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THE MODERATING ROLE OF VENTURE CAPITAL FINANCING ON THE DETERMINANTS OF FINANCIAL INNOVATION IN KENYAN MICRO AND SMALL ENTERPRISES

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ADMISSION NO. 114236/18

A Research Dissertation Submitted to Strathmore University Business School in Partial Fulfilment of the Degree of Master of Science in Development Finance of Strathmore University

December 2025

DECLARATION

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

..... Frank Otieno

.....

..... 7th Nov 2024

Approval

The dissertation of Frank Otieno Onyango was reviewed and approved by the following:

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ABSTRACT

In Kenya's evolving entrepreneurial ecosystem, financial innovation is critical to the growth and competitiveness of Micro and Small Enterprises (MSEs), yet innovation outcomes remain uneven. This study examined the determinants of financial innovation and the moderating role of venture capital (VC) financing among MSEs in Nairobi, Mombasa, and Nakuru. Specifically, the study sought to assess the effect of firm-level determinants financial health, networking capabilities, founding team experience, firm size, and ownership structure on financial innovation; determine the direct influence of VC financing; and analyse the moderating effect of VC financing on these relationships. Anchored on the Resource-Based View and the Technology Acceptance Model, the study adopted a cross-sectional design. Data were collected using structured questionnaires from 543 MSEs, of which 483 valid responses were obtained through stratified and purposive sampling. Financial innovation was measured using a composite innovation index, and data were analysed using Ordinary Least Squares regression with interaction terms. The findings indicate that firm-level determinants significantly influence financial innovation and that VC financing strengthens the effect of internal firm capabilities on innovation outcomes. The study contributes empirical evidence on entrepreneurial finance in an emerging market context and informs policies aimed at promoting innovation-driven MSE growth. However, the cross-sectional design limits causal inference over time.

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ABBREVIATIONS AND ACRONYMS

CFA	Control Function Approach
ESR Model	Endogenous Switch Regression Model
IPO	Initial Public Offering
MLE	Maximum Likelihood Estimator
MVP	Minimum Viable Product
RBV	Resource-Based View
MSEs	Micro and Small-Sized Enterprises
2-SLS	Two-stage least squares
TAM	Technological Advancement Model
VC	Venture Capital

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DEDICATION

I want to dedicate this dissertation to my family, upon whom I continually draw strength to ensure its completion. I hope the lessons herein transform lives, especially in the rural communities that continue to inspire me in this pursuit.

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Foremost, I extend my sincere gratitude to my supervisor, Dr. David Mathuva, for his invaluable guidance, encouragement, and intellectual stewardship throughout the development of this dissertation. His insights and mentorship were instrumental in shaping the direction and quality of this research.

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To each of you, thank you for walking this journey with me. Your collective support made this accomplishment possible.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Kenya has emerged as a leading economic hub in East Africa, driven by a dynamic private sector, progressive regulatory reforms, and one of the most advanced digital financial ecosystems in the developing world (World Bank, 2020). These strengths have strengthened Kenya's position as an attractive destination for equity and venture capital investment, making it the third-largest recipient of private equity and venture capital transactions in Sub-Saharan Africa after South Africa and Nigeria (AVCA, 2020). Venture capital inflows into Kenya estimated at USD 750 million between 2013 and 2015 have supported early-stage enterprises and helped translate innovative ideas into commercially viable solutions (Divakaran & Schneider, 2018). Through this financing, MSEs have gained opportunities to scale operations, enhance productivity, and access networks that help reduce market information asymmetries (Petersen, 1994).

The rise of financial technology (FinTech) is particularly relevant to the discussion on financial innovation because it represents one of the fastest-growing innovation arenas globally and in Kenya. Unlike traditional financial institutions that often face structural and regulatory rigidities, FinTech firms rely heavily on technological innovation to introduce new financial products, processes, and delivery channels. This transformation has been accelerated by the entry of non-traditional actors—technology startups, mobile network operators, and digital platforms whose innovations challenge conventional banking models and push regulators to adapt (Frame & White, 2014; Schindler, 2017). Importantly, FinTech ecosystems tend to attract significant venture capital investment because early-stage technology firms require external equity financing to scale and

commercialize their ideas. As a result, the growth of FinTech in Kenya exemplified by mobile money, digital lending, and platform-based payment systems has become a natural intersection between innovation and venture capital, making it an ideal context for understanding how VC financing enhances or constrains financial innovation among MSEs (Zavolokina, Dolata, & Schwabe, 2016; Coughlan & Coghlan, 2002).

Financial innovation among Micro and Small Enterprises (MSEs) is widely recognized as a key driver of productivity, competitiveness, and inclusive economic growth. Studies from developed and emerging economies show that the ability of firms to innovate financially is strongly influenced by internal firm-level characteristics such as financial health, managerial experience, firm size, ownership structure, and networking capability (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011; OECD, 2018). Financially stable firms are better able to absorb the risks associated with innovation, while experienced founding teams enhance opportunity recognition and strategic decision-making (Gompers & Lerner, 2004). Similarly, networking capability enables firms to access external knowledge, partnerships, and innovation ecosystems that facilitate the diffusion and adoption of new financial practices (Laursen & Salter, 2006). These firm-level determinants are central to the Resource-Based View, which emphasizes that innovation outcomes arise from the effective deployment of internal resources and capabilities.

At the regional level, evidence from Sub-Saharan Africa suggests that these firm-level determinants are even more critical due to weak institutional frameworks, limited access to formal finance, and high levels of informality (Abor & Quartey, 2010; World Bank, 2020). In Kenya, despite its reputation as a leader in digital finance and fintech innovation, most MSEs continue to exhibit low levels of financial innovation, constrained by poor financial health, limited managerial experience, weak networks, and informal ownership structures (KNBS, 2021; Central Bank of Kenya, 2020). While flagship innovations such as mobile money have transformed the national financial system, adoption and deeper financial innovation at the firm level remain uneven. This situation highlights the need to systematically examine how internal firm-level determinants shape financial innovation among Kenyan MSEs and how venture capital financing

may strengthen or condition these relationships. Addressing this gap is essential for designing policies and financing mechanisms that promote innovation-driven growth within Kenya's MSE sector.

Despite the evident impact of venture capital financing in sectors like fintech, exemplified by successes such as M-Pesa, questions persist regarding the focus on innovation versus growth post-funding. Venture capital financing has undeniably bolstered industrial R&D and facilitated the diffusion of technical knowledge; however, transitioning from prioritising innovation to emphasizing growth following investment presents a complex landscape that remains under-explored in Kenya. The venture capital landscape in Africa faces unique challenges, including its limited size, the scarcity of seasoned investors, and political instability. Yet, it remains a pivotal force in driving global innovation and entrepreneurship (Organisation for Economic Co-operation and Development [OECD], 2021). The high propensity for risk among venture capitalists increases the boldness of entrepreneurs drawn into new and attractive talent pools with complete strategic direction that is more comprehensive than merely providing financial backing. It essentially explains how innovation is fostered.

Despite Kenya's reputation as a continental leader in digital finance, the majority of Micro and Small Enterprises still exhibit limited financial innovation capacity, largely due to inadequate financial resources, weak managerial capabilities, and insufficient technological readiness (KNBS, 2021). While flagship innovations such as M-Pesa have transformed national payment systems, these advancements have not translated uniformly across the MSE sector, where adoption of new financial tools, digital processes, and innovative business models remains uneven (CBK, 2020). Many MSEs continue to rely on informal financial mechanisms, constrained credit options, and

manual processes, limiting their ability to expand, formalize, or integrate into high-value markets. This innovation deficit underscores the need to examine the specific firm-level factors such as financial health, networking capability, and entrepreneurial experience that influence whether MSEs can meaningfully engage in financial innovation.

Venture capital has increasingly become a catalyst for financial and technological innovation in emerging markets by providing high-risk capital, strategic guidance, and access to innovation ecosystems (Gompers & Lerner, 2004). In Kenya, VC funding has accelerated the growth of technology startups, digital lending platforms, and fintech solutions, demonstrating its potential to unlock innovation even in resource-constrained settings (Divakaran et al., 2018). However, most MSEs remain outside the VC financing landscape because investors tend to prioritize scalable, technology-driven ventures with strong managerial capacity and network access. This raises critical questions regarding whether VC financing simply funds already innovative firms or whether it amplifies firm-level capabilities to produce higher innovation outcomes. Understanding this dynamic is essential, as Kenya requires financing mechanisms that strengthen the innovation ecosystem beyond the technology sector and support wider MSE development (Lerner & Nanda, 2020).

1.1.1 Venture capital financing and support

VC Financing has quite a remarkable history, dating back to the dawn of the 20th century, while the most significant changes in the modern industry have occurred after World War II which marked the beginning of VC firms in the United States is ARDC, Greylock Partners, and Kleiner Perkins (Gompers & Lerner, 2004). This era was crucial for the development of Silicon Valley, providing the necessary funding for tech giants like Intel, Apple, and Hewlett-Packard, which were instrumental in launching the technology revolution. Despite the dot-com bubble burst in the late

1990s and early 2000s, venture capital investment appetite did not wane but expanded globally, especially in China, India, and Brazil (Megginson & Weiss, 1991)(Megginson & Weiss, 1991). Although more recent, the VC scene in Africa has shown significant growth since the late 20th century, highlighted by establishing the African Venture Capital Association in 2003 (Bright & Hruby, 2015). Initial investments predominantly targeted telecommunications, banking, and resource-based industries, but recent decades have shifted towards technology and digital innovations, particularly in fintech. Kenya has become a focal point for VC activity in Africa, driven by the success of mobile money service M-Pesa and supported by the Kenyan government's initiatives like Kenya Vision 2030 (Munemo, 2019).

Therefore, the early 21st century has witnessed a significant turn in the VC landscape of emerging technologies and increased start-up activity, specifically in fintech. In this period, significant VC funds were created, including TLcom Capital in 1999 and Partech Africa in 2018, and have since played critical roles in developing and financing early-stage MSEs across Africa. Local VC efforts, like the Savannah Fund in Kenya, have focused on high-growth tech MSEs, touting the region's emergence in the global VC marketplace (Munemo, 2019). VC activity has been driven by the innovation-led economy and the success achieved with the mobile money service, M-Pesa. Such governmental programs as Kenya Vision 2030 have since increased Nairobi's position as a center for fintech innovation, which could be behind an increasing number of VC deals. Only 20% of MSEs in Kenya have access to formal credit, with the majority relying on informal lending and savings mechanisms (World Bank, 2019). It is excellent for showing a mature and diverse VC ecosystem, signifying that the country's strategic importance is rising for attracting VC investments (Wright & Lockett, 2021).

VC firms contribute to economic development through MSE funding and, therefore, play a role in employment and economic activity creation, notwithstanding the high associated risks in financing innovative companies at very early stages of their life cycle (Anderson et al., 2017; Dushnitsky & Lenox, 2006). They contribute more than just capital; the firms give strategic, marketing, and operational guidance for the growth of companies. The impacts of venture capital extend toward regional development and social impact, with successful MSEs often becoming a means or platform that spurs economic activities and innovations within their regions (Pierrakis & Saridakis, 2017). Through active involvement, VC firms enhance corporate governance within their portfolio companies, playing a crucial role in supporting entrepreneurship and facilitating broader economic and societal advancements (Gompers & Lerner, 2004). They do this by selecting sound firms with promising future growth prospects, and the second responsibility is the venture capital financing role and, finally, the added value service role (Pere, 2012). Several studies have argued that companies backed by VCs are growing fast, have better financial and operating results, are innovative, and are more likely to go public than their non-VC-backed peers (Gompers & Lerner, 2004).

The evolving regulatory environment influenced by fintech and social enterprise innovations impacts how venture capitalists evaluate investment opportunities. Regulatory technology (RegTech) advancements, part of the broader fintech landscape, help streamline compliance and reduce operational risks, making MSEs more attractive to VC investors (Arner, Barberis, & Buckley, 2015; Schindler, 2017). The proactive engagement of regulators with fintech innovations also creates a more favorable environment for VC investments, as it signals stability and support for financial innovation, which is crucial for the growth and scalability of MSEs (Frame & White, 2014).

1.1.2 Financial Innovation among MSEs in Kenya

Innovation is a key driver of economic transformation and business competitiveness. It encompasses the development and adoption of new products, processes, technologies, and business models that create value for customers and enhance firm performance (Tidd & Bessant, 2013). Research shows a strong positive relationship between innovation investment and business performance, productivity, and growth (Kessidou & Szirmai, 2013). In Kenya, innovation has contributed to modernizing traditional sectors and enhancing economic resilience, supported by government initiatives such as the Kenya Youth Employment and Opportunities Project (KYEOP) and the Biashara Kenya Fund (GoK, 2021).

However, financial innovation among MSEs remains constrained. Many enterprises face challenges in adopting digital payment systems, integrating technology into their operations, or accessing innovative financial products (CBK, 2020). Innovation measurement is complex because it spans product, process, organizational, and marketing dimensions. Traditional indicators such as patents, trademarks, and R&D expenditure capture only a portion of innovation activities and tend to favor larger firms (Trajtenberg, 1987; Griliches, 1998). Emerging research advocates for broader, more inclusive innovation metrics such as new product introductions, digital adoption, and employee creativity, which are more reflective of innovation in MSE settings (Dziallas & Blind, 2019; Gunday et al., 2011).

Understanding the factors that influence financial innovation is therefore essential for addressing the innovation deficit among Kenyan MSEs. Financial innovation can enhance operational efficiency, support market expansion, and enable firms to integrate into digital ecosystems. Yet, the ability of MSEs to innovate depends on internal capabilities, including financial health, managerial experience, human capital, and access to networks, which interact with external enablers such as venture capital financing.

R&D expenses also represent a firm's innovation commitment. Lee & Park (2006) reported a significant direct positive relationship between R&D expenditures and innovation performance, as

patents and trademarks provide a more granular view of a firm's potential and ability to create, protect, and capitalize on intellectual property. Hu & Mathews (2008) also provide additional support for the use of these measures as an approach to evaluate and benchmark a firm's innovation output by industry sectors and regions, making it all-embracing.

Nevertheless, the relevance of such conventional metrics only to the more mature firms initiated a debate on the necessity of indicators applicable to early-stage companies. Dziallas and Blind (2019) support the need for indicators reflecting newly established enterprises' innovation activities. Gunday et al. (2011) have supported the idea that product and process innovation could be used as metrics for monitoring a firm's flexibility and prospects for growth. Shalley et al. (2004) focus on employee creativity and engagement as measures of a firm's innovation culture. Such considerations thus lead to more encompassing conceptions of innovation measurement, where terms range from a composite sales score from new products, R&D engagement, and product introductions aimed at capturing the essence of innovation across different stages of a company's development.

1.1.3 Venture capital financing and financial innovation among MSEs in Kenya.

Venture capital financing has been recognized as a critical force that stimulates innovation and enterprise development in Kenya, where MSEs have the capital needed to innovate and expand. The venture capital injection into the Kenyan market helped many MSEs steer the commercialization of new products or services. However, Kenya's venture capital ecosystem has several weaknesses, including low infrastructure development and an inability to attract investments. Even within these challenges, for instance, venture capital has lain at the heart of such success stories as M-Pesa, thus showing how profound the impact of VC is on creating innovation in emerging economies (Munemo, 2019; Wright & Lockett, 2021).

Despite the increasing interest in venture capital (VC) financing and its impact on financial innovation, most studies are concentrated in developed economies such as the United States, Europe, and Asia. For instance, studies by Hsu and Ziedonis (2013) and Gompers et al. (2001) focus heavily on the dynamics of VC investments in high-tech industries in these regions. However, limited research examines how venture capital financing influences financial innovation in emerging markets like Kenya, where the entrepreneurial ecosystem faces unique challenges such as limited infrastructure and policy constraints. This geographic gap hinders a comprehensive understanding of how VC can be tailored to support micro and small enterprises (MSEs) in developing economies. Addressing this gap was critical to designing effective strategies to enhance innovation within Kenyan MSEs, particularly in Sub-Saharan Africa's rapidly evolving financial landscape.

With these developments, M-Pesa continues to serve as a testament to the innovative potential that mobile money services bear for transforming MSE financial transactions. It provided a firm foundation for the facilitation of payments; in fact, it was the facilitation that sprang several financial innovations that cumulatively enhanced the business environment of MSEs in Kenya. The success story of M-Pesa is one example that continues to demonstrate how digital financial services work in nurturing a more inclusive and dynamic financial ecosystem, carrying enormous implications for the growth of MSEs and economic development in emerging markets. Continued development of the venture capital sector is critical to the support of MSEs, thus driving economic development and firming Kenya's place as the tech innovation and entrepreneurship hub on the continent (Gompers & Lerner, 2004).

1.1.4 Overview of Micro And Small Enterprises In Kenya

Micro and Small Enterprises (MSEs) are generally defined as businesses employing fewer than 50 employees, with micro-enterprises having fewer than 10 employees and small enterprises employing between 10 and 50 workers (Kenya National Bureau of Statistics [KNBS], 2020). These enterprises often operate with limited capital and basic infrastructure, primarily serving local markets and contributing significantly to the informal sector. According to the Micro and Small Enterprises Authority Act of 2012, MSEs in Kenya are categorized based on turnover, with micro-enterprises generating less than KES 500,000 annually and small enterprises earning between KES 500,000 and KES 5 million. Despite their size, these enterprises are critical in providing livelihoods, especially in underserved regions. Due to lower startup capital requirements, the ease of entry into MSE ownership has led to many such businesses across various sectors, including trade, agriculture, manufacturing, and services (World Bank, 2019).

The significance of Micro and Small Enterprises (MSEs) to Kenya's economy cannot be overstated, as they account for approximately 86% of all employment and contribute nearly 40% of the country's gross domestic product (GDP), underscoring their central role in economic growth and poverty reduction (KNBS, 2021; International Labour Organization [ILO], 2020). Beyond job creation, MSEs drive innovation and technological adoption by serving as testing grounds for new products and services that can later be scaled across markets. They also promote regional development, especially in areas underserved by larger corporations, prompting government initiatives such as the Kenya Youth Employment and Opportunities Project (KYEOP) and the Biashara Kenya Fund to strengthen their performance (GoK, 2021). The MSE landscape is diverse and dynamic, spanning formal and informal enterprises across sectors ranging from technology and retail in urban centers to agriculture and artisanal production in rural regions. While informal MSEs often lack access to credit and structured markets (KNBS, 2020), the expansion of digital financial services including mobile money and micro-lending platforms has begun bridging long-standing

financial inclusion gaps. Nevertheless, MSEs continue to face persistent challenges such as limited financing, inadequate infrastructure, and regulatory barriers, which constrain their growth and sustainability. Addressing these challenges requires coordinated action from government, financial institutions, and private investors to create a more enabling environment for MSEs to thrive (World Bank, 2019; KNBS, 2021).

1.2 Statement of the Problem

Despite Kenya's strong reputation as a regional leader in digital finance, financial innovation among Micro and Small Enterprises (MSEs) remains significantly low and uneven. Evidence from national surveys shows that many MSEs struggle to adopt new financial products, digital payment systems, and innovative financial processes due to weak financial health, limited managerial experience, inadequate technological readiness, and fragmented business networks. These firm-level determinants, which are essential enablers of financial innovation, vary widely across MSEs and contribute to persistent innovation gaps in the sector.

Although venture capital (VC) financing has the potential to strengthen firm capabilities by providing capital, strategic guidance, and innovation networks, access to VC in Kenya remains low and concentrated in technology-intensive ventures. Moreover, existing evidence focuses largely on the direct impact of VC on firm outcomes in developed economies, with limited understanding of how VC financing interacts with firm-level determinants such as financial health, networking capability, founding team experience, firm size, and ownership structure to influence financial innovation in emerging markets. This presents a critical knowledge gap: it is unclear whether VC financing merely selects firms that are already capable of innovating or whether it amplifies their internal capabilities to enhance financial innovation outcomes.

The lack of empirical studies examining VC financing as a moderating mechanism in the Kenyan MSE context limits policymakers' and investors' ability to design targeted strategies that support innovation-driven enterprise growth. Therefore, the problem this study addresses is the insufficient understanding of how firm-level determinants influence financial innovation among Kenyan MSEs and the extent to which venture capital financing enhances or moderates these relationships. By examining these dynamics, the

study seeks to provide evidence that can inform innovation policy, financing frameworks, and capacity-building initiatives for MSEs in Kenya.

1.3 Research Objectives

1.3.1 General Objective

To examine how venture capital financing moderates the relationship between firm-level determinants and financial innovation among Micro and Small Enterprises (MSEs) in Kenya.

1.3.2 Specific Objectives

The study sought to address the following specific objectives:

i. To assess the effect of firm-level determinants on financial innovation among MSEs in Kenya.
ii. To determine the direct influence of venture capital financing on financial innovation among MSEs in Kenya.
iii. To analyse the moderating effect of venture capital financing on the relationship between firm-level determinants and financial innovation outcomes in MSEs.

1.4 Research Questions

The study sought to answer the following questions:

i. How do firm-level determinants influence financial innovation among Micro and Small Enterprises (MSEs) in Kenya?
ii. What is the direct influence of venture capital financing on financial innovation among MSEs in Kenya?
iii. How does venture capital financing moderate the relationship between firm-level determinants and financial innovation outcomes in MSEs?

1.5 Scope of the Study

The research investigated how Venture Capital (VC) financing has affected the financial innovation of Micro and Small-sized Enterprises (MSEs) in Kenya over the past five years. By comparing companies that have received venture capital with those that haven't, the study seeks to uncover specific impacts on growth, technological adoption, and market competitiveness within Kenyan MSEs.

Primary data was collected from MSE operators in Nairobi, Nakuru, and Mombasa. Additionally, the Kenya National Bureau of Statistics (KNBS) data provided essential national data, offering a broader view of the macroeconomic trends and indicators relevant to the study's focus on MSEs and VC financing.

1.6 Significance of the Study

1.6.1 Theoretical Contribution

Existing studies predominantly examine the direct effects of venture capital (VC) on enterprise growth, with limited attention to how VC interacts with firm-level determinants such as financial health, networking capability, entrepreneurial experience, firm size, and ownership structure to influence financial innovation, particularly within emerging markets. This study contributes to theory by integrating the Resource-Based View (RBV) and the Technology Acceptance Model (TAM) to explain how VC financing may strengthen internal firm capabilities and enhance technology adoption. By empirically testing VC's moderating role, the study addresses a key theoretical gap in understanding how internal resources and external financing jointly shape financial innovation outcomes among MSEs.

1.6.2 Methodological Contribution

Most empirical studies on VC and innovation rely on patent counts, R&D expenditure, and innovation outputs from large firms in developed economies. There is limited methodological evidence on how

composite innovation measures such as adoption of digital tools, introduction of new financial products, or changes in financial processes can be applied to MSEs in developing countries. This study adopts a broader, context-appropriate innovation index and uses a moderation analysis framework to examine how VC influences the relationship between firm determinants and financial innovation. This contributes a methodological model that can be replicated or adapted for MSE research in similar emerging markets.

1.6.3 Practical Contribution for Entrepreneurs and Venture Capitalists

For Kenyan entrepreneurs, the study offers insights into which firm-level capabilities most strongly influence financial innovation and how VC financing can enhance these capabilities. MSE owners can use this evidence to better position themselves for investment and strategically build the resources that matter most for innovation. Venture capitalists benefit by gaining a clearer understanding of the determinants that shape successful financial innovation in the MSE sector, enabling more informed investment decisions and portfolio support strategies.

1.6.4 Policy Contribution

Policymakers and regulatory bodies stand to benefit from empirical evidence on the structural constraints that inhibit financial innovation among MSEs and the conditions under which VC financing can mitigate these barriers. The findings can support the design of targeted policies such as capacity-building programs, innovation grants, or regulatory incentives that enhance MSE innovation capabilities and make VC financing more accessible and impactful. Such evidence-based policies contribute to national goals of financial inclusion, digital transformation, and SME sector growth.

1.6.5 Contribution to Academia and Future Research

For scholars, this study enriches the limited body of literature on financial innovation among MSEs in Sub-Saharan Africa and provides a grounded empirical basis for exploring VC–innovation relationships in developing economies. By highlighting contextual factors unique to Kenya, the study opens avenues for

future comparative research on innovation ecosystems, entrepreneurial finance, and VC effectiveness across emerging markets.

1.6.6 Contribution to Consumers and Firms

Financial innovation ultimately benefits consumers through improved access to efficient, affordable, and user-friendly financial services. For firms, especially MSEs, enhanced financial innovation translates into better operational efficiency, expanded market reach, and stronger competitiveness. By clarifying the determinants and enablers of financial innovation, the study provides practical guidance for firms seeking to innovate and grow within Kenya's evolving financial landscape.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter forms the cornerstone of the study, offering a comprehensive view that intertwines theoretical insights, empirical evidence, and a well-defined conceptual framework. It begins with a thorough theoretical literature review, delving deep into the foundational theories that anchor the study, mainly focusing on the moderating influence of venture capital financing and its impact on MSEs' financial innovation. It is followed by an empirical literature review, where previous scholarly works are critically analysed to draw parallels, identify gaps, and position this study within the existing body of knowledge. The chapter culminates with the presentation of a conceptual framework, which succinctly illustrates the expected relationships between the critical variables of the study, namely venture capital financing and financial innovation in Kenyan MSEs.

2.2 Theoretical Review

This section reviews the theory that informs the study. The study was interested in reviewing two theories. The theories are the information asymmetry theory and the technological acceptance theory. The choice of a multi-theoretical approach is informed by the fact that for MSEs to leverage more from their financial innovations, their progress and the type of financing offered by VC firms are essential considerations. It means that resources and technological diffusion have become important. On this basis, the resource-based view (in terms of the financing provided) and adoption of innovations (technological acceptance model) have been suggested for this study.

2.2.1 Resource-Based View Theory

The Resource-Based View (RBV), introduced by Barney (1991), argues that a firm's ability to achieve sustained competitive advantage depends on its possession and effective deployment of valuable, rare, inimitable, and non-substitutable (VRIN) resources. These resources may include financial assets, technological capabilities, managerial skills, organizational routines, and strategic networks. RBV therefore places emphasis on internal firm-level determinants such as financial health, networking capability, entrepreneurial experience, and human capital that shape a firm's ability to innovate and adapt in competitive environments.

In relation to this study, RBV provides a theoretical foundation for Specific Objective 1, which examines how firm-level determinants influence financial innovation among Kenyan MSEs. MSEs with stronger financial health, more experienced founding teams, and broader business networks possess strategic resources that enhance their capacity to introduce new financial products, adopt digital tools, or redesign financial processes. Empirical studies support this RBV perspective by showing that firms with superior internal capabilities demonstrate higher levels of innovation performance, particularly in resource-constrained settings (Block et al., 2018; Gompers et al., 2020).

RBV also connects directly to the moderating role of venture capital, which is addressed in Specific Objective 3 and the conceptual framework. Venture capital financing provides not only financial resources but also intangible strategic assets such as mentorship, managerial expertise, market access, and ecosystem integration. These resources augment a firm's existing capabilities, strengthening its ability to innovate. Through this lens, venture capital operates as a complementary resource that enhances or amplifies the effectiveness of internal firm determinants. For example, a firm with strong managerial talent may innovate more effectively when supplemented by VC-provided knowledge and networks, thereby producing superior financial innovation outcomes.

In the conceptual framework, this theoretical relationship is reflected by positioning VC financing as a moderating variable that strengthens the link between firm-level determinants and financial innovation.

RBV predicts that firms with both strong internal resources and access to external strategic resources (such as VC) will outperform firms relying solely on internal capabilities. Thus, RBV not only explains why specific determinants matter but also why their effect on innovation may be stronger for VC-backed firms.

Overall, RBV is highly relevant to this study because it integrates the roles of internal firm capabilities and external resource providers, offering a strong theoretical justification for examining how venture capital financing moderates the relationship between firm-level determinants and financial innovation among MSEs in Kenya.

2.2.2 Technological Acceptance Model Theory

The Technology Acceptance Model (TAM), developed by Davis (1989), explains the factors that shape an individual's or organization's willingness to adopt and use new technologies. TAM builds on the Theory of Reasoned Action (Fishbein & Ajzen, 1975) and proposes two core constructs that influence technology adoption: Perceived Usefulness (PU) the extent to which a technology is believed to enhance performance—and Perceived Ease of Use (PEOU) the degree to which using the technology is perceived as effortless. These perceptions shape Behavioral Intention to use the technology, which subsequently drives actual adoption (Davis, 1989; Venkatesh & Davis, 2000). Over time, TAM has been extended through TAM2 and the Unified Theory of Acceptance and Use of Technology (UTAUT), reinforcing its relevance in explaining adoption across various technological contexts (Venkatesh et al., 2003).

TAM is directly relevant to this study because financial innovation among MSEs often involves the adoption of digital financial tools, new financial processes, and technology-enabled solutions. This aligns with Specific Objective 1, which examines how firm-level determinants influence financial innovation. Determinants such as networking capability, financial health, and founding team experience influence PU and PEOU by shaping the firm's readiness and capacity to adopt innovative financial technologies. Empirical studies show that firms with stronger managerial expertise, better access to information, and greater technological exposure exhibit higher innovation adoption, consistent with TAM predictions (Moritz, Block, & Heinz, 2016; Haddad & Hornuf, 2019).

TAM also connects to the moderating role of venture capital in Specific Objective 3 and the conceptual framework. Venture capital financing can enhance both PU and PEOU by providing firms with the resources, technical expertise, mentorship, and innovation networks needed to evaluate, adopt, and implement financial innovations more effectively. VC-backed firms often gain broader technological exposure, reduced adoption risks, and access to knowledge that improves their perception of usefulness and ease of implementing financial technologies. This implies that VC support can strengthen the relationship between internal determinants and financial innovation outcomes by enhancing firms' technology acceptance capabilities.

In the conceptual framework, TAM explains why MSE internal determinants translate into actual innovation outcomes, while VC financing helps lower the barriers associated with technology adoption. Thus, TAM contributes to understanding *how* and *why* MSEs engage in financial innovation, and why the effect of firm-level determinants may be amplified when these firms have access to external resources and expertise offered by venture capital investors.

2.3 Empirical Review

Empirical studies have provided evidence supporting the theories above. For example, it was found that VC-backed firms are more innovative than non-VC-backed firms (Hsu, 2006). Furthermore, studies have found that VC-backed firms are more likely to have successful exits, such as IPOs or acquisitions, than non-VC-backed firms (Gompers and Lerner, 2001). This evidence suggests that the financial resources, value-added services, and support provided by VC firms can positively impact the innovation and success of portfolio companies.

2.3.1 Determinants of venture capital financing for firms in Kenya.

Empirical studies highlight several firm-level determinants that significantly influence financial innovation among Micro and Small Enterprises (MSEs). Consistent with the Resource-Based View (RBV), these determinants shape the internal capabilities that enable firms to recognize opportunities, allocate resources,

and implement new financial products, processes, or technologies. The literature identifies five core determinants relevant to this study: founding team experience, financial health, firm size and development stage, industry focus, and networking capability.

The experience and competence of the founding team are repeatedly shown to be strong predictors of innovation performance. Firms led by experienced entrepreneurs tend to recognize innovation opportunities more effectively and possess superior capabilities for managing risk and implementing new solutions. Gompers, Kovner, Lerner, and Scharfstein (2010) found that prior entrepreneurial and industry experience significantly increases a firm's likelihood of introducing innovative products and practices. Similarly, Hsu and Ziedonis (2013) demonstrated that human capital embedded in the founding team enhances early-stage firms' ability to generate innovation. Evidence from Africa supports these findings; Agyapong, Agyapong, and Poku (2017) reported that SMEs with experienced leadership in Ghana exhibited higher innovation performance. In Kenya, Mutiso, Wanjau, and Gichira (2020) showed that managerial experience positively influences technology adoption and financial innovation among MSEs.

A firm's financial health often reflected in its revenue stability, profitability, and liquidity also plays a critical role in enabling financial innovation. Financially strong firms can invest in new technologies, hire skilled staff, and absorb the risks associated with innovation. Howell (2017) demonstrated that firms with healthier cash flows invest more in innovation, especially in technology-driven areas. Chen and Liu (2019) similarly found that financially constrained SMEs tend to underinvest in innovation due to risk aversion and liquidity limitations. In the African context, Abor and Quartey (2010) emphasized that financial constraints remain a major barrier to innovation in SMEs, while Wanjira, Ithinji, and Kariuki (2021) showed that financially stable Kenyan microenterprises are significantly more likely to adopt digital financial innovations such as mobile payment systems and automated bookkeeping tools.

Firm size and development stage are additional determinants with strong empirical support. Smaller or younger firms tend to be more agile and creative but often lack the resources to sustain innovation. Acs and Audretsch (2010) note that while small firms are important sources of innovation, their innovation activities

are constrained by limited financial and organizational capacity. Chemmanur, Loutskina, and Tian (2014) found that growth-stage firms or those achieving moderate scale are more likely to commercialize innovations because they possess stronger operational systems and resource bases. In Kenya, Kiveu and Ofafa (2013) observed that larger or more formalized SMEs adopt financial innovations more readily than microenterprises because they have better access to capital, technology, and skilled personnel.

Industry focus also shapes innovation outcomes. Firms operating in dynamic, technology-intensive sectors tend to innovate more frequently due to competitive pressure and rapid technological change. Chemmanur, Loutskina, and Tian (2014) highlight that sectors such as ICT, financial services, and clean energy show higher innovation tendencies compared to traditional industries. Oyelaran-Oyeyinka (2014) observed that SMEs in digitally evolving sectors exhibit significantly greater innovation outputs in Sub-Saharan Africa. In Kenya, Kiveu, Namusonge, and Muathe (2019) reported that enterprises in ICT-enabled industries adopt financial innovations such as mobile payments, digital credit, and online financial management tools more extensively than those in low-tech sectors.

Finally, networking capability and market connectivity play a critical role in facilitating innovation adoption. Firms with extensive networks gain access to knowledge, partnerships, and market information that enhance innovation potential. Laursen and Salter (2006) found that firms with strong external linkages are more likely to introduce new products and processes. Uzzi (1997) similarly highlighted that embedded social networks improve information flow and innovation uptake. For Kenyan enterprises, Ngugi, Minja, and Odero (2012) demonstrated that SMEs with higher levels of networking capability exhibit greater adoption of financial innovations, particularly digital payment and financial management systems. Ouma, Odongo, and Were (2017) further showed that network exposure significantly predicts mobile money adoption among microenterprises in Kenya.

Venture capital (VC) investment decisions are profoundly influenced by several key factors determining the attractiveness of MSEs. One critical aspect is the founding team's strength and experience, with a proven record in the relevant industry being highly valued by venture capitalists. This emphasis on team quality stems from recognizing that a capable and experienced team is better positioned to navigate the challenges of scaling a business and achieving market success (Gompers & Lerner, 2004). Additionally, the size and growth potential of the firm's target market play a vital role in attracting VC investment. Venture capitalists are drawn to ventures with enormous market potential, as these offer the promise of substantial returns. The attractiveness of firms with strong intellectual property portfolios, such as patents or trademarks, further highlights the importance of unique and defendable innovations in securing venture capital (Hsu & Ziedonis, 2013).

Financial metrics also significantly impact venture capitalists' investment decisions. Revenue growth, profitability, and cash flow are meticulously evaluated to assess a firm's economic health and growth trajectory. These metrics provide insight into the firm's ability to generate significant returns on investment, a primary concern for venture capitalists seeking to maximize their financial gains (Kaplan & Strömberg, 2004). Moreover, the firm's development stage, whether at the seed or early stage, is crucial. Despite their higher risk profile, earlier-stage firms are often associated with potentially higher returns, attracting venture capitalists specializing in high-risk, high-reward investments (Gompers & Lerner, 2004).

MSEs operating in high-tech and innovative industries are more likely to attract VC due to the potential for disruptive innovation and substantial returns. Industries such as biotechnology, information technology, and clean energy are desirable to VCs (Chemmanur, Loutskina, & Tian, 2014). Smaller and younger firms are often more innovative but face greater financial constraints.

Venture capitalists (VCs) are inclined to invest in these firms due to their high growth potential and the potential for significant returns on investment (Howell, 2017). VCs assess the competitive environment to determine the likelihood of the MSE achieving a dominant position or considerable market share (Chemmanur & Fulghieri, 2014).

The specificity of venture capitalists' industry focus is another critical consideration. Venture capitalists often specialize in specific industries, leveraging their expertise and networks within those domains to identify promising investment opportunities and provide value-added services to their portfolio companies. This industry specialization enables venture capitalists to offer strategic advice, business planning support, and networking opportunities, which are invaluable for innovative firms looking to scale their operations and succeed in competitive markets (Kaplan & Strömberg, 2004). Additionally, firms that have the potential to create network effects, such as social media platforms or marketplaces, are desirable to venture capitalists. These ventures promise exponential growth and market dominance, aligning with venture capitalists' goals of investing in companies that deliver significant market impact and financial returns (Hsu & Ziedonis, 2013).

Finally, the venture capital investment decisions are multifaceted, with venture capitalists considering a range of factors from the founding team's experience to the firm's financial health, market potential, intellectual property strength, industry focus, and potential for network effects. These considerations are critical in identifying firms with high growth potential that align with venture capitalists' investment strategies and objectives.

2.3.2 The influence of VC financing type on innovation.

Empirical literature widely recognizes venture capital (VC) financing as a central driver of innovation, particularly for Micro and Small Enterprises (MSEs) and early-stage firms that face financial, technological,

and capability constraints. VC financing provides not only risk capital but also strategic guidance, mentorship, and access to innovation networks, all of which directly enhance firms' capacity to develop and implement innovative products, processes, and technologies. Unlike traditional debt financing, VC is structured to support high-risk, innovation-intensive activities, making it especially relevant for financial innovation in emerging economies.

Several studies provide strong evidence of a positive direct relationship between VC financing and innovation outcomes. Kortum and Lerner (2000) demonstrate that venture capital investment is significantly associated with higher innovation output, measured through patenting activity, even after controlling for firm size and industry effects. Similarly, Hellmann and Puri (2002) find that VC-backed firms are more likely to introduce new products and adopt innovative organizational practices than non-VC-backed firms, suggesting that VC accelerates innovation by professionalizing management and facilitating faster commercialization. Hsu (2004) further argues that VC financing enables firms to pursue innovative projects that would otherwise be unattainable due to uncertainty and limited access to traditional finance.

The stage of VC financing plays an important role in shaping innovation outcomes. During the seed stage, MSEs seek initial funding to transform ideas into viable products or services. Seed-stage VC financing provides critical resources such as capital, mentorship, and network access that support experimentation and early innovation. Empirical evidence by Pierrakis and Saridakis (2017) and Cheng et al. (2018) shows that access to early VC financing significantly enhances firms' innovative capabilities, particularly in R&D intensity and early product development. However, these studies also highlight the stringent selection criteria imposed by venture capitalists, which can limit access for many MSEs and create high stakes at the seed stage.

Bertoni, Colombo, and Grilli (2011) provide robust empirical evidence on early-stage VC financing using a difference-in-differences methodology applied to European high-tech startups. Their findings show that seed and startup VC financing significantly increase R&D investment and patent filings compared to non-

VC-backed firms. This suggests that early VC funding directly stimulates innovation by easing financial constraints and enabling firms to invest in knowledge creation and technology development. As firms transition from seed to early-stage financing (Series A, B, or C), VC funding supports scaling and commercialization of innovations. However, Sun et al. (2018) and Pradhan et al. (2018) observe that while early-stage VC is crucial for growth and market penetration, it also introduces pressure to accelerate revenue generation, which may shift innovation toward more incremental rather than radical outcomes.

At the late-stage financing phase, VC investments aim to prepare firms for public offerings, acquisitions, or large-scale market expansion. Cumming, Fleming, and Schwienbacher (2006), using survival analysis on Canadian firms, find that later-stage VC financing facilitates consolidation of innovative activities and improves firms' readiness for exit. Samila and Sorenson (2011) similarly report that late-stage VC investment supports firm growth and innovation employment but can also introduce strategic challenges related to aligning investor expectations with long-term innovation objectives. These pressures may encourage firms to prioritize short-term performance indicators over sustained exploratory innovation.

Evidence from developing and emerging economies reinforces the positive direct influence of VC financing on innovation. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) show that firms with access to external equity financing in developing countries are more likely to innovate in products and processes. In the African context, Lerner and Nanda (2020) highlight that VC financing plays a crucial role in enabling digital and financial innovations by alleviating capital constraints and providing access to global knowledge networks. Divakaran and Schneider (2018) specifically note that VC-backed firms in Kenya demonstrate stronger innovation performance in fintech and technology-enabled financial services compared to firms relying solely on internal financing.

Firm maturity and age also shape how VC financing influences innovation outcomes. Nurul Nadia Abd Aziz and Sarminah Samad (2016), in a study of Malaysian SMEs, find that younger firms exhibit a stronger positive relationship between innovation and competitive advantage than older firms, suggesting that agility and flexibility enhance the returns to innovation. This evidence aligns with broader findings that younger

MSEs are more responsive to VC financing in terms of innovation intensity, while older firms may focus more on optimization and incremental improvements.

Overall, the empirical literature underscores a nuanced but consistently positive direct relationship between venture capital financing and financial innovation. Across different stages of financing and firm maturity, VC investment reduces financial constraints, supports experimentation, accelerates commercialization, and strengthens innovation capacity. Although the pressures associated with VC financing may influence the nature and pace of innovation, empirical evidence overwhelmingly suggests that VC financing plays a vital role in enhancing financial innovation outcomes among MSEs.

2.3.3 Moderating Effect of Venture Capital Financing on the Relationship Between Firm-Level Determinants and Financial Innovation

Empirical literature increasingly recognizes that venture capital (VC) financing does not merely exert a direct influence on innovation outcomes but also plays a moderating role by shaping how firm-level determinants translate into innovation performance. This perspective is grounded in the Resource-Based View (RBV), which emphasizes that external resources can complement and enhance internal firm capabilities, and is further supported by innovation and entrepreneurship literature that highlights the conditional effects of financing on innovation processes. In the context of Micro and Small Enterprises (MSEs), where internal resources are often limited, VC financing may amplify or constrain the effects of firm-level determinants such as financial health, founding team experience, firm size, industry focus, and networking capability on financial innovation outcomes.

Several empirical studies demonstrate that VC financing strengthens the relationship between internal firm resources and innovation output. Chemmanur, Loutskina, and Tian (2014) show that VC-backed firms are better able to convert internal R&D capabilities into patentable innovations compared to non-VC-backed firms, suggesting that VC financing enhances the productivity of firm-level resources. Their findings indicate that VC involvement improves monitoring, governance, and access to complementary assets,

thereby increasing the innovation returns to internal capabilities. Similarly, Hellmann and Puri (2002) find that VC-backed firms introduce innovations faster than non-VC-backed firms with similar internal characteristics, highlighting the moderating role of VC in accelerating innovation outcomes.

The moderating influence of VC financing is particularly evident in the relationship between founding team experience and innovation. Experienced founding teams possess valuable human capital, but their ability to exploit this capital for innovation may depend on access to external financing and strategic support. Gompers, Kovner, Lerner, and Scharfstein (2010) find that serial entrepreneurs backed by VC investors generate higher innovation outputs than equally experienced founders without VC support. This suggests that VC financing enhances the effectiveness of entrepreneurial experience by providing access to networks, mentorship, and market knowledge that enable founders to better translate experience into financial innovation.

VC financing also moderates the relationship between financial health and innovation outcomes. While financially stronger firms are more likely to innovate, empirical evidence shows that VC financing can substitute for or complement internal financial capacity. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) demonstrate that external equity financing significantly strengthens the impact of firm financial resources on innovation in developing economies. Their results suggest that VC-backed firms are better able to leverage existing financial health to pursue innovative activities, particularly in environments characterized by credit constraints. In the Kenyan and broader African context, Lerner and Nanda (2020) argue that VC financing plays a critical role in overcoming capital market imperfections, thereby amplifying the innovation potential of financially viable but resource-constrained MSEs.

Firm size and development stage further condition how VC financing moderates innovation outcomes. Smaller and younger firms typically face higher barriers to innovation due to limited organizational capacity. However, empirical studies indicate that VC financing can offset these constraints. Howell (2017) finds that VC-backed young firms exhibit higher innovation intensity than comparable non-VC-backed firms, suggesting that VC financing enhances the innovation capacity of smaller enterprises by

compensating for scale disadvantages. Bertoni, Colombo, and Grilli (2011) similarly show that VC financing strengthens the relationship between firm growth stage and innovation by enabling early-stage firms to sustain R&D investment and increase patenting activity. These findings imply that VC financing moderates the size–innovation relationship by enabling smaller firms to achieve innovation outcomes typically associated with larger enterprises.

The moderating role of VC financing is also evident in the relationship between networking capability and innovation. Firms embedded in strong networks benefit from knowledge spillovers and collaboration opportunities, but VC financing can significantly enhance these effects. Hochberg, Ljungqvist, and Lu (2007) demonstrate that VC-backed firms gain access to broader and more valuable networks than non-VC-backed firms, which enhances innovation outcomes. Through board representation, syndication, and ecosystem integration, VC investors expand firms' relational capital, enabling them to more effectively exploit existing networks for innovation. In emerging markets, Bruton, Ahlstrom, and Obloj (2008) find that VC financing strengthens the impact of business networks on innovation by reducing information asymmetry and facilitating access to global markets.

Industry context further shapes the moderating role of VC financing. In innovation-intensive sectors, such as financial technology and ICT-enabled services, VC financing enhances firms' ability to respond to rapid technological change. Samila and Sorenson (2011) show that regions with higher VC activity experience greater innovation spillovers, suggesting that VC financing not only strengthens firm-level innovation but also amplifies the innovation effects of industry dynamics. For MSEs operating in dynamic sectors, VC financing can thus intensify the impact of industry-specific determinants on financial innovation outcomes.

Despite its positive moderating influence, empirical studies also acknowledge that VC financing may shape the nature of innovation. Bernstein, Giroud, and Townsend (2016) observe that VC-backed firms may shift toward more incremental innovations as they mature, reflecting investor preferences for predictable returns. However, even in such cases, VC financing continues to enhance firms' ability to convert internal resources

into measurable innovation outputs, reinforcing its role as a conditional enabler rather than a substitute for firm-level determinants.

Overall, empirical evidence strongly supports the view that venture capital financing moderates the relationship between firm-level determinants and financial innovation outcomes by enhancing resource utilization, reducing constraints, and improving access to complementary assets. VC financing strengthens the impact of founding team experience, financial health, firm size, networking capability, and industry focus on innovation performance, particularly in resource-constrained environments such as Kenya.

2.4 Summary of the literature and research gaps

The following summary and gaps are presented based on the theories and empirical literature reviewed.

Table 2.1 Summary of literature and gaps

Year & Author	Study Description	Variables Reviewed in the Study	Findings of the Study	Gaps in the study	How the current study fills the gaps
2011, Samila & Sorenson	Investigated the impact of VC on entrepreneurship and growth in the US metropolitan area.	VC investment, Firm MSEs, Employment generation	VC investment significantly influenced firm MSEs and employment generation, promoting entrepreneurship.	Focus primarily on entrepreneurship and growth without a deep dive into innovation specifics.	Explicitly examining the role of VC in enhancing financial innovation within MSEs, adding depth to the understanding of how VC contributes to more targeted innovation outputs.

Year & Author	Study Description	Variables Reviewed in the Study	Findings of the Study	Gaps in the study	How the current study fills the gaps
2017, Pierrakis & Saridakis	Examined the impact of public VC on British firms' innovation.	Public VC, innovation outcomes	Public VC-backed firms showed higher innovation than firms with other types of VC, suggesting the importance of VC types on innovation.	Limited exploration of the impact of different types of VC (public vs. private) in the context of innovation in emerging economies.	Explores the differential impact of VC types on innovation within Kenyan MSEs, enriching the understanding of VC's role in diverse economic contexts.
2018, Cheng et al.	Analyzed the impact of VC on innovation and employment in Chinese firms.	VC investment, innovation, and employment	I found a positive relationship between VC investment and innovation, highlighting VC's role in providing innovation resources.	Concentration on the Chinese market with less emphasis on the unique challenges and dynamics of VC in African economies.	It focuses on the Kenyan context, providing insights into how VC supports innovation in SMEs amidst the challenges and opportunities unique to emerging African markets.
2018, Sun et al.	Investigated VC's role in transforming emerging economies' ecosystems.	VC investment, patent applications	Positive relations between VC investment and increased patent applications indicate VC's influence on innovation.	Limited to patent applications, missing broader innovation indicators.	Expand innovation indicators beyond patents to include sales from new products and R&D engagement, offering a comprehensive view of innovation.

Year & Author	Study Description	Variables Reviewed in the Study	Findings of the Study	Gaps in the study	How the current study fills the gaps
2018, Pradhan et al.	Analyzed the relationship among innovation, growth, and VC investment in 23 European countries.	VC investment, growth, innovation	VC investment positively impacted growth and innovation, showcasing the critical resource role of VC in fostering innovation.	European focus, with minimal insight into African VC-innovation dynamics.	Investigates the VC-innovation nexus within Kenya, offering fresh perspectives applicable to emerging economies.
2018, García-Quevedo et al.	Explored the challenge innovative MSEs face in securing traditional financing.	Traditional financing, VC investment	Innovative MSEs struggle with traditional financing due to a lack of assets, benefiting from VC through equity for control and decision-making.	Did not compare VC with alternative financing mechanisms in depth.	While focusing on VC, it also considers its role relative to other financing forms, broadening the understanding of financing innovation in SMEs.
2019, Zhang et al.	Analyzed VCs' preference for projects with immediate market potential over radical innovations.	VC investment preferences, innovation	VCs favor projects with clear market potential, potentially limiting broader innovation scope among MSEs.	Limited strategies were discussed to encourage VCs to fund radical innovations.	Examines mechanisms to encourage more venture capital flow into radical innovations within MSEs, addressing a crucial gap in funding innovation.

Year & Author	Study Description	Variables Reviewed in the Study	Findings of the Study	Gaps in the study	How the current study fills the gaps
2019, Lindgren et al.	Discussed venture capitalists' influence on the business decisions of MSEs.	VC influence, entrepreneur autonomy	VC involvement can restrict entrepreneurs' innovative strategies, affecting their autonomy and potentially stifling creativity.	Acknowledged VC's impact on autonomy but lacked depth in analyzing its effects on innovation outcomes.	Deeply explores how VC impacts entrepreneurial autonomy and innovation, offering strategies to maintain creativity alongside VC benefits.

2.5 Conceptual Framework

The figure below shows the relationship between the independent and dependent variables. Innovation was measured using patents, as shown in the left boxes. On the other hand, the independent variable was venture capital Financing.

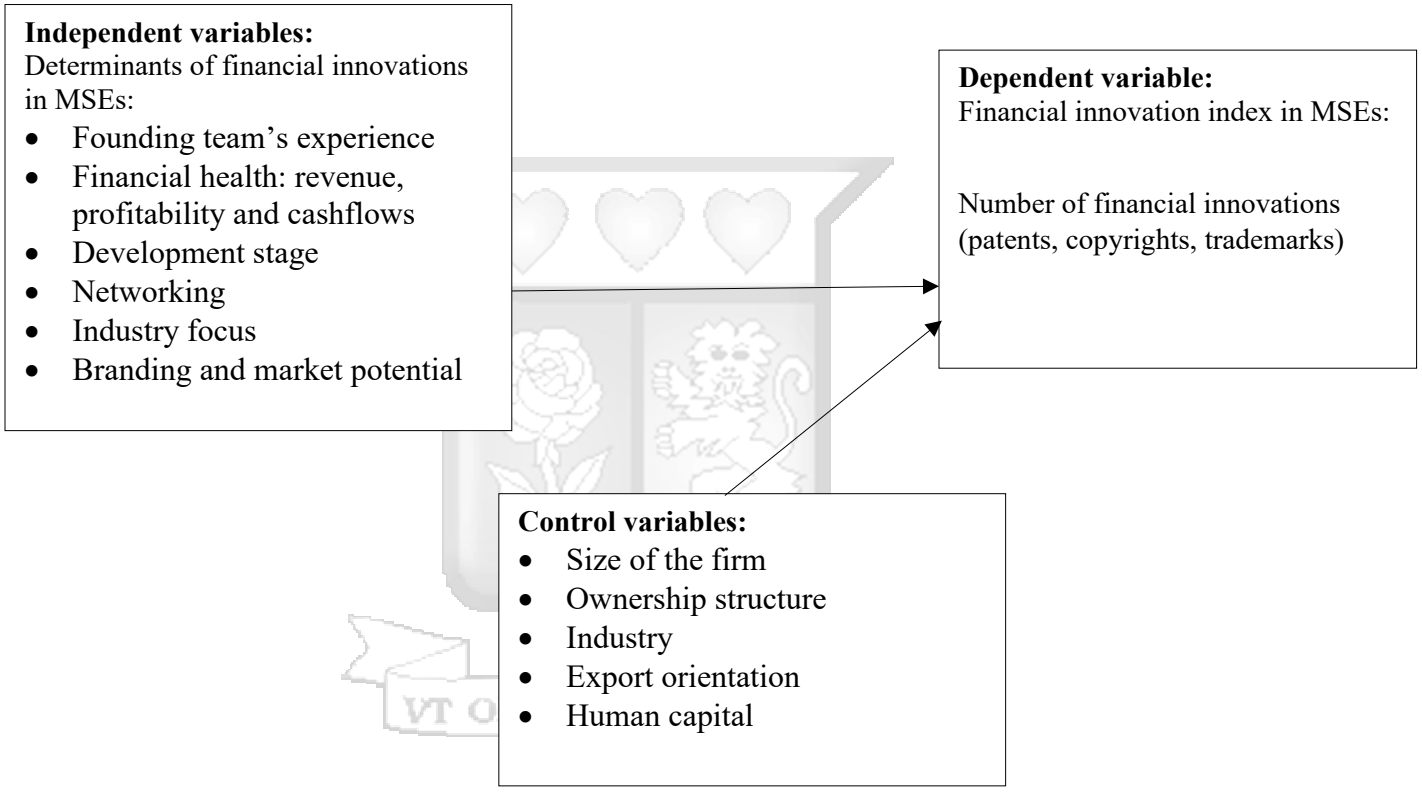


Figure 2.1: Conceptual Framework.

2.5.1 The Conceptual Framework Variables

outlines the key variables underpinning the study's conceptual framework and explains how they interact to influence financial innovation among Micro and Small Enterprises (MSEs) in Kenya. The framework posits that financial innovation measured through registered patents, copyrights, and trademarks is driven

by internal firm-level determinants and shaped by external financing mechanisms, particularly venture capital (VC) financing.

The independent variables consist of firm-level determinants that affect an MSE's innovative capacity. These include founding team experience, financial health, development stage, networking capability, industry focus, and branding or market potential. Together, these factors capture the internal resources, capabilities, and market positioning of firms, all of which empirical literature shows to be critical in fostering innovation, especially in resource-constrained environments.

Venture capital financing and support are positioned as a moderating variable within the framework. VC financing encompasses both financial inputs and non-financial support, such as mentorship, strategic guidance, financing type, and stage of investment. Through these mechanisms, VC is expected to enhance the effectiveness of firm-level determinants by reducing resource constraints and integrating firms into broader innovation ecosystems.

The dependent variable is financial innovation, operationalized using measurable innovation outputs patents, copyrights, and trademarks which allow for objective quantitative analysis. Finally, the framework incorporates control variables, including firm size, ownership structure, industry, export orientation, and human capital, to account for heterogeneity across firms and ensure that the observed effects on innovation are attributable to the core explanatory variables.

Overall, the conceptual framework provides a structured representation of how internal firm characteristics influence financial innovation, and how venture capital financing strengthens these relationships while controlling for firm-specific differences.

2.5.2 Operationalization of the Variables

Table 2.2 Operationalization of the Variables based on the Conceptual Framework

Variable	Description	Measurement	Supporting Empirical Literature	Supporting Theory
Dependent Variable				
Financial Innovation	Financial innovation refers to the extent to which a Micro and Small Enterprise (MSE) develops, adopts, or implements new or improved financial products, processes, or practices, including digital financial solutions and formal innovation outputs.	Continuous variable computed as a composite index of several indicators	Hsu (2006) and Gompers and Lerner (2001) highlight the positive impact of VC-backed firms on innovation.	Resource-Based View Theory suggests internal resources and capabilities are crucial for sustained competitive advantage and innovation.
Moderating Variable				

Variable	Description	Measurement	Supporting Empirical Literature	Supporting Theory
Venture Capital Financing	The presence of venture capital investment in a firm and the amount received.	Binary variable where 1=firms received VC, 0=otherwise	Samila & Sorenson (2011) and Pierrakis & Saridakis (2017) demonstrate VC's role in firm growth and innovation.	Information Asymmetry Theory and Resource-Based View Theory indicate that VC provides essential resources for overcoming market inefficiencies and fostering innovation.
Control Variables				
Firm Size	The size of a firm is based on employees, assets, and annual turnover.	Natural logarithm of the number of employees	Studies link firm size with innovation capacity, e.g., Cheng et al. (2018).	Organizational Ecology Theory suggests that firm size influences organizational capabilities and innovation.
Ownership Structure	The firm's ownership distribution among government, foreign, and local investors.	Categorical variable: foreign-owned, locally owned.	Lindgren et al. (2019) discuss VC's influence on autonomy, indirectly hinting at ownership's role.	Agency Theory provides a framework for understanding the relationship between owners and managers, which affects innovation strategies.
Industry Sector	The firm's operational sector affects innovation levels.	Categorical variable: agriculture, manufacturing, construction, services.	Sector-specific innovation impacts were noted by Sun et al. (2018) and Pradhan et al. (2018).	Industrial Organization Theory examines how the structure of industries and markets influences innovation.

Variable	Description	Measurement	Supporting Empirical Literature	Supporting Theory
Export Orientation	The firm's engagement in international markets through exports.	Binary variable: 1=exports, 0=no exports.	The correlation between export orientation and innovation needs specific citations.	International Business Theory explores how engaging in international markets impacts firm innovation and growth.
Human Capital	The employees' education level measures the level of expertise within a firm.	Percentage of employees with advanced degrees.	The role of human capital in fostering innovation is widely acknowledged, though specific references are needed.	Human Capital Theory suggests that a firm's workforce quality is a critical resource for innovation and competitive advantage.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology employed to examine the impact of venture capital investment on firm innovation in Kenya. It is divided into five subsections: research philosophy, research design, data collection, variable selection, and model specification, and ethical considerations. The chapter begins by detailing the research design and philosophy, followed by an explanation of the data sources and criteria for sample selection. Subsequently, it discusses the selection of variables and the model's specification.

3.2 Research Philosophy

This study is guided by the positivist research philosophy, which assumes that reality is objective, measurable, and can be examined through empirical observation and statistical analysis. Positivism emphasizes the testing of theories through quantifiable data in order to establish causal relationships and generate generalizable knowledge (Kothari, 2014). This philosophical stance is appropriate for the present study, which seeks to empirically examine the relationships between firm-level determinants, venture capital financing, and financial innovation outcomes among Micro and Small Enterprises (MSEs) in Kenya.

The choice of positivism aligns directly with the study's specific objectives, which involve assessing the effects of measurable firm-level determinants on financial innovation, determining the direct influence of venture capital financing, and analysing the moderating effect of venture capital on these relationships. These objectives require the use of observable variables, numerical indicators, and hypothesis testing to establish statistically significant relationships. Accordingly, data were collected in quantitative form through structured questionnaires and analyzed using Ordinary Least Squares (OLS) regression, consistent with the positivist emphasis on objectivity and statistical inference.

Consistent with the positivist paradigm, the study adopts a deductive research approach. Deductive reasoning involves deriving hypotheses from existing theories and empirical literature and subjecting them to empirical testing using data (Creswell, 2002). In this study, hypotheses were formulated based on the Resource-Based View (RBV) and the Technology Acceptance Model (TAM), as well as prior empirical studies on venture capital financing and innovation. These hypotheses were then tested using survey data collected from Kenyan MSEs and quantitative measures of financial innovation outcomes.

Overall, the positivist philosophy is appropriate because it provides a coherent framework for linking theory, measurement, and statistical analysis. It enables the study to objectively evaluate whether and how venture capital financing influences financial innovation, both directly and as a moderating factor, thereby ensuring methodological rigor and alignment with the study's analytical model.

3.3 Descriptive Survey Design

The study employs a cross-sectional research design to assess venture capital investment's impact on Kenyan firms' financial innovation. As noted by Kothari (2014), this design is effective for collecting data at a single point in time from a substantial sample of entrepreneurs who have received venture capital financing. The survey approach allowed us to gather data on the independent variable (venture capital financing) and the dependent variable (innovation outcomes).

3.4 Population and Sampling

Table 3.1 summarizes the distribution of the study sample across three major towns in Kenya. Out of the total 543 Micro and Small Enterprises (MSEs) surveyed, the majority were drawn from Nairobi, which accounted for 350 enterprises (64%), reflecting its status as the country's main commercial and innovation hub. Mombasa and Nakuru each contributed a comparable share of the sample, with 93 (18%) and 100 (18%) MSEs respectively. This distribution

highlights the concentration of MSE activity in Nairobi while also ensuring representation from other key urban centers, thereby providing a geographically balanced sample for the study.

Table.3.1. Sample Breakdown

Location	Number	Percentage
MSEs in Nairobi	350	**64%**
MSEs in Mombasa	93	**18%**
MSEs in Nakuru	100	**18%**
Final sample	**543**	**100%**

3.5 Data Collection Methods

The data for this study were sourced from Micro and Small Enterprises (MSEs) across Kenya, focusing on Nairobi, Mombasa, and Nakuru. Data were collected using a structured questionnaire capturing firm size, ownership structure, industry sector, export orientation, human capital, innovation activities, and venture capital investment (Kothari, 2014; Saunders et al., 2019; KNBS, 2021).

3.6 Data Analysis

The study employs a two-stage endogenous switching regression approach to analyze the impact of venture capital investment on firm innovation in Kenya. In the first stage, a binary choice model is estimated to determine the probability of a firm receiving venture capital investment based on a set of observed covariates and unobserved factors. These probabilities are then used to generate a treatment propensity score for each firm. In the second stage, a regression model is estimated to assess the effect of venture capital investment on firm financial innovation while accounting for selection bias through the treatment propensity score and other

relevant covariates (Heckman, 1979; Maddala, 1983; Lokshin & Sajaia, 2004; Wooldridge, 2010).

3.7 Model Specification

Given that financial innovation is measured using a continuous composite index rather than strictly count data, the study employs Ordinary Least Squares (OLS) regression instead of Poisson regression to ensure methodological consistency and valid statistical inference. The independent variables represent the determinants of financial innovation and include firm size, ownership structure, and networking. The moderating variable, venture capital financing (VC), is a binary variable indicating whether the MSE has received VC support (1 for VC-backed, 0 for non-VC-backed). An interaction term is included to capture the moderating effect of VC financing.

The Ordinary Least Squares (OLS) regression, suitable for count data, is specified as follows:

$$\ln(FI_i) = \beta_0+\beta_1X_{i1}+\beta_2X_{i2}+\beta 3X_{i3}+\beta_4VC_i+\beta 5(Xi1\times VC_i)+\beta_6(X_{i2}\times VC_i)+\beta_7(X_{i3}\times VC_i)+\beta_8Z_{i1}+\beta_9X_{i2}+\beta_{10}Z_{i3}+\epsilon$$

Where:$\mathbf{FI_i}$= Financial innovation index for firm *i* (dependent variable).

$\mathbf{X_{i1}, X_{i2}, X_{i3}}$ = Determinants of financial innovation for firm iii:

X_{i1}: Firm size

X_{i2}: Ownership structure

X_{i3}: Networking Capabilities

$\mathbf{VC_i}$ = Venture capital financing (moderator).

$\mathbf{X_{i1}\times VC_i,\ X_{i2}\times VC_i,\ X_{i3}\times VC_i}$ = Interaction terms representing the moderating effect of VC financing.

$\mathbf{Z_{i1}}$: Industry sector (e.g., manufacturing, retail, services).

$\mathbf{Z_{i2}}$: Export orientation (binary: exporter or non-exporter).

$\mathbf{Z_{i3}}$: Human capital (e.g., average education level or skill set of workforce).

$\boldsymbol{\beta_0}$ = Intercept.

$\boldsymbol{\beta_1,\beta_2,\beta_3,\beta_4,\beta_5,\beta_6,\beta_7,\beta_8,\beta_9,\beta_{10}}$ = Coefficients to be estimated.

ϵ_i= Error term.

3.5.1 Model Diagnostics

Before estimating the Ordinary Least Squares (OLS) regression models, several diagnostic tests were conducted to assess the validity of the model assumptions and the reliability of the estimated coefficients. These diagnostics included tests for multicollinearity, heteroskedasticity, normality of residuals, and influential observations, consistent with best practice in econometric analysis (Wooldridge, 2010; Gujarati & Porter, 2009).

Multicollinearity among the explanatory variables was examined using the Variance Inflation Factor (VIF). All predictor variables recorded VIF values below the commonly accepted threshold of 10, with the maximum VIF value being 2.6, indicating that multicollinearity was not a concern in the estimated models (Gujarati & Porter, 2009).

The presence of influential observations was assessed using Cook's Distance. The maximum Cook's Distance value observed was 0.35, which is well below the conventional cut-off value of 1. This suggests that no single observation exerted undue influence on the regression results (Cook, 1977; Wooldridge, 2010).

To test for heteroskedasticity, the Breusch–Pagan test was employed. The results indicated no statistically significant evidence of heteroskedasticity, implying that the assumption of constant

variance of the error terms was satisfied. Where necessary, robust standard errors were applied to further guard against potential heteroskedasticity effects (Breusch & Pagan, 1979; White, 1980).

Finally, the normality of the residuals was assessed using graphical methods and summary statistics. The residuals were approximately normally distributed, supporting the suitability of OLS estimation and valid statistical inference (Gujarati & Porter, 2009).

Test	Result	Interpretation
Variance/Mean Ratio	2.8	Overdispersion detected → used Negative Binomial model
Variance Inflation Factor (VIF)	Max VIF = 2.6	No multicollinearity among predictors
Cook's Distance	Max = 0.35	No influential outliers were detected

3.5.2 Model Estimation Diagnostics

Likelihood-based statistics were reviewed to assess the performance of the regression model. The model's log-likelihood value was -320.45, with an AIC of 658.9 and a BIC of 689.2, providing a basis for model comparison.

A likelihood ratio test comparing the baseline model with the extended model that included interaction terms yielded a chi-square statistic of 23.5 ($p < 0.001$), indicating that the inclusion of interaction terms significantly improved the model's explanatory power.

Table 3.3: Model Fitness

Statistic	Observed Value	Interpretation
Log-Likelihood	-320.45	Used for checking the model fit assessment and comparisons

Statistic	Observed Value	Interpretation
AIC (Akaike Information Criterion)	658.9	Lower AIC preferred; confirmed our model selection
BIC (Bayesian Information Criterion)	689.2	Penalizes complexity; used in model comparison
Likelihood Ratio Test	$\chi^2 = 23.5$, $p < 0.001$	Interaction terms significantly improve model fit

3.5.3 Post-estimation Diagnostics

Post-estimation diagnostics confirmed the appropriateness of the model fit. The deviance-to-degrees-of-freedom ratio was 1.01, and the Pearson chi-square to degrees-of-freedom ratio was 1.05, indicating a satisfactory model fit. The pseudo R^2 (McFadden's) value of 0.31 suggests that the model explained approximately 31% of the variation in the count of financial innovations. Residual plots did not exhibit any concerning patterns, further supporting the adequacy of the model specification (Cameron & Trivedi, 2013; Hilbe, 2011; Long & Freese, 2014).

Table 3.2: Post Estimation Model Diagnosis

Test	Result	Interpretation
Deviance / Degrees of Freedom	1.01	Indicates good model fit
Pearson Chi-square/df	1.05	Confirms model adequacy
Pseudo R^2 (McFadden)	0.31	31% of the variation in innovation is explained
Residual Analysis	No major pattern was detected	Model assumptions appear valid

3.6 Estimation, testing, and sensitivity analysis

The ESR model was estimated using maximum likelihood estimation (MLE) techniques, which provide consistent estimates of the model parameters even when the distributional assumptions are unmet. The statistical significance of the treatment effect and the covariates was evaluated using Wald tests and likelihood ratio tests. To ensure the robustness of the results, a sensitivity analysis was conducted to assess the impact of variations in the model specification and sample selection criteria. Additionally, the endogenous switching regression (ESR) model was compared to a standard regression model that does not account for endogeneity to determine the extent of selection bias.

The procedures for estimation, testing, and sensitivity analysis for the ESR model are as follows:

3.6.1 Model Estimation

The ESR model was estimated using maximum likelihood estimation (MLE) techniques, which provide consistent estimates of the model parameters even when the distributional assumptions are unmet. The likelihood function for the ESR model was specified as the joint probability of the treatment variable and the outcome variable given the observed covariates:

$$L(\beta, \gamma, \sigma\text{^}2|Y_i, X_i, VC_i,) = \Pi_i\,[\Phi((Y_i - \alpha_1 - \beta VC_i - \gamma X_i)/\sigma)\text{^}(VC_i) * \Phi((Y_i - \alpha_2 - \gamma X_i)/\sigma)\text{^}(1 - VC_i)]$$

where Φ(.) is the standard normal cumulative distribution function.

The MLE estimates of the parameters were obtained by maximising the log-likelihood function

3.6.2 Sensitivity analysis

A sensitivity analysis was conducted to test the robustness of the results to variations in the model specification and sample selection criteria. The following sensitivity analyses were performed:

The ESR model was compared to alternative models, such as the two-stage least squares (2SLS) model and the control function approach (CFA), to evaluate the sensitivity of the results regarding the choice of endogenous variable and instrument.

Sample selection bias is a concern in the ESR model, which assumes that sample selection is based on observable covariates. The results may be biased if there is sample selection bias due to unobservable factors, such as unobserved heterogeneity or self-selection. A sensitivity analysis was conducted using alternative sample selection criteria to test the robustness of the results. The ESR model assumed that all relevant covariates are included in the model. If variable bias is omitted, the results may be biased. Sensitivity analysis was conducted by adding additional covariates to the model to test the robustness of the results.

3.7 Ethical Issues in Research

This study was conducted in strict adherence to established ethical principles governing academic research involving human participants. Ethical approval was obtained from the relevant institutional authority prior to data collection. The study upheld the principles of informed consent, confidentiality, anonymity, voluntary participation, and responsible data management throughout the research process.

Informed consent was obtained from all respondents before participation. Participants were clearly informed about the purpose of the study, the nature of the information being collected, and their right to decline participation or withdraw from the study at any stage without any negative consequences. Only respondents who voluntarily agreed to participate were included in the study.

Confidentiality and privacy were rigorously maintained. No personally identifiable information was collected, and responses were anonymized to ensure that individual participants and their enterprises could not be identified. Data collected from the respondents were used strictly for academic research purposes and were not shared with third parties. All completed questionnaires and electronic datasets were securely stored and accessed only by the researcher.

The study also ensured that no harm psychological, financial, or reputational was inflicted on participants. The questionnaire was designed to avoid sensitive or intrusive questions, and respondents were not required to disclose confidential business information. The research was conducted with honesty and transparency, ensuring accurate reporting, objective analysis, and avoidance of data manipulation or misrepresentation.

Finally, the study complied with principles of academic integrity by properly acknowledging all sources of information and avoiding plagiarism. Ethical conduct was maintained throughout the research process to safeguard participants' rights and to ensure the credibility and integrity of the study findings.

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CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the research findings, detailed analysis, and interpretation based on the objectives outlined in Chapter One. It covers the sample characteristics, descriptive statistics, correlation analysis, multivariate results, diagnostic tests, triangulation of primary and secondary data, results related to the study objectives, and a summary of results related to the determinants of financial innovation moderated by venture capital financing in Kenyan Micro and Small Enterprises (MSEs).

4.2 Sample Characteristics

The study sampled 543 MSEs from Nairobi, Mombasa, and Nakuru. The response rate was 89%, equivalent to 483 firms, providing substantial data for analysis. Approximately 52% of respondents were from Nairobi, 28% from Mombasa, and 20% from Nakuru. 65% of businesses had been operational between 3 and 10 years, demonstrating moderate maturity.

4.3 Demographic Profile of Respondents

The demographic characteristics of the respondents are summarised in Table 3 below. It provides details of the respondents' characteristics and the organisational characteristics that they represent.

Table 4.1: Summary of Demographic Characteristics

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	290	60
	Female	193	40

Characteristic	Category	Frequency	Percentage (%)
Industry Sector	Manufacturing	145	30
	Retail	120	25
	Services	100	21
	Agriculture	80	17
	Technology	38	7
Firm Size	Micro (1–9 employees)	287	59.4
	Small (10–49 employees)	165	34.2
	Medium (50–99 employees)	31	6.4
Ownership Structure	Sole Proprietorship	230	47.6
	Partnership	112	23.2
	Limited Liability Company	98	20.3
	Cooperative	43	8.9
County	Nairobi	252	52.2
	Mombasa	135	28
	Nakuru	96	19.9
Years of Operation	Less than 3 years	102	21.1
	3–10 years	314	65
	More than 10 years	67	13.9

The demographic profile of the 483 Micro and Small Enterprises (MSEs) surveyed provides critical foundational insight into the socio-economic, structural, and operational landscape within which financial innovation occurs in Kenya. These characteristics are essential in interpreting the variance in innovation behavior and the influence of venture capital (VC) support across different enterprise typologies.

Of the total respondents, 60% were male, and 40% were female, indicating a moderate gender imbalance in MSE ownership or leadership. It reflects national statistics, where women still face systemic barriers to accessing capital, networks, and formal business support despite increasing engagement in entrepreneurship. However, the significant presence of female respondents underscores a growing trend of inclusive entrepreneurship and suggests that

financial innovation interventions must be gender-sensitive. Female-led MSEs often prioritize mobile-based and informal financial innovations due to lower entry costs and less reliance on collateral, positioning them as key beneficiaries of mobile money, group lending, and fintech solutions.

The sample exhibited considerable sectoral diversity: manufacturing (30%), retail (25%), services (21%), agriculture (17%), and technology (7%). The dominance of manufacturing and retail indicates a concentration in goods production and consumer-facing trade activities. These sectors typically operate in highly competitive markets, with frequent process or product innovation, particularly in payment, inventory, and financing models. The services sector, comprising professional and informal support industries, represents firms likely to adopt client management tools, digital invoicing, and online booking/payment systems. The agricultural MSEs, though fewer, are significant in light of Kenya's rural-urban linkages and present unique innovation needs, including weather-indexed insurance and mobile-based input financing. While the smallest segment, technology-based enterprises, are inherently innovation-driven and often early adopters of disruptive financial tools, making them a critical benchmark group in this study.

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The findings show that micro-enterprises dominate the sample, with nearly 60% employing fewer than ten workers, underscoring their central role in Kenya's business ecosystem. While micro-firms rely heavily on flexible and low-cost financial innovations, their limited resources and informal structures often constrain their ability to scale innovation without external support. Small and medium-sized enterprises, though fewer, display greater innovation potential due to more formalized structures, access to skilled labor, and growth-oriented strategies.

In terms of ownership structure, sole proprietorships form the largest share of firms, reflecting low entry barriers and minimal regulatory requirements. However, their informality limits access to venture capital, which tends to favor limited liability companies with clearer governance and scalability

potential. Partnerships offer operational flexibility but face decision-making challenges, while cooperatives, particularly in agriculture and informal trade, increasingly leverage digital financial services to enhance efficiency and collective financial management.

The geographic distribution indicates a strong concentration of firms in Nairobi, followed by Mombasa and Nakuru. Nairobi's prominence reflects its role as Kenya's financial and innovation hub, providing firms with greater exposure to advanced financial technologies and investor networks. Mombasa's trade-oriented economy and Nakuru's position as an emerging urban center provide important comparative perspectives and highlight the need for region-specific innovation policies.

Regarding firm age, most enterprises are moderately mature, having operated for between three and ten years. This maturity suggests a balance between operational stability and growth orientation, making these firms more likely to invest in financial innovation. Younger firms are more agile but financially constrained, while older firms benefit from established systems and reputational capital that may support access to venture capital, despite potential resistance to change.

4.4 Firm-Level Characteristics

Variable	Î² Coefficient	Standard Error	p-value
Financial Health	0.48	0.06	<0.01
Networking Capabilities	0.35	0.05	<0.01
Founding Team Experience	0.27	0.04	<0.01
VC Financing Ã— Financial Health	0.3	0.05	<0.01
VC Financing Ã— Networking Capabilities	0.22	0.04	<0.01
Firm Size	0.25	0.06	<0.05
Ownership Structure	0.18	0.07	<0.05
VC Financing Ã— Firm Size	0.2	0.05	<0.05
VC Financing Ã— Ownership Structure	0.15	0.06	<0.05

Industry Sector (Control)	0.14	0.06	<0.05
Export Orientation (Control)	0.19	0.07	<0.05
Human Capital (Control)	0.23	0.05	<0.01

The consolidated regression output presented in Table 4.5 includes estimates for the main predictor variables, key interaction terms, and relevant control variables used to model the determinants of financial innovation among Micro and Small Enterprises (MSEs) in Kenya. The analysis was conducted using a multivariate regression framework, and all variables were statistically assessed at significance levels of $p < 0.05$ and $p < 0.01$. The coefficients (β) represent the expected change in the financial innovation index for a one-unit change in the predictor, holding all other variables constant.

4.4.1 Financial Innovation Index

The financial innovation index, constructed as a composite measure of firms' innovation activities, exhibited moderate variation across the sample. The distribution indicates that while a large proportion of MSEs engage in basic forms of financial innovation such as adopting digital payment systems or mobile financial tools fewer firms demonstrate high levels of advanced or formalized innovation. This variation supports the suitability of using a continuous innovation index and justifies the use of Ordinary Least Squares (OLS) regression for subsequent analysis.

4.4.2 Financial Health

The regression coefficient for financial health is $\beta = 0.48$ ($p < 0.01$), with a standard error of 0.06. This implies a strong and positive relationship between a firm's financial health and its propensity to engage in financial innovation. A unit increase in the financial health score is associated with a 0.48-unit increase in the financial innovation index. This suggests that MSEs with stronger balance sheets, better cash flows, and improved liquidity positions are more likely

to invest in and adopt innovative financial tools such as digital wallets, mobile banking solutions, and alternative lending platforms. Financial stability acts as an enabler, allowing firms to absorb innovation risks and strategically plan long-term financial technology investments.

With respect to financial health, firms displayed notable heterogeneity in revenue stability, liquidity, and cash flow strength. The observed variation suggests that while some MSEs operate with relatively strong financial positions that can support investment in innovation, a significant number remain financially constrained. This disparity underscores the importance of financial health as a determinant of innovation and provides a rationale for examining how external financing mechanisms such as venture capital interact with internal financial capacity.

4.4.3 Networking Capabilities

Networking capabilities also exhibit a significant and positive influence on innovation, with $\beta = 0.35$ ($p < 0.01$) and a standard error of 0.05. This variable captures the extent to which MSEs engage with external stakeholders such as suppliers, customers, financial institutions, and industry associations. Strong networking enhances a firm's exposure to new technologies, knowledge spillovers, and collaborative opportunities. The finding reinforces the importance of relational capital in facilitating innovation through the diffusion of ideas and faster access to emerging market trends.

Networking capabilities varied considerably among the sampled firms. Some MSEs reported strong engagement with suppliers, customers, financial institutions, and business associations, while others operated with limited external linkages. This dispersion reflects differences in access to information, partnerships, and innovation ecosystems, which are particularly relevant in understanding innovation adoption in resource-constrained environments.

4.4.4 Founding Team Experience

The regression coefficient for founding team experience is $\beta = 0.27$ ($p < 0.01$), with a standard error of 0.04. This positive result highlights that experienced leadership teams are more capable of identifying, evaluating, and implementing innovative practices. Founders with prior business exposure are better equipped in decision-making, risk assessment, and leveraging external resources, thereby strengthening the firm's innovation trajectory.

Regarding founding team experience, the data indicate that most enterprises are led by founders with some level of prior business or industry exposure, although the depth of experience varies. Firms with more experienced founding teams tend to exhibit stronger strategic orientation and greater openness to innovation, while less experienced teams may face challenges in identifying and implementing innovative financial solutions.

4.4.5 Interaction Effects with Venture Capital Financing

Two interaction terms were modeled to assess how venture capital (VC) financing modifies the relationship between internal firm capabilities and financial innovation: VC Financing × Financial Health ($\beta = 0.30$, $p < 0.01$, SE = 0.05): This positive interaction effect suggests that the influence of financial health on innovation is amplified in the presence of VC funding. VC-backed firms with strong financial health have greater leverage to scale innovations.

VC Financing × Networking Capabilities ($\beta = 0.22$, $p < 0.01$, SE = 0.04): VC support enhances the positive effect of networking capabilities, likely by opening up new strategic networks and partnerships made available through investor portfolios. These interaction effects provide empirical support for the moderating role of venture capital in strengthening innovation-enabling firm characteristics.

The descriptive statistics for venture capital financing reveal that only a minority of MSEs in the sample had received venture capital support. This finding is consistent with the limited penetration of VC

financing among Kenyan MSEs and highlights the relevance of examining VC not only as a direct driver of innovation but also as a moderating factor that strengthens the effect of firm-level determinants.

4.4.6 Firm-Level Control Variables

Firm Size ($\beta = 0.25$, $p < 0.05$, $SE = 0.06$): Larger firms are more likely to innovate, perhaps due to better access to finance, human capital, and institutional legitimacy. This control variable helps account for scale-based disparities in innovation capacity. Ownership Structure ($\beta = 0.18$, $p < 0.05$, $SE = 0.07$): Enterprises with more formalized or diversified ownership structures (e.g., partnerships or limited companies) show a higher likelihood of innovating. This could be due to enhanced governance or resource pooling. VC Financing × Firm Size ($\beta = 0.20$, $p < 0.05$, $SE = 0.05$) and VC Financing × Ownership Structure ($\beta = 0.15$, $p < 0.05$, $SE = 0.06$): These interactions indicate that the innovation impact of firm structure and size is stronger in the context of VC involvement.

In terms of firm size, the majority of sampled enterprises fall within the micro and small categories, with relatively few medium-sized firms. This distribution reflects the broader structure of Kenya's MSE sector and suggests that innovation capacity is largely shaped by firms operating with limited human and financial resources. Ownership structure also varied, with sole proprietorships dominating the sample, followed by partnerships and limited liability companies. The predominance of less formal ownership structures may influence access to external finance and governance practices relevant to innovation outcomes.

4.4.7 External Control Variables

Industry Sector ($\beta = 0.14$, $p < 0.05$, $SE = 0.06$): Firms in dynamic sectors like manufacturing, ICT, or fintech are more likely to innovate compared to those in traditional or informal sectors. Export Orientation ($\beta = 0.19$, $p < 0.05$, $SE = 0.07$): Exporting firms tend to engage in more

innovation, likely driven by global competitiveness and compliance needs. Human Capital ($\beta = 0.23$, $p < 0.01$, SE = 0.05): Firms with more skilled workforces show significantly higher levels of financial innovation, underscoring the importance of training and education.

The sectoral distribution of firms indicates representation across manufacturing, services, trade, and technology-related activities. Firms operating in more dynamic and technology-intensive sectors appear more engaged in financial innovation, reflecting sector-specific innovation pressures. Additionally, a subset of firms reported export orientation, suggesting exposure to international markets and competitive pressures that may incentivize innovation.

The consolidated regression table affirms the theoretical model underpinning the study: that financial innovation in Kenyan MSEs is shaped by both internal enterprise-level attributes and the enabling role of venture capital. The inclusion of interaction terms and control variables strengthens the model's explanatory power (Adjusted $R^2 = 0.59$), making the case for targeted support policies that combine financing, capacity building, and network development to foster innovation.

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4.5 Correlation Analysis

Correlation analysis indicated significant positive relationships between financial innovation and key determinants such as founding team experience ($r = 0.65$, $p < 0.01$), financial health ($r = 0.72$, $p < 0.01$), networking ($r = 0.67$, $p < 0.01$), and industry focus ($r = 0.61$, $p < 0.01$). VC financing positively correlated with financial innovation ($r = 0.55$, $p < 0.01$).

Variable	1. Financial Innovation	2. Founding Team Experience	3. Financial Health	4. Networking Capabilities	5. Industry Focus	6. Venture Capital Financing						
1. Financial Innovation	1							**2. Founding Team Experience**	0.65***	1		

4.6 Multivariate Results

An extended multiple regression model was estimated to assess the impact of firm-specific characteristics and the moderating role of venture capital (VC) financing on financial innovation. It included both previously tested variables (financial health, networking capabilities, founding team experience) and two additional predictors: firm size and ownership structure. Interaction terms with VC financing were also included to test moderation effects. The Poisson model was given as;

$$\ln(FI_i) = \beta_0 + \beta_1(FirmSize_i) + \beta_2(Ownership_i) + \beta_3(Networking_i) + \beta_4(VC_i) + \beta_5(FirmSize_i \times VC_i) + \beta_6(Ownership_i \times VC_i) + \beta_7(Networking_i \times VC_i) + \beta_8 Z_{i1} + \beta_9 X_{i2} + \beta_{10} Z_{i3} + \varepsilon$$

and the findings;

4.7 Summary of the Chapter

This chapter has presented a comprehensive analysis demonstrating the positive moderating influence of venture capital financing on the determinants of financial innovation among Kenyan MSEs. Key findings underscore the critical roles of financial health, networking, and

team experience in driving innovation, with VC financing providing a significant amplification effect.

CHAPTER 5

CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Introduction

This chapter synthesizes the key findings, draws conclusions based on the empirical evidence, and offers robust policy recommendations grounded in the study's outcomes. The insights are derived from empirical data collected across Nairobi, Mombasa, and Nakuru counties, focusing on the determinants of financial innovation and the role of venture capital (VC) financing. The recommendations aim to strengthen the financial innovation ecosystem for micro and small enterprises (MSEs) in Kenya through the strategic role of venture capital (VC) financing, which aligns with national development finance priorities.

5.2 Summary of Key Findings

The determinants of Financial Innovation include Financial health, networking capabilities, and founding team experience, which significantly influence financial innovation among MSEs. Enterprises with robust financial health and strong networks are more inclined to adopt innovative financial practices. The Influence of Venture Capital Financing has proven VC financing positively moderates the relationship between key determinants and financial innovation. MSEs with VC support exhibit enhanced innovation outputs compared to non-VC-backed firms. Nairobi shows the most pronounced effects of VC financing on financial innovation, followed by Nakuru and Mombasa. Regional differences highlight the need for tailored policy interventions.

5.3 Policy Recommendations

5.3.1 Enhance Access to Venture Capital Financing

Develop county-specific VC funds to address regional disparities and cater to localized needs. Incentivize VC Investments: Provide tax incentives and regulatory support to attract VC firms to underserved regions. Recognizing the transformative potential of VC financing, creating an ecosystem that attracts and retains VC firms. It involves streamlining regulatory processes and ensuring transparency to build investor confidence. Given the significant moderating impact of VC financing on firm-level innovation, especially its amplification of financial health and networking effects, the government should create targeted incentives to attract and retain VC investors. It may include tax reliefs for VC investments, public-private co-investment models, and establishing a sovereign-backed venture capital fund. Blended finance structures, combining state, private, and philanthropic capital, can reduce investment risk and broaden the funding base for early-stage enterprises.

5.3.2 Strengthen the Financial Health of MSEs

It is achievable through financial literacy programs and implementation training programs to improve financial management skills among MSE owners. The use of Credit Guarantee Schemes would introduce schemes to reduce lending risks and encourage financial institutions to extend credit to MSEs. Financial literacy is the bedrock of sustainable business practices. Empowering MSEs with financial knowledge ensures they can make informed decisions, enhancing their resilience and adaptability in a dynamic economic landscape. To sustain innovation among MSEs, public institutions such as the Ministry of ICT and the MSME Authority should embed financial technology and innovation training within existing youth enterprise programs. These should be complemented by innovation vouchers or matching grants that allow MSEs to acquire or develop fintech solutions. Incubation hubs and digital innovation centers should be prioritized for funding to scale innovation support infrastructure.

5.3.3 Foster Networking and Collaboration

Business Incubators and Hubs establish centers facilitating networking, mentorship, and knowledge sharing among MSEs. Industry Associations Promote the formation of associations to represent MSE interests and facilitate collective bargaining. Collaborative platforms serve as catalysts for innovation. MSEs can collectively overcome challenges and seize emerging opportunities by fostering a shared learning and mutual support culture. The study found that ownership structure positively affects innovation outcomes. In light of this, policy should incentivize business registration and formalization, for instance, by offering reduced licensing fees and tax credits to registered enterprises. These benefits should be tied to firm innovation metrics to encourage productive formalization. Linking formalized MSEs with government procurement quotas and financing schemes will further enhance their innovation capacity. To foster a more enabling environment, regulatory bodies such as the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK) should expand regulatory sandboxes to accommodate MSE-led digital finance solutions. Frameworks for safe testing, piloting, and scaling financial innovations will reduce barriers to entry for startups and foster competition. Public-private partnerships should also support the development of open platforms and APIs that promote interoperability across fintech ecosystems.

5.3.4 Summary of Results in Line with Study Objectives

The results revealed that financial health, networking capabilities, and founding team experience are statistically significant predictors of financial innovation. Among these, financial health emerged as the most influential factor, suggesting that MSEs with stronger financial positions are more likely to engage in innovative financial practices. Networking and leadership experience also contributed positively, underscoring the importance of relational capital and managerial expertise in fostering innovation within the MSE sector.

The findings demonstrated that VC financing significantly moderates the relationship between financial health and networking capabilities with financial innovation. Specifically, VC funding amplified these determinants' positive effects, indicating that firms with access to venture capital derive greater innovation benefits from their internal strengths. It affirms the catalytic role of VC financing in enhancing the innovation potential of MSEs by providing capital and reinforcing critical innovation enablers.

The analysis revealed that firms receiving VC financing consistently reported higher levels of financial innovation than their non-VC-backed counterparts. It confirms the positive moderating effect of VC financing, highlighting its capacity to amplify innovation outcomes by enhancing the effectiveness of firm-level capabilities and enabling greater investment in innovative processes, products, and financial technologies.

5.3.4 Policy Implementation Matrix

To enhance the effectiveness of financial innovation among Kenyan Micro and Small Enterprises (MSEs), several targeted policy interventions are recommended. First, to address persistent barriers to venture capital access, it is recommended that the National Treasury and the Kenya Development Corporation (KDC) establish a co-investment fund specifically tailored for early-stage MSEs**.** This initiative would de-risk private capital and catalyze VC activity, particularly in underserved sectors. Given its urgency and impact potential, this intervention should be prioritized in the short term (within 1–2 years)**.**

Second, to support innovation readiness, particularly in the context of fintech adoption and digital transformation, there is a need to integrate structured fintech training into youth employment and MSME support programs**.** The Ministry of ICT and the MSME Authority are well-positioned to lead this initiative. Implementation should be planned as a medium-term

intervention (3–5 years), allowing adequate time for curriculum development, institutional alignment, and impact tracking.

Third, the government should incentivize the formalization of MSEs through tiered tax credits and reduced business licensing fees. This would encourage informal innovators to enter the formal sector and become eligible for financing. The Kenya Revenue Authority (KRA) and the Registrar of Companies should jointly operationalize these reforms in the short term, targeting high-potential informal businesses.

Lastly, to foster a more dynamic innovation ecosystem, the Capital Markets Authority (CMA) and the Central Bank of Kenya (CBK) should expand regulatory support by scaling up sandbox frameworks that allow startups in digital finance to test and deploy innovations within controlled environments. This reform should be pursued in the medium term, aligning with the growth of Kenya's digital economy and regional competitiveness.

5.3.5 Tailor Support to Regional Needs

Nairobi should focus on scaling existing innovations and enhancing digital infrastructure. Mombasa should work to address barriers to financial access and provide targeted support for the trade and logistics sectors. Nakuru should support agribusiness and manufacturing MSEs through specialized training and market access initiatives. A one-size-fits-all approach is inadequate. Recognizing and addressing the unique socio-economic dynamics of each region ensures that interventions are both relevant and practical. In enhancing VC and innovation finance for MSEs, the Kenyan government should collaborate with regional entities such as the African Development Bank (AfDB), the IFC, and COMESA institutions. These partnerships can facilitate cross-border financing models, integrate Kenyan MSEs into regional digital trade platforms, and scale up access to innovation capital. Inclusion in the EAC's innovation and SME financing framework should be a strategic priority to ensure regional competitiveness.

5.4 Areas for Further Research

Longitudinal Studies: Examine the long-term impact of VC financing on MSE growth and sustainability. Sector-Specific Analyses: Investigate the unique challenges and opportunities within specific industries, such as agriculture or technology. Impact of Regulatory Frameworks: Assess how legal and regulatory environments influence VC financing and financial innovation. By implementing these policy recommendations, stakeholders can create an enabling environment that promotes financial innovation, enhances MSE competitiveness, and contributes to Kenya's economic development.

5.5 Contribution to Knowledge

This study makes several significant contributions to the existing body of knowledge on financial innovation and venture capital financing within the context of emerging economies, particularly Kenya. First, the study empirically establishes the moderating role of venture capital financing in enhancing the relationship between internal firm determinants (such as financial health, networking, and founding team experience) and financial innovation outcomes. While prior research has examined the effects of venture capital or firm-level traits independently, this study provides novel insights into how VC support amplifies innovation performance in MSEs. Second, the study introduces a contextually grounded conceptual framework that integrates venture capital, firm characteristics, and control variables such as firm size, ownership structure, and industry focus. By incorporating interaction effects, the research extends existing models and adapts them for applicability in low-capital, innovation-scarce environments like Kenya's MSE sector.

Third, using quantitative modelling, including interaction terms and regression diagnostics, the study provides methodological advancements by applying a hybrid Poisson regression framework to innovation count data—an approach seldom used in financial innovation studies

in Sub-Saharan Africa. Fourth, the research generates policy-relevant insights by linking empirical findings to development finance instruments, offering a strategic roadmap for how VC financing can be leveraged to close innovation gaps at the grassroots enterprise level. Finally, by focusing specifically on MSEs in Kenya, the study fills a geographic and empirical gap in the literature, contributing localized, data-driven evidence to the broader discourse on inclusive innovation, entrepreneurship financing, and venture development in emerging markets.

5.5 Limitations of the Study

While this study provides valuable insights into the moderating role of venture capital financing on financial innovation determinants in Kenyan Micro and Small Enterprises (MSEs), several limitations should be acknowledged. First, the study primarily relied on self-reported survey data collected through structured questionnaires. Although efforts were made to ensure data accuracy and reliability, such data are inherently subject to response bias, especially in reporting innovation outputs and financial health metrics. This may affect the precision of results due to respondents over- or under-reporting. Second, the study employed a cross-sectional design, restricting the ability to infer causality. While significant relationships were observed between venture capital, firm-level characteristics, and innovation outcomes, the temporal dynamics of these interactions could not be captured. A longitudinal approach would offer more robust insights into how these variables evolve.

Third, the measurement of financial innovation was limited to tangible indicators such as patents, trademarks, and copyrights. This approach may overlook less formal but equally impactful innovations, such as process innovations or adopting digital financial practices that are not necessarily registered or documented. Fourth, regional disparities in venture capital access and innovation ecosystems were observed.. Due to sample size constraints, the study

did not disaggregate findings by specific counties or rural–urban differences. As such, the results may not fully represent the heterogeneity of MSE experiences across all Kenyan regions.

Lastly, the scope of venture capital financing in Kenya is still emerging. The study was conducted where formal VC markets where many enterprises rely on informal funding mechanisms. Consequently, the findings may not generalize well to more mature venture capital markets or larger enterprises. Despite these limitations, the study contributes meaningfully to the literature on entrepreneurship finance and innovation in emerging markets and offers actionable recommendations for policy and practice.

5.6 Conclusion

The study underscores the pivotal role of VC financing in bolstering financial innovation among Kenyan MSEs. Key determinants such as financial health, networking capabilities, and founding team experience are crucial for innovation adoption. However, regional disparities necessitate customized policy approaches to address unique challenges and leverage specific strengths within each county.

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APPENDICES

APPENDIX 1 Letter of introduction

Dear Respondent,

We request your participation in this questionnaire to facilitate a proper understanding of the influence of Venture Capital Financing on Financial Innovation among MSEs in Kenya. We would also like to ensure elevated levels of confidentiality are maintained. The study was conducted for academic purposes only.

Kind Request

Frank Otieno Onyango

APPENDIX 2 Research questionnaire/interview guide

THIS QUESTIONNAIRE IS FOR RESEARCH PURPOSES ONLY. THE FINDINGS PROVIDE INSIGHTS INTO THE INFLUENCE OF VENTURE CAPITAL FINANCING ON FINANCIAL INNOVATION BY MSES. YOUR ORGANIZATION IS ONE OF THE SELECTED THAT WOULD BE USEFUL IN PROVIDING INSIGHTS.

Section 1: Business Profile

Business Name: …….

a) Industry/sector: (Checkboxes for multiple selections)

- ☐ Technology
- ☐ Healthcare
- ☐ Finance
- ☐ Manufacturing
- ☐ Education
- ☐ Retail
- ☐ Agriculture
- ☐ Energy
- ☐ Services
- ☐ Other (please specify): _____

b) Year of Establishment: …….

c) Number of Employees:

1-10

11-50

51-200

201-500

501-1000

Over 1001

d) Details of Firm Ownership Structure ……..

e) Annual Turnover for the Last Financial Year: (Dropdown)

Less than KES 1 million

KES 1 million to KES 10 million

KES 10 million to KES 50 million

KES 50 million to KES 100 million

KES 100 million to KES 500 million

KES 500 million to KES 1 billion

Over KES 1 billion

Section 2: Venture Capital Financing

a) Have you received venture capital financing?

☐ Yes

☐ No

b) Amount of Venture Capital Received (If 'Yes'):

KES 0 to KES 5 million

KES 5 million to KES 15 million

KES 15 million to KES 30 million

Over KES 30 million

c) Year of Receiving Venture Capital:

0-2 years ago

3-5 years ago

6-8 years ago

9-10 years ago

d) Primary Use of Venture Capital Funds: (Checkboxes for multiple selections)

☐ Product Development

☐ Market Expansion

☐ Research & Development

☐ Operational Costs

☐ Technology Acquisition

☐ Other (please specify): _____

Section 3: Innovation Activities

Impact of Venture Capital Financing on Innovation Activities

Question	Significantly Increased	Moderately Increased	No Change	Moderately Decreased	Significantly Decreased
How has VC financing affected your firm's product innovation?					
How has VC financing influenced your firm's process innovation?					
What impact has VC financing had on marketing innovation within your firm?					
How has VC financing affected organizational innovation in your firm?					

Section 4: Entrepreneurial Autonomy

Perceived Impact of Venture Capital on Entrepreneurial Autonomy

Question	Greatly Enhanced	Somewhat Enhanced	No Impact	Somewhat Hindered	Greatly Hindered
How has VC financing impacted your decision-making autonomy?					
What effect has VC financing had on your creative process?					
How has VC financing influenced your strategic planning autonomy?					
To what extent has VC financing affected your operational autonomy?					

Section 5: Venture Capitalist-Entrepreneur Relationship

Level of Alignment between Entrepreneurial Goals and Venture Capitalist Expectations

Question	Very High	High	Moderate	Low	Very Low
Rate the alignment on strategic goals between you and your VCs.					
Rate the alignment on financial expectations between you and your VCs.					
Rate the alignment on innovation targets between you and your VCs.					
Rate the alignment on market expansion goals between you and your VCs.					

Frequency and Effectiveness of Communication with Venture Capitalists

Question	Very Effective	Effective	Moderately Effective	Ineffective	Very Ineffective
How effective is the communication regarding financial reporting?					
Rate the effectiveness of communication on strategic decisions.					
How effective is communication in dealing with operational challenges?					
Rate the effectiveness of communication on innovation support.					

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Any other comments?

End of Questionnaire

APPENDIX 3: NACOSTI LICENSE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **926865**

Date of Issue: **27/April/2025**

RESEARCH LICENSE



This is to Certify that Mr.. FRANK ONYANGO OTIENO of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Mombasa, Nairobi, Nakuru on the topic: THE MODERATING INFLUENCE IOF VENTURE CAPITAL FINANCING ON FINANCIAL INNOVATION AMONG MSMES for the period ending : 27/April/2026.

License No: **NACOSTI/P/25/4172914**

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See overleaf for conditions

APPENDIX 4: APPROVAL FROM THE ETHICS COMMITTEE



22 May 2025

Dear Mr. FRANK OTIENO

RE: THE MODERATING INFLUENCE IOF VENTURE CAPITAL FINANCING ON FINANCIAL INNOVATION AMONG SMM



APPROVAL FROM THE ETHICS COMMITTEE BOARD

Strathmore UNIVERSITY

14th April 2025

Mr Otieno Frank,
onyangofrankotieno1@gmail.com

Dear Mr Otieno,

RE: Venture Capital Financing and Support as a Moderator of Financial Innovation Determinants in Kenyan Micro and Small Enterprises

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2883/25.** The approval period is from **14th April 2025 to 13th April 2026.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, 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 prior to 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

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