venture capitalists (VCs) are important contributors to fill the financial gap and provide other value addition services including managerial, technical, financial, and technological support (Savaneviciene et al., 2015).

The effect of VC funding on startup outcomes has been mixed and inconclusive. There are studies that have found positive outcomes (Achugbu, 2017; Apuoyo, 2020; Muhuhu et al., 2023), no effect (Mbotu, Offiong, & Udoka, 2018; Washimi, 2021; Wang, 2019), and negative effects (Zeng, 2023; Nazir & Tbaishat, 2023) between VC funding and different startup outcomes such as growth (Savaneviciene et al., 2015), innovation (Achugbu, 2017), and performance (Otieno, 2019) but less evidence is available on the management quality of startups.

### **1.1.1 Venture Capital Funding**

Venture capitalists (VCs) are a go-between borrowers and lenders for markets where they both have to incur costs to work together. VCs have a critical role in management of the lenders' capital and undertake a meticulous assessment of every borrower and provide startups with investments so as to gain higher profits by selling or buying their shares (Wang, 2019).

Metrick and Yasuda (2011) cited in Wang (2019) categorize VCs in five main groups including as financial intermediaries where they take capital from investors and invest these directly into portfolio firms. Second, there are VCs that only make investments in private firms. Third, there are VCs that take active roles in supporting and monitoring its portfolio firms in both management and finance. Four, there are VCs that maximize their financial return with the exit strategy to trade in an initial public offering (IPO). Lastly, there are VCs that invest funds internal growth of firms indicating investment proceeds are utilized to create new businesses and no acquisition of existing businesses.

Kenya offers clear advantages for fund managers seeking to target East Africa. The country's capital, Nairobi, is viewed as the most attractive location in East Africa from which investors can establish offices and cover the region. This advantage makes the city the de facto alternative investment hub of East Africa, and places it

alongside Johannesburg and Lagos as the investment capitals of SSA. Investors who choose to establish themselves in the city note that they have done so based on quality of life, a solid foundation of human capital, efficient transportation links, and a strong community of service providers such as accountants, lawyers, and consultants. For these reasons, Nairobi is also home to the East Africa Venture Capital Association (EAVCA), an organization that was set up in March 2013 to advocate on behalf of VC and PE investors (KPMG, 2021).

Moreover, Kenya serves as a launch pad for investors to execute cross-border investments in companies that operate within the East African Community. The EAC, which comprises six partner states (the Republics of Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda) has pursued legal and trade harmonization in an attempt to support regional commerce and cross-border expansion by businesses in these markets. Given Kenya's membership in the East African Community, basing an investment firm in the country offers a fund manager the possibility of "regionalizing" local businesses and taking advantage of the EAC's cross-border regulations and commercial policies (KPMG, 2021).

This study ascertains how equity-based venture funding affects the management quality of startups. The research categorizes venture capital financing into 3 forms namely; staged financing where startups receive incremental finances in stages, upfront finance where firms receive funds in lump sum at an early stage and finally syndication where a pool of more than two investors pool funds to jointly invest in a startup. Staged financing is a useful method for venture capitalists to mitigate issues related to information asymmetry and to manage risks associated with managerial behavior. Considering the active oversight role of the venture capitalist, providing upfront finances results in higher profits compared to staged financing or syndication. Hellmann (1994) developed a multi-stage model that incorporates staged investment in venture capital. He highlighted specific institutional characteristics that differentiate venture capital from traditional financing methods. One key point he made was that venture capitalists are more motivated to actively monitor their investments when they have a significant ownership stake in the companies they invest in. VCs perform critical coaching functions that startups can benefit from. VCs give advice to the portfolio firms in accounting and finance, strategic planning, human resource management (HRM), and marketing management (Nyagadza et al.,

2019; Savaneviciene et al., 2015).

The oversight provided by venture capitalists surpasses that of traditional financial institutions. Including significant time spent within the companies, regular meetings with management, and participation in shaping company strategies, hiring decisions (Hellmann and Puri, 2001), and top executive compensation (Kaplan and Stromberg, 2000). Additionally, venture capitalists leverage their experience in assessing the potential of start-ups through thorough screening processes (Hall and Hofer, 1993), collaborating with other start-ups, understanding solutions to common challenges these firms encounter, and identifying optimal times for raising capital (Gompers and Lerner, 1999). Lastly, they offer access to a strategic network that includes potential clients and suppliers, management talent (Bygrave and Timmons, 1992), and strategic partners (Baum, Calabrese et al., 2000). Therefore, this study aims to assess the financial, technical, and management support provided by VCs to startups firms to improve their quality of management.

### **1.1.2 Management Quality**

Management quality (MQ) has been a research topic for strategic management, yet, it remains a difficult concept to measure as it involves a definition of bad and good practices and how these are implemented in organisations. Management qualities allow a firm to be successful in bad and good economic times and they are identified as the most important assets of an organization but they also are a challenge for rivals who lack these skills (Kabii & Kinyua, 2023).

Management quality refers to how well individuals or teams lead and manage the operations, resources, and people in an organization. It involves leadership skills, decision-making abilities, strategic foresight, effective communication, adaptability, innovation encouragement, and the capacity to achieve organizational goals while prioritizing employee engagement and well-being. When management quality is high, organizations typically experience improved productivity, profitability, sustainability, competitive edge, and a conducive environment for growth and progress (Robbins, Coulter & DeCenzo, 2017)

Reliable MQ indicators were not available until Bloom and Van Reenen (2007) methodology that grouped MQs into four areas: operations (three practices),

monitoring, targets, and incentives. In their study, Indrajith et al. (2018) management quality was measured by leadership and decision making (8 items) and work environment (22 items).

Remme and de Waal (2020) research measured MQ by managers being enthusiastic, committed, respectful, trustworthy, and respectful; possess an action-focused, decisive style of making decisions; holding staff accountability for better performance, and communicate strategy and values in an organisation so that all its members know them and embraces them. In their study, Adhvaryu et al. (2020) used tenure, demographics, cognitive skills, control, personality, attention, autonomy, and pay. The research borrows from different sources of these studies to adopt financial, personnel, innovation, and stakeholder management as indicators for management quality of startups.

### **1.1.3 Venture Capital and Management Quality**

There is evidence to show that management-related criteria are one of the factors that explains receiving venture funding (Weru & Rotich, 2017; Kendzia & Eugster, 2022). Therefore, it is important to determine the relationship that exist between VC and management quality in startups and this begins with investigation the association between these variables. VC has had significant impacts on financial management of SMEs and have benefitted from improved financial management (Memba et al., 2015).

In China, Du and Cai (2019) revealed that VC support was associated with building professional relationships, intellectual capital, business development, managerial guidance, and consulting for SMEs. Jana (2022) established that VC financing increased management's focus towards long-term sustainable growth rather than short-term gains, reduced opportunistic behaviours and encouraged robust governance mechanisms.

In another research, Bikoji and Gopiseti (2023) found that VC capital provided value addition to firms in terms of overall strategy and managerial advice. Other research (Song, Jin, & Li, 2022; Khan et al., 2023) reported that VCs have been instrumental for enhancing managerial innovation capabilities in startups. Venture capital mentoring was found to lead to improved relationships with management teams and a

better comprehension of firms and adding value to startups (Bernstein, Giroud, & Townsend, 2016).

Chemmanur et al. (2021) found that VC backing was associated with better top management team quality (TMT) measured by knowledge, experience, qualifications, tenure, size, and compensation. de Carvalho et al. (2018) explained that VCs hire managers or use a headhunter to find managerial talent thereby enhance managerial quality through their screening process. Cumming et al. (2023) found that those companies with high-quality disclosure controls and processes due to technical expertise from VCs had better management quality compared by those that did not benefit from technical support. Venture capital improved technical expertise and management expertise/skills in SMEs measured by improved skills in production and innovation and managerial skills respectively (Njama, 2013). Apuoyo (2020) established that VC provided capacity building training by enhancing technical skills, managerial capabilities while also enhancing SME competitiveness. Odhiambo (2019) concluded that VC financing contributed to adequate and better financial and personnel management skills thereby improving firm's growth.

Memba et al. (2015) found that management styles improved when firms used VC as more employees were engaged in decision making as well an improvement in financial management as observed. Based on the foregoing, it is feasible to assume that VC financial, technical, and managerial support influences the management quality of companies. Therefore, this study will examine effects of these VC factors on management quality of startups in Kenya.

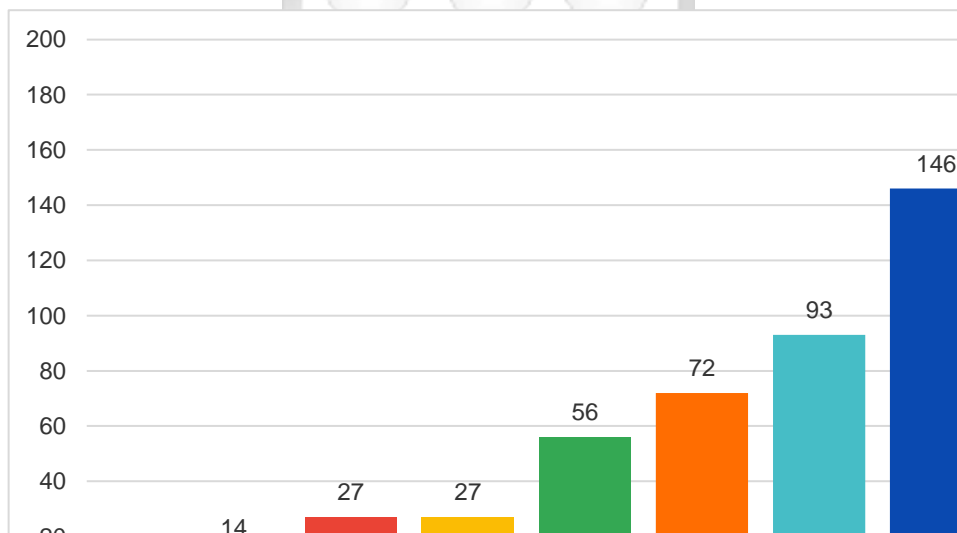
#### **1.1.4 Startup Sector in Kenya**

Startups in Kenya have one of the most suitable ecosystems support in comparison to others in the continent. Startups enjoy a significant amount of incubation or acceleration during their lifespan compared to those in Nigeria (45.1 %), Egypt (38.6%), and 25.7% in South Africa (Disrupt Africa, 2022). There are 308 startups in Kenya and 140 of these have received some form of incubation or acceleration (Disrupt Africa, 2022).

The annual number of investors in Kenyan startups has varied since 2015, some years leaping by more than 100 % and in some taking place more steadily (Disrupt Africa,

2022). According to Audretsch et al. (2020), all start-ups are associated with the liabilities of newness and smallness, which may lead to higher failure rates than those of more established firms.

Kenya attracted the second highest number of investors of any African country between January 2015 and November 2022, behind only Nigeria. In eight years, 435 different individuals/entities made investments in tech startups. Nigeria had 641 investors, South Africa 382, and Egypt 203 (Disrupt Africa, 2022). The annual number of investors in Kenyan startups has varied since 2015, some years leaping by more than 100 % and in some taking place more steadily. Having at various points leapt and then stagnated between 2015 and 2018, growth has been taking place at a quickening rate since then, with more individuals or entities having invested already in 2022 as compared to 2021 as seen in Figure 1.1 (Disrupt Africa, 2022).



**Figure 1.1: Number of investors to startups (2015-2022)**  
**Source: Disrupt Africa (2023).**

These startups are represented in different sectors and the majority is represented in the FinTech sector (30.2%) with others in e-health, agri-tech, retail-tech, human resource (HR), recruitment, e-commerce, and ed-tech. There are various activities in the startup ecosystem including marketing, energy, waste management, legal-tech, prop-tech, logistics, and mobility. In terms of employment, startups provide employment to 11,462 (Disrupt Africa, 2022).

## 1.2 Problem Statement

The failure of startup rates around the world has been well-documented in the literature. The failure of startups ranges in the different regions of world including in

the E.U. (75–90%), U.S. (20% - 65%), Malaysia (50% and 95%), Egypt (2.7% - 10.2%), Ethiopia and Rwanda (75%), and 90% in Kenya (Skawińska & Zalewski, 2020; Öndas, 2021; Kee et al., 2019; Malak et al., 2021; UNDP, 2023). This failure has been associated with management factors. A Deloitte report associated failure to differences among founding management, mismanagement of strategy, lack of business and talent management skills (Bradely & Alderman, 2018).

In another report, internal capacity issues including access to managerial skills, management attitudes towards change, managerial unawareness of the digital solutions that might suit their needs, limited managerial structures, and lack of managerial decision-making were factors leading to startups failure (The Organisation for Economic Co-operation and Development [OECD], 2023). In Africa, startup failure has been associated to lack of business acumen and soft commercial skills among their founders and thus struggle to manage and finance their businesses (Odufuwa & Mureithi, 2023).

Similarly, Quas, Martí, and Reverte (2013) conducted a study introduced a unique approach by comparing companies receiving VC with those receiving external quasi-equity financing but lacking non-financial resources. The findings indicated non-financial resources from VC led to significant yearly increases in employment, asset growth, and sales for young Spanish SMEs. This study however, was done in Spain and focused on SMEs while the current study will focus on startups and will employ a descriptive research design using a stratified sampling technique to select startups in Nairobi Kenya. It therefore presents a methodological and contextual gap.

Chemmanur, Krishnan, and Nandy (2011) measured efficiency through Total Factor Productivity (TFP) and the probability of a successful exit by either acquisition or IPO. The independent variables included the type of VC (based on reputation strength), prior-investment screening or investment monitoring, and changes in revenue or cost reduction. Their findings revealed that VC-backed firms demonstrated higher overall efficiency compared to non-VC backed firms consistently over time. The study used different analytical methodologies simultaneously may be prone to biasness, complexity in comparing and interpreting results. While the current study we employ only a single methodology and test for multicollinearity to ensure robustness. This study presents contextual, methodological

and conceptual gaps.

Luukkonen (2007) research on value-added role of venture capital in facilitating the internationalization of startup firms found that private sector VC firms were found to be more involved in post-investment coaching and monitoring while business angels emerged as the most active in the biotechnology study. The study presents conflicting results calling the need for conclusive study which the current study will seek to address. In a contrast study, Rosenbusch, Brinckmann, and Müller (2013) findings indicated insignificant positive effect of venture capital investment on firm performance; however, financial performance of startups was its focus and did not factor management quality outcomes, it therefore presents a contextual methodological and conceptual gaps.

The evidence on the relationship between startups has been mixed and inconclusive as studies have reported positive (Achugbu, 2017; Apuoyo, 2020; Muhuhu et al., 2023), no effect (Mbotto, Offiong, & Udoka, 2018; Washimi, 2021; Wang, 2022), and negative effects (Zeng, 2023; Nazir & Tbaishat, 2023), and different startup outcomes such as growth (Savaneviciene et al., 2015), innovation (Achugbu, 2017), and performance (Otieno, 2019) but less evidence is available on the management quality of startups. Therefore, this study adds to existing pool of knowledge on impact of VC on management quality among startups in Kenya.

In terms of methods, studies have used secondary data sources (Njama, 2013) but there is need to use primary sources of data from managers as this provides greater insight than financial indicators provide on management quality. Moreover, most studies were done in the developed economies context (Skawińska & Zalewski, 2020; Mańkowska & Kamińska, 2021) and less in developing countries such as Kenya's. These are some of the research gaps this study aims to fill.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

This research examined effect of venture capital funding on management quality of startups in Nairobi County.

#### **1.3.2 Specific Objectives**

The study was guided by these specific objectives;

- i. To assess the effect of venture capital financial support through equity and debt on the management quality of startups
- ii. To examine the effect of venture capital technical support on the management quality of start-ups
- iii. To examine the effect of venture capital management support on the management quality of start-ups

#### **1.4 Research Questions**

The study answered these research questions;

- i. To what extent does venture capital financial support influence management quality of start-ups?
- ii. To what extent does venture capital technical support influence management quality of start-ups?
- iii. To what extent does venture capital management support influence management quality of start-ups?

#### **1.5 Significance and Justification of the Study**

##### **1.5.1 Policy Makers**

At a policy level, this study will generate insight into emerging developments and dimensions of startups innovation as a vital tool in performance. The similar concepts and their transferability to and applicability in the banking industry are instrumental to policymakers in the establishment of the country's financial services particularly with regards to inclusion of people in financial services. Ultimately, the study will be useful in strengthening the supervisory authority's framework of the Central Bank of Kenya in creating policies on venture capital funding. For the Government of Kenya, these findings may inform policy for creating a favourable ecosystem for startups to create jobs.

##### **1.5.2 Practitioners**

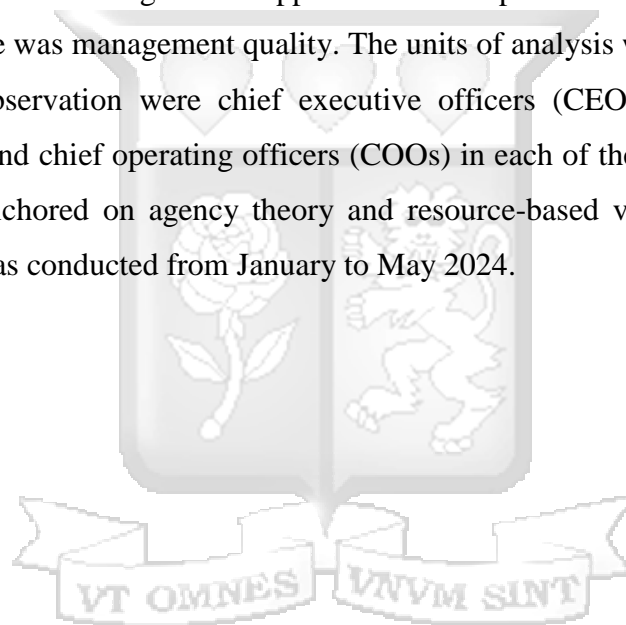
The findings will be useful for venture capital firms to identify which is the best mix of assistance provided to startups can improve their management quality. In the startup firms, the study may be useful as it will provide an opportunity for them to share their assessment of their quality of management in firms. The recommendations if adopted will improve venture capital services provided to startups in Nairobi County.

### **1.5.3 Scholars**

On a theoretical level, some of the findings of this study will conform to the mainstream of current literature on venture capital and startups management quality while others may contradict the assumptions established in the literature. The study may potentially make a methodological contribution by providing further information on startups management quality.

### **1.6 Scope of the Study**

The study was limited to Nairobi City County and did not include startups outside this jurisdiction. The study focused its scope on venture capital financing support, technical support, and management support as its independent variables while the dependent variable was management quality. The units of analysis were startups firms while units of observation were chief executive officers (CEOs), chief financial officers (CFOs), and chief operating officers (COOs) in each of the selected startups. The study was anchored on agency theory and resource-based view (RBV) of the firm. The study was conducted from January to May 2024.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The theoretical framework, empirical literature, research gaps, and conceptual framework are presented. Theories addressing each of the variables are presented while global, regional, and local studies on venture capital funding and startups are presented. The summary of the literature review and research gaps is captured in a table and the graphical presentation of the conceptual framework.

#### **2.2 Theoretical Framework**

The study was anchored on two theories namely; Agency theory (Jensen & Meckling, 1976) to explain venture capital support and Penrose (1959) the resource-based view (RBV) of the firm to explain management quality of startups.

##### **2.2.1 Agency Theory**

Agency theory (Jensen & Meckling, 1976) provides a useful lens by which to examine the venture capital-entrepreneur relationship as VCs are principals and the entrepreneur is the agent acting on their behalf. Agency theory is used to describe the costs linked with the ownership separation and control of managers and shareholders in companies and the outcomes of moral hazard and adverse selection (Jensen & Meckling, 1976). VCs invest into startups so as to get a part of the equity from the startup and this creates an agency relationship.

In the context of the current study, venture capitalists are providers of capital and thus the principals whereas startups are receivers of the finance and thus the agents. The venture capitalists are interested in monitoring and actually controlling the behavior of startup managers to minimize agency conflict thereby reducing the risk of loss of their capital. Some of the ways of controlling the startups and enhancing their performance would be by providing technical and management support so as to improve management quality of the startups which explains why venture capitalists actually provide management and technical support to the startups. Further, agency theory indicates the choice for financing method, whether debt or equity. Startups are expected to be managed better when debt financing is used rather than when equity financing is used as they will need to manage well their finances to meet the obligation of principal and interest payment. Also, startup founders/entrepreneurs

perceive they are losing control when receiving venture funding (Glücksman, 2020).

Entrepreneurs and VCs are rational actors that aim to enhance their personal interest but they might not always have adequate rewards to collaborate towards a shared objective, potentially leading them to withhold information from one another. The issue arises from the information asymmetry and incongruence as the foundation of agency problems which is based on incentives and information (Eisenhardt, 1989). In this relationship, entrepreneurs seek capital and therefore oversell their venture while the VC is limited by the absence of a robust means of carrying out due diligence to verify this claim and may end up with an underperforming investment, that is, adverse selection. In the post-investment period, entrepreneurs engage in activities that may not add value to the firm and this goes against the VCs interest since their actions may not be verifiable (moral hazard) leading to uncooperative behaviour (Panda, 2018; Cowden et al., 2020).

Agency theory has been criticized for offering partial explanation of the VC-startup relationship and does not show in detail how the relationship evolves. Arthurs and Busenitz (2003) noted that agency problems were only present before an investment into a startup and thereafter, there are governance approaches to reduce the likelihood of opportunistic actions. Thus, the relationship post-investment is relatively smooth.

Second, agency theory is limited in speaking to the non-cooperativeness between both parties (Arthurs & Busenitz, 2003). Agency theory predicts avoidance if the CEO's ownership reduces; however, founders are motivated by more than just ownership as they want to achieve prosperity and growth of their startup even if they do not have major control (Arthurs & Busenitz, 2003). Similarly, CEOs removal is an example of agency risks but the evidence from past studies indicates that entrepreneurial venture CEOs are replaced due to their inadequate managerial capabilities and not opportunistic behaviour due to reduced control.

Despite these criticisms, several other research (Mustapha & Tlaty, 2018; Panda, 2018; Cowden et al., 2020) have adopted agency theory as a theoretical lens for which to examine the growth of startups benefitting from the venture capital investments. In this study, the theory remains relevant as it focuses on those inputs brought about by the VC and these is the financial support, technical support, and management support and these are the independent variables for this study.

### **2.2.2 Resource Based View**

Penrose (1959) is credited with introducing the resource-based view (RBV) of the firm theory and the concept would later benefit from the works of Barney (1991) to become a dominant theory in strategic management. The RBV has been used in strategic management to show how internal resources of an organisation can be used to achieve better organisational outcomes including sustainable competitive advantage (SCA), profitability and growth (Haarhaus & Liening, 2020). The RBV explains that organisational resources that contribute to better outcomes have to meet the valuable, rare, non-substitutional and inimitable (VRIN) criteria.

The valuable resources are those that bring or add value to the firm, rare resources are not available to rivals or competitors as they are specific to the firm, inimitable resources mean that they cannot be duplicated by rivals or competitors, while non-substitutable resources cannot be replaced by other resources. Based on this criterion, a startup that is in possession of resources that meet the VRIN criteria has a better chance of being able to improve their performance (Saad et al., 2021).

The RBV has been accused of not providing an explanation on how the VRIN resources should be managed (Saad et al., 2021). It has also been criticized for being static and not being able to account for the complex nature of unpredictable market environments (Haarhaus & Liening, 2020). Despite its weaknesses, RBV is relevant in this study as startups with management staff that is valuable, rare, non-substitutional and inimitable has better chances of survival. However, most startups do not possess these and venture capital finance along with providing funding include technical and managerial support which enhances the quality of management in startups.

## **2.3 Empirical literature Review**

This review presented evidence from around the world, region, and local perspectives on venture capital financial, technical, and management support.

### **2.3.1 Venture Capital Financial Support and Management Quality**

In Lithuania, Savaneviciene et al. (2015) explored into the catalyst effects of venture capital funds to address the challenges facing startups in terms of providing innovation and financial perspectives. The study adopted mixed methods using case

studies, statistical data, and literature reviews. The findings revealed that financial support from VCs was shown to be a trigger of product development, firm growth, inspires entrepreneurship and the overall competitiveness of startups. This study was done in Lithuania with focused on firm growth and product development different from the current study done Nairobi Kenya and focused on management quality of startup.

Similarly, Achugbu (2017) research in Nigeria examined VC financing towards the growth of innovative startup companies using an exploratory research design. Using an inductive-qualitative approach, data was collected via in-depth interviews among 30 startups managers from a population of 120 startup managers. The sample was selected using systematic random sampling. The results revealed that VCs financing had effects on innovative startups growth by improving the quality of management.

Going in a different direction and focusing on SMEs, Njama (2013) investigated effects of VC financing on their growth by employing a descriptive cross sectional research design. The sample was the 2012 Top 100 Mid-sized companies selected via a stratified random sampling and purposive method of 30 SMEs. Using financial data from 2008 to 2012, regression analysis was conducted and revealed positive effects of VC financing on management expertise and skill. Achugbu (2017) and Njama (2013) based their studies on data collected from only 30 respective respondents which is less than 50% of the population considered less representative, the current study used data from 124 respondents out of 174 sample size making more representative.

Using hand-collected data, Chemmanur et al. (2021) analysed information from large enterprises that were going public to determine the relationship between backing from VC and the quality of top management team (TMT) quality of companies during their IPO. The results indicated that both TMT quality and VC-backing had a positive relationship with operating performance of firms. It presents contextual, methodological and conceptual gaps. The current study we employ only a single methodology using both primary and secondary data. Management quality will be measured by; decision making, employee management and resource allocation.

In a contrast study, Rosenbusch, Brinckmann, and Müller (2013) conducted a meta-analysis on relationship between VC investment and financial performance of funded firms in Germany. Their findings indicate insignificant positive effect of VC

investment on firm performance; however, this effect diminishes when controlling for industry selection biases. Overall, VC investment demonstrates a minor yet positive influence on VC-funded firm performance, particularly in terms of fostering growth and enhancing stock market performance, with the most significant benefits observed during the pre-IPO stage. The study only assessed the financial performance of startups and therefore it did not factor in the effect of VC on the management quality, it therefore presents a contextual methodological and conceptual gaps.

### **2.3.2 Venture Capital Technical Support and Management Quality**

In the U.S., Gompers, Gornall, Kaplan, and Strebulaev (2020) did a survey of 885 VCs in 681 startups to establish their decision making in terms sourcing for deals, internal firm organization, operating procedures, limited partners' relationships, and technical advice, selection of investments, structuring deals, valuation, and value addition post-investment. Using a questionnaire, the study was able to find that venture capital firms undertook different activities to support startups including management mentoring. The study used data collected from VC firms, while the current study collected data from startups.

Using a sample of public listed companies, Cumming et al. (2023) empirically tested association between VC-backing and firm outcomes and found that those companies with high-quality disclosure controls and processes due to technical expertise from VCs. The test variable was VC backing which was a proxy for identifying firms that benefitted from VC during its IPO. Gebru and Awal (2021) research that indicated startups prioritized their resource needs into funding, market access, and technical expertise respectively. This implies that technical support is not ranked highly as one of the supports needed by startups. This studies however, focused only on the firm outcomes due to technical support, the current study focuses on how financial, technical and management support affects management quality of startups in Nairobi county.

Moving their focus to SMEs, Nyagadza et al. (2019) research aimed to examine VC finance ability to promote growth in Zimbabwe from a sample of 3 policy makers, 5 venture capitalists, and 14 SMEs. The explanatory research design was used and descriptive statistics were adopted to answer the question. The findings indicated VC promoted SMEs growth as VCs apart from funds, these firms also provided technical

training, experienced expertise, and reskilling of staff for capacity building, marketing, quality supervision, and networking. This study used explanatory research design and only collected data on few respondents of less than 20 differing from the current study on the methodological and contextual grounds.

Similarly, Baraka and Anyieni (2015) did a descriptive survey on VC financing on growth of MSMEs using a descriptive research design. The sample consisted of 42 VC firms in Kenya. The findings revealed that along with financing, the VC expertise provided to MSMEs was critical to their growth. The results indicated that VC firms also provided training on control, monitoring and evaluation (M&E) and these contributed to increased MSME market share, profitability, and inventory control. The study focused on SMEs contrary to the current study which examined venture-backed startups in Nairobi.

Similarly, Apuoyo (2020) investigated VC financing effects on SME growth by using a positive research paradigm and employing a descriptive research design in a population of 97 enterprises. These 97 sampled enterprises had benefited from VC financing from 2013 to 2017. Multiple regression analysis indicated that technical expertise, and capacity building of employees contributed to growth of VC-backed SMEs.

Muhuhu et al. (2023) did their research on VC financing on SME growth in Kiambu County from a population of 889 enterprises using a descriptive research design. Technical support and monitoring were established to have positive effects on SME growth to a great extent. Shifting interest to startup firms, Otieno (2019) assessed effects of monitoring and control, professional expertise, and mentoring on growth among 800 startups from which 148 firms' managers were selected in Nairobi County. The findings indicated that VC firms were able to provide monitoring and control to startups and this further contributed to their performance. This study is different from the current study because it was done in Kiambu county and focused on SMEs.

### **2.3.3 Venture Capital Management Support and Management Quality**

In Czech, Rajchlová (2013) assessed the effect of managerial support provided by VC investors using a two-stage research design. In the first phase, the research

interviewed respondents using a qualitative approach and in the next phase used stock market data to undertake quantitative analysis. Management support was in: supervision, consultancy on firm expansion, strategy formulation, financial supervision of accounts, creating budgets and financial plans, consultancy services, creating organizational structures, external fund acquisition, recruitment of management staff, internationalization, and building networks. The study presents contextual gap as it was done in Czech Republic, the current study assessed startups in Nairobi county.

Zeng (2023) that established venture capitalist also brought supervision of management and operation in startups and thereby contributed to their efficiency in resource use and allocation. Berger and Hottenrott (2021) findings also showed that managerial support, which is an important driver of success for entrepreneurial firms comes along with VC funding. Manywanda (2015) found evidence to show that venture capitalists offered both financial and managerial support. When the product is well developed and the expertise of the original management team becomes less relevant, investors might opt to replace some of the management with seasoned professionals. The above studies focused on efficiency, resource utilization, growth and product development while the current study focused on management quality of startups in Nairobi county.

In agreement, Chemmanur, Krishnan, and Nandy (2011) assessed the relationship between VC and efficiency using TPF as its proxy using data from the U.S. census and the chance of successful acquisition or IPO. The independent variables included the type of VC (based on reputation strength), prior-investment screening or investment monitoring, and changes in revenue or cost reduction. Their findings revealed that VC-backed firms demonstrated higher overall efficiency compared to non-VC-backed firms consistently over time. This efficiency advantage stemmed from both screening and monitoring processes, alongside improvements in sales. This study resents contextual, methodological and conceptual gaps. The current study we employ only a single methodology using both primary and secondary data. Management quality will be measured by; decision making, employee management and resource allocation.

Similarly, Quas, Martí, and Reverte (2013) research introduced a unique approach by comparing companies receiving VC with those receiving external quasi-equity financing but lacking non-financial resources. Using a difference-in-difference (DD) estimator, they found that non-financial resources from VC led to significant yearly increases in employment, total assets, and sales for young Spanish SMEs. This study however, was done in Spain and focused on SMEs using difference- in-difference (DD). It therefore presents a methodological and contextual gap. The current study will focus on startups and will employ a descriptive research design using a stratified sampling method to select only the VC- backed startups in Nairobi Kenya.

Using SMEs, Memba et al. (2015) researched on effect of VC financing on performance using an exploratory design among 200 VC-backed SMEs in Mombasa, Nairobi, Nakuru, and Kisumu. The data from 100 SMEs was used to analyse the relationship between variables revealed that the management styles of SMEs improved after benefitting from VC financing. Additionally, VC-backed SMEs were able to increase participation in decision making.

Moving their focus to startups in Kenya, Mworia (2022) investigated the corporate governance (CG) among technology startups using a correlational research design. The data was collected online gathering data on firm characteristics. The results revealed that VC-backed startups were better governed than those with no VC-backing from the analysis of variance (ANOVA) results. Similarly, Wamwoyo (2022) assessed the impact of business characteristics on access to VC financing by using an exploratory design. The sample of 308 respondents was selected from a population of 1,333 using simple random sampling. The findings showed managers with strong network ties had easy access to VC financing, therefore, management characteristics had positive correlation with access to VC financing implying on the importance of networking abilities.

In another interesting study, Luukkonen (2007) assessed value-added role of VC in facilitating startup internationalization of startup firms in Finland. The findings revealed that private sector VC companies by adopting a double strategy by participating in before contracts and after coaching and monitoring while public VC companies were participating before contracting and after coaching and monitoring. The outcome revealed there were variations in private and public VC companies'

approach after and before investments into startups. While the findings partially supported the hypotheses derived from address targeting theory; they also presented some contradictions. Presented conflicting results. Used two different target population. The current study will seek to target only venture backed startups in Nairobi.

#### **2.3.4 Startup age, Size, entrepreneur commitment product novelty and Management Quality**

Young startups exhibit a distinct connection between their age and productivity. Research consistently indicates that the productivity of new firms starts below the average, but their productivity growth rate is notably higher than average. In their initial years, these firms typically see an increase in average productivity levels, while their growth rate tends to decline. In contrast, the relationship between age and productivity in older, more established firms is less definitive. These firms generally experience positive growth rates, yet it is unclear if these rates are tied to their specific ages. Understanding this relationship is important, as it influences the interpretation of aggregate productivity metrics and the formulation of relevant policy measures (Coad, Segarra, & Teruel, 2013).

Productivity levels are often linked to a firm's size, indicated by the number of employees. Typically, smaller firms organize their production processes differently compared to larger firms. Initially, an increase in firm size is expected to boost productivity due to economies of scale and scope. However, beyond a certain point, further growth can lead to diseconomies of scale, which may reduce productivity. This relationship is particularly notable in younger firms, where age and size are positively correlated. Therefore, the connection between productivity and firm age may partly result from the correlation between firm age and size, as well as the impact of size on productivity (OECD, 2021).

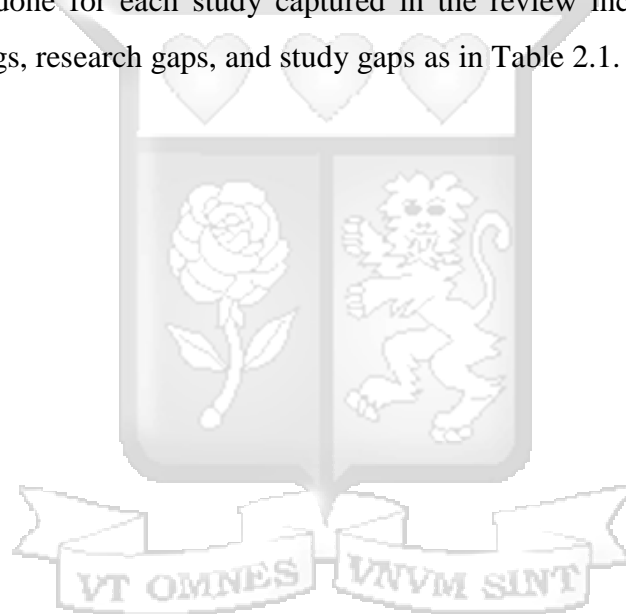
The productivity and performance of individual firms are significantly influenced by the characteristics of their respective sectors. This phenomenon can be explained by product life cycle theories. In emerging sectors, new products are introduced to the market, prompting firms to prioritize product innovations, leading to low competition and relatively high profit margins. Consequently, these firms typically experience high productivity growth rates (Klepper, 1996). As sectors mature, competition

intensifies, and innovation efforts shift towards process improvements, often resulting in slower or negative productivity growth (Klepper, 1996). However, some sectors manage to rejuvenate by innovating and creating new products, which leads to renewed productivity growth. Conversely, sectors that fail to innovate tend to either disappear or continue operating at a minimal level.

In comparison to mere entrepreneurial intention, entrepreneurial commitment more frequently results in entrepreneurial activities. Entrepreneurial commitment starts with a considerable investment of time, energy, and resources, including financial, intellectual, relational, and emotional resources (Brodack & Sinell, 2017).

#### **2.4 Summary of Research Gaps**

The summary is done for each study captured in the review including the author, topic, main findings, research gaps, and study gaps as in Table 2.1.



**Table 2.1: Summary of Literature Review and Gaps**

<b>Author</b>	<b>Topic</b>	<b>Main findings</b>	<b>Gaps</b>	<b>Study filling gap</b>
Savaneviciene et al. (2015)	Venture Capital a Catalyst for Start-Ups to Overcome the “Valley of Death”: Lithuanian Case	Financial support from VCs was shown to be a trigger of product development, firm growth, inspires entrepreneurship and the support overall competitiveness of startups	The study did not include management quality as an outcome of VC financial financing and management quality in startups	The study aims to contribute to the relationship between VC financing and management quality in startups
Quas, Martí, and Reverte (2013)	What money cannot buy: a new approach to measure venture capital ability to add non-financial resources.	Contribution of the non-financial resources leads to yearly increases of 12.86% in employment, 38.13% in total assets, and 54.03% in sales and only the most experienced VC firms contribute with valuable non-financial resources.	This study however, was done in Spain and focused on SMEs using difference-in-difference (DD). Therefore presents a methodological contextual gap	The current study will focus on startups and will employ a descriptive research design using a stratified sampling method to select only the VC-backed and startups in Nairobi Kenya.
Chemmanur, Krishnan, and Nandy (2011)	How Does Venture Capital Financing Improve Efficiency in Private Firms? A Look Beneath the Surface	VC-backed firms demonstrated higher overall efficiency compared to non-VC-backed firms consistently over time.	Using the Longitudinal Research Database (LRD) of the U.S. Census Bureau. Efficiency measured by Total Factor Productivity (TFP) and the likelihood of a successful exit (either IPO or acquisition). Presents contextual, methodological and conceptual gaps.	the current study we employ only a single methodology using both primary and secondary data. Management quality will be measured by; decision making, employee management and resource allocation.
Luukkonen (2007)	Investigated the value-added role of venture	Private sector venture capital firms were found to be most	While the findings partially supported the current study	Conclusiveness, which the study will seek to

	capital in facilitating the engaged in post-investment hypotheses derived from address targeting only VC-internationalization of monitoring and coaching for theory; they also presented backed startups.		
	startup firms in internationalization based on the some contradictions. Finland. venture capital survey, whereas Presented conflicting business angels emerged as the results. Used two different most active in the biotechnology target population. study.		
Rosenbusch, et al. (2013)	the relationship between venture capital investment and the financial performance of funded firms in Germany.	Indicate insignificant positive effect of VC investment on firm performance; however, this effect diminishes when controlling for industry selection biases. The performance effects tend to diminish for very young or mature firms.	Assessed the financial performance of startups in Germany, it therefore presents a contextual and methodological conceptual gap.
Achugbu (2017)	Venture Capital Financing Innovative Companies in Nigeria	VCs improved the quality of management for Start-up	The study was limited to innovative startups This study will include a variety of startups in different sectors.
Njama (2013)	Effect Of Venture Capital Financing on The Growth of Small and Medium-Sized Enterprises in Kenya	There was a positive and significant relationship between SME growth and VC financing	The study was limited to SMEs and to secondary data This study focuses on startups and uses primary sources of data

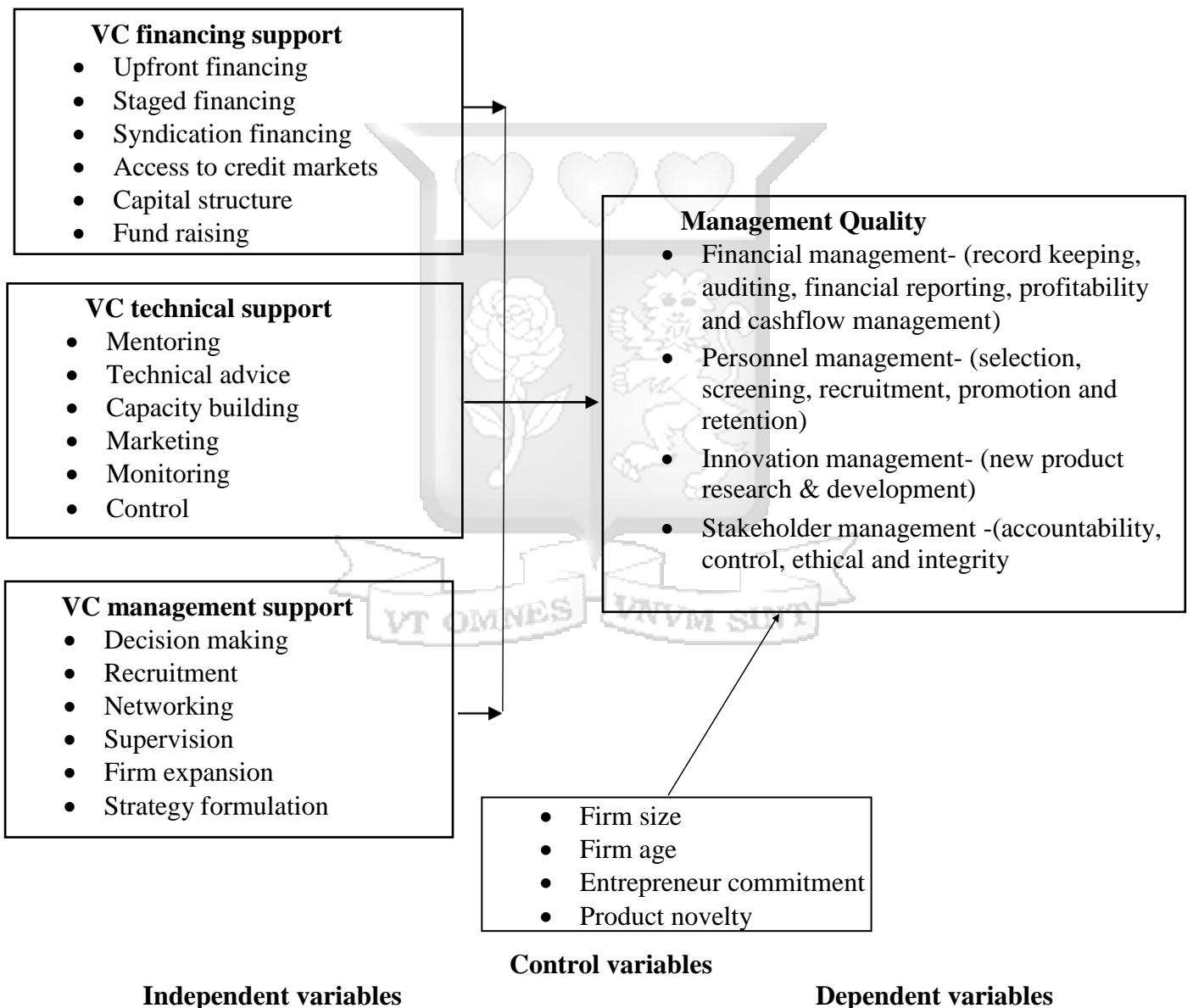
Gompers et al. (2020)	How do capitalists make decisions?	venture VC firms provided mentoring, fund raising, technical advice, operating procedures, and various board service activities such as board governance	The data was collected from VC firms	This study will collect data from startups
Nyagadza al. (2019)	Venture Finance as an Antidote to Diminuting SMEs	Capital VCs provided technical training, experienced expertise, and reskilling of staff for capacity building, marketing, quality supervision, and networking	The study was limited to SMEs	This study focuses on startups
Baraka & Anyieni (2015)	Influence of Venture Capital Financing on the Growth of Micro, Small and Medium Enterprises in Kenya:	VC firms also provided training on control, and M&E	The data was collected from VC firms	This study will collect data from startups
Apuoyo (2020)	Venture Financing and Growth of Small and Medium Enterprises	Capital Technical expertise and capacity building of employees contributed to growth of VC-backed SMEs	The study was limited to SMEs	This study focuses on startups
Muhuhu et al. (2023)	Venture Growth of Small and Medium Sized Enterprises in Kiambu County, Kenya	Capital and Financial support, managerial support, technical support and monitoring affected the growth of SMEs	The study was limited to SMEs	This study focuses on startups

Otieno (2019)	Effect of venture capital financing on the growth of technology driven startup firms in Nairobi County	VC firms were able to provide monitoring and control to startups and this further contributed to their performance	The study was limited monitoring and control, professional expertise, and mentoring forms of technical support	This study will include other forms of technical support found in the review
Rajchlová (2013)	Managerial Support Provided by Venture Capital Investors in the Czech Republic	The findings found startups benefitted from management support from VC firms	The study did not measure relationship between management support and management quality	The study aims to determine relationship between management support and management quality
Memba et al. (2015)	The Impact of Venture Capital finance on the Performance of Small and Medium Enterprise in Kenya	Management styles of SMEs improved after benefitting from VC financing	The study was limited to SMEs	This study focuses on startups
Mworia (2022)	Corporate Governance and Valuation of Venture-Funded Technology Startups In Africa	VC-backed startups were better governed than those with no VC-backing	This research was limited to VC-corporate governance among technology startups	The study focuses on management quality as a dependent variable
Wamwoyo (2022)	actors Affecting Access to Venture Capital Financing By Startups In Kenya.	Managers with strong network ties had easy access to VC financing	The findings did not measure the networking capacity of startups	This study will include networking as an indicator of management quality

Source: Researcher (2024).

## 2.5 Conceptual Framework

The independent variable (venture capital) was measured by venture capital financing support, venture capital technical support, venture capital management support. The dependent variable (management quality) was measured by financial management, personnel management, innovation management, and stakeholder management. The control variables were firm size, firm age, entrepreneur commitment, and product novelty as shown in Figure 2.1.



**Figure 2.1: Conceptual Framework**  
**Source: Researcher (2024)**

**Table 2.2: Operationalization of variables**

<b>Variables</b>	<b>Definition</b>	<b>Indicators</b>	<b>Scale</b>	<b>Source</b>
Venture capital financing support	Independent variable	Upfront finance Staged finance Syndicate financing Access to credit markets Capital structure	Ordinal scale	Muhuhu et al. (2023); Njama (2013) Achugbu (2017)
Venture capital technical support	Independent variable	Mentoring Fund raising Technical advice Operating procedures Capacity building Marketing Monitoring & Control	Ordinal scale	Muhuhu et al. (2023); Apuoyo (2020) Nyagadza et al. (2019)
Venture capital management support	Independent variable	Recruitment Networking Supervision Firm expansion Strategy formulation	Ordinal scale	Muhuhu et al. (2023); Rajchlová (2013) Memba et al. (2015)
Management quality	Dependent variable	Financial management Personnel management Innovation management Stakeholder management	Ordinal scale	Remme & de Waal (2020); Robbins et al. (2017); Indrajith et al. (2018)
Entrepreneur commitment, and product novelty	Control variable	where 0 = less committed founder and 1 = very committed founder; and where 0 = new product(s) and 1 = existing products	Ordinal scale	

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**Source: Researcher (2024)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter described the methodology used in achieving the study objectives. These are research philosophy, research design, target population and sampling, data collection, research quality, diagnostic tests, data analysis, and ethical considerations.

#### **3.2 Research Philosophy**

The dominant research paradigms from which a researcher can select from include; positivism, critical realism, interpretivism, postmodernism and pragmatism. Critical realism aims to explain what one experiences or sees based on underlying structures of reality that shape observable events. Interpretivists place emphasis on documenting personal experiences of subjects as each meaning created by an individual is unique (Saunders et al., 2019).

Third, postmodernists place emphasis on the role of power relations and language in an effort to question common ways of thinking and provide voice to passive marginalized views. Fourth, pragmatism philosophy explains that concepts are only important in cases where they support actions that aim to solve a problem and inform future practice. Lastly, positivists take a natural science approach to research that involves taking observations in an aim to make law-like generalizations (Saunders et al., 2019).

The study adopted a positivism research philosophy. Positivists adopt quantitative methods of collecting data and making sense of this data by expressing reality numerically with predictive and explanatory power (Antwi & Hamza, 2015; Saunders et al., 2019). The positivist approach is suitable for this research as it collected data from a number of respondents and used statistical analysis to make sense of the association and relationship between variables.

#### **3.3 Research Design**

A research design provides researchers with an organized plan of how to answer research questions and assist in presenting data in a meaningful way (Berger & Torres, 2016). There are five research designs one can select: descriptive, experimental, correlational, explanatory, and diagnostic designs. First, experimental

designs are adopted to determine a cause-and effect relationship between variables by manipulation of the sample and environment. Two, exploratory design is influenced by thoughts and ideas of a researcher on a subject under investigation to gain further insight. Three, diagnostic designs are geared towards assessing the main cause to a problem and recommending solutions. Four, correlational design provides the opportunity to examine relationship between an independent and dependent variable. Lastly, descriptive research is solely interested in describing the situation or case under investigation (Berger & Torres, 2016). Based on the forgoing discussion on research design, a descriptive research design was found as suitable to the study as it since we described venture capital funding among startups while also examining the association and relationship between venture capital and management quality of startups.

### 3.4 Target Population

Sekeran and Bougie (2010) defined target population as units or elements that a researcher aims to make inference to in their study. The target population source is from Disrupt Africa data base. The 308 start-ups summarized by their respective sectors in Table 3.1 forms the target population as the units of analysis.

**Table 3.1: Target Population**

<b>Sector</b>	<b>Target Population</b>
Fintech	93
Agri-tech.	31
E-commerce.	31
Logistics.	29
E-health.	19
Ed-tech.	18
Recruitment.	14
Energy.	8
Marketing.	7
Mobility.	7
Other.	51
<b>Total</b>	<b>308</b>

**Source: Disrupt Africa (2022)**

#### 3.4.1 Sampling Size

Calculating sample size from a target population is important to make sure that there is an efficient selection of units to make accurate generalizations to the population (Nanjundeswaraswamy & Divakar, 2021). The research adopted Yamane's (1967)

formula to derive 174 respondents as the study's sample size.

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

Where;

n = sample size.

N = study population.

e = tolerance at the preferred level of confidence.  $\alpha = 0.05$  at 95% confidence level.

$$n = 308 / 1 + 308(0.05)^2 \quad n = 308 / 1 + 308*0.0025$$

$$n = 308 / 1.77$$

$$n = 174$$

### 3.4.2 Sampling Technique

Bryman and Bell (2015) describe sampling as a procedure for selecting equitable representation of units in a sample. The units of observation were CEOs, CFOs, or COOs in each of the 174 firms who were selected purposively due to their knowledge and experience of venture capital in their startups. The stratified random sampling procedure was used so as to select a representative sample from each of the sectors that startups represented as shown in Table 3.2.

**Table 3.2: Sample Size Distribution**

Sector	Population	Sample Size
Fintech.	93	53
Agri-tech.	31	18
E-commerce.	31	18
Logistics.	29	16
E-health.	19	11
Ed-tech.	18	10
Recruitment.	14	8
Energy.	8	5
Marketing.	7	4
Mobility.	7	4
Other.	51	27
<b>Total</b>	<b>308</b>	<b>174</b>

Source: Disrupt Africa (2022)

### 3.5 Data Collection Instruments

This research was purely focused on primary data that was collected from startup CEOs, CFOs, or COOs in each of the firms via a structured questionnaire. The questionnaire had sections on background information of respondents and the firm.

The other sections sought information on venture capital financial support (8 items), venture capital technical support (5 items), venture capital management support (6 items), and management quality (4 items) all measured on a 5-point Likert scale. The questionnaires were administered by the drop and pick later method for those firms that were easily accessed physically while Google Forms shared via email and WhatsApp were used for those that could not be reached physically.

### **3.6 Research Quality**

First, reliability describes the ability of a tool to be able to replicate the same results if administered under different situations and contexts (Drost, 2011). There are 4 forms of reliability: equivalency, stability, internal consistency, and interrater reliability. Out of these, this tool will be determined reliable by way of measuring its internal consistency which refers to how well the items used in a scale match to each other (Drost, 2011).

Second, validity is the extent that a tool is able to accurately capture and reflect the constructs or variables under investigation (Kaya, 2015). The major forms of validity are external and internal validity where the former refers to the generalizability of findings and the latter refers to the extent to which a researcher can conclude that variations in a dependent variable can be associated to the independent variable (Kaya, 2015).

Since the Likert scale is used, the Cronbach's Alpha ( $\alpha$ ) coefficient used to determine the internal consistency of items used in each scale. The advantage of internal consistency is that it also addresses the issue of validity as it also incorporates the adequacy of the items and constructs selected into the questionnaire. Coefficients of internal consistency increase as the number of items goes up and the most accepted threshold of a Cronbach's alpha is .70 and this was adopted in this study.

### **3.7 Data Analysis**

Data analysis is the procedure for summarizing large amounts of data on variables in a way that they answer research questions (Kothari, 2012). Before entering data into software, data was checked for errors, cleaned, and coded. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) to undertake descriptive, diagnostic tests, and ordinary least squares (OLS) regression analysis.

$$MQL = B_0 + B_1VFS + B_2VTS + B_3VMS + B_4FS + B_5FA + B_6EC + B_7PN + \varepsilon$$

Where:

MQL = Management Quality

VFS = Venture Capital Financing Support

VTS = Venture Capital Technical Support

VMS = Venture Capital Management Support

FS = Firm size

FA= Firm age

EC = Entrepreneur Commitment

$\varepsilon$  = Error term

PN = Product Novelty

### 3.8 Diagnostic Tests

The study conducted diagnostic tests to determine whether the dataset met minimum requirements for undertaking linear regression. Failure to undertake diagnostic tests may lead to spurious regression results. First, the Variance Inflation Factor (VIF) were used to check for multicollinearity where a VIF value of 10 above indicates multicollinearity presence. Secondly, scatterplot method of checking heteroscedasticity was used. The Shapiro-Wilk test of normality was used to determine if the dataset was normally distributed.

### 3.9 Ethical Considerations

The study ensured adherence to ethical principles of research. First, proper referencing and citation was practiced by acknowledging works from other scholars. Additionally, principles of informed consent, confidentiality, voluntary engagement, and anonymity are guaranteed as follows. First, ethical clearance was granted from the Strathmore University Institutional Ethics Review Committee (SU-IERC) followed by a research license granted from the National Council for Science, Technology and Innovation (NACOSTI) for a research permit. An informed consent form was attached to the instrument providing the purpose, rights of respondents, and contact information.

## CHAPTER FOUR

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction

This chapter presents the findings and is in different sections that include the response rate, results from the pretest/pilot, respondent and enterprise information, descriptive, correlation, and multiple regression analysis.

#### 4.2 Response Rate

The research was able to administer 174 questionnaires to participants and 124 respondents were reached and these were used in analysis. This implies the research was able to attain a 71.2% response rate.

#### 4.3 Reliability and Validity Results

A pilot study was done with 10 respondents from startups and these respondents were excluded from the final administration of the survey. The findings indicate that the Cronbach's Alpha coefficients for each of the variables was well above the recommended threshold of 0.7. These findings are presented in Table 4.1.

**Table 4.1: Reliability Statistics**

Variables	Cronbach's Alpha	N of Items
Venture capital financial support	0.923	7
Venture capital technical support	0.951	6
Venture capital management support	0.947	7
Management quality	0.974	4

#### 4.4 Respondent Information

This section presents information on the respondents including their gender, education, and their working experience in the startups industry. Table 4.2 provides a summary of demographic information. There were more male respondents accounting for 66.1% of the sample while female respondents represented the remaining 33.9%. More respondents had a Master's degree (62.1%), followed by those with a Bachelor's degree (31.5%), professional qualifications (5.6%), and Diploma (0.8%). In regard to their work experience, majority of respondents had 6-10 years' experience in the startup industry representing 71.8%. Other respondents had 11-16 years (15.3%), more than 16 years (8.1%), and less than 5 years (4.8%) of startup

experience. More than half of respondents were chief finance officers in their organisations and represented 54.8% of the sample followed by chief executive officer (29.0%), and chief operating officer (16.1%).

**Table 4.2: Demographic information of respondents**

	<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
<b>Gender</b>	Male	82	66.1%
	Female	42	33.9%
	<b>Total</b>	<b>124</b>	<b>100.0</b>
	<b>Qualifications</b>	<b>Frequency</b>	<b>Percent</b>
<b>Education</b>	Diploma	1	0.8%
	Bachelor's Degree	39	31.5%
	Master's Degree	77	62.1%
	Professional qualifications	7	5.6%
	<b>Total</b>	<b>124</b>	<b>100.0</b>
	<b>Designation</b>	<b>Frequency</b>	<b>Percent</b>
<b>Designation</b>	Chief operating officer	20	16.1%
	Chief finance officer	68	54.8%
	Chief executive officer	36	29.0%
	<b>Total</b>	<b>124</b>	<b>100.0</b>
	<b>Number of years</b>	<b>Frequency</b>	<b>Percent</b>
<b>Experience</b>	Less than 5 years	6	4.8%
	6-10 years	89	71.8%
	11-16 years	19	15.3%
	More than 16 years	10	8.1%
	<b>Total</b>	<b>124</b>	<b>100.0</b>

#### 4.5 Enterprise Information

The enterprise information sought included participating industry/sector, entrepreneur commitment, and new product introduction. Table 4.3 shows that Fintech is the largest represented startups as shown by 57.3%, followed by e-health (10.5%), recruitment (9.7%), Agri-tech (8.9%), information technology (3.2%), e-commerce (0.4%), and others (6.5%). The others represented in the sample include startups in development, automotive, real estate, distribution, fashion, engineering consultancy, private security, and manufacturing industries.

More than half of startups were in FinTech and this can be attributed to their ability to mediate between borrowers and lenders with no mediation from financial institutions. This has allowed them to redefine the financial services industry in Kenya. FinTech's are therefore bridging the gaps that enterprises have perennially faced in terms of access to credit which has been a major factor for MSMEs survival, growth, and performance (Musamali, Jugurnath, & Maalu, 2023).

The other significant sectors in terms of size were health and agriculture. This is similar to Muathe et al. (2022) research that explained that since the emergence of Covid-19, more tech enabled startups emerged across sectors like health and agriculture. The Konza Technopolis Authority and Ministry of Information Communication, and Technology (ICT), for example, supported health related startups during this period that provided intervention for Covid-19

In terms of size, half of startups had 11-50 employees (50.0%), followed by those with 51-200 employees (23.4%), 1-10 employees (17.7%), 201-500 employees (16.0%), and more than 500 employees (7.3%). The findings suggest that half of the startups were in the small category of MSMEs with a smaller number of firms being in the medium category and a smaller proportion were in the micro enterprises category. Echoing this progression in the ecosystem, fintech is also the leading sector for job creation. Kenyan FinTech's provide 3,100 jobs (27 % of jobs created by startups); coming to an average of 33 employees per startup. This biggest employer (Watu Credit) - which has 1,201 employees. (Disrupt Africa, 2022).

The age of startups and the results show that more firms had been in operation for 6-10 years (34.7%) followed by those with less than five years (40.3%), 11- 15-year-old firms (23.4%), and the least were firms aged more than 16 years (16.0%). The findings suggest that there were more startups started in the last five (5) years which supports the data on the sector. This indicates there is a continuous increase in the number of startups as the age of firms continued to reduce. The data indicates that in the past decade, 435 different individuals/entities made investments in tech startups. The annual number of investors in Kenyan startups has varied since 2015, some years leaping by more than 100 % and in some taking place more steadily (Disrupt Africa, 2022). According to Audretsch et al. (2020), all start-ups are associated with the liabilities of newness and smallness, which may lead to higher failure rates than those of more established firms.

In comparison to mere entrepreneurial intention, entrepreneurial commitment more frequently results in entrepreneurial activities. Entrepreneurial commitment starts with a considerable investment of time, energy, and resources, including financial, intellectual, relational, and emotional resources (Brodack & Sinell, 2017). This variable was measured by interest in social life where startup founders were less

engaged in their social life indicating entrepreneurs/founders' commitment as 62.1% answered yes and 37.9% answered no to social life being a priority. This means business performance of startups benefits from entrepreneur commitment which has been supported by empirical evidence (Brodack & Sinell, 2017; Ayoade et al., 2018),

In terms of their product innovation, majority (96.8%) of startups introduced a new product compared to 3.2% startups that had not introduced a new product indicating that these startups were able to be a leader or 'disruptor' in their sectors by their ability to introduce new products. Audretsch et al. (2020) assert that innovative startups have to face an additional liability of novelty as they introduce a new product, service or process onto the market, and this may negatively affect their survival rates. Thus, based on their product novelty, the survival rates of startups may be limited.

**Table 4.3: Enterprise information**

	<b>Sector</b>	<b>Frequency</b>	<b>Percent</b>
<b>Sector</b>	Fintech	71	57.3%
	Agri-tech	11	8.9%
	E-commerce	5	0.4%
	E-health	13	10.5%
	Recruitment	12	9.7%
	Information Technology	4	3.2%
	Other	8	6.5%
<b>Social life</b>	<b>Social life</b>	<b>Frequency</b>	<b>Percent</b>
	Yes	47	37.9%
	No	77	62.1%
<b>Innovation</b>	<b>New products</b>	<b>Frequency</b>	<b>Percent</b>
	Yes	120	96.8%
	No	4	3.2%
<b>Firm size</b>	<b>Number</b>	<b>Frequency</b>	<b>Percent</b>
	1-10 employees	22	17.7%
	11-50 employees	62	50.0%
	51-200 employees	29	23.4%
	201-500 employees	2	16.0%
	500+ employees	9	7.3%
<b>Firm age</b>	<b>Years</b>	<b>Frequency</b>	<b>Percent</b>
	Less than five years	50	40.3%
	6-10 years	43	34.7%
	11-15 years	29	23.4%
	More than 16 years	2	16.0%

<b>Total</b>	<b>124</b>	<b>100.0</b>
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#### 4.6 Descriptive Analysis

In this section, descriptive analysis for each of the variables is conducted using the mean and standard deviation (measures of central tendency) are used to summarize the Likert scale data.

##### 4.6.1 Management Quality

Management quality as was the dependent variable and was measured by four items on a 5-point Likert scale and its descriptive summary is presented in Table 4.4.

**Table 4.4: Management Quality Descriptive**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
The financial management (record keeping, auditing, financial reporting) in the firm has improved since receiving support from venture capitalists	3.87	1.236
The personnel management (selection, screening, recruitment, and promotion) in the firm has improved since receiving support from venture capitalists	3.49	0.888
There has been an improvement in the innovation (Research and Development, idea creation, incentives for innovation) since receiving support from venture capitalists	3.61	1.153
The management of stakeholders in the firm has improved since receiving support from venture capitalists.	3.59	1.210
<b>Overall mean score</b>	<b>3.64</b>	<b>1.122</b>

The overall mean score for these items was 3.64, standard deviation 1.122. Financial management was shown to be the highest ranked item by mean score 3.87, standard deviation 1.236 followed by innovation management ( $M=3.61$ ,  $SD=1.153$ ), stakeholder management ( $M=3.59$ ,  $SD=1.210$ ), and personnel management ( $M=3.49$ ,  $SD=0.888$ ).

##### 4.6.2 Venture Capital Financial Support

Venture capital financial support was measured by seven items on a 5-point scale and the findings are summarized in Table 4.5.

**Table 4.5: Venture Capital Financial Support Descriptives**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
Upfront financing has enabled us to implement effective management practices.	3.44	1.505
Venture Capital financial support enabled this firm to	3.42	1.320

expand business operations		
Staged financing (milestone financing) has allowed us to better allocate resources and improve management effectiveness.	3.35	1.203
Collaborating with multiple VC investors through syndication (2 or more investors co-invests) has positively influenced our management practices.	3.07	1.280
Utilizing credit markets alongside Venture capital financing has improved our financial management practices.	3.43	1.374
Having a well-structured capital base influenced by venture capital funding has enhanced our ability to implement effective management strategies.	3.57	1.076
Successfully raising funds from venture capital investors has improved our credibility and management effectiveness	3.72	1.316
<b>Overall mean score</b>	<b>3.43</b>	<b>1.296</b>

The overall mean score of 3.43, standard deviation 1.296. The highest ranked item was raising funds had contributed to credibility management and effectiveness by mean score 3.72, standard deviation 1.316. This suggests that financial support was critical to effective managerial practices in the startups. On the other hand, the lowest ranked item was that collaborating with multiple VCs has contributed to managerial practice by mean score 3.07, standard deviation 1.280. This can be attributed to the conflicts that may arise when a startup has backing from more than one VC which can lead to competitive decision-making processes which may hinder managerial efficiency.

#### 4.6.3 Venture Capital Technical Support

Table 4.6 shows the descriptive summary of the venture capital technical support variable that was measured by six items on a 5-point Likert scale.

**Table 4.6: Venture Capital Technical Support Descriptives**

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
The mentorship provided by venture capital investors has enhanced our leadership capabilities and decision-making.	3.44	1.289
Access to technical advice through venture capital funding has improved our operational efficiency and effectiveness.	3.18	1.562
The technical training from VCs has increased human capacity development	3.90	0.970
Participating in capacity building programs facilitated by venture capital investors has improved our	3.12	1.033

management quality by enhancing our skills and capabilities.		
The marketing expertise provided by venture capital investors has improved our customer acquisition and retention strategies.	3.37	1.000
Venture capital monitoring has contributed to our management quality by providing valuable insights into our performance and progress.	3.63	1.246
<b>Overall mean score</b>	<b>3.44</b>	<b>1.183</b>

The overall mean score was 3.44, standard deviation 1.183 indicating respondents ranking of these items to a moderate extent. There was moderate acceptance among respondents that technical training provided by VCs increase human capacity development as shown by mean score 3.90, standard deviation. The respondents showed low moderate acceptance that participation in capacity building contributed to quality of management as shown by mean score 3.12, standard deviation 1.033.

#### 4.6.4 Venture Capital Management Support

Venture capital management support was measured by seven items on a 5-point Likert scale as summarized in Table 4.7.

**Table 4.7: Venture Capital Management Support Descriptives**

Statements	Mean	Std. Deviation
The control measures implemented by venture capital investors have enhanced our operational efficiency and risk management practices.	2.98	1.074
Access to venture capital expertise in decision-making has enhanced our ability to make strategic and informed choices.	3.46	1.070
Access to venture capital networks has enabled us to identify and attract highly skilled professionals effectively.	3.12	1.033
Access to venture capital networks has facilitated collaboration and knowledge sharing, improving our management effectiveness.	3.25	1.180
Venture capital investors' supervision has provided valuable oversight and guidance, contributing to our management quality.	3.50	1.297
Access to venture capital resources and expertise has enabled us to execute expansion plans effectively and efficiently.	3.52	1.246
Venture capital assistance in strategy formulation has strengthened our strategic planning processes, enhancing our management quality.	3.44	0.990
<b>Overall mean score</b>	<b>3.32</b>	<b>1.127</b>

The findings indicate respondent disagreement that the control measures implemented by venture capital investors have enhanced our operational efficiency and risk management practices as shown by mean score 2.98, standard deviations 1.074. This implies that control measures introduced by VCs in startups did not have a positive outcome on their managerial practices.

#### 4.7 Bivariate Correlation Analysis

The results from the bivariate correlation coefficient indicates that venture capital management support ( $r = 0.950, p < 0.05$ ), venture capital financial support ( $r = 0.891, p < 0.05$ ), and venture capital technical support ( $r = 0.879, p < 0.05$ ) had positive and significant associations with management quality respectively as shown in Table 4.8. Out of this, we can explain that management support from venture capitalists has a value for management quality in startups followed by financial support and technical support.

**Table 4.8: Correlation coefficients**

		Venture Capital Financial Support	Venture Capital Technical Support	Venture Capital Management Support
Venture Capital Financial Support	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	124		
Venture Capital Technical Support	Pearson Correlation	.919**	1	
	Sig. (2-tailed)	0.000		
	N	124	124	124
Venture Capital Management Support	Pearson Correlation	.916**	.927**	1
	Sig. (2-tailed)	0.000	0.000	
	N	124	124	124
Management Quality	Pearson Correlation	.891**	.879**	.905**
	Sig. (2-tailed)	0.000	0.000	0.000
	N	124	124	124

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

#### 4.8 Diagnostic Tests

Before undertaking the multiple regression analysis, there were several diagnostic

tests conducted including checking for normality, heteroscedasticity, and multicollinearity.

#### 4.8.1 Normality testing

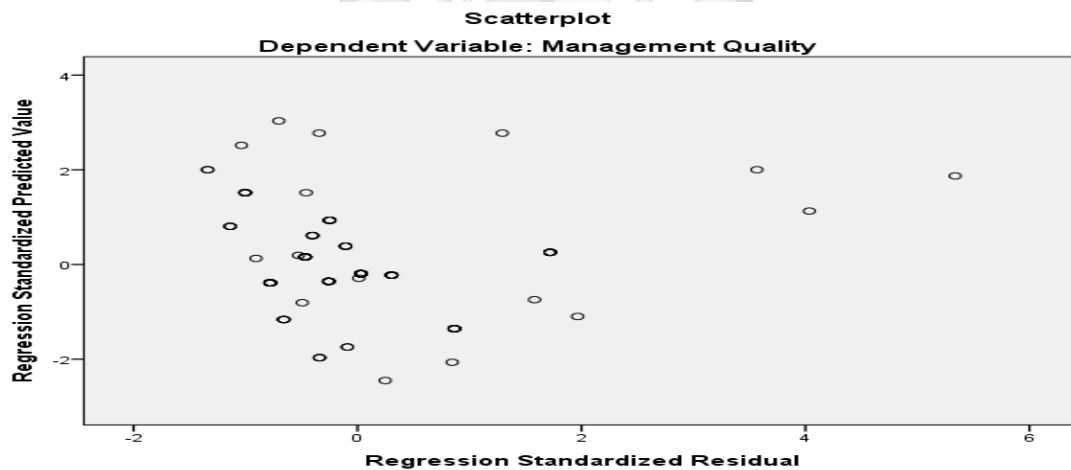
The rule of thumb in interpreting the Shapiro-Wilk test is that a significance level that is less than 0.05 means we reject the null hypothesis that the data represents normal distribution. However, the significance levels for all variables are above 0.05 and we therefore accept the null hypothesis that the data represents a normal distribution as seen in Table 4.9.

**Table 4.9: Tests of Normality**

Variables	Shapiro-Wilk		
	Statistic	df	Sig.
Venture capital financial support	.912	124	.065
Venture capital financial support	.905	124	.054
Venture capital financial support	.920	124	.071
Management quality	.868	124	.082

#### 4.8.2 Heteroscedasticity test

Figure 4.1 presents a scatterplot that shows there exists no pattern on the dots which means that there exists no heteroscedasticity in the data.



**Figure 4.9: Scatterplot for heteroscedasticity test**

#### 4.8.3 Checking for Multicollinearity

Table 4.8 shows the collinearity statistics of the variables where the variance inflation factors (VIF) where the rule of thumb is that values of more than 10 indicate multicollinearity between independent variables. The values are less than 10 and this means that multicollinearity does not exist between these variables.

**Table 4.10: Collinearity Statistics**

Variables	Tolerance	VIF
Venture Capital Financial Support	0.126	7.907
Venture Capital Technical Support	0.111	9.005
Venture Capital Management Support	0.114	8.744

#### 4.9 Multiple Regression Analysis

The output from the regression analysis is in three tables that show the influence of a model on a dependent variable, its (model) goodness of fit, and the influence of each of the independent variables and dependent variable.

##### 4.9.1 Model summary

The results indicate that the model explains 84.4 % ( $R^2 = 0.844$ ) of variation or change in management quality of startups as shown in Table 4.10. This suggests that venture capital management support, venture capital financial support, and venture capital technical support together explain startup management quality by 84.4% and there is a need for further research on what factors explain the remaining 15.6%. Introduction of control variables (firm size, firm age, entrepreneur commitment, and product novelty) to the model indicates an increase in variation to management quality to 89.2%. These indicates that firm size, firm age, entrepreneur commitment, and introducing new innovation of products contribute to management quality.

**Table 4.11: Model Summary**

Model	R	R Square	R Square Change	F Change	Sig. F Change
1	.919	0.844	0.844	216.863	0.000
2	.944	0.892	0.047	12.695	0.000

##### 4.9.2 Goodness of fit

In Table 4.11, ANOVA results indicate the significance of the model where the  $p$  value for both models was less than 0.05 which means the models were is statistically significant in explaining change in management quality.

**Table 4.12: Analysis of Variance (ANOVA<sup>a</sup>)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	114.847	3	38.282	216.86	.000 <sup>b</sup>
	Residual	21.183	120	0.177		
	Total	136.03	123			
2	Regression	121.297	7	17.328	136.42	.000 <sup>c</sup>
	Residual	14.733	116	0.127		
	Total	136.030	123			

### 4.9.3 Coefficients

The coefficient results show the extent to which each of the independent variables influences change on management quality as summarized in Table 4.12. The output indicates that venture capital financial support and venture capital management support had positive and significant effect on management quality while venture capital technical support had a positive but insignificant effect on management quality. This means that an increase in venture capital financial support and venture capital management support would yield a 0.331 and 0.562 increase in management quality respectively.

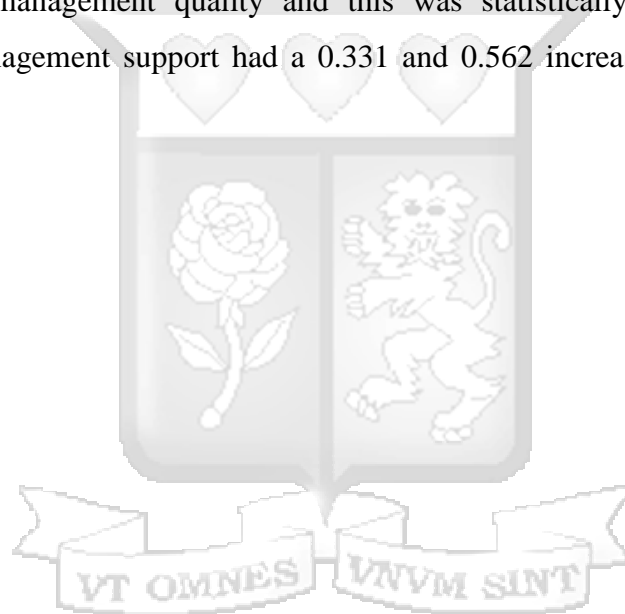
**Table 4.13: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.202	0.143		1.405	0.163
	Venture financial support	0.331	0.101	0.332	3.275	0.001
	Venture technical support	0.127	0.112	0.122	1.133	0.260
	Venture management support	0.562	0.123	0.487	4.576	0.000
2	(Constant)	0.454	0.367		1.238	0.218
	Venture financial support	0.325	0.106	0.325	3.065	0.003
	Venture technical support	0.157	0.116	0.152	1.345	0.181
	Venture Management support	0.527	0.132	0.457	3.979	0.000
	Firm size	-0.558	0.096	-0.203	-5.783	0.000
	Entrepreneur commitment	0.045	0.090	0.021	0.500	0.618
	Firm age	0.415	0.087	0.194	4.785	0.000
Product novelty	-0.280	0.227	-0.047	-1.229	0.221	

The second model indicates entrepreneur commitment had a 0.045 effect on management quality but this was insignificant and so was the -0.280 effect of product novelty on management quality. This means that the control variables did not have any effects on management quality. Increase in firm size would reduce management quality while increase in age of firm would increase management quality with a value of -0.558 and 0.415 respectively.

#### **4.10 Chapter summary**

This chapter indicates that there existed a positive and statistically significant effect of receiving venture capital and management quality of startups through financial, technical, and management support. Further, the models explained 84.4% and 84.7% of variation on management quality and this was statistically significant while financial and management support had a 0.331 and 0.562 increase on management quality of startups.



## CHAPTER FIVE

### SUMMARY, DISCUSSION, CONCLUSION, AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter, a summary of findings is given along with the discussion of findings, and conclusion based on the study's research objective. The recommendations for policy, action, and future research are given.

#### 5.2 Summary of findings

##### 5.2.1 Venture capital financial support and management quality

The respondents ranked that raising funds had contributed to credibility management and effectiveness to a moderate extent suggesting that financial support was critical to effective managerial practices in the startups. The correlation analysis revealed a positive and significant association ( $r = 0.950, p < 0.05$ ) between the variables and regression analysis confirmed that an increase in VC financial support contributed to an increase in managerial quality ( $\beta = 0.562, p < 0.05$ ) of startups in Nairobi County.

##### 5.2.2 Venture capital technical support and management quality

The respondents indicate that technical training provided by VCs increased human capacity development in startups to a moderate extent. The correlation analysis revealed a positive and significant association ( $r = 0.879, p < 0.05$ ) between the variables while regression analysis confirmed that an increase in VC technical support did not have any effect on managerial quality ( $\beta = 0.331, p < 0.05$ ) of startups in Nairobi County.

##### 5.2.3 Venture capital management support and management quality

The respondents indicated that control measures implemented by venture capital investors enhanced operational efficiency and risk management practices of startups to a little extent. The correlation analysis revealed a positive and significant association ( $r = 0.891, p < 0.05$ ) between the variables and regression analysis confirmed that an increase in VC management support contributed to an increase in managerial quality ( $\beta = 0.562, p < 0.05$ ) of startups in Nairobi County.

#### 5.3 Discussion

##### 5.3.1 Venture capital financial support and management quality

Those firms that receive venture capital financial support were have a greater chance

to enhance their management quality as the findings from the regression analysis indicated. This result supports other studies that have shown that financial support from VCs does have significant outcome on startups. For example, Achugbu (2017) Nigerian research that found VCs financing had effects on innovative startups growth by improving their quality of management. These findings indicated that VC-backed startups recorded significant improvement in the overall management, huge increase in the number of employees and steady growth in profitability.

Njama (2013) research in Kenya found positive effects of VC financing on management expertise and skill of startups. These management skills and expertise empowers startups to strategically utilize available information and resources, crafting effective business growth strategies that simultaneously mitigate risks to the business. Similarly, Jana (2020) revealed a significant positive association between the extent of venture capital financing and the level of corporate governance mechanisms implemented by firms, suggesting that venture capital investment is linked to a higher focus on robust governance structures. Venture capital financing encouraged management to prioritize long-term growth over short-term gains.

In a recent study, Machado (2023) study found in 14% of startups, management teams are formed before an investment is made while 50% were formed after the investment, often leading to replacing the company's manager and adding experienced professionals to the team. This implies that after availability of VC funds, there is greater management quality that is afforded to startup companies.

The findings are in support of agency theory arguments. Jensen and Meckling (1976) advancement of the theory were to explain the costs linked with the ownership separation and control of managers and shareholders in companies and how these lead to issues of moral hazard and adverse selection. Based on this rationale, VCs invest into startups so as to get a part of the equity from the startup and this creates an agency relationship. Therefore, VCs providing their funding to startups is motivated by having a stake in its ownership and control and during this relationship, moral hazard and adverse selection may occur.

### **5.3.2 Venture capital technical support and management quality**

There was not significant relationship between technical support and management

quality as shown by the regression coefficients. This implies that startups benefiting from technical support provided by the VCs contributed to their quality of management and this goes against previous research. This outcome provides some support to Gebru and Awal (2021) research that indicated startups prioritized their resource needs into funding, market access, and technical expertise respectively. This implies that technical support is not ranked highly as one of the supports needed by startups.

Pantea and Tkacik (2024) observe that venture capital (VC) investors frequently offer valuable business acumen and managerial skills. These are often lacking in startups but are crucial for successful growth, especially as expansion tends to involve more intricate business operations that may necessitate internal procedural adjustments. VC investors contribute such expertise by actively engaging in management, offering guidance, and facilitating connections with potential clients, suppliers, and fellow investors. Tian et al. (2016) further assert that VC institutions recommend experienced executives to startups and may even deploy senior managers or skilled technicians to directly participate in the management activities of invested enterprises, thereby enhancing the business's value.

In the literature, most evidence highlights technical expertise contributes positively to startup management quality. Therefore, the findings go against and does not corroborate existing research. For example, Cumming et al. (2023) found that those companies with high-quality disclosure controls and processes due to technical expertise from VCs had better management quality compared by those that did not benefit from technical support.

The findings also go against those of Otieno (2019) in Nairobi County that found VC firms provision of technical support to startups contributed to their overall performance which can be associated to their quality of management. The results also go against those of Kiprotich (2017) that found technical expertise and monitoring played a great role in growth of startups. Eldar and Grennan (2024) findings also indicated that VC director representatives in startups facilitated informational spillovers through director networks enhancing their management.

### **5.3.3 Venture capital management support and management quality**

Those firms that benefited from venture capital management support were more likely to improve their management quality as the findings from the regression analysis indicated. These results support those of Rajchlová (2013) that reported VCs gave managerial support to startups in terms of supervision, consultancy on firm expansion, strategy formulation, financial supervision of accounts, creating budgets and financial plans, consultancy services, creating organizational structures, external fund acquisition, recruitment of management staff, internationalization, and building networks.

The positive effect of managerial support from VCs on management quality of startups also confirmed earlier findings from Chemmanur et al. (2011) revealed that VC-backed firms demonstrated higher overall efficiency compared to non-VC-backed firms consistently over time indicating their quality of management. This outcome also provides credence to Mworira (2022) research which found that VC-backed startups were better governed than those with no VC-backing.

The result also supports those from Zeng (2023) that established venture capitalist also brought supervision of management and operation in startups and thereby contributed to their efficiency in resource use and allocation. Berger and Hottenrott (2021) findings also showed that managerial support, which is an important driver of success for entrepreneurial firms comes along with VC funding. Manywanda (2015) found evidence to show that VCs provided finance and management support. Once the product is fully developed and the expertise of the original management team is no longer essential, investors might opt to substitute some of the management with seasoned professional executives.

The findings provide support for the resource-based view (Penrose, 1959; Barney, 1991) which argues that firms benefit from having resources that are valuable, rare, inimitable, and non-substitutable (VRIN). Therefore, VCs investment into startups brings with it managerial support in form of expertise, experience, and skills that meet the VRIN criteria for startups and therefore enhance their management quality and in turn contribute to better organisational outcomes.

## **5.4 Conclusion**

### **5.4.1 Venture capital financial support and management quality**

The study's first objective aimed at assessing effect of venture capital financial support on the management quality of startups. Out of the findings, there was a positive association between VC financial support and management quality and a positive effect of VC financial support on management quality was established. The study therefore concludes that there is an association between VC financial support and management quality and increasing financial support from VCs will enhance managerial qualities in startups in Nairobi County. The study concludes that the findings provide support for agency theory as there exists a principal-agent relationship between venture capitalist and the startups.

### **5.4.2 Venture capital technical support and management quality**

The second objective aimed to examine the effect of venture capital technical support on the management quality of start-ups. A positive and significant association was found between VC technical support and management quality but a positive and insignificant effect of VC technical support on management quality was found. It is the study's conclusion that while there exists an association between VC technical support and management quality, increasing VC technical support may not contribute to any positive outcomes on managerial qualities of startups in Nairobi County.

### **5.4.3 Venture capital management support and management quality**

The study's third objective was examining effect of venture capital management support on the management quality of start-ups. A positive association between VC management support and management quality was established and a positive effect of VC management support on management quality was found. The study therefore concludes that there is an association between VC financial support and management quality and increasing management support from VCs will enhance managerial qualities in startups in Nairobi County. The study concludes that the findings support the resource-based view of the firm theory argument.

## **5.5 Recommendations**

### **5.5.1 Recommendations for Policy**

The study found that venture capital financial support contributed positively to management quality of startups. Therefore, it is recommended the government of

Kenya through its National Treasury & Economic Planning office to create fiscal policies that will encourage international venture capitalists to invest in local startup firms. These policies can include having tax incentives among others to encourage international interest into the venture capital market.

Additionally, it is recommended that Central Bank of Kenya (CBK), capital markets authority (CMA), and Nairobi Securities Exchange (NSE) should endeavor to provide a legal environment in which venture capitalist will feel confident to invest in startups. This legislative framework can provide exit options for venture capitalists in startups they support and this is presently lacking due to restrictions on initial public offerings (IPOs) for startups which further discourages their investment in the startup sector.

### **5.5.2 Recommendations for Action**

The findings indicated that receiving managerial support contributed positively and largely to management quality of startups. Therefore, for venture capitalists, the study recommends that they should provide ad hoc management support due to the diverse and unique nature of startups and the environment in which they are operating. This means flexible management support should be tailored to an enterprise and not undertaking a one-fits-all approach to providing management support.

### **5.5.3 Recommendations for Further Research**

The study was limited to Nairobi County and there is need for future research to be conducted in all the 47 counties. Secondly, the study was limited to startups that had VC backing, future studies should consider examining the management quality of startups with VC backing and those without. Further, technical support was found to not have any effects on management quality, therefore, there is need research to assess the technical assistance and support provided by VCs to startups in Kenya and in an effort to determine how this address the management constraints faced by startups.

### **5.5.4 Study Limitations**

The current study has not exploited the data from Venture capitalists and non-venture-backed startups, therefore there's need for future study to do a comparative study and utilize data both venture-backed and non-venture-backed startups. Also, the current study utilized OLS regression model which is not the most appropriate.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

This questionnaire aims to gather data on **EFFECTS OF VENTURE CAPITAL FUNDING ON MANAGEMENT QUALITY OF START UPS IN NAIROBI COUNTY**. The data is for academic need only. Confidentiality of data collected will be maintained.

#### **Instructions**

Kindly fill your response in the space provided by ticking (✓) as appropriate and provide answers in the spaces given.

#### **Section 1: Demographic Information**

1. Please indicate your gender

Male

Female

2. Highest Academic Qualification

Diploma

Bachelor's Degree

Master's Degree

Professional qualifications

3. Work experience

Less than 5 years

6-10 years

11-16 years

More than 16 years

4. Designation in organisation

Chief operating officer

Chief finance officer

Chief executive officer

5. Sector of startup

- Fintech
- Agri-tech
- E-commerce
- E-health
- Recruitment
- Information Technology
- Other

6. Number of employees in firm (firm size)

- 1-10 employees
- 11-50 employees
- 51-200 employees
- 201-500 employees
- 500+ employees

7. Number of years firm existed (firm age)

- Less than five years
- 6-10 years
- 11-15 years
- More than 16 years

8. . Having a social life is not their highest priority (entrepreneurial commitment)

- Yes
- No

9. . The firm introduced new/innovative products in the industry (product novelty)

- Yes
- No

**Section 2: Financial Support**

10. The following items are on financial support from venture capitalist. Please indicate to what extent these statements apply to your startup. 1-No Extent, 2-Little Extent, 3-Moderate Extent, 4-Great Extent, 5-Very Great Extent

Items	1	2	3	4	5
i Upfront financing has enabled us to implement effective management practices.					
ii Venture Capital financial support enabled this firm to expand business operations					

iii	Staged financing has allowed us to better allocate resources and improve management effectiveness.				
iv	Collaborating with multiple venture capital investors through syndication has positively influenced our management practices.				
v	Utilizing credit markets alongside Venture capital financing has improved our financial management practices.				
vi	Having a well-structured capital base influenced by venture capital funding has enhanced our ability to implement effective management strategies.				
vii	Successfully raising funds from venture capital investors has improved our credibility and management effectiveness.				

### Section 3: Technical Support

6. The following items are on technical support from venture capitalist. Please indicate to what extent these statements apply to your startup. 1-No Extent, 2-Little Extent, 3-Moderate Extent, 4-Great Extent, 5-Very Great Extent

Items	1	2	3	4	5
i. The mentorship provided by venture capital investors has enhanced our leadership capabilities and decision-making.					
ii. Access to technical advice through venture capital funding has improved our operational efficiency and effectiveness.					
iii. The technical training from VCs has increased our human capacity development					
iv. Participating in capacity building programs facilitated by venture capital investors has improved our management quality by enhancing our skills and capabilities.					
v. The marketing expertise provided by venture capital investors has improved our customer acquisition and retention strategies.					
vi. Venture capital monitoring has contributed to our management quality by providing valuable insights into our performance and progress.					
vii. The control measures implemented by venture capital investors have enhanced our operational efficiency and risk management practices.					

### Section 4: Management support

7. The following items are on management support from venture capitalist. Please indicate to what extent these statements apply to your startup. 1-No Extent, 2-Little Extent, 3-Moderate Extent, 4-Great Extent, 5-Very Great Extent

Items	1	2	3	4	5
i. Access to venture capital expertise in decision-making has enhanced our ability to make strategic and informed choices.					

ii.	Access to venture capital networks has enabled us to identify and attract highly skilled professionals effectively.				
iii.	Access to venture capital networks has facilitated collaboration and knowledge sharing, improving our management effectiveness.				
iv.	Venture capital investors' supervision has provided valuable oversight and guidance, contributing to our management quality.				
v.	Access to venture capital resources and expertise has enabled us to execute expansion plans effectively and efficiently.				
vi.	Venture capital assistance in strategy formulation has strengthened our strategic planning processes, enhancing our management quality.				

### Section 5: Management Quality

8. The following items are on management quality of your startup. Please indicate to what extent these statements apply to your startup. 1-No Extent, 2-Little Extent, 3-Moderate Extent, 4-Great Extent, 5-Very Great Extent

Items	1	2	3	4	5
i. The financial management (record keeping, auditing, financial reporting) in the firm has improved since receiving support from venture capitalists					
ii. The personnel management (selection, screening, recruitment, and promotion) in the firm has improved since receiving support from venture capitalists					
iii. There has been an improvement in the innovation (Research and Development, idea creation, incentives for innovation) since receiving support from venture capitalists					
iv. The management of stakeholders in the firm has improved since receiving support from venture capitalists					

**APPENDIX 2: ETHICAL APPROVAL**



30<sup>th</sup> April 2024

Stellah Wakwoma,  
[naliaka.wakwoma@strathmore.edu](mailto:naliaka.wakwoma@strathmore.edu)

Dear Ms Wakwoma,

**RE: Effect of Venture Capital Funding on Management Quality of Start-ups in Nairobi City County**

This is to inform you that SU-ISERC has reviewed and **approved** your above **master's** research proposal. Your application reference number is **SU-ISERC2187/24**. The approval period is from **30<sup>th</sup> April 2024 to 29<sup>th</sup> April 2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consent, study instruments, and MTA) will be used.
- ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
- iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
- v. Clearance for the export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days before the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke/> and obtain other clearances needed.

Yours sincerely,



**Mr Ambrose Rachier,**  
**Chairperson; SU-ISERC**



## APPENDIX 3: LETTER OF INTRODUCTION

Ole Sangale Rd, Madaraka Estate,  
P.O. Box 59857-00200, Nairobi, Kenya.  
Cell: +254 703 414/6/7, Twitter: @SSSKenya  
Email: info@sbs.ac.ke or visit www.sbs.strathmore.edu



Friday, May 3, 2024

Director General,  
National Commission for Science Technology and Innovation,  
P.O. Box 30623, 00100  
Nairobi.

Dear Sir,

### **RE: FACILITATION OF RESEARCH – WAKWOMA, NALIKA STELLAH**

This is to introduce Wakwoma, Naliaka Stellah who is a Master of Science in Development Finance (MDF) Student at Strathmore University Business School, admission number MDF/124275/19. As part of our MDF Program, Stellah is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MDF course.

Stellah is undertaking a research paper on "Effect of Venture Capital Funding on Management Quality of Start-ups in Nairobi City County." The information obtained shall be treated confidentially and shall be used for academic purposes only.

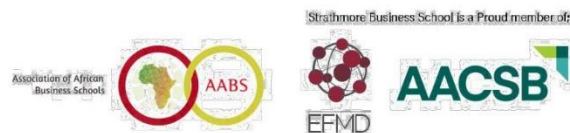
Our MDF seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Alois Njoroge".

Alois Njoroge  
Manager - Graduate Programs.



# APPENDIX 4: RESEARCH LICENSE

  
**REPUBLIC OF KENYA**  
National Commission for Science, Technology and Innovation

  
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Ref No: **775082** Date of Issue: **13/May/2024**

### RESEARCH LICENSE



This is to certify that **Ms. Sieliah Nalika Wakwona** of **Strathmore University**, has been licensed to conduct research as per the provision of the **Science, Technology and Innovation Act, 2013 (Rev.2014)** in **Nairobi** on the topic: **Effect of Venture Capital Funding on Management Quality of Start-ups in Nairobi City County**, for the period ending: **13/May/2025**.

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