EFFECT OF VENTURE CAPITAL FINANCING ON THE GROWTH OF TECHNOLOGY DRIVEN STARTUP FIRMS IN NAIROBI COUNTY

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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ABSTRACT

In the past decade, Kenya has seen an immense upward trajectory in entrepreneurial ventures. Coupled to this, there has been a fast-paced increase in the population of Technology driven enterprises inside the last decade. These start-ups are pivotal in economic development creating not only monetary reserves but also opportunity to network and diversify. Research activities on Venture Capital is on the rise but not to a good threshold to expose its full potential in emerging nations such as Kenya. This research aims to determine the influence of venture capital on the growth of Technology-driven startup firms in Kenya's capital, Nairobi. The study critically examined how capital investment, monitoring and control, mentoring and professional expertise influence the growth of Technology-driven startup firms. The research-study was anchored on the agency theory, financial contracting theory, control theory and pecking order theory. From a recent study about are 800 firms that operate as Startups in Nairobi (AngelList, 2018). From these 148 are technology driven from which a sample was be drawn. A precession level of 10% was utilized, resulting to a sample (n) of 108 firms with research data being collected using structured research questionnaire. A total of 108 managers was drawn from each firm and comprised the main sample size. Quantitative research was done and data collected using a structured research questionnaire. A drop and pick method were adopted with the pilot test conducted among 10 percent of the sample population. The research obtained an 87 percent response rate was attained for the analysis. The results indicate that 33 percent of the startups were technology firms while 23 percent were in financial-technology. The study found out that 47.5 percent variations in the growth of Technology-driven startups in Kenya can be attributed to Venture Capitalists. The study concludes that improved venture capital financing improves the growth of startups. Further, the study concludes that monitoring and control improve decision making, improved entrepreneurial awareness, personnel management and business development positively influences startup growth. The study recommends that startup firms should strive to constantly revitalize their business structures for long term sustainable growth.

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CMA	Capital Markets Authority
GDP	Gross Domestic Product
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
US	United States
USD	United States Dollar
VC	Venture Capitalists
NACOSTI	National Commission for Science Technology and Innovation

OPERATIONAL DEFINITION OF TERMS

Capital Investments	Capital investment is a sum of money provided to a company to further its business objectives. This can be in form of sufficient cash resources, loans and assets.
Control	This refers to the general mechanism put in place to regulate the operations of a firm
Growth	The process of improving or increasing in size of some measure (size, sales, resource, market reach) for small and medium enterprises to achieve success
Mentorship	This refers to the networks and relationships built with knowledgeable person to help guide the less experienced
Monitoring	This the process of continuously observing and checking the quality of firm's operations in a systematic way.
Professional Expertise	This refers to the technical skills and competencies associated with the management and personnel of a firm
Venture Capital	Venture capital (VC) is a type of financing firms received at an early-stage.
Private Equity	Private Equity (PE) is another class of investment firm that comprises of unlisted capital in the public stock exchange usually done through buying of listed companies and converting public to private equity

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The development agenda in emerging economies is mostly driven by the Small and Medium Enterprises and thus their growth and performance are pivotal in any country's development agenda (Chebii, 2017). Further, these enterprises contribute to the accelerated and sustainable growth of the economy and more especially those of developing nations (Qureshi & Herani, 2011). SMEs have been identified as pivotal growth engines for small economies and a significant source of employment and income-generating platform for many developing countries (Brouthers, et al., 2015). These enterprises have an advantage over large-scale businesses due to their ability to adapt easily to shifting market conditions, making them a strategic investment for a country. Their flexible nature makes them withstand adverse economic challenges (Blackburn, 2016).

Pandya (2012) states that the contribution of small businesses to developed economies is central to increasing the GDP and in creating employment opportunities. He adds, their performance and survival are hence very critical to a nation. This growth is however frequently challenged by limited resources, low expertise, operational challenges, and a leadership/management gap (Kinyua, 2014).

In Kenya, one key impediment for SMEs, which are the fulcrum for economic growth, has been a lack of capital for investment (Ndemo, 2017). Ndemo iterates that this is a common factor in developing economies and that many ventures fail to take off or die within its infant stages. Many entrepreneurs have for long solely relied on family kin and relations and investment banks as a conventional medium to source for seed capital (Bremmen, 2013).

In Kenya for instance, a report by Financial Sector Deepening (FSD) (Investeq Capital, 2008), shows that the threshold for the majority of venture capital firms serving the SME is over USD $200,000 (approx. KSh. 17 million). The small businesses are thus considered to have a '*funding*

gap,' which refers to a situation where the offer of available financial services from providers of finance only partially meets the small businesses' funding requirements (The World Bank, 2015). The study further states that businesses in this space are ambitious about growing their businesses, however, they have difficulty raising funds. Also, these businesses are therefore unable to tap the full benefits of the financial market in the same way that the large enterprises do. The SME funding gap in Kenya, for instance, is estimated to be approximately KSh. 377 billion (The World Bank, 2015).

1.1.1 Venture Capital Financing

Venture Capital (VC) firms provide financial capital to startup ventures in their early stages to kick start their operations. They also come in handy to help them navigate through the initial hurdles and perils of setting up and speeding up their reach to market operations. A key target for VCs is normally SME ventures that shows the great potential of growth. In return, they earn controlling shares in the medium term while eventual seeding all or most of their power and remain a minority shareholder in the long-term (Capital Pitch, 2003).

As an added advantage, VCs also provide management training and other incentives such as legal and advisory services. The small ventures thus gain better performance due to strategic management and can protect their innovations by filing for patents to cushion them from competitors and theft of intellectual property rights. Another key leverage is that VC firms are linked to high networks that the SME firms can access gain either entry to new markets or form collaboration partnerships for more competitive advantage or transfer of skills and technology (iHub, 2018).

Venture capitalists use the following criteria to select where they want to invest in. Typically, the source for a highly lucrative business that has the potential for high net worth and growth but whom traditional lenders would shy away for their high-risk nature (Pearce & Barnes, 2006).
The authors emphasize that the VC industry has transformed from a minute number of investors into a highly configurated and specialized domain of expertise, with a keen niche on computing, communications, biotechnology and internet sectors. According to Leeds (2015), VC is a branch

Private Equity (PE), which mainly focuses on the funding of the initial foundation stages of a company.

According to Invest-Europe (2015), venture capital investments grew by 5% in 2015 within Europe with a total of 2,836 comprising of companies that were backed by VC investments. Further, most of them have become successful and are listed in the stock exchange and perform better than firms that are not VC backed.

Zaaruka et al. (2005), revealed that a great percentage of financiers exercised great precaution when it came to backing startup ventures, owing to their risky and volatile nature in the South Africa region. The environment was characterized by low market illiteracy, a highly unregulated industry and insufficient and undefined credit-score matrices. The return on investment (ROI) could also not be realized in the short term run of the business due to the unfavorable political and economic environment. On the flip side, however, a huge chunk of financing in the financial investment originated form investment banks with a relatively high-interest rate. Considering all these challenges, they end by stating that VC remains the most viable source of capital for the long-term.

According to a survey done by Deloitte (2016), VC firms are increasingly showing interest to invest in East Africa and prefer to put their finances in Kenyan firms owing to a vibrant private sector and ease of doing business. A Survey on PE firms (KPMG, 2017), revealed that Kenyan firms took 61% of deals signed in the region in the year 2016 alone. The report further states that a total of 254 private equity deals have been reported in the region since 2010, with a cumulative value of $21.1bilion (Sh2.1 trillion). In Kenya, insurance companies, pension fund manager and current assets investors have also started to utilize their financial muscle by investing in enterprises with the high net-worth and return potential.

According to Gatauwa and Mwithiga (2012), a startup business venture is formed mostly based on an innovative and disruptive idea to implement a heuristic-based business model making them attractive for VC investors. These include giving away equity stake in the business, revenue share agreement, taking in debt or having convertible debt.

According to this investor's directory, there is a USD $2.2 million investment by angel investment firms and individuals currently in Nairobi. Most of these investments have been made in technology-based companies and usually involve ownership equity given in exchange for funds that average $20,000 per investment (GSMA, 2014).

Kamunge, et.al (2014) underscore business management on the part of the entrepreneurs as vital for the thriving of the SMEs. They observed that on top of access to finance, the entrepreneurs need to have management experience that forms a key socio-economic factor that affects the performance of the business. Abor and Quartey, (2010) highlight that SME's are largely driven by an entrepreneurial spirit. A lack of effective management through processes impacts on an SME's ability to grow and could lead to the ultimate failure of a business. An entrepreneur's core strengths and supply chain relations are the paramount success features business venture. They further emphasize the importance of an entrepreneur putting in place management expertise in the organization to take charge of the core focus of the business and drive the company's growth avenues. Kisaka and Mwewa (2014) found out that there is a positive correlation between training on expertise and growth of a firm. The current study examined how mentorship and professional expertise affect the growth of startups firms.

1.1.2 Business Growth

Start-ups are a key ingredient for promoting and enhancing economic development, especially in developing economies. A country's industrialization potential and entrepreneur culture can be harnessed through the activities of these Startups (Doran & McCarthy, 2017). Kenya is referred to as the Silicon Savannah as it enjoys sustainable growth and enabling environment for many startups, (AngelList, 2018).

The report further enumerates that fiber connectivity, good legislation and government incentives have made the Startup industry grow to over 800 ventures. Most of them either in consumer-tech and fin-tech credit (short-term loans) sectors.

Most of these ventures though are however crippled by lack of funds to drive their operations and lack of a robust talent pool and management expertise (Bremmen, 2013). Most ventures are predominantly funded from conventional sources examples include factoring, crowdfunding, loans or borrowing funds from relations and well-wishers. These were findings from a study conducted

by Iskold (2015). Figure 1.1 illustrates the Financing stages a startup undergoes at different growth stages.

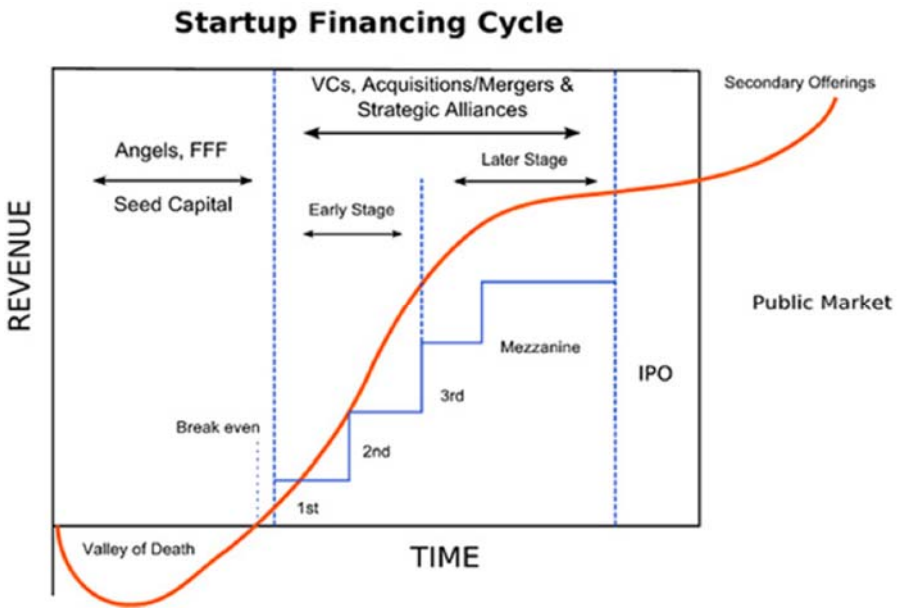


Figure 0.1 Startup Financing Cycle

Source: (Giavazzi, 2016)

Kenya attracts numerous international investors owing to its technological revolution and its great potential for wealth creation key among the factors that investors highlight as their African destination of choice and using startups as a vehicle to launch in the market their products and services. (Ndemo, 2017). Sustainable growth, operations and subsequently profitability can be thus achieved if there is equivalent sustainable funding (Iwasiuk, 2016). The author further adds that there is a scarcity of professional networks, mentorship and professional development services and incentives.

Traditional lenders such as Banks, in Kenya, shy away from giving credit facilities to ventures that have minimal revenue streams or absent credit history. Access to alternative sources such as global funding by local venture is very minimal due to lack of knowledge and access, a key finding from a study done by Nairobi Garage (2012).

Due to their small size of operations, start-ups fail to attract some investors who are mostly risk-averse or uncertain of their business models. These uncertainties are however not heavily factored by VC who lay great emphasis on the potential for growth and sound business canvas (Tomy &

Pardede, 2018). They thus are a great enabler for the growth of companies by enhancing entrepreneurial culture and a stimulus for innovation and growth. They unlock not only constraints of funding but also the strategic running of the business for greater returns. They do so by putting in place metrics for performance management and quality control, with regular check and balances for evaluation and monitoring steering the venture in the right direction of growth and profitability (Foster, Davila, & Gupta, 2001).

1.1.3 Venture Capitals in Kenya

Venture Capital initiatives in Kenya have spurred proficiency the social and economic growth of the GDP through innovation, employment creation and a pivotal financial alternative from conventional financing sources (Foster, Davila, & Gupta, 2001). Capital Markets Authority (CMA), regulates VCs, which was established in 1989 through the enactment of the Capital Markets Authority Act (Kenya Law Reports, 2018).

According to Zavetta (2008), the industry has been in existence from the early 1990s and that the venture capital firms around are mainly international. There have been increased efforts of incentives to promote VCs market and how ventures can tap into and harness great return and help from the establishments. There is however very minimal uptake by entrepreneurs who have minimal knowledge of how the VC industry works. Fundamentally, VCs provide capital, mentorship and stimulate better management and organization of operations for better performance (Zaaruka et al. (2005)).

Top VC firms in the region include; Savannah Fund, Westpac, Monsanto Fund, Capital Eye Investments, eVentures Africa Fund, Novastar Ventures, Growth hub, Grofin, CBO Investment Management, Matamba Anonaka Technology Holdings, TriVest, Sawari Ventures, Kinyeti Venture Capital (Chigozie, 2018).

1.2 Statement of the Problem Definition

There has been an increase in attention towards Startup enterprises within developing economies as they are deemed as key drivers of economic growth and an avenue for foreign direct investments (Mogiro, 2012). According to a survey done by Deloitte (2016), VC firms are increasingly showing interest in East Africa and preferably invest in Kenya owing to a vibrant private sector and ease of doing business deals. Despite increased efforts to secure VC financing, past statistics indicate that

40% of such startups fail by the second year with at least 60% shutting down by the 4th year (KNBS, 2017).

Kenyan business suffer challenges that affect their growth beyond the inceptions stage while others go out of business prematurely. There is a high failure rate of startups range between 50% and 95% within the five years of operations primarily in emerging economies. The above indicates that the increasing venture capital investments have not resulted in better growth among startups hence examining how venture capitals influence growth of startups within the Kenyan context thus filling the knowledge gap.

Panda (2015) examined Indian VC backed growth ventures and indicated increased financing, training on specialized skills and linkage to new markets was key to firm growth. Gbandi and Amissah (2014) studied the financing channels for SMEs in Nigeria and posits that harsh business climate, poor funding, low management skills and low technology uptake were the key factors affecting the growth of SME's. Gemma and Ibrahim (2015) examined the Uganda Youth Venture Capital Fund and indicates that there has been limited business expansion, job creation and utilization of the availed funds among youth entrepreneurs. The above studies, however, fail to examine how VC influences the growth of startups in Kenya thus creating an empirical gap that this study sought to fill. The study examined how venture capital influences the growth of technology-driven startups in Nairobi County.

1.3 Objectives of the Study

The main objective of the research was to establish the influence of venture capital on the growth of technology -driven startup firms within Nairobi County.

1.3.1 Specific Objectives

The study sought to examine the following specific objectives;

i. To determine the influence of capital investment on the growth of technology-driven Startup firms in Nairobi County
ii. To examine the effect of monitoring on growth of technology-driven Startup firms in Nairobi County
iii. To examine the effect of mentorship on the growth of technology-driven Startup firms in Nairobi County

1.4 Research Questions

i. What is the influence of capital investment on the growth of technology-driven' Startup firms in Nairobi County?
ii. What is the effect of monitoring on growth of technology-driven' Startup firms in Nairobi County?
iii. How do mentorship influence the growth of technology-driven Startup firms in Nairobi County?

1.5 Significance of the Study

This research is of critical importance to several stakeholders within the business community in the County and Country at large. With the increasing failure rate among startup firms and the economic pressure facing technology-driven firms the findings of this research will help venture capitalist within the country in identifying the key practices that they can implement and advance to startups with a view of sustaining their growth.

Findings revealed the gaps in the growth of startups in the country and advance key recommendations that can be incorporated in policy formulation by the government to enhance growth within the startup firms. The study will also influence the management of technology-driven startup by advancing recommendations that can be incorporated in firm-level decision making and managerial practice. The results of the research are impactful to the academic community as a source of future reference material and expanding the body of knowledge.

1.6 Scope of the Study

The research was conducted in Nairobi City County given its strategic location to hub most of the target population aimed for this study. The contextual scope of the aimed at venture capital services (capital investment, monitoring and control, mentorship and professional expertise) and how they influence the growth of technology-driven startup. The scope of the theoretical review focused on the agency theory, the financial contracting theory, the control theory and the pecking order theory.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature, specifically presents the theoretical review, a review of the related empirical literature, the summary of literature and research gaps, a conceptual framework as well as the operationalization of the research variables.

2.2 Theoretical Review

The theoretical review is going is to concretely examine the corpus of theory that has accumulated regarding an issue, concept, theory, phenomena. The theoretical literature review help establish what theories already exist, the relationships between them, to what degree the existing theories have been investigated, and to develop new hypotheses to be tested.

2.2.1 Agency Theory

According to Smith (2005), the theory assumes that rational decisions are made by both the investor and investee, the outcomes of their interactions can be predicted, they act to their benefaction and, the investee has information advantage and is also risk-averse.

The theory puts emphasizes on the monetary incentives of engaging individuals within the relation of Agent-Principal for maximum economic payoff or return (Kim & Mahoney, 2018). In addition, this theory has been put into use in areas of accounting, strategic management, political science, finance, marketing and economics. In the case of VC investments, this theory is exemplified by the Principal being the investors (limited partners) and the Agent being VC firm.

Barry (1994), states VCs as an agent of the investors engage actively in the monitoring and evaluation of investments. They even go ahead in the assumption of management position in the investee firm.

Relating back to the Agency Theory, due to information asymmetry, conflict of interest may arise given the entrepreneur having and cancelling information from full disclosure of the venture

capitalist, resulting in a phenomenon known as agency costs (Barry, 1994). Further, the entrepreneur may engage in other risky venture unknown to the VC. From studies by Smith (2005), the assumptions of the agency theory framework provide insights for understanding the symbiotic relationship that exists between the investor (VC) and the investee (Startup).

2.2.2 Financial Contracting Theory

Grossman, Hart and Moore are attributed with coming up with the financial contracting theory also known as the GUM model. The GUM looks at the key question to determine who should own the assets in the firm (Kaplan & Strömberg, 2002). "Given the potential contractual hazards in the GUM model arising from the specific correlation between separately owned assets and the residual control rights of assets that make up a bundle of relation-specific assets must be in highly concentrated on one contracting party (i.e. common ownership) The contracting party the most from this bundling of relation-specific assets and ownership. The residual control rights over assets (and lights to residual returns) and ownership of assets, in turn, helps the parties to avoid contractual hazards" (Kim & Mahoney, 2018).

2.2.3 Control Theory

In reference to contracting theory, control theory elaborates returns are apportioned and management control amongst the entrepreneur and the investor. Kaplan and Stromberg (2002), put across the point that voting and board rights offer the controlling party power to arbitrarily make decisions that are not inherent with the initial contracting document.

These rights are ideal in an incomplete contracting world where it may not be feasible to execute actions for some contingency in an ex-ante contract. A key assumption is the actions procured are observable, but not verifiable. Also, the output and financial gains awarded through the contract are not certain.

Therefore, it is deemed fit to decide and agree on the apportioning of control rights if the business. It also makes a bold prediction that if this condition is not met then detrimental issues and financial turmoil become worse, thus a contract should from entrepreneur control to state-contingent control and from to contingent control to full control (Kaplan & Strömberg, 2002)

2.2.4 Pecking Order Theory

This theory states that a company should put a preference for employing capital from retained earnings. If this source is lacking then the next preference should be placed on debt financing. If all fails then as a last resort then raise the capital through giving out equity. Further, emphasizes how a listed company is performing. Internal financing through retained earnings indicated a strong company while on the contrary debt financing symbolizes that the management is assured that the company can meet its mandate and eventually pay off its debt through its operations.

On hindsight, if financing of a company is done via issuance of stock, it symbolizes negatively on the company from a perception that the stock may be overvalued and only aiming at making a profit before its share price plummeted (Evan Tarver, 2018).

2.3 Empirical Review

2.3.1 Capital Investment and Growth of Startups

Martí, et.al (2013) did research on venture capital impact on family-owned businesses in Spain. An explanatory research design was employed and focused on how the majority stake ownership and risk aversion affect the performance of the family business. The results of the research indicate that ownership of the minority stake by venture capitalist leads to lower firm growth. The study focused on family businesses in Spain while the current study examines technology-driven startups in Nairobi County.

Panda and Dash (2016) explored the venture capitalist–entrepreneur relationship in small businesses in India. The study adopted a multiple case study approach.
Findings of their research indicate that VC-entrepreneur relationships in the early stages help in cooperation and curbing opportunism which enhance firm growth chances. The study was restricted to the Indian market.

Kusi, et.al (2015) explored the factors that deter the performance of small businesses in Ghana with a focus on SMEs within the Kumasi metropolitan area. The study was done using structured questionnaires. It concluded that a of MSMEs lack talented personnel; have limited access to funds and are usually internally-financed which leads to poor survival of the small businesses. The study

however partially takes into consideration how VCs' influence growth of technology-driven small businesses.

Boadu, et.al (2014) examined venture capital financing as a key opportunity for SME in Ghana. The results of the study indicate that venture capitalists have contributed to fresh funding for small business, offer advisory services and provide training services which positively contribute to business growth. The study focused on SME under a single venture capital fund whereas this study was focused on one pool of funds.

Njama (2013) studied the effect of venture capital financing on the growth of SMEs in Kenya. Findings reveled that VC financing stimulated positively the credit rating of the firms and which in turn enhances their growth through debt financing. The research further indicates that SME's should foster their appetite for external equity financing from corporate investors as this will improve firm growth. The research focused on Top 100 mid-sized firms whereas the current study examines technology-driven startup in Nairobi County.

Njagi, et.al (2017) looked at the impact of financing by issuing stock and financial performance of SMEs in Embu Town, Kenya. The research utilized a descriptive research design with 60 SME's being considered in the research. A self-administered questionnaire was used and the audited financial statements of the SME's.

The study used both correlation-analysis and regression analysis. The results indicated that most SME's relied on family borrowing and utilization of profit plough back as the sources of equity financing. The study indicated that equity financing positively influenced the financial performance of the firm. Findings further indicate that sourcing of funds from angel investors resulted in better managerial and book-keeping skills which increased accountability within the firms. The study however utilized secondary measures of the financial performance of the firm's while this study relied on primary data.

2.3.2 Monitoring, Control and Business Growth

Indris and Primiana (2015) studied environment analysis on the growth of SME industries in Indonesia. The study adopted a theoretical literature review from secondary sources to determine the correlations between the variables. Findings indicate that management control, increased environmental scanning and external analysis of the firm's opportunities and the risk was associated with increased performance.

Paglia and Harjoto (2014) examined the impact of private equity and venture capital on the growth of revenue and job creation in SMEs. The study relied on a mix of primary and secondary data collected for the period 1995-2009. The results of the research indicated that with less minority control there was a 21.7% likelihood of access to private equity and 22.8% access to venture capital. The results further indicate that access to government controls increased the likelihood of business to access venture capitalist. Findings further show that foreign business owners are less likely to receive private equity. The study, however, focused on a mix of quantitative data and panel data whereas current research only relies on primary research data.

Abanis Sunday, et.al (2013) researched on financial monitoring and management practices in SMEs in selected districts in Western Uganda. The study adopted both ex-post and retrospective research designs with 335 sample population. The study indicates that deployment of internal controls, maintaining proper book analysis and reasonable financial controls will result in firm survival. The research only focused on financial controls which are not the core thematic area of the current study.

Worku (2016) examined the barriers to the growth of SMEs in the South Africa, Vaal Triangle area. The research adopted a stratified sampling to select 303 small and micro businesses using structured questionnaires. The findings of the study indicate that 21% of businesses were financially challenged due to insufficient monitoring and environmental scanning.
The study also indicates entrepreneurial skills was lacking, training opportunities and poor access to loans affected the growth of the businesses. The current research focuses however on the venture capitalists' practices and how they affect the growth of technology-driven firms in Kenya.

Nyamita and Tinega (2014) looked at the effect of internal control systems on the financial performance of SMEs in Kisumu, Kenya. A cross-sectional survey design using both primary and secondary data was utilized in the research. The collected data was analyzed using descriptive and inferential analysis techniques. From the research, knowledge of internal controls, control activities and monitoring of controls within the business operations resulted in the positive financial performance. The research focused on the monetary aspects of the firm whereas the current study explores the growth based on qualitative and quantitative measures.

Peter and Anyieni (2017) did a similar research. The unit of analysis was 42 venture capital fund firms operating in the country. The results of the analysis indicate that venture capitalist technical support in monitoring, evaluation and control of small businesses resulted in increased profitability, market share and inventory control. The study focused on general business enterprises while the current study is limited to nascent startup firms.

2.3.3 Mentorship, Professional Expertise and Business Growth

Ajibade (2016) examined how knowledge management works in improving SMEs productivity in South Africa. A review of literature, interview schedules and observations were used to collect data. The collected data was analyzed using a thematical analysis. The findings indicate that robust knowledge sharing within the small business will result in better management skills and tacit knowledge which can improve the firm productivity. The results further indicate that better knowledge management will enhance knowledge sharing and transfer which enhances the business owners experience and productivity of the firm. The research relied on qualitative data while the current study employed a quantitative approach.

Jenyo (2018) studied entrepreneurship business incubation program and performance of startups in Nigeria Universities. The research employed an explanatory research design with a sample of 124 university startups being considered in the research. The research relied on primary research data that was analyzed using descriptive and regression analysis. Findings indicate that the university entrepreneurship incubators have significantly affected the performance of startups.

The results indicate that mentorship programs, professional training and management skills were key to the performance of university startups. The study focused on university startups whereas the current study examined registered technology-driven firms in Nairobi County.

Workineh (2016) studied the factors affecting the development of micro SME in Addis Ababa. The results of the analysis indicate that lack of entrepreneurship skills and expertise, poor capacity building and training programs on business development contributed to poor performance among the SMEs. The study focused only on manufacturing firms whereas this study was limited mostly to technology-driven startups.

Chebii (2017) examined the influence of entrepreneurial mentoring and its impact on SMEs in Eldoret, Uasin Gishu County, Kenya. The study utilized a cross-sectional descriptive study design with a sample of 364 SME's being considered in the research. Findings of the study show that careers mentoring functions, classic mentoring has an insignificant effect on entrepreneurial objectives while psychological mentoring had a significant effect on the outcomes of the SME's. The study focused on entrepreneurial outcomes while current research examined the growth of technology-driven startup in Nairobi County.

Munene (2018) conducted a study on the factors affecting the growth of technology startups in the small and medium enterprises sector in Nairobi County. The study adopted a descriptive correlational research design with a sample of 137 tech startups being considered in the study. The collected research design was analyzed using correlation, ANOVA and regression analysis. Findings indicate that there was a positive and significant correlation between human capital and growth of tech startups, $r(137) = .174$, $p < .05$. The results of the research further indicate that the firm's capacity to offer on the job training and development of management skills affected its growth. The research only focused on tech firms and did not consider firms with access to venture capital.

Otieno and Atieno (2019) studied the influence of the professional training program on the growth of women-owned small and medium enterprises in Migori County, Kenya. The research applied descriptive, content and chi-square analysis.

The findings of the study showed that professional training program influences the growth of women-owned SMEs. The research further indicates that increased management expertise was associated with the growth of SME's. The current study considers all technology-driven startup and not just women-owned enterprises like the previous empirical research.

Govori (2013) investigated conditions facilitating the growth and development of SMEs with specificity to what they experience in Kosovo. He found four vital factors which include the insufficiency and inaccessibility to finance, unfriendly government policies, corruption, and unfavorable competition. He further reported that barriers like high collateral requirements, high administrative costs, and lack of willingness by the banks to lend to the SMEs make the growth and development of the same to be hampered because they make a very small profit if any.

According to Deloitte Kenya Economic Outlook (2016), factors like poor infrastructures, inadequate capital, insufficient skills and knowledge coupled with rapidly changing technology, and limited market do contribute to SMEs' dwindling development in Kenya.

2.4 Summary of Research Gaps

Table 0.1 Summary of Gaps

Author	Title	Findings	Research Gap
Munene (2018)	Factors affecting the growth of technology startups in the small and medium enterprises sector in Nairobi County	Findings indicate that there was a positive and significant correlation between human capital and growth of tech startup	The research only focused on tech firms and did not consider firms with access to venture capital.
Otieno and Atieno (2019)	Influence of professional training program on the growth of women-owned small and medium enterprises in Migori County, Kenya	The findings of the study showed that professional training program influences the growth of women-owned SMEs.	The current study considers all technology-driven startup and not just women-owned enterprises like the previous empirical research.

Panda and Dash (2016)	Venture capitalist–entrepreneur relationship in small businesses in India	Findings of the research indicate that VC-entrepreneur relationships in the early stages help in cooperation and curbing opportunism which enhance firm growth chances.	The study was however conducted within the Indian market whereas current study focusses on technology-driven startups in Kenya.
Peter and Anyieni (2017)	Influence of venture capital financing on the growth of micro, small and medium enterprises operating in Nairobi County.	The results of the analysis indicate that venture capitalist technical support in monitoring, evaluation and control of small businesses resulted in increased profitability	The study focused on general business enterprises while the current study is limited to nascent technology-driven startup firms.
Worku (2016)	The barriers to the growth of small, micro and medium-sized business enterprises in the Vaal Triangle region of South Africa	The findings of the study indicate that 21% of businesses were not viable financially due to poor monitoring and environmental scanning.	The current research focuses however on the venture capitalists' practices and how they affect the growth of technology-driven startup firms in Kenya.
Govori (2013)	The conditions facilitating the growth and development of SMEs with specificity to what they experience in Kosovo	He discovered four vital factors which include the insufficiency and inaccessibility to finance, unfriendly government policies, corruption, and unfavorable competition.	This study was limited to conditions facilitating the growth and development

2.5 Conceptual Framework

A conceptual framework depicts either graphically, or in narrative form, the key areas of study; the key variables and the presumptive relationship among them (Kothari, 2014). The below conceptual framework hypothesizes the interaction between the venture capital and the growth of technology-driven startups firms in Nairobi County, Kenya.

Independent Variables **Dependent Variables**

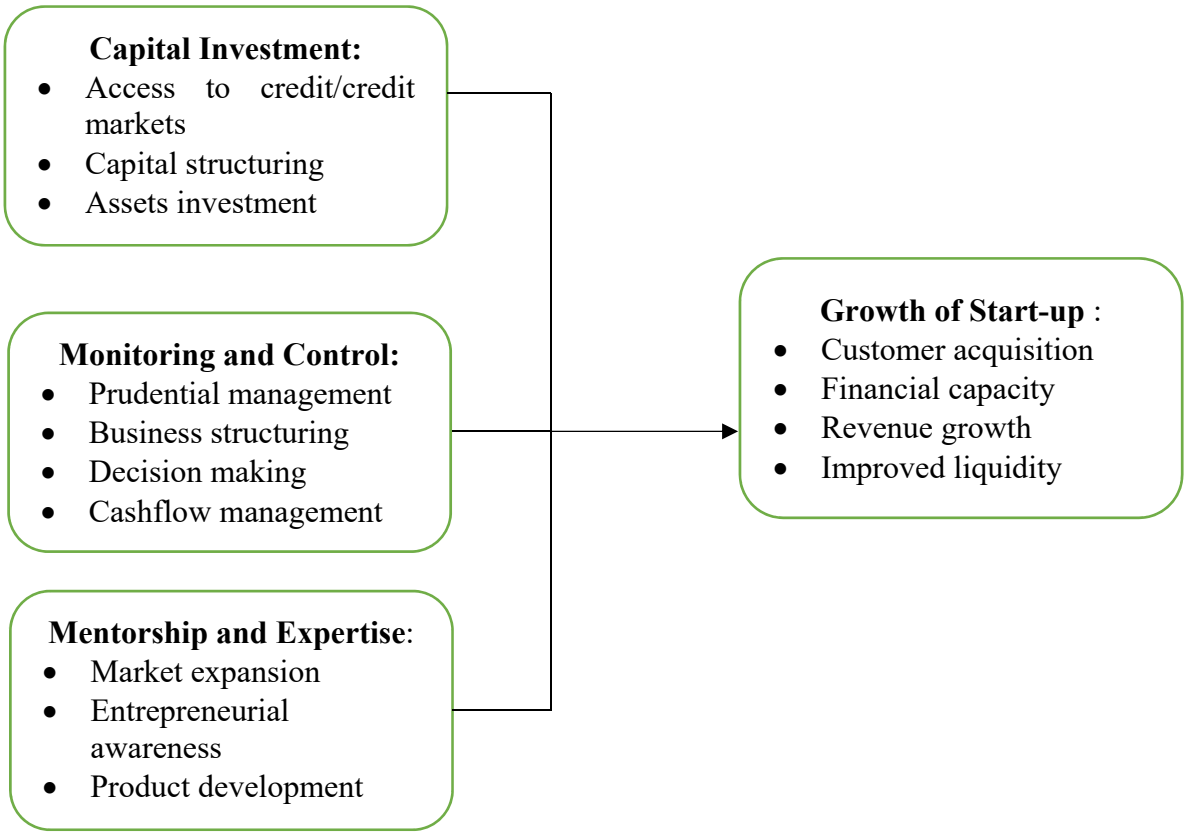


Figure 0.1 Conceptual Framework

Source: Research Data (2019)

The above conceptual framework indicates the conceptualized relationship between venture capital and the growth of technology-driven startup. The study accessed the VC based on three broad indicators; the capital investment, the monitoring and control, and the mentorship and professional expertise offered. The growth of the technology-driven startup was measured using metrics such as customer acquisition, the financial capacity, the revenue growth and the liquidity levels.

Table 0.2 Operationalization of Variables

Objective	Type	Indicator	Measure	Scale
Capital Investment	Independent variable	Access to VC Equity/Debt	Access to credit/credit markets	
			Capital structuring	Ordinal
			Assets investment	
Monitoring and Control	Independent variable	Prudent management	Prudential management	
			Business structuring	
			Decision making	Ordinal
			Cashflow management	
Mentorship & professional expertise	Independent variable	Monitoring and evaluation of growth progress	Market expansion	
			Entrepreneurial awareness	
			Product development	Ordinal
			Personnel management	
Growth of Technology-driven Startup	Dependent variable	Firm capacity for growth	Customer acquisition	
			Financial capacity	Ordinal
			Revenue growth	
			Improved liquidity	

Source: Researcher (2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section focused on the research design used to address the research objectives. It defines the sample design, data collection tools, and the procedure for data analysis. In concussion, it enumerates the ethical considerations highlighted.

3.2 Research Design

Research Design according to Ahuja (2016), describes it a as a plan, structure and strategy of a study adopted to come with the research question answers and to control variance. The current study relied on a descriptive approach, structured in a formal study. The study comprised of clearly stated investigative queries that sought to understand who, what, where, when as well as how much (Fink, 2016). According to Ethridge (2015), descriptive research describes the characteristics of the study population or the phenomenon under investigation. The approach was considered useful in enabling the researcher to conduct an in-depth investigation to collect detailed information which was quantitative in nature.

3.3 Target Population

A target population is defined as the summation of individuals who have the same characteristics or attributes (Saunders, Lewis, & Thornhill, 2016). From a recent study about are 800 firms that operate as Startups in Nairobi (AngelList, 2018). From these 148 are technology driven from which a sample was be drawn. A precession level of 10% was utilized, resulting to a sample (n) of 108 firms with research data being collected using structured research questionnaire. The firms form the unit of analysis of the current research. The unit of observation for the research was the managers of the technology-driven firms within the County from a selected representative sample.

3.4 Sampling Design

A sample frame is an absolute list that contains the entire population on which investigations are carried upon by the researcher (Cooper & Schindler, 2013). Sampling frame defines the parameters

of the population and restricts the study within the boundaries of the population when a sample is being selected to represent the entire population. From a recent study about are 800 firms that operate as Startups in Nairobi (AngelList, 2018). From these 148 are technology driven from which a sample was be drawn. A precession level of 10% was utilized. Kothari and Garg (2019), describes a sample as a unit of elements extracted from the entire population.

n =sample size,

N = population size

e =level of precision (10%)

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

$$108 = \frac{148}{1 + 148(0.1)^2}$$

The formula this derives 108 respondents.

3.5 Data Collection Instruments

Data collection is the process of gathering the data and information that the researcher requires to answer the research questions (Baraldi & Bocconcelli, 2011).

Cooper and Schindler (2014), state the data collection method is the systematic way that is used by the researcher to collect the information that is used in answering the research questions. A structured questionnaire was used in the data collection based on a 5-point Likert Scale.

3.6 Data Collection Procedure

Before undertaking the research work ethical review committee clearance was sought from the Strathmore Business School. National Commission for Science Technology and Innovation (NACOSTI) permit was sought and obtained for the purposes of this research.

3.6.1 Reliability testing

Reliability testing is critical for getting consistent readings of data points from using a measuring instrument (Huck, 2011). Reliability is not sufficient if it is not combined with data validity (Taherdoost, 2017). Reliability was attained by employing a structured questionnaire to ensure consistent data interpretation of the questions by the respondents. Cronbach Alpha coefficient is commonly used as a measure of internal consistency.

The research conducted a pilot test that supported the testing of the internal consistency of the research variable. A Cronbach Alpha of above 0.7 was deemed adequate for the research.

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where: Y = Dependent Variable (growth of technology-driven startup firms in Kenya)

Independent variables being;

X_1 = capital investment

X_2 = monitoring and control

X_3 = mentorship and professional expertise

α = a constant

$\beta 1\text{- } 3$ = the regression coefficient or change included in Y by each X

The results of the study will be presented using charts, tables and bar graphs.

3.7 Validity Testing

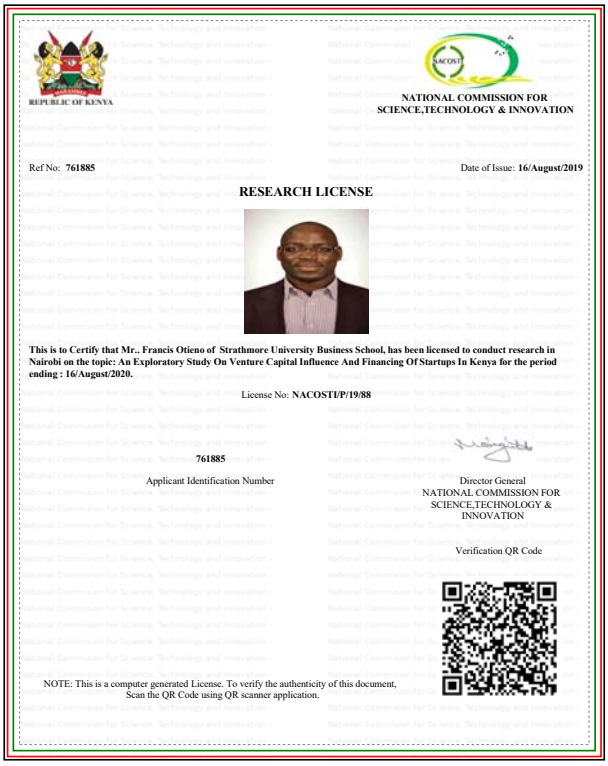
Validity tries to check on the extent of the data collected accurately and adequately covers the investigation area (Ghauri & Gronhaug, 2010). This can be in the form of the face, criterion content and construct validity.

3.8 Ethical Considerations

Researchers while undertaking the research, they may encounter some ethical issues that may infringe on the right of the persons acting as respondents of the surveys they conduct. Upon the start of the study, the researcher obtained formal approval to carry out the research.

An Ethical approval to conduct the study was sought followed by an Informed consent form for the intended participants. This also is in line with the nature and timing of surveys scheduled by the respondents is conducted in a fair and just manner without causing any grievances to them (Saunders, Lewis, & Thornhill, 2016).

Participants right to confidentiality and anonymity was maintained during the data collection process with emphasis on voluntary participation thus refusal to respond to any questions was also adhered to. Collected data was securely stored where access was limited access to the researcher only. Data were objectively analyzed with confidentiality and anonymity not to trace back the data to specific respondents. The NACOSTI permit is appended in Figure 3.1.



REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **761885**

Date of Issue: **16/August/2019**

RESEARCH LICENSE

This is to Certify that Mr.. Francis Otieno of Strathmore University Business School, has been licensed to conduct research in Nairobi on the topic: An Exploratory Study On Venture Capital Influence And Financing Of Startups In Kenya for the period ending : 16/August/2020.

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761885

Applicant Identification Number

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Figure 3.1 NACOSTI Permit

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings of the analysis of the data collected. The chapter contained the demographic information of the respondents, the descriptive analysis as well as the inferential analysis estimating the interaction between the research variables as indicated by the research findings.

4.2 Demographic Information

The initial portion of the chapter presents the demographic data of the research. This includes the response rate, the age of respondents, their gender, education level, the type of business and the year under venture capitalist support.

4.2.1 Response Rate

A total of 108 technology-driven startups within Nairobi County, were used to obtain data. A response rate of 87% (n=94) was deemed adequate for statistical analysis, while only 13% (n=14) of the personnel did not respond. This is illustrated in Figure 4.1;

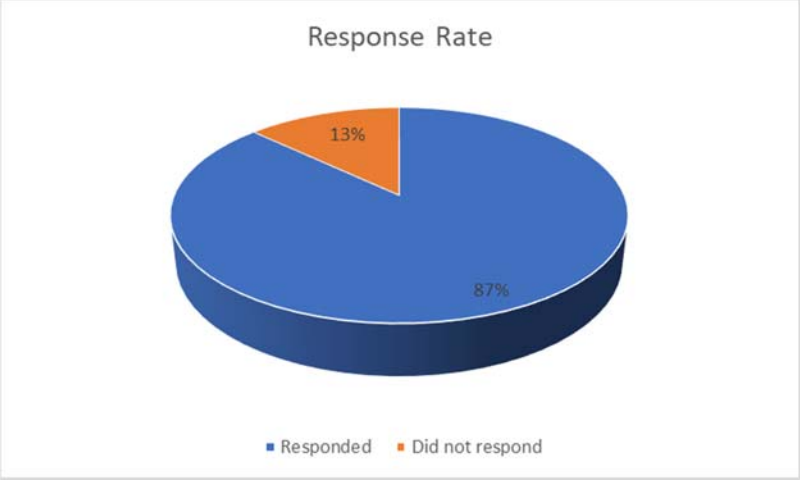

Figure 0.1 Response Rate

Source: Researcher (2019)

4.2.2 Age of Respondents

The age distribution of the research respondents was captured and results are shown in Table 4.1 below;

Table 0.1 Age of Respondents

		Frequency	Percent
Valid	18 - 25 yrs.	16	17.0
	26 - 33 yrs.	26	27.7
	34 - 41 yrs.	27	28.7
	42 - 49 yrs.	17	18.1
	50 and above	8	8.5
	Total	94	100.0

The results of the research indicate that most of the respondents were between the age 34-41 years, 28% were between the age 26-33 years, 18% were between the age 42-49 years while 17% of the respondents were aged between 18-25 years. This indicates that most of the technology-driven startup business within Nairobi County are owned or managed by the youth thus underlying the increasing appetite for self-employment in the country.

4.2.3 Gender of Respondents

The results indicate that most of the respondents 65% were female respondents while 35% were male respondents. This indicates a growing ownership/managerial control of technology-driven startup firms by female entrepreneurs or small business owners.

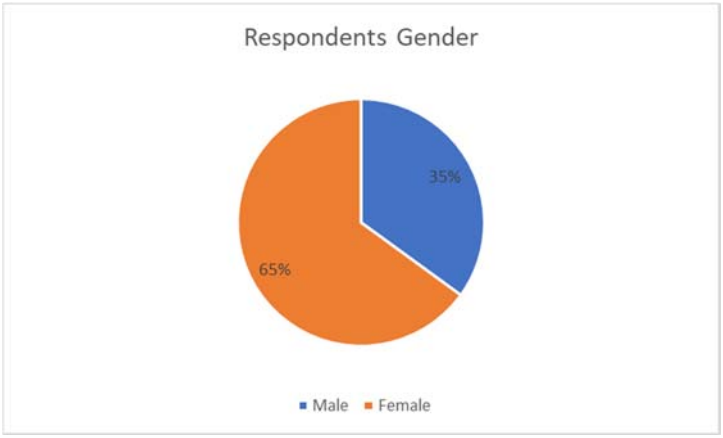

Figure 0.2 Respondents Gender

Source: Researcher (2019)

4.2.4 Education Level of Respondents

The study further sought to investigate the level of educational attainment among the study respondents. The findings are shown in Table 4.2;

Table 0.2 Education Level of Respondents

		Frequency	Per cent
Valid	Secondary School	4	4.3
	College Diploma	37	39.4
	Undergraduate Degree	45	47.9
	Postgraduate Degree	8	8.5
	Total	94	100.0

The results show that most of the respondents 48% had attained an undergraduate level of education, 39% of the respondents had a college diploma, 9% had attained a postgraduate degree while only 4% had secondary level education. This denotes there is increased attainment of formal education among startup owners/managers.

4.2.5 Startup Business Engagement

The study further sought to determine business engagement among technology-driven startup firms. The results show that most of the businesses 33% were technology startup firms, 23% were in the financial services, 22% were in the food and beverages industry while only 22% were in the manufacturing business. This indicates an increasing affinity for technology and financial services startup firms within Nairobi County.

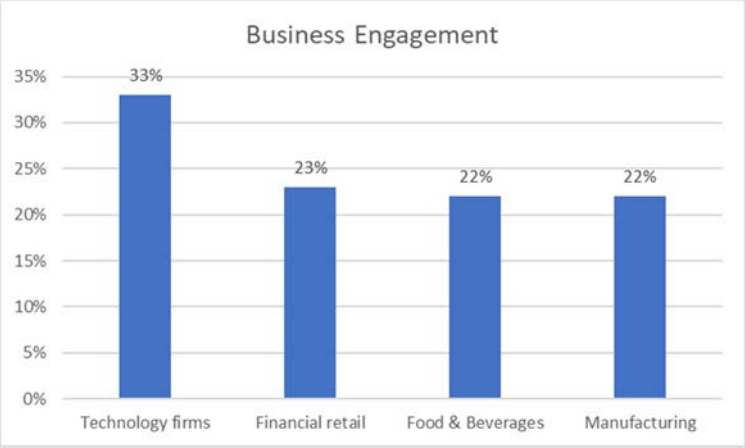

Figure 0.3 Business Engagement

Source: Researcher (2019)

4.2.6 Number of Employees

The research also sought to examine the number of employees operating within the technology-driven startups considered in the research. The findings are shown in Table 4.3;

Table 0.3 Number of Employees

		Frequency	Percent
Valid	1-3 employees	19	20.2
	4-6 employees	28	29.8
	7-9 employees	47	50.0
	Total	94	100.0

Source: Researcher (2019)

It was found out that most of the respondents, 50% of the firms, had between 7-9 employees, 30% of the firms had between 4-6 employees while only 20% of the respondents had just 13 employees. This conforms to general literature which indicates that most startup firms are not largely labor-intensive

4.2.7 Number of Years Accessing Venture Capital

The study further sought to investigate the number of years the technology-driven startup firms have been under the venture capital support. The findings are as indicated in Table 4.4;

Table 0.4 Number of Years under Venture Capital

		Frequency	Percent
Valid	1-3 years	33	35.1
	4-6 years	42	44.7
	Over 7 years	19	20.2
	Total	94	100.0

Source: Researcher (2019)

The study results show that most of the firm's 45% have had access to a venture capitalist for between 4-6 years, 35% of the firms were under venture capitalists for 1-3 years while only 20% of the startup firms were under their venture capitalists for over 7 years. This indicates that most technology-driven startups exit venture capitalist at the growth stages.

4.3 Descriptive Analysis

The research further sought to examine the responses obtained from the respondents in line with the conceptualized research objectives. The study relied on descriptive statistics such as frequencies and percentages in the analysis. The findings are as represented in the following sub-sections.

4.3.1 Growth of Startups

The dependent variable for the research was the growth of technology-driven startups within Nairobi County. The research results are shown in Table 4.5 below;

Table 0.5 Growth of Startup Descriptive

	SA	A	N	DA	SDA
There is increased financial capability within startups in Kenya	38 (40.4%)	27 (28.7%)	13 (13.8%)	9 (9.6%)	7 (7.4%)
There are better customer acquisitions within startups in Kenya	29 (30.9%)	38 (40.4%)	12 (12.8%)	10 (10.6%)	5 (5.3%)
There is an increased level of liquidity within startups in Kenya	22 (23.4%)	30 (31.9%)	20 (21.3%)	10 (10.6%)	12 (12.8%)
There is increased revenue generation within startups in Kenya	30 (31.9%)	34 (36.2%)	14 (14.9%)	13 (13.8%)	3 (3.2%)
There is an increase in the source of financing within startups in Kenya	34 (36.2%)	33 (35.1%)	15 (16.0%)	6 (6.4%)	6 (6.4%)

Source: Researcher (2019)

The results show that there was growth in the financial capability within startups in Kenya with 40.4% in strong agreement and 28.7% in agreement among respondents. Findings further show agreement 40.4% among respondents and 30.9% strong agreement among respondents that there is better customer acquisition within startups in Kenya.

Response further show agreement among 31.9% that there is an increased level of liquidity within startups in Kenya. The findings further indicate agreement among 36.2% that there is increased revenue generation within startups in Kenya.

The results illustrate there is strong agreement among 36.2 % of the respondents, 35.1% agreement that there is an increase in the source of financing within startups in Kenya.

4.3.2 Capital Investment

The first variable of the research sought to determine the level of capital investments within the startup firms. The findings are shown in Table 4.6;

Table 0.6 Capital Investment Descriptive

	SA	A	N	DA	SDA
There is adequate access to credit facilities within artups in Kenya	30 (31.9%)	26 (27.7%)	19 (20.2%)	9 (9.6%)	10 (10.6%)
There are better revenue generation activities within artups in Kenya	31 (33.0%)	33 (35.1%)	18 (19.1%)	10 (10.6%)	2 (2.1%)
There is increased knowledge of credit markets within artups in Kenya	29 (30.9%)	33 (35.1%)	15 (16.0%)	7 (7.4%)	10 (10.6%)
There is better capital structuring within startups in enya	23 (24.5%)	34 (36.2%)	21 (22.3%)	12 (12.8%)	4 (4.3%)
There are increased assets investments within startups Kenya	29 (30.9%)	31 (33.0%)	26 (27.7%)	5 (5.3%)	3 (3.2%)

Source: Researcher (2019)

Concerning the issue of Capital investment, the responses indicated that there was adequate access to credit facilities within startups in Kenya there was strong agreement among 31.9% respondents and agreement among 27.7% of the respondents. Findings further indicate agreement among 35.1% that there are better revenue generation activities within startups in Kenya.

The results also show agreement among 35.1% respondents, 30.9% strong agreement and 16.0% moderate agreement that there is increased knowledge of credit markets within startups in Kenya. The results further indicate agreement among 36.2% that there is better capital structuring within startups in Kenya. Findings further point to an agreement among 33% of the respondents that there are increased assets investments within startups in Kenya.

4.3.3 Monitoring and Control

The second variable of the study sought to determine the level of monitoring and control within technology-driven startup firms in Nairobi County. The findings are as represented in Table 4.7;

Table 0.7 Monitoring and Control Descriptive

	SA	A	N	DA	SDA
There is increased prudential management within startups in Kenya	25 (26.6%)	35 (37.2%)	19 (20.2%)	12 (12.8%)	3 (3.2%)
There is increased business restructuring within startups in Kenya	29 (30.9%)	29 (30.9%)	17 (18.1%)	13 (13.8%)	6 (6.4%)
There is improved decision making within startups in Kenya	26 (27.7%)	29 (30.9%)	18 (19.1%)	16 (17.0%)	5 (5.3%)
There is an increased implementation of performance evaluation within startups in Kenya	21 (22.3%)	29 (30.9%)	23 (24.5%)	15 (16.0%)	6 (6.4%)
There is better cash flow management within startups in Kenya	34 (36.2%)	28 (29.8%)	14 (14.9%)	14 (14.9%)	4 (4.3%)

Source: Researcher (2019)

There increased prudential management within startups in Kenya there was a consensus among 37.2% among respondents. Concerning there is increased business restructuring within startups in Kenya most of the respondents 30.9% strongly agreed and agreed respectively. Findings also show an agreement among respondents that there is improved decision making within startups in Kenya as indicated by the 30.9% agreement and 27.7% strong agreement among the respondents. The results also show 30.9% strong agreement among respondents that there is an increased implementation of performance evaluation within startups in Kenya. Findings also indicate there is strong agreement among 36.2% that there is better cashflow management within startups in Kenya.

4.3.4 Mentorship and Professional Expertise

The third variable of the study examined the mentorship and professional expertise within Technology-driven startup firms. The results are presented below;

Table 0.8 Mentorship and Professional Expertise Descriptive

	SA	A	N	DA	SDA
There is increased expansion to new markets within startups in Kenya	34 (36.2%)	34 (36.2%)	10 (10.6%)	14 (14.9%)	2 (2.1%)
There are improved product developments within startups in Kenya	30 (31.9%)	33 (35.1%)	18 (19.1%)	9 (9.6%)	4 (4.3%)
There is improved financial management within startups in Kenya	34 (36.2%)	25 (26.6%)	17 (18.1%)	12 (12.8%)	6 (6.4%)
There is improved entrepreneurial awareness within startups in Kenya	20 (21.3%)	36 (38.3%)	13 (13.8%)	15 (16.0%)	10 (10.6%)
There is improved business development orientation within startups in Kenya	16 (17.0%)	35 (37.2%)	26 (27.7%)	11 (11.7%)	6 (6.4%)
There is an improvement in personnel management within startups in Kenya	29 (30.9%)	28 (29.8%)	22 (23.4%)	11 (11.7%)	4 (4.6%)

SA= strongly agree **A**= Agree **N**= Moderately Agree **DA**= Disagree **SDA**= Strongly Disagree

Source: Researcher (2019)

Technology-driven startups have experienced increased expansion to new markets within startups in Kenya there was agreement among 36.2% of the respondents and 14.9% disagreement level. There was 35.1% agreement among respondents that there is product development within startups in Kenya. 36.2% respondents expressed that there is improved financial management within startups in Kenya. Findings further indicate there is agreement among 38.3% of the respondents that there is improved entrepreneurial awareness within startups in Kenya.

Concerning there is improved entrepreneurial awareness within startups in Kenya there was agreement among 38.3% of the respondents as well as 16% disagreement among the respondents. The study results further show 37.2% agreement that there is improved business development

orientation within startups in Kenya. Also, the firms seen an improvement in personnel management within startups in Kenya, there was strong agreement among 30.9%, 29.8% agreement and 23.4% of the respondents did not agree or disagree.

4.4 Correlation Analysis

The study further sought to determine the level of association between the research variables. The research adopted a bivariate analysis using Pearson Correlation and the results are as shown in Table 4.9.

Table 0.9 Correlation Matrix

		Growth of Technology-driven Startups
Capital Investment	Pearson Correlation	.593**
	Sig. (2-tailed)	.000
	N	94
Monitoring and Control	Pearson Correlation	.540**
	Sig. (2-tailed)	.000
	N	94
Mentorship and Professional Expertise	Pearson Correlation	.367**
	Sig. (2-tailed)	.000
	N	94

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Researcher (2019)

The 1st objective of the research sought to determine the influence of capital investment on the growth of Technology-driven startups. The findings indicate that there is a strong relationship of capital investment on the growth of Technology-driven startups firms in Nairobi County *(P=.593, Sig. Value = .000<.05)*. Kusi, Opata and Narh (2015) also indicate that increased external financing of small businesses has a positive effect on the growth and survival of small businesses.

The 2nd objective of the research sought to determine the effect of monitoring and control on the growth of Technology-driven startups. The findings indicate that there is a strong relationship of monitoring and control on the growth of Technology-driven startups firms in Nairobi County *(P=.540, Sig. Value = .000<.05)*. Abanis Sunday, Burani and Eliabu (2013) are of a similar observation that better internal controls and reasonable financial controls are critical to better firm survival.

The 3rd objective of the research sought to determine the effect of mentoring and professional expertise on the growth of Technology-driven startups. The findings indicate that there is a strong relationship effect of mentoring and professional expertise on the growth of Technology-driven startups firms in Nairobi County *(P=.367, Sig. Value = .000<.05).*

Workineh (2016) also posits that capacity building and employee training is integral to business performance. Chebii (2017) indicates that mentoring is integral to positive outcomes within small and medium enterprises.

4.5 Regression Analysis

The research further sought to determine the magnitude of influence of venture capital on the Technology-driven startup firms in Nairobi County. The study adopted a regression analysis to examine the relationship. From the regression analysis, there was a strong relationship between venture capital and the growth of Technology-driven startups as indicated by $R^2=.475$. This indicates that 47.5% variations in the growth of Technology-driven startup firms were determined by venture capital while only 52.5% of the changes are determined by the factors not considered in the research.

Table 0.10 Regression Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.689[a]	.475	.457	3.33612	1.644

a. Predictors: (Constant), Mentorship and Professional Expertise, Capital Investment, Monitoring and Control
b. Dependent Variable: Growth of Startups

Source: Researcher (2019)

4.5.1 ANOVA Summary

The study further sought to determine the statistical significance of the regression model. The findings are represented in the regression summary in Table 4.11; The regression model was significant sig = .000<.05 testing at a 95% confidence interval.

An F-value of 27.110 was generated, and this was above the critical value of 2.76 thus indicating that the adopted model was statistically significant in determining the relationship between venture capital and Technology-driven startup growth.

Table 0.11 ANOVA Summary

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	905.177	3	301.726	27.110	.000[b]
	Residual	1001.674	90	11.130		
	Total	1906.851	93			

a. Dependent Variable: Growth of Startups
b. Predictors: (Constant), Mentorship and Professional Expertise, Capital Investment, Monitoring and Control

Source: Researcher (2019)

4.5.2 Regression Coefficients

The impact of the study variables on the growth of technology driven startups in Nairobi County was examined and the results are indicated in Table 4.12;

Table 0.12 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.791	1.896		1.472	.005
	Capital Investment	.452	.082	.452	5.485	.000
	Monitoring and Control	.340	.097	.334	3.501	.001
	Mentorship and Professional Expertise	.062	.078	.073	.794	.000

a. Dependent Variable: Growth of Startups
Source: Research Data (2019)

The resulting regression equation was;

$$\mathbf{Y = 2.791 + .452X1 + .340X2 + .062X3 + 1.896}$$

The results of the analysis indicated a beta value (β) = .452 is significantly different from 0 since the p-value .000 < .05.

This indicates that there is a statistically significant positive effect of capital investments on the growth of Technology-driven startups in Nairobi County. The results of the analysis indicated a beta value (β) = .340 is significantly different from 0 since the p-value .001<.05.
This indicates that there is a statistically significant positive effect of monitoring and control on the growth of Technology-driven startups in Nairobi County. A unit change in the level of monitoring and control will result in a .340-unit change on the growth of startups.

Nyakundi Nyamita and Tinega (2014) notes that effective monitoring and control of business operations results in the positive financial performance of small and medium scale businesses. Peter and Anyieni (2017) indicate that evaluation and control is a key predictor of increased firm profitability and market share.

The results of the analysis indicated a beta value (β) = .062 is significantly different from 0 since the p-value .000<.05. This indicates that there is a statistically significant positive effect of mentorship and professional expertise on the growth of Technology-driven startups in Nairobi County. A unit change in the level of mentorship and professional enterprise will result in a .062-unit change on the growth of startups. Otieno and Atieno (2019) similarly indicate that professional training and development programs are central to increased growth within small and medium enterprises. Munene (2018) further notes that skilled human capital and growth of tech startups significantly correlate to each other.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter of the research presents the discussion, the conclusions and the recommendations that drawn from the study. The chapter presents the discussion and conclusions in line with the constructs of the research. Lastly, the chapter presents the suggestions for further research studies on the area of study.

5.2 Discussion

The key focus of this study was primarily to examine the influence of venture capital on the growth of startups in Nairobi County. The study primarily focused on how capital investments, monitoring and control as well as mentoring and professional expertise influence the growth of Technology-driven startups. From a recent study about are 800 firms that operate as Startups in Nairobi (AngelList, 2018). From these 148 are technology driven from which a sample was be drawn. A precession level of 10% was utilized, resulting to a sample (n) of 108 firms with research data being collected using structured research questionnaire. The study obtained an 87% response rate with the most of the firms 33% being technology startup firms and 23% were in the financial retail services and the remain 31% in either food & beverages and the manufacturing sectors respectively.

The study indicates that 47.5% of variations in the growth of startup firms are determined by venture capital. This is in line with Martí, Menéndez-Requejo and Rottke (2013) who concluded that VC had a positive impact on firm growth. Boadu, Dwomoh, Sarpong and Dwomo-Fokuo (2014) similarly indicates that VC financing positively influences the business growth within SMEs. Njama (2013) also points out that venture capital leads to growth of SME firms in Kenya.

5.2.1 Growth of Startups

Findings of the study indicated there was increased financial capability within startups and increased customer acquisitions. The findings of the study further indicate that startups had obtained an increased in their liquidity level, revenue generation and had access to more sources of finance. These findings are in line with Iwasiuk (2016) who notes that an increase in funding as led to better growth and profitability within startups. Abor and Quartey, (2010) indicate that most startups with access to adequate capital and managerial expertise have enhanced growth in the revenue and supply chain relations which has supported increased their growth. Deloitte (2016) notes that increased venture capital financing has increased equity financing within small firms which has resulted in improved business performance. Venture Capital Association (2017) also shows that increased investment climate has resulted in the better potential for growth and business returns within small businesses.

5.2.2 Capital Investments and Growth of Startups

The results of the research indicate that there has been adequate access to credit and revenue generation activities within startup activities. The findings of the study also indicate there is increased knowledge of credit markets, assets investments and better capital structuring within startup firms. There is a significant positive effect of capital investment on the growth of startups firms in Nairobi County *(P=.593, Sig. Value = .000<.05)*. In their research study Njagi, Maina and Kariuki (2017) point out that equity financing has positively influenced the financial performance of small and medium firms.

Boadu, Dwomoh, Sarpong and Dwomo-Fokuo (2014) indicate that fresh funding for small business results in improved survival of small businesses. Boadu, Dwomoh, Sarpong and Dwomo-Fokuo (2014) in their research also note that venture capitalists have helped small businesses in their asset mobilization and capital structuring. Kusi, Opata and Narh (2015) indicate that increased access to credit can be key to the survival of small businesses.

5.2.3 Monitoring and Control and Growth of Startups

The study further points to better prudential management and business structuring within startup firms. The results further show that small firms have improved their decision making, cashflow management and have implemented performance evaluation.

Findings from the research also show a positive effect of monitoring and control on the growth of startups firms in Nairobi County *(P=.540, Sig. Value = .000<.05).* This outcome is consistent with Peter and Anyieni (2017) who brought forward the preposition that venture capitalists technical support in monitoring and control results in better firm profitability.

Nyakundi, Nyamita and Tinega (2014) point out that financial performance is influenced positively by gaining knowledge of internal controls and control activities of small and medium firms. Peter and Anyieni (2017) in their study further show that VC has enabled firms to support better controls and profitability within small businesses. Abanis Sunday, Burani and Eliabu (2013) indicate that the adoption of financial controls has enhanced business survival. Indris and Primiana (2015) note that increased control and environmental scanning within small and medium firms have enabled firms to make better decision making which supports performance.

5.2.4 Mentoring and Professional Expertise and Growth of Startups

Research findings show that startup firms have expanded their markets and improved their product developments. The study further shows there is better financial management, improved entrepreneurial awareness, business development and personnel management in startup firms.

A significant positive effect of mentoring and professional expertise on the growth of startups firms in Nairobi County *(P=.367, Sig. Value = .000<.05)* was realized Otieno and Atieno (2019) note that better managerial expertise within startups firms has improved their growth. Munene (2018) also indicates that technology startups within Nairobi have seen a growth in their human capital capacity through better training and development.

Ajibade (2016) shows that better knowledge management within small businesses results in better management skills which enhance their firm productivity. Jenyo (2018) also acknowledges there is better professional training and management awareness with small businesses which is integral to their performance. On the other hand, Workineh (2016) in their research indicates that there is an increased lack of entrepreneurship skills, capacity building and poor training which has resulted in poor performance within small and micro-enterprises.

5.3 Conclusions

The study concludes that improved capital financing improves the growth of startups. The study further concludes that knowledge and access to credit markets within startup firms has improved their growth. The study further concludes that good capital structuring and investment leads to better firm growth. A unit change in the level of capital investments will result in a .452-unit change on the growth of Technology-driven startups.

The research concludes that better cash flow management and prudential management of firms results in better growth in startups. The study concludes that monitoring and control improve decision making and business structuring which can support better firm growth. A unit change in the level of monitoring and control will result in a .340-unit change on the growth of Technology-driven startups.

The study concludes that expansion into new markets and adequate financial management skills improve the growth of firms. The study further concludes that improved entrepreneurial awareness, personnel management and business development positively influences firm growth. A unit change in the level of mentorship and professional enterprise results in a .062-unit change on the growth of Technology-driven startups.

5.4 Recommendations

Part of the recommendation put across by this research is that startups firms should formalize their businesses as this will expand their access to higher and more affordable financing opportunities. Further, that the management of Technology-driven startups firms should engage in a better investment of the firms' returns as this will help in diversifying their assets which can supplement their business survival during harsh business cycles.

The study recommends that Technology-driven startups firms should seek financial advisory in setting up internal control mechanisms which will assist in reducing inefficiencies and loss of business revenue.
The firms should also adopt an effective monitoring and control systems which can help in tracking the business process, customers and help in reducing fraud, poor inventory management and poor resource management which is key to business growth.

The research further recommends that Technology-driven startup firms should seek collaboration with other firms in the same business in organizing annual trade workshops and seminars which will help in increasing their business management acumen. The firms should further seek strategic alliances with large incubators/venture firms in undertaking management training which can help supplement their business development strategies. Further, of Technology-driven startup firms undertake financial literacy courses as this will help in their bookkeeping skills which are key to the enhanced financial management of their firms.

5.5 Suggestions for Further Research

This study recommends that more studies should be undertaken to examine current business policies in the country are influencing the survival of Technology-driven SMEs. The study also suggests a study to examine how the internal structure of Technology-driven small businesses affect their performance.

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APPENDICES

Appendix I: Questionnaire

Purpose of the Interview

The goal of this interview is to get information on the Venture capital state in the country and their influence and funding activities of start-ups in Kenya. This information will be insightful in identifying how more start-ups can leverage on the benefits derived from venture capital investment and engagement. Venture capitalist and start-ups can also identify the challenges and factors that can be able to enhance venture capital update and growth in the start-up sector in the county. The interview will take 30 minutes. Your participation in this interview is purely voluntary, and you are free to terminate at any time should you feel uncomfortable to proceed without adverse consequences to you. The information will be held in confidentiality and will be used solely for the research. Should you have any questions, kindly contact *John Doe* on cell *0722XXXXXX*.

Section A: General Information

1. What is your age?
    - □ 18 - 25
    - □ 26 - 33
    - □ 34 - 41
    - □ 42 - 49
    - □ 50 and above
2. What is your gender?
    - □ Male
    - □ Female
3. What is your highest level of education?
    - □ Primary School
    - □ Secondary School
    - □ College Diploma
    - □ Undergraduate Degree
    - □ Graduate Degree

4. Which Business are you engaged in?
    - Technology
    - Manufacturing
    - Retail services (financial)
    - Food and Beverages
    - Other.....
5. How many employees do you have?
    - 1-3
    - 4-6
    - 7-9
6. How long have you been receiving venture capital support?
    - 1-3 years
    - 4-6 years
    - Over 7 years

Section B: Influence of Venture Capital on Growth of Technology driven SMEs' Startup

Please indicate in the table with a tick (√) or a cross (×) with a scale of

5= strongly agree 4= Agree 3= Moderately Agreed 2= Disagree 1= Strongly Disagree

Kindly answer the following questions based on your agreement with Influence of Venture Capital on the Growth of Startups in Kenya. The scale level ranges from 1 – 5

No	Growth of startups in Kenya	5	4	3	2	1
1.	There is increased financial capability within startups in Kenya					
2.	There are better customer acquisitions within startups in Kenya					
3.	There is increased level of liquidity within startups in Kenya					
4.	There is increased revenue generation within startups in Kenya					
5.	There is an increase in the source of financing within startups in Kenya					

Section C: Influence of Capital Investment on Growth of Technology driven SMEs' Startup

Please indicate in the table with a tick (√) or a cross (×) with a scale of

5= strongly agree 4= Agree 3= Moderately Agreed 2= Disagree 1= Strongly Disagree

Kindly answer the following questions based on your agreement with Influence of Capital Investment on Growth of **Technology driven** SMEs' Startup. The scale level ranges from 1 – 5

No	Capital Investment	5	4	3	2	1
1.	There is adequate access to credit facilities within startups in Kenya					
2.	There are better revenue generation activities within startups in Kenya					
3.	There is increased knowledge of credit markets within startups in Kenya					
4.	There is better capital structuring within startups in Kenya					
5.	There are increased assets investments within startups in Kenya					

Section D: Influence of Monitoring and Control on Growth of Technology driven SMEs' Startup

Please indicate in the table with a tick (√) or a cross (×) with a scale of

5= strongly agree 4= Agree 3= Moderately Agreed 2= Disagree 1= Strongly Disagree

Kindly answer the following questions based on your agreement with Influence of Monitoring and Control on Growth of **Technology driven** SMEs' Startup. The scale level ranges from 1 – 5

No	Monitoring and Control	5	4	3	2	1
1.	There is increased prudential management within startups in Kenya					
2.	There is increased business restructuring within startups in Kenya					
3.	There is improved decision making within startups in Kenya					
4.	There is increased implementation of performance evaluation within startups in Kenya					
5.	There is better cashflow management within startups in Kenya					

Section E: Influence of Mentorship and Professional Expertise on Growth of Technology driven SMEs' Startup

Please indicate in the table with a tick (√) or a cross (×) with a scale of

5= strongly agree 4= Agree 3= Moderately Agreed 2= Disagree 1= Strongly Disagree

Kindly answer the following questions based on your agreement with Influence of Mentorship and Professional Expertise on Growth of **Technology driven** SMEs' Startup. The scale level ranges from 1 – 5

No	Mentorship and Professional Expertise	5	4	3	2	1
1.	There is increased expansion to new markets within startups in Kenya					
2.	There are improved product developments within startups in Kenya					
3.	There is improved financial management within startups in Kenya					
4.	There is improved entrepreneurial awareness within startups in Kenya					
5.	There is improved business development orientation within startups in Kenya					
6.	There is an improvement in personnel management within startups in Kenya					

Thank you for the participation

Appendix II: Ethical Approval

Strathmore UNIVERSITY

18th June 2019

Mr Otieno, Francis
P.O. Box 61701-00100
Nairobi, Kenya
francis.odhiambo@strathmore.edu

Dear Mr. Otieno

REF Protocol ID: SU-IERC0484/19 **Student No.:** MBA/48410/18

An Exploratory Study on Venture Capital Influence and Financing of Start-ups in Kenya

We acknowledge receipt of your application documents to the Strathmore University Institutional Ethics Review Committee (SU-IERC) which includes:

1. Study Protocol submitted 16th May 2019
2. Cover letter listing all submitted documents 16th May 2019
3. Proposal declaration Page signed by supervisors 16th May 2019

The committee has reviewed your application, and your study *"An Exploratory Study on Venture Capital Influence and Financing of Start-ups in Kenya"* has been granted **approval.**

This approval is valid for one year beginning **18th June 2019** until **17th June 2020.**

In case the study extends beyond one year, you are required to seek an extension of the Ethics approval prior to its expiry. You are required to submit any proposed changes to this proposal to SU-IERC for review and approval prior to implementation of any change.

SU-IERC should be notified when your study is complete.

Thank you.

STRATHMORE UNIVERSITY INSTITUTIONAL ETHICS REVIEW COMMITTEE (SU-IERC)
18 JUN 2019
TEL: +254 (0)703 034 000
P. O. Box 59857 - 00200
NAIROBI - KENYA

Sincerely,

for: Prof Florence Oloo
Secretary
Strathmore University Institutional Ethics Review Committee

Appendix IV: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **761885**

Date of Issue: **16/August/2019**

RESEARCH LICENSE

This is to Certify that Mr.. Francis Otieno of Strathmore University Business School, has been licensed to conduct research in Nairobi on the topic: An Exploratory Study On Venture Capital Influence And Financing Of Startups In Kenya for the period ending : 16/August/2020.

License No: **NACOSTI/P/19/88**

761885

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY &
INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document,
Scan the QR Code using QR scanner application.

Appendix V: NACOSTI Permit Receipt

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

AC

OFFICIAL RECEIPT

Station:	Nairobi	**Date:**	11/Jul/2019
Received from:		Francis Odhiambo Otieno	
Shillings:		*** One Thousand only ***	
On Account of		Research Permit Fees ref 0000-0002-9349-0859	
Vote Head		R-43	

USD	
Kshs	1,000
AC	
NO	

Item	A-1-A
Cash/Cheque No	MPESAExpress