

**VENTURE CAPITAL FUNDING AND FINANCIAL PERFORMANCE OF E-
COMMERCE-DRIVEN FIRMS IN KENYA**

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DECLARATION

Declaration by Student

This thesis is an original piece of work authored by the undersigned and has not been previously submitted for the purpose of obtaining a degree at any other academic institution.

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DEDICATION

This research thesis is dedicated to the individuals who hold significant roles in my life, namely my mother, Reginah Muinde, my beloved wife, Winfred Syombua, and my children, Valeria and Vince. This research would not have been feasible without the continuous support, encouragement, and particularly their prayers. Your invaluable contributions have greatly aided in the acquisition of this knowledge. May God bless you.

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OPERATIONAL DEFINITIONS OF TERMS

Capital Management Support	Refers to the strategic guidance, resources, and expertise provided by venture capitalists to enhance the financial performance and growth prospects of E-commerce driven firms.
Conditional Loans	Refers to loans provided by venture capitalists with terms and conditions tied to specific financial performance or milestones.
Cost of Capital	This represents the expected return demanded by venture capitalists in exchange for their investment, reflecting the firm's risk and growth potential. It is measured by the cost of equity and marginal cost of capital.
Cost of Equity	Represents the return expected by equity investors, typically venture capitalists, for the capital they provide, influencing a company's financial performance and valuation.
E-commerce-driven Firms	Enterprises leverage digital platforms for sales, bookings, healthcare, and education, enhancing accessibility and convenience for customers in diverse sectors.
Equity Financing	Involves raising capital by selling ownership stakes (equity) to investors, typically venture capitalists. It impacts financial performance by affecting ownership structure and dilution.
Financial Performance	The evaluation and assessment of the financial outcomes and indicators of businesses operating primarily through electronic commerce channels. It involves analyzing various financial metrics, such as return on investment.
Financing Methods	This involves securing capital through equity financing and conditional loans to support growth, enhance financial performance, and achieve strategic objectives by e-commerce firms.
Marginal Cost of Capital	Signifies the additional expense incurred to raise one more unit of capital, reflecting the impact on financial performance and investment decisions.

Regulatory Compliance Level	Quantitative measure assessing the degree to which a firm adheres to relevant regulations and compliance standards, impacting financial performance and investment attractiveness.
Regulatory Structure	Industry-specific framework comprising laws, rules, and guidelines defining legal and operational requirements, restrictions, and standards for businesses and participants.
Return on Investment	A performance statistic used to evaluate the effectiveness or profitability of an investment or to compare the effectiveness of numerous investments.
Venture Capital Funding	A type of financing extended by venture capital firms to e-commerce firms that demonstrate significant growth prospects. The evaluation of venture capital funding involves considerations such as the cost of capital, methods of financing, and support for capital management.

ABBREVIATIONS AND ACRONYMS

EAVCA	East Africa Venture Capital Association
FLT	Financial Liberalization Theory
IPA	Investment Promotion Act
KCMI	Kenyan capital market industry
NECS	National E-commerce Strategy
ROI	Return on Investment
VC	Venture Capital
VCs	Venture Capitalists

ABSTRACT

Businesses that rely on e-commerce for growth frequently find that their ability to obtain sufficient capital is critical to their success. Funding from venture capital firms is essential in this context. Kenyan e-commerce businesses have faced financial challenges, impacting their success. Lack of funding hampers financial performance. Statista data reveals declining ROI from 4% to 1.3% (2016-2022), indicating profitability struggles. Several startups like OLX Kenya, ePay, and Rupu faced bankruptcy due to funding constraints and competition. The general objective of this study was to investigate the effect of venture capital funding on financial performance of e-commerce-driven firms in Kenya. This study's main objectives were to evaluate the impact of cost of capital, financing methods and capital management support on the financial performance of Kenyan e-commerce businesses. Additionally, the study sought to fully evaluate the moderating impact of regulatory structure on venture capital funding and the financial performance of Kenyan e-commerce-driven firms. The trade-off, stakeholder, financial liberalization, and agency theories all lend credence to this research. The research philosophy of positivism, which emphasizes the use of empirical data to evaluate theories and hypotheses, was applied to perform this study. The study examined a population of 45 e-commerce-driven businesses that obtained venture capital financing between 2017 and 2022 using a descriptive cross-sectional survey research approach. A proportional sampling approach was employed to choose 45 e-commerce-driven businesses as a sample. Questionnaires were distributed to collect primary data. Important stakeholders, including investors, executives, and founders, were among the participants in the study. Descriptive statistics were employed to summarize the data, such as measures of central tendency (particularly the mean), variability (expressed by the standard deviation), and frequency distributions. Regression analysis, an inferential statistic, was also employed in the study to investigate the relationship between venture capital funding and financial success. The gathered data were coded before entering into the Statistical Package for Social Science program to make the analysis process easier. The analysis's final results were provided as tables. The findings showed that the cost of capital, financing methods, and capital management support significantly impact Kenyan e-commerce enterprises' financial performance. Furthermore, the relationship between venture capital funding and the financial performance of Kenyan e-commerce enterprises is significantly moderated by regulatory structure. The study concluded that venture capital funding has a considerable impact on the financial performance of e-commerce-driven enterprises in Kenya and that this effect is strengthened by regulatory structure, as none of the four hypotheses were supported. The report advised management to thoroughly understand the total cost of capital related to venture capital funding. Management should weigh their trade-offs because every financing option has pros and cons. A legislative framework that supports and enables venture capital investments must be established. Tax incentives, streamlined bureaucratic processes, and regulatory simplification would encourage investment and foster a growth-friendly atmosphere.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Recent global business trends have witnessed the emergence of e-commerce-driven enterprises (Wang & Wang, 2019). Research by Suwarni, Fahlevi & Abdi (2020), underscores the vital role of venture capital in fueling innovation, with VC-backed startups and innovative firms displaying superior financial performance, patent generation, new product development, and technological progress compared to their non-VC-backed counterparts. E-commerce companies are notable for their disruptive potential, challenging traditional brick-and-mortar models and transforming consumer shopping habits. The financial success of e-commerce firms often hinges on securing sufficient funding for growth, with VC being a favored source (Wang & Hajli, 2019). VC firms invest in promising startups and early-stage businesses, trading capital for a stake in the company. This form of funding is increasingly prevalent in the e-commerce sector as companies aim to expand and scale their operations (Taher, 2021).

The global e-commerce market has witnessed significant expansion, propelled by the increase in VC funding and digital commerce. Zuleta, Casanova, Finchelstein and Duque's (2023) study on digital entrepreneurship in Latin America highlights the region's rising number of startups and entrepreneurs, attributed to increased VC availability and technological advancements. E-commerce companies have notably benefited from substantial VC funding, particularly in the United States (Lerner & Nanda, 2020). The US has witnessed the success of e-commerce businesses like Amazon, Shopify, and Alibaba, which attracted billions in VC funding (Nougarahiya, Shetty & Mandloi, 2021). PitchBook data reveals that US e-commerce firms secured \$32.2 billion in VC funding in 2020, up from \$24.6 billion in 2019. Amazon, for instance, raised \$108 million in VC funding before going public in 1997, now boasting a market capitalization exceeding \$1.7 trillion (Ewens, Nanda & Rhodes, 2018). Similarly, Shopify raised \$122 million from VCs before going public in 2015 and is currently valued at over \$130 billion in the market.

In Europe, e-commerce businesses have also enjoyed substantial VC funding, with many thriving companies securing billions of dollars (Ezangina & Malovichko, 2021). Pradhan, Arvin, Nair, Bennett & Bahmani's (2019) study on VC dynamics and economic growth in the digital economy reveals a strong positive correlation between VC funding and digital technology development. European countries with more VC activity experience rapid technological advancements. According to Dealroom data, European e-commerce firms obtained €15.7 billion in VC funding in 2020, up from €11.5 billion in 2019, driven by surging demand for online shopping and potential returns (Pradhan *et al.*, 2019). Prominent European e-commerce companies like Zalando, Farfetch, and Delivery Hero have secured billions in VC funding. Zalando raised €440 million in VC funding before going public in 2014, now valued at over €23 billion (Rossi & Martini, 2019). Farfetch, which went public in 2018, received €1.2 billion in VC funding and boasts a market capitalization exceeding €9 billion, demonstrating the industry's growth and investment appeal.

China has emerged as a prominent e-commerce industry, characterized by rapid growth. Notably, dominant market firms such as Alibaba, JD.com, and Pinduoduo have played a pivotal role in shaping this landscape (Yi, Wang, & Shu, 2020). In a study done by Yi, Wang, Lyu, and Xia (2023), an investigation was undertaken to examine the impact of VC on the facilitation of open innovation practices within the context of China. The study uncovered a significant positive relationship between VC funding and the adoption and execution of open innovation inside Chinese enterprises. This observation implies that enterprises backed by VC have a greater propensity to engage in collaborative innovation endeavors. Regarding VC funding, Chinese e-commerce companies have received billions of dollars in investment. Alibaba has raised over \$26 billion in VC funding, while JD.com has raised over \$20 billion. In terms of financial performance, these companies have also been highly successful. JD.com's fiscal year 2021 revenue was \$114.3 billion and \$109.5 billion for Alibaba within the same period of time. Furthermore, Pinduoduo, a more recent competitor in the industry, has also experienced significant development in recent years and has a valuation of over \$100 billion (Brown, 2020).

The e-commerce industry in Africa is poised for substantial growth, with increasing VC funding reflecting the surging demand for online shopping and digital commerce (Karine, 2021). South Africa leads the continent with a burgeoning e-commerce sector, featuring both emerging startups

and established players competing for market share (Peprah, Giachetti, Larsen & Rajwani, 2022). Research by Cavallo, Ghezzi, Dell'Era, and Pellizzoni (2019) underscores the positive role of VC funds and angel groups in nurturing digital entrepreneurship, fostering the growth of startups in the digital realm. South Africa has attracted significant VC investments in recent years, with \$103 million raised by e-commerce businesses in 2020, up from \$78 million in 2019, as reported by Partech Africa (Herrington & Coduras, 2019). The country's increasing mobile and internet penetration has fueled this funding surge. Takealot, a prominent South African e-commerce firm founded in 2011, has raised \$238 million in VC funding, offering a wide range of products and expanding into delivery services and a mobile app for customers (Teshabaeva, Yuldasheva & Yuldasheva, 2021). Other notable players include Superbalist, focusing on fashion and securing \$23 million in funding, and Yuppiefchef, specializing in kitchen and homeware and raising \$18 million in funding. These developments underscore the growth potential of the African e-commerce market.

Nigeria, one of Africa's largest economies, is witnessing rapid growth in its e-commerce sector. A literature review by Kato (2021) highlights the positive impact of VC financing on SMEs in emerging economies, including increased revenue and market penetration. The Nigerian e-commerce market surged to \$3.3 billion in 2022, up from \$1.4 billion in 2019, as reported by Statista (Oláh, Popp, Khan & Kitukutha, 2023). Significant VC investments have recently flooded Nigeria's e-commerce landscape, with numerous startups and established players competing for market share. Jumia, founded in 2012, stands as one of Nigeria's most successful e-commerce companies, securing an impressive \$820 million in VC funding. Jumia has had a significant impact by offering a variety of products and expanding into numerous African nations (Mkansi, 2022). Other notable e-commerce firms in Nigeria include Konga, acquired by Zinox Group in 2018, with a total of \$108 million in funding, and Paystack, a payment platform acquired by Stripe for \$200 million in 2020. These developments underscore Nigeria's e-commerce growth and investment potential.

Kenya, a leader in African digital innovation, has cultivated a thriving e-commerce sector, drawing substantial VC investments in recent years. The competitive landscape sees startups and established companies vying for market share (Takkar & Sharma, 2021). Research by Mwasi and

Aluoch (2023) reveals that VC financing has improved the financial performance of technology startups in Kenya, including increased revenue, profitability, and asset growth. According to a Jumia report, Kenya's e-commerce market reached \$1.6 billion in 2020 and is projected to expand to \$3 billion by 2025, driven by a significant influx of VC funding (Nougarahiya, 2021). Jumia, a prominent player across multiple African nations, including Kenya, has achieved remarkable success with \$820 million in VC funding and a listing on the New York Stock Exchange since 2019 (Corsi & Prencipe, 2019). Notable e-commerce enterprises in Kenya also include Kilimall, raising \$64 million in funding, and Copia Global, securing \$28 million in funding. These developments showcase Kenya's position as a digital and e-commerce hub with immense growth potential.

The availability of VC capital has been crucial in fostering the growth of the e-commerce industry, enabling businesses to expand their reach, invest in technological developments, and strengthen marketing initiatives (Nougarahiya, 2021). Although the industry confronts obstacles like intensified competition, shifting consumer preferences, logistical and payment infrastructure issues, elevated fraud rates, and restricted access to financing, the sustained availability of VC funding is poised to fuel ongoing growth and foster innovation within the sector.

1.1.1 Venture Capital Funding

Startups and high-growth enterprises rely significantly on venture capital investment for their development and success (Tolliyevna, Xurziyoxon & Murtazo, 2023). Venture capital investment differs significantly from traditional funding strategies such as bank loans or initial public offerings (Gatauwa, 2022). Venture capitalists often provide funding in exchange for an ownership stake or stock in the company. Consequently, individuals acquire ownership interests in the firm and are subject to its risks and rewards. VC businesses are inclined to fund high-risk enterprises with significant development potential, although they often want a better-established track record (Abdul, Mohd & Salmat, 2020). VC investment aims to promote innovation and support the growth of early-stage enterprises. Startups and early-stage firms need assistance in seeking conventional finance sources due to their unverified business ideas or insufficient collateral (Kukk, 2022). Venture capital firms bridge the financing gap by providing the necessary funds and using their skills to drive development and progress. By doing this, they empower start-up companies to

turn their ideas into successful enterprises. Multiple VC companies bolster a dynamic startup environment. Novastar Ventures is an example of a company that specializes in investing in rapidly growing firms located in East Africa. Chandaria Capital is another well-known company that offers financial support and guidance to businesses across different industries. TLcom Capital, Acumen Fund, and Fanisi Capital are some prominent venture capital companies in Kenya. These companies are essential for driving innovation, supplying funding, and fostering the development of new companies (Croce & Bianchini, 2022).

Fathonih, Anggadwita, and Ibraimi (2019) assert that venture capital investment offers companies the financial means to grow and access the vast networks and industry expertise of venture capital firms. Often, these organizations possess a deep understanding of the industry, which may significantly aid in guiding strategic decision-making and speeding up development. Kumar, Vennila, Lad, and Mahera (2022) suggest that venture capital investment may contribute to the success of startups by offering mentoring and support to newly founded enterprises. VCs often have a personal interest in the success of the firms they invest in and may provide useful advice on company strategy, operations, and corporate governance. This support is crucial, especially for new businesses that are just starting out and may benefit from the knowledge and experience of more experienced investors. Venture capital investors want substantial returns on their investments. They carefully examine risks when investing in early-stage firms with high growth potential (Bonini & Capizzi, 2019). Successful investments may provide significant returns that often surpass those of conventional investing paths. This is despite the fact that new businesses often fail at a very high rate. Venture capitalists aim to generate returns for their investors by planning for a liquidity event, either an initial public offering (IPO) or an acquisition.

The research validated the selection of cost of capital, financing methods, and capital management support in analyzing VC funding and financial performance of e-commerce enterprises because of their substantial influence on the firms' operations and results (Bonini, 2019). Comprehending the cost of capital helps in evaluating the effectiveness of investment choices and possible hazards. Studying financing methods offers an understanding of the financial structure, risk distribution, and potential for expansion. Capital management support examines the additional services offered by venture capital investors and how they influence financial success (Hogerle & Charifzadeh,

2020). Together, these characteristics help provide a thorough comprehension of the correlation between venture capital financing and financial success in the e-commerce industry.

1.1.2 Cost of Venture Capital

The cost of venture capital is the rate of return that VC companies expect when they put money into a new business (Bonini, 2019). According to Ewens, Nanda, and Rhodes-Kropf (2018), the Cost of Venture Capital refers to the combination of financial and opportunity costs that arise when a company raises capital through VC funding. This is typically more expensive than conventional forms of funding because of the increased risk associated with early-stage companies. The impact of venture capital expenses on the bottom line of online retailers might be significant (Mishra & Gupta, 2020). Online stores may need help to turn a profit and maintain sufficient cash flow due to the rising cost of venture capital. To finance their expansion and growth strategies, startups and early-stage businesses frequently need a significant investment. The financial strain on the company grows the cost of venture capital (VC) since more significant returns are required to meet the investors' expectations. Online businesses' valuations and ownership structures are susceptible to changes in venture capital costs. The higher the price of venture capital, the more significant the ownership stake that the VC will acquire since they often want ownership in return for their investment (Lerner, 2020). As a result, existing shareholders and founders may lose some control over the company, and their financial benefits could be reduced.

The cost of equity is the return that investors expect as compensation for the risk they take by buying shares in a company. The expense of inventory has a significant impact on the bottom line of online businesses. Researchers Battisti, Bollani, Miglietta, and Salvi (2020) found that when the cost of equity is high, investors demand a higher rate of return. This can drive up the company's capital cost and reduce its profitability. As a result, online businesses may need help securing funding for their growth strategies and attracting investors. Reducing the cost of equity could lower the firm's total cost of capital, which could boost financial performance and provide it an advantage when competing for investment opportunities in the future.

The concept of marginal cost of capital pertains to the expenses incurred by a corporation while procuring new capital. The concept refers to the escalation in the expense of capital that occurs

when fresh funds are obtained to support the financing of supplementary investment prospects. According to Liu, Zhang, Gao, and Huang (2020), the financial performance of e-commerce enterprises is influenced by MCC via its effect on their investment choices. If the MCC is high, indicating that the cost of raising additional capital is substantial, it may discourage the company from pursuing new projects or expansions. This can limit growth opportunities and hinder financial performance. Conversely, a lower MCC implies lower costs of raising capital, which can encourage investments and fuel growth, potentially leading to improved financial performance for e-commerce firms (Liu, Min, Ma & Liu, 2021).

1.1.3 Venture Capital Financing Methods

Venture Capital Financing Methods refer to the various ways in which venture capitalists provide funding to early-stage companies (Islam, Fremeth, & Marcus, 2018). According to Gompers, Gornall, Kaplan, and Strebulaev (2020), Venture Capital Financing Methods can also be defined as the structured approach venture capitalists use to inject capital into a startup or growing company, with mechanisms that balance risk, control, and potential return. According to Lenzer and Kulczakowicz (2021), Early-stage financing provides the necessary capital for startups to develop products and enter the market. It positively impacts financial performance by fueling growth and attracting top talent. However, the high equity dilution and demanding return expectations may put pressure on profitability in the early stages. Expansion financing supports rapid growth and market expansion. It enhances financial performance by funding marketing efforts, operational expansion, and market entry (Zarrouk, Sherif, Galloway & El Ghak, 2020). However, the terms and conditions, including cost of capital and ownership dilution, may impact profitability and flexibility.

Equity financing involves securing funds for a business by offering ownership shares to investors. VCs invest capital in exchange for a portion of ownership, and their profitability is closely tied to the financial success of these companies (Cumming, Kumar, Lim & Pandey, 2023). High equity financing levels can provide ample opportunities for portfolio diversification and potentially lucrative returns if invested wisely. However, excessive competition for investments may drive up valuations, reducing potential returns. Additionally, the pressure to deploy large amounts of capital can lead to riskier investments, increasing the potential for losses if e-commerce firms

underperform or fail (Block, Fisch, Vismara & Andres, 2019). Limited equity financing may restrict their ability to make investments, reducing portfolio diversification and potential returns. Moreover, it can intensify competition for promising startups, potentially driving up valuations. Positively, a more prudent investment environment could result in enhanced diligence and improved risk mitigation practices (Dugar, & Suthar, 2022).

Conditional loans are a type of financial arrangement where the borrower receives funds from a lender with specific conditions attached to the loan agreement (Mwasi & Aluoch, 2023). These conditions typically require the borrower to meet certain criteria or fulfill specific obligations to access the full amount of the loan or to receive favorable terms. Conditional loans from VCs have profound effects on the study of VC funding and the financial performance of e-commerce firms (Mustafa, 2019). These conditions often dictate growth milestones, market expansion, and strategic objectives. Meeting these criteria can lead to increased funding rounds, enabling e-commerce companies to scale rapidly and gain a competitive edge. Conversely, failure to meet these benchmarks can result in financial instability, loss of control, or even dissolution. Therefore, conditional loans serve as a critical lens for examining the dynamics of VC in the e-commerce sector, influencing firms' financial performance, survival, and their ability to thrive in the fiercely competitive digital marketplace (Kolokas, Vanacker, Veredas, & Zahra, 2022).

1.1.4 Venture Capital Management Support

According to Granz, Lutz and Henn (2021), Venture Capital Management Support refers to the non-financial assistance and strategic guidance that VC firms provide to portfolio companies in addition to funding. Quas, Martí, and Reverte, (2021) define Venture Capital Management Support as the range of value-added services provided by venture capitalists to their portfolio companies beyond financial investment. This support includes mentorship, operational expertise, networking opportunities, and governance. Financial success or failure for online retailers is heavily influenced by the backing of venture capitalists (Gupta, Gupta & Dhir, 2020).

The growth and performance of these enterprises can be greatly enhanced by the investment firms' strategic counsel, operational efficiency, financial competence, and access to cash. Online retailers might benefit from venture capital firms' strategic advice, knowledge of the business, and

connections while dealing with market fluctuations. By helping with things like finding development possibilities, improving business models, and creating competitive strategies, this counsel can help enhance financial performance (Mbuthia & Gatauwa, 2022). The operational help that e-commerce enterprises need can be found among the skilled personnel at venture capital firms (Costa & Castro, 2021). Their support can lead to efficiency gains, reduced waste, better supply chain management, and cost savings. Through better cost management and enhanced profitability, these endeavors can enhance financial performance. According to Wilson, Uddin, and Wright (2022), portfolio companies benefit from the financial acumen and experience that VC firms provide. Budgeting, financial reporting, cash flow management, and financial planning are all areas where they provide assistance. This advice promotes long-term growth by strengthening fiscal discipline and guaranteeing equitable distribution of resources.

Operation efficiency is the capacity of a corporation to use its resources efficiently, reduce waste, and achieve maximum production and output while keeping costs low. Operational efficiency greatly influences the financial success of e-commerce companies (Li, Lin, Turel, Liu & Luo, 2020). By optimizing processes, streamlining supply chains, and reducing costs, e-commerce companies can improve their profit margins and overall financial health. Efficient operations lead to lower overhead expenses, improved inventory management, faster order fulfillment, and enhanced customer satisfaction. This, in turn, can result in increased sales, repeat customers, and higher profitability. Efficient operations also enable e-commerce firms to scale effectively, handle higher order volumes, and achieve economies of scale, further bolstering their financial performance (Yang, Chen & Chen, 2023).

Employee productivity and retention refer to the level of efficiency and output achieved by employees in their work and their tendency to stay with the company over a period of time, respectively. Employee productivity and retention have a significant impact on the financial performance of e-commerce firms (Li, 2020). Higher employee productivity leads to increased efficiency, faster order processing, and improved customer service, ultimately driving higher sales and revenue. Moreover, when e-commerce firms can retain talented employees, they benefit from reduced hiring and training costs, as well as the accumulated knowledge and expertise of experienced staff (Qian, 2023). Additionally, high employee retention helps maintain a positive

company culture, customer relationships, and operational stability, contributing to long-term financial performance and sustainable growth.

1.1.5 Regulatory Structure

The regulatory structure in VC funding entails the regulations, and policies that govern the investment process, the rights and responsibilities of investors and companies, and the overall functioning of the VC industry (Bonini, 2019). According to Srinivas, Das & Kumar, (2019) regulatory Structure refers to the framework of rules, regulations, and governing bodies that oversee and enforce laws within a specific industry or sector. This structure is designed to ensure investor protection, promote transparency, and facilitate the flow of capital to innovative and high-growth companies (Shao, 2023). Various aspects of corporate governance within the regulatory framework have a significant impact on multiple industries, including the VC sector. These influences manifest differently and can directly affect the financial performance of companies (Nasrallah & El Khoury, 2022). In terms of institutional governance and compliance, it is imperative to ensure the effective implementation of clear guidelines and policy statements. This ensures that regulatory systems are easily comprehensible to investors, promoting enhanced predictability and granting them more discretionary powers. The main objective of the Investment Promotion Act of 2004 is to enhance the efficiency and effectiveness of the investment procedure. The aforementioned objective is accomplished by the facilitation of investors in acquiring the requisite licenses for engaging in trading and investment activities, alongside furnishing crucial assistance and incentives to promote investments in the realm of VC (Chindengwike, 2022).

According to Berger and Scott (2018), Regulatory compliance involves a company's dedication to adhering to relevant laws, regulations, and industry-specific standards governing its operations. This commitment includes ensuring that operational processes, products, and services meet the required legal criteria in areas such as finance, data security, environmental sustainability, and safety. Maintaining a robust regulatory compliance framework is essential to avoid legal complications, financial penalties, and protecting the company's image (Benohr, 2020). Businesses allocate resources to compliance initiatives to build trust, mitigate risks, and emphasize their commitment to ethical and responsible business conduct.

The Capital Market Authority (CMA) is tasked with the responsibility of ensuring the adherence to the compliance methods outlined in the CMA Act 485 A. According to Alanazi (2019), The presence of legislation and regulatory agencies in Kenya indicates a clear commitment to ensuring effective governance and compliance within the Kenyan capital market industry (KCMI). The difficulty of ensuring the efficacy of enforcement and adherence to relevant legislation persists unless the viewpoints and insights of these relevant stakeholders are collected via rigorous research. For e-commerce-driven businesses, compliance and the enforcement of regulatory structures are of paramount importance. Entrepreneurs operating in countries where regulatory frameworks can be easily implemented demonstrate a better understanding of their client's requirements (Chawla & Kumar, 2022). Consequently, adhering to industry codes of practice and upholding quality standards typically leads to increased revenues, thereby enhancing the inherent value of their operations.

A favorable regulatory environment could encourage VC investment in e-commerce-driven firms, leading to better financial performance (Brou, Chatterjee, Coakley, Girardone & Wood, 2021). For example, if the regulatory environment provides clear guidelines and protections for investors, it may increase investor confidence and encourage more investment in e-commerce firms. This could lead to increased access to capital, allowing e-commerce firms to grow more rapidly and improve their financial performance (Costa & Castro, 2021). On the other hand, an unfavorable regulatory environment could discourage VC investment and negatively impact financial performance (Croce & Bianchini, 2022). For example, if the regulatory environment is uncertain or overly restrictive, it may discourage investors from investing in e-commerce firms. This could limit access to capital, making it more difficult for e-commerce firms to grow and achieve better financial results (Suryani, Arief, Bramantoro & Hamsal, 2022).

1.1.6 Financial Performance

Financial Performance refers to a company's ability to generate profit and manage its financial resources efficiently over a specific period (Fatihudin, 2018). According to Barauskaite and Streimikiene (2021), Financial Performance refers to the evaluation of a company's financial results, reflecting its ability to generate revenues, control costs, and create value for shareholders over time. A corporation's financial performance indicates its health, profitability, cost

management, and ability to create value for its stakeholders (Barauskaite & Streimikiene, 2021). Analyzing various financial indicators and data can better understand profitability, efficiency, liquidity, solvency, and general financial health. Stakeholders, such as investors, creditors, and management, rely on financial performance analysis to make educated decisions and evaluate the organization's financial health in the past and now. Forecasting future performance and pinpointing problem areas are two more benefits, as stated by Al-Hashimy, Alabdullah, Ries, Ahmed, Nor, and Jamal (2022). One common approach to analyzing financial performance and finding areas for improvement is to compare it to industry norms and look for trends.

Various important variables may be used to assess the financial health of e-commerce-driven firms. Indicators such as gross and operating margin, return on investment (ROI), revenue growth, gross merchandise value (GMV), customer lifetime value (CLTV), average order value (AOV), and customer acquisition cost (CAC) contribute to profit margins (Kong & Loubere, 2021). Yu and Wang (2023) suggest that these metrics help assess the financial health and performance of e-commerce firms. The information disclosed includes transaction volume, sales growth, marketing effectiveness, customer profitability, transaction values, and overall profitability. The current study employed return on investment to assess the financial performance of e-commerce-driven firms. ROI is a specific and quantitative indicator of the profitability and effectiveness of investments, making it the preferred metric for analyzing the financial performance. ROI is a crucial indicator for investors and companies as it enables them to evaluate the performance of different projects and enterprises to make informed choices. It optimizes revenues and enables more efficient resource use. ROI is a good statistic for measuring the performance of e-commerce firms because it emphasizes the return on investment (Angeloni & Rossi, 2021). Businesses and investors may use it to assess the effectiveness and efficiency of their investment decisions as it provides a straightforward ratio of the return on investment to the investment cost.

Muathe and Muraguri (2020) reported that e-commerce companies in Kenya have encountered substantial obstacles that have impacted their financial performance. The country's e-commerce enterprises have poor profitability, which is a major factor in this situation. In 2019, a study conducted by UNCTAD found that internet merchants in Kenya had an average profit margin of around 2.5%. Factors contributing to the poor profitability include managerial support, financing

methods, and the expense of venture capital as stated by Costa in 2021. Kenyan e-commerce businesses need assistance in boosting their sales. In 2020, the Communications Authority of Kenya reported that internet purchases in the country were around KES 109 billion, equivalent to almost USD 1 billion. The total has increased at a slower rate than anticipated, according to Mangiaracina et al. (2019).

Furthermore, e-commerce businesses in Kenya have seen a decline in financial performance due to difficulties in securing capital. Inadequate funding has prevented investments in vital areas, including marketing, talent acquisition, and technological infrastructure (Mukul & Saini, 2021). Only 15% of digital enterprises in Kenya had obtained outside funding, according to a 2018 World Bank report. Generally, while specific examples in numbers may vary, the poor financial performance of e-commerce-driven firms in Kenya is evident through low profitability, slower return on investment than expected, and funding challenges. These factors highlight the need for strategic interventions and support to bolster the financial viability and sustainability of e-commerce in the country (Achiando, 2019).

Table 1.1: Financial Performance of E-commerce firms in Kenya

	2016	2017	2018	2019	2020	2021	2022
Return on Investment (%)	4	3.2	3.6	3.3	2	1.7	1.3
Profit before tax (Billions Kes)	28.47	26.32	27.9	27.01	23.6	22	20.1

Source: Statista (2022)

Table 1.1 displays the ROI percentages of e-commerce companies in Kenya from 2016 to 2022. In 2016, the ROI was 4%, indicating that for every unit of investment, the firms generated a 4% return. However, by 2022, the ROI had declined to 1.3%, reflecting a decrease in profitability and efficiency of investments.

The figures show a downward trend in ROI over the years, suggesting that e-commerce firms' investments have become less profitable and efficient. This trend may indicate challenges or obstacles faced by the firms, such as inadequate funding and poor financing methods, high cost of capital, lack of capital management support, and changes in consumer behavior. The decreasing Return on Investment emphasizes the need for companies to assess their financing methods,

investment strategies, operational efficiency, and profitability to enhance their financial performance and guarantee long-term development.

1.1.7 E-Commerce-Driven Firms in Kenya

E-commerce businesses in Kenya include online retail platforms, digital marketplaces, and service providers that facilitate online transactions, such as Jumia, Copia, and Kilimall. There are hundreds of e-commerce entities in Kenya, ranging from large companies to smaller specialized platforms (Schneider & Kokshagina, 2021). They operate within a regulatory framework overseen by the Communications Authority of Kenya (CA) and the Kenya Revenue Authority (KRA) to ensure compliance with data protection, consumer rights, and tax laws. While larger firms may publish financial statements to build transparency and attract investment, smaller firms often do not. Studying these firms is crucial, as e-commerce is growing rapidly in Kenya, creating a valuable opportunity to assess how venture capital funding impacts financial performance and drives sector growth in the digital economy (Nungari & Obuba, 2023).

Over the past decade, e-commerce enterprises in Kenya have grown and transformed astonishingly. These businesses have used the advantages and opportunities provided by the Internet and other forms of modern technology (Schneider *et al.*, 2021). One of the main reasons e-commerce is growing in Kenya is because more and more people are using mobile phones and the Internet. With a large percentage of its people using smartphones to access the Internet, Kenya has one of Africa's highest mobile penetration rates (Kamau *et al.*, 2023). As a result, this favorable condition has helped e-commerce businesses grow and reach a large customer base.

Jumia, Kilimall, and Masoko are just a few of Kenya's leading e-commerce platforms that have built solid online marketplaces that bring together sellers and consumers of all kinds of products (Nungari 2023). Online shopping has become increasingly popular among Kenyan consumers due to the numerous platforms that offer convenient shopping, a wide range of products, and affordable prices. Furthermore, the proliferation of mobile money solutions like M-Pesa has enabled safe and easy online payments, which has fueled the expansion of e-commerce. Employment and economic empowerment have been boosted by e-commerce-driven businesses in Kenya (Schneider, 2021).

Logistics, warehousing, digital marketing, customer support, and other related fields have seen an uptick in employment prospects brought about by the expansion of online retailers.

Furthermore, e-commerce has provided small and medium-sized businesses (SMEs) opportunities to showcase and sell their items to a broader audience, allowing them to grow and access previously unexplored markets. Online shopping in Kenya is challenging. Online retailers face challenges in areas including logistical planning and last-mile delivery, customer confidence and security, and the availability of consistent Internet in certain regions. Despite this, public and commercial organizations strive to overcome these obstacles by enhancing infrastructure, establishing legal frameworks, and encouraging digital literacy (Nastjuk, Trang & Papageorgiou, 2022). There has been a dramatic shift in Kenya's retail scene because of the proliferation of e-commerce-driven businesses (Schneider, 2021). These businesses have used the fact that most Kenyans own cell phones and have access to the Internet to provide customers with easy and accessible ways to shop. As a whole, e-commerce in Kenya has much promise for the future, with the ability to increase consumer spending, create jobs, and make more products and services available to more people (Karine, 2021).

Venture capital funding has become a critical lifeline for many of these firms, as it provides the necessary capital to scale operations, innovate, and compete in a growing digital marketplace (Mocanu & Thiemann, 2024). With significant upfront costs required for technology infrastructure, logistics, and customer acquisition, VC enables these firms to overcome capital constraints and focus on growth rather than solely on profitability in the initial stages. Major international and local VCs, as well as angel investors, are increasingly drawn to Kenya's e-commerce sector, seeing it as an entry point into the broader African market. The financial performance of these firms, however, is heavily influenced by the VC funding they receive. Studies show that VC-backed e-commerce firms often experience improved financial performance due to enhanced capacity to scale, enter new markets, and adopt robust operational strategies (Singh & Mungila Hillemane, 2023). Venture capital also often provides more than just funds; VC firms contribute strategic insights, networking opportunities, and mentorship, which are crucial for guiding young e-commerce firms through the challenges of growth and competition.

1.2 Statement of the Problem

According to research by Mutuku, Muathe, and James (2019), e-commerce businesses in Kenya have generally experienced poor financial performance. One major reason is the lack of adequate funding. Success and long-term growth for any business, including e-commerce businesses, depend on having enough capital. However, many Kenyan e-commerce companies struggle to raise the funds needed for technology, infrastructure, marketing, and hiring skilled talent—all essential investments that increase their chances of success and return on investment. Statista's analysis of the financial performance of Kenyan e-commerce companies in 2022 shows a pattern of fluctuations. Between 2016 and 2022, the return on investment (ROI) for these companies dropped from 4% to 1.3%, indicating a decline in profitability. The data shows that the financial performance of Kenyan e-commerce companies has been unstable, with profits rising and falling over the years. Many businesses in Kenya's e-commerce sector have gone bankrupt, and overall financial performance has declined. Some online retailers have faced serious financial difficulties (Cao, 2022). Many Kenyan e-commerce startups have gone bankrupt due to financial difficulties; these include OLX Kenya, ePay, and Rupu. According to Qian (2023), these startups had difficulty competing with established online retailers and could not get enough investment to fuel their expansion.

In the rapidly evolving landscape of Kenya's e-commerce sector, VC funding plays a pivotal role in driving growth and innovation. As digital technologies gain traction and consumer preferences shift, e-commerce-driven firms seek capital infusion for expansion and competitiveness (Cumming, Johan & Reardon, 2023). Understanding how VC funding impacts the financial performance of these Kenyan e-commerce firms is essential for informed decision-making. Empirical evidence, comprising financial data, investment records, and interviews with local entrepreneurs and VCs, served as the foundation of this study. Knowledge gaps include the absence of context-specific research, unexplored regulatory intricacies, varying impacts across developmental stages of firms, and the distinct perspective of local investors. The conceptual framework of this research scrutinized cost of capital, financing methods and capital management support alongside evaluating ROI as a financial performance metric. Through a quantitative

method approach, this study aimed to bridge these knowledge gaps and offer actionable insights, catering to stakeholders deeply invested in Kenya's dynamic e-commerce sector.

Numerous stakeholders had voiced their dissatisfaction with the existing research gaps pertaining to the study of VC funding and financial performance of e-commerce-driven companies (Morande, Del Vacchio & Ranieri, 2020). Primarily, entrepreneurs and founders of startups had expressed their concerns, as their growth heavily relies on VC funding. Additionally, investors, including VCs and angel investors, were also registering their complaints regarding these knowledge gaps. Academics and researchers were as well expressing frustration at the gaps in the literature. The study strived to build comprehensive knowledge and provide practical guidance to industry practitioners, policymakers, and aspiring entrepreneurs (Al-mani, 2020).

The growth of Kenya's e-commerce sector, fueled by technological advances and mobile payments, has heightened the need for substantial capital, making VC a vital funding source (Kithinji & Onono, 2020). Despite its importance, the impact of VC on the financial performance of Kenyan e-commerce firms remains underexplored. Key challenges include understanding the costs associated with VC, such as cost of equity, marginal cost of capital and performance pressures, and how different financing methods affect firm control and growth. Furthermore, VCs offer essential non-financial support, such as mentorship and networking, which may enhance operational capacities (Quas, Martí & Reverte, 2021). The study also considers Kenya's regulatory environment, which shapes VC practices and e-commerce performance, assessing whether the regulatory framework supports or restricts growth. By analyzing these variables, VC costs, financing methods, management support, and regulatory structure, this research aimed to clarify how venture capital funding influences the financial outcomes of e-commerce firms in Kenya.

Mwanzia (2022) conducted a study in Kenya examining how small and medium-sized businesses (SMEs), including e-commerce companies, fared financially after receiving equity funding. The study needed to focus more on these companies' funding requirements and the obstacles they confront in the national economy. Contrarily, a study by Muchira, Jagongo & Simiyu (2019) examined the impact of innovativeness on small and medium enterprises' access to venture capital in Nairobi City County, Kenya. However, the study should have delved into the possible long-

term consequences of this funding on the sustainability of these businesses. Also, it did not look at how macroeconomic conditions impact Kenyan e-commerce companies' access to venture capital.

To address this issue, the current study aimed to fill these gaps by focusing on the need for a deeper understanding of e-commerce businesses seeking VC funding in Kenya. It also explored strategies and techniques that help these businesses achieve sustainable financial performance over the long term (Achiando, 2019). In addition, there were discussions with legislators on how government policy could support VC funding for e-commerce businesses in Kenya. The process required examining current policies and pinpointing possible strategies that could be employed to establish regulatory frameworks that are more favorable for e-commerce-driven entrepreneurship within the nation (Chen, 2021). The research also focused on addressing the distinctive financial requirements and challenges faced by e-commerce businesses in Kenya. This involved interacting with professionals and industry participants to gain a deeper understanding of the specific challenges these businesses encounter. The study then investigated potential customized solutions to address these challenges (Linde, Sjödin, Parida & Gebauer, 2020).

The study pursued multiple objectives to gain a comprehensive understanding of the relationship between venture capital (VC) funding and the financial performance of e-commerce enterprises. It aimed to explore how VC funding impacts the profitability and growth of these businesses. Regulatory structure as a moderating variable was also examined. Furthermore, the study aimed to pinpoint the critical factors influencing successful fundraising within the e-commerce sector. It aimed to offer valuable insights for entrepreneurs, investors, and policymakers, aiding them in making well-informed decisions concerning VC funding in this specific domain.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to investigate the effect of venture capital funding on financial performance of e-commerce-driven firms in Kenya.

1.3.2 Specific Objectives

The following were the specific objectives of this study:

- i. To determine the effect of cost of capital on the financial performance of E-commerce driven firms in Kenya.
- ii. To examine the effect of financing methods on the financial performance of E-commerce driven firms in Kenya.
- iii. To establish the effect of capital management support on the financial performance of E-commerce driven firms in Kenya.
- iv. To investigate the moderating effect of Regulatory Structure on the relationship between venture capital funding and financial performance of E-commerce driven firms in Kenya.

1.4 Research Hypotheses

The study was guided by the following null hypotheses:

H₀₁: Cost of capital does not have a significant effect on the financial performance of E-commerce driven firms in Kenya.

H₀₂: Financing methods do not have significant effect on the financial performance of E-commerce driven firms in Kenya.

H₀₃: Capital management support does not have a significant effect on financial performance of E-commerce driven firms in Kenya.

H₀₄: Regulatory Structure does not have a significant moderating effect on the relationship between venture capital Funding and financial performance of E-commerce driven firms in Kenya

1.5 Significance of the Study

Numerous interested parties stand to gain significantly from the study's findings. In response to the significant influence of e-commerce on Kenya's economic development, the government has instituted the National E-commerce Strategy (ECS) to support the growth and prosperity of e-

commerce-driven businesses. Businesses that rely heavily on online sales can undergo a structural transformation, according to the suggestions made by this study. Policymakers in Kenya and other countries interested in the growth of their e-commerce sector would find this study's conclusions quite illuminating. The study's findings will inform policy decisions that boost the overall financial efficacy of e-commerce businesses by encouraging venture capital funding.

The present research intends to fill gaps in our knowledge by examining how venture capital investments affect the bottom lines of Kenyan e-commerce businesses. This research aims to shed new light on the elements that affect the association between venture capital funding and a company's financial performance. The purpose of this study was to determine what factors impact the success or failure of e-commerce businesses in Kenya that have applied for and received venture capital investments. Entrepreneurs, investors, and legislators in Kenya working to grow the country's e-commerce sector would find the provided figures helpful.

Entrepreneurs and investors in Kenya who are considering starting or investing in an e-commerce firm would find this helpful study. The study's findings will provide the researchers with a thorough comprehension of the pros and cons associated with VC funding. They would be able to make well-informed investing decisions armed with this knowledge. Academics and researchers in the future may find this study's findings and conclusions useful as a reference for their work. There is a great need to study the relationship between venture capital investment and the bottom line for Kenyan e-commerce startups. Insights gained from this study about the factors that influence these companies' success or failure help develop Kenya's e-commerce sector.

1.6 Scope of the Research

This research aimed to examine the impact of venture capital investments on the financial performance of Kenyan enterprises that depended on Internet sales. The study focused on venture capital firms that have invested money into these e-commerce businesses. The research spanned a minimum duration of five years, commencing in 2017 and concluding in 2022. Technological developments and disruptive innovations within the e-commerce business were so prolific throughout this timeframe. In addition, the most recent industry trends were captured due to the availability of extensive and reliable data related to the current research. When these businesses

incorporate an online component into their strategy, they open themselves to opportunities in various markets, such as retail, travel and hospitality.

Examining how venture capital funding affects the bottom lines of Kenyan e-commerce businesses was the primary objective of this research. In this study, return on investment (ROI) evaluations were the primary focus. The effect of capital cost, financing methods, and capital management support on the bottom lines of e-commerce businesses was also investigated in this study. Furthermore, the regulatory framework was considered a variable that moderate the relationship. A total of 115 Kenyan e-commerce businesses listed in venture capital directories as having received funding were the subjects of the investigation. The researcher examined trends, patterns, and changes over a certain period because the study used longitudinal data. In addition, the researcher compared and analyzed factors using cross-sectional data.

1.7 Limitations of the Study

The study encountered limitations regarding the availability and reliability of data on venture capital funding and the financial performance of e-commerce enterprises. Metrics for assessing financial performance and the amount of venture capital received were difficult to obtain, which could affect the study's validity and generalizability if data inaccuracies led to biased or incomplete findings. To address these issues, the researcher employed stringent data collection and validation methods, including cross-referencing multiple sources, using clearly defined financial metrics, and applying data cleaning techniques to manage inconsistencies or missing information. Sensitivity analyses were also conducted to assess how potential biases or data errors might impact results. Additionally, collaboration with field experts and access to specialized databases enhanced data quality and reliability. These measures helped mitigate data limitations, strengthening the study's reliability.

1.8 Organization of the Study

This thesis was categorized into five chapters. Chapter One includes the background, statement of the problem, the objectives of the study, research hypotheses, significance of the study, the scope of the study, limitations of the study, and organization of the study. In addition, Chapter Two covers

a theoretical and empirical literature review, research gaps, and the conceptual framework. Chapter Three covers the research philosophy, research design, empirical model, Operationalization and Measurement of Research Variables, target population, sampling design, data collection instruments, validity and reliability of instruments, data collection procedure, analysis and presentation, diagnostic tests, and ethical considerations. Chapter four dissects the findings of the study and Chapter five provides the summary and conclusions of the study and recommendations for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter thoroughly evaluated the literature, focusing on the aspects investigated in the study. It examined both theoretical and empirical perspectives relevant to the research. The theoretical review analyzed key ideas and theories foundational to the study, while the empirical review assessed significant research findings related to the topic. This review also highlighted essential areas where empirical insights could be expanded. Finally, a conceptual framework was presented, illustrating the relationship between venture capital funding and the financial performance of e-commerce-driven businesses, represented diagrammatically through specific variables.

2.2 Theoretical Literature Review

This section outlines the key academic theories relevant to the study, providing the theoretical foundation for the research. It explores various frameworks that inform the study's conceptual and analytical approach. The theories discussed included the Trade-Off Theory, Stakeholder Theory, Financial Liberalization Theory and Agency Theory.

2.2.1 Trade-Off Theory

In the 1950s and 1960s, Franco Modigliani and Merton Miller developed the Trade-Off Theory, which has become a foundational concept for understanding how businesses determine their optimal capital structure. This theory suggests that organizations evaluate the advantages and disadvantages of debt versus equity financing to establish the most suitable capital mix. The Trade-Off Theory posits that a company can optimize its overall value and cost of capital by finding the right balance between debt and equity. Debt comes with advantages, such as lower financing costs and tax benefits on interest payments. The Trade-Off Theory is pertinent to studying venture capital funding and financial performance in Kenyan e-commerce firms, as it illustrates how companies weigh the advantages of external investment against potential downsides, like equity dilution and investor demands, affecting their growth, profitability, and financial stability.

The theory recognizes the downsides of debt, such as the obligation to repay and the risk of financial difficulties. According to this approach, businesses strive to find the optimal combination of debt and equity in their capital structure. It is believed that companies intentionally weigh the benefits of tax breaks and lower financing costs associated with debt against potential drawbacks, such as financial troubles, to determine the most suitable capital structure. Naomi (2023) supports the Trade-Off Theory, highlighting its merits, including the potential for lower total financing expenses through debt and the flexibility to tailor the capital structure to a company's specific financial situation and risk preferences. This flexibility allows organizations to adapt to changing market conditions and evolving business objectives.

However, critics argue that the Trade-Off Theory oversimplifies real-world scenarios. Detractors contend that the theory assumes a static capital structure for companies pursuing a single purpose, neglecting the dynamic nature of markets. Scholars argue that businesses in rapidly changing contexts may require more nuanced guidance, considering behavioral factors and management biases in decision-making, and addressing issues like asymmetric information and agency costs more seriously (Jarallah et al., 2019).

Despite the criticisms, the Trade-Off Theory remains influential in guiding decisions related to capital structure, financing alternatives, risk management, tax planning, and strategic expansion initiatives. It aims to minimize the cost of capital and maximize shareholder returns. The theory is also applied to analyze the relationship between venture capital financing and the success of e-commerce firms. By assessing how companies handle stock distribution through venture capital and weighing the pros and cons of debt financing, the Trade-Off Theory provides a theoretical foundation for understanding the capital structure decisions, cost of capital, and financial performance of e-commerce businesses (Bajaj et al., 2021; Jarallah et al., 2019).

2.2.2 Stakeholder Theory

R. Edward Freeman introduced the Stakeholder Theory in 1984. This theory posits that corporations should not focus just on shareholders but also take into account the concerns and interests of other stakeholders. Stakeholder theory posits that organizations have several stakeholders, including owners, workers, consumers, and the community, each with distinct

viewpoints and requirements. Because the organization's choices may impact these stakeholders and vice versa, they are interconnected. This approach acknowledges that stakeholder feedback may greatly influence an organization's performance, reputation, and long-term sustainability. It highlights firms' ethical need to take into account these diverse interests and find a middle ground between them. Stakeholder Theory is applicable to examining venture capital funding and financial performance in Kenyan e-commerce firms, as it emphasizes the need to consider the interests of diverse stakeholders such as investors, customers, and employees who impact strategic decisions, growth potential, and financial results in competitive environments.

According to Tao, Wu and Zhao, (2023), the strengths of stakeholder theory include promoting ethical decision-making, long-term sustainability, adaptability to changing environments, improved reputation, legal compliance, innovation, informed decision-making, and effective conflict resolution, enhancing overall organizational performance and responsibility. Stakeholder theory faces criticism for its perceived vagueness and practical challenges in implementation, as it may lead to conflicts and dilute organizational focus. Critics argue that prioritizing various stakeholders can be subjective, making it challenging to balance competing interests. Some contend that shareholder interests should prevail for economic efficiency and accountability (Dmytriiev, Freeman & Hörisch, 2021)

Stakeholder theory is applied in various ways, such as shaping corporate governance, sustainability reporting, and ethical decision-making. It guides businesses in considering the interests of all stakeholders, ensuring accountability, fostering responsible practices, and ultimately contributing to long-term success and societal well-being (Torelli, Balluchi & Furlotti, 2020). In the context of VC funding and e-commerce firms, Stakeholder theory can guide research by encouraging the examination of how various stakeholders, including investors, founders, employees, customers, and communities, impact financial performance. It helps assess how ethical practices and stakeholder engagement influence funding decisions, operational strategies, and overall business success. Stakeholder theory underpins capital management support in the study of VC funding and financial performance of e-commerce firms by emphasizing the importance of considering diverse stakeholder interests, which can influence funding decisions, operational strategies, and the long-

term financial success of these companies, ultimately informing effective capital management approaches (Barney & Harrison, (2020)

2.2.3 Financial Liberalization Theory

Financial liberalization theory can be traced back to the independent works of McKinnon (1979) and Shaw (1973). In their seminal papers, they scrutinized the impact of government intervention in profit-driven institutions on economic growth. Both scholars emphasized the significance of financial liberalization in fostering economic growth. Subsequently, a multitude of studies have sought to elucidate the consequences of financial liberalization, encompassing its effects on economic growth, funding restrictions, market integration, capital flows, and capital configuration. The theory argues that freeing financial markets from government restrictions enhances economic growth by attracting investments, promoting competition, increasing access to capital, and improving the efficiency of financial institutions. Financial liberalization theory assumes that deregulating financial markets, reducing government intervention, and promoting competition will lead to increased capital flows, economic growth, and improved financial market efficiency. Financial Liberalization Theory applies to analyzing venture capital funding and financial performance in Kenyan e-commerce firms by proposing that easing financial restrictions promotes capital availability, expands investment opportunities, and improves funding access, which can positively influence these firms' growth and profitability.

According to Haruna and Abu, (2021), strengths of financial liberalization theory include improved capital allocation, increased competition, enhanced foreign investment, innovation in financial markets, economic growth, and expanded access to financial services. These benefits can contribute to overall economic development, particularly in emerging economies, when implemented with appropriate safeguards and regulatory measures. Critics argue that financial liberalization can lead to financial instability, speculative bubbles, and crises, as seen in the 2008 global financial crisis. They contend that it can exacerbate income inequality, harm vulnerable populations, and result in short-term profit-seeking behavior that undermines long-term economic stability (Ehigiamusoe, & Samsurijan, 2021).

Financial liberalization theory is applied by governments to reduce regulations and restrictions in financial markets, attracting foreign investment, fostering competition, and promoting innovation. It is often used to stimulate economic growth, increase access to financial services, and integrate national economies into the global financial system, although it carries risks (Hussain, Akbar, Malik, Ahmad & Abbas, (2021). In the context of studying VC funding and financial performance of e-commerce firms, financial liberalization theory can be applied to analyze how deregulation and increased access to capital markets impact these firms' growth and profitability. It can help assess the influence of liberalization policies on investment patterns and financial outcomes in the e-commerce sector. Financial liberalization theory underpins the regulatory structure in the study of VC funding and financial performance of e-commerce firms by emphasizing reduced government intervention. This theory supports a regulatory framework that fosters a competitive and accessible capital market environment, encouraging VC investments and facilitating improved financial performance for e-commerce companies (Manish, & O'Reilly, 2019).

2.3.4 Agency Theory

Agency Theory, developed by Jensen and Meckling in 1976, explores the relationship between principals (shareholders) and agents (managers) within organizations, based on several key assumptions. It assumes a divergence of interests, with agents often pursuing personal goals that may conflict with those of principals. This divergence creates potential conflicts, which the theory argues can be mitigated by implementing monitoring and control mechanisms. Another assumption is that incentives must be aligned to ensure agents' actions are consistent with the objectives of the principals. Additionally, Agency Theory addresses information asymmetry, where agents often hold more information than principals. Finally, the theory assumes that maximizing shareholder value is the primary objective, emphasizing the need for strategies that align agent behavior with the interests of shareholders. Agency Theory is relevant to studying venture capital funding and financial performance in Kenyan e-commerce firms, as it explains the conflicts that may arise between venture capitalists (principals) and firm managers (agents), highlighting the need for monitoring, incentive alignment, and performance controls to ensure aligned objectives.

The merits of Agency Theory reside in its capacity to offer a conceptual structure for comprehending and addressing conflicts of interest, its prioritization of accountability and

transparency, its concentration on aligning incentives, its relevance in diverse organizational contexts, and its advocacy for the maximization of shareholder value (Cuervo-Cazurra, Mudambi & Pedersen, 2019). The theory is subject to criticism due to its assumption of self-interested conduct, positing that actors are mainly driven by self-interest, a premise that may not universally hold true. According to Mejia (2021), some agents may exhibit motivation stemming from other reasons, such as organizational loyalty or a feeling of obligation towards stakeholders. Moreover, the theory is subject to criticism due to its disregard for social and ethical issues. By mostly emphasizing economic variables, it may fail to acknowledge the significance of social and ethical considerations in certain settings.

The significance of agency theory lies in its provision of a conceptual framework for the analysis of principal-agent interactions. It aids in the identification of agency difficulties and offers suggestions for the implementation of mechanisms to alleviate such problems. Moreover, agency theory contributes to enhanced decision-making processes (Cuervo, 2019). The use of agency theory has been seen in several situations, such as corporate governance, CEO remuneration, and management control systems (Swain, 2020). The use of agency theory facilitates the comprehension of possible conflicts of interest that might emerge between principals and agents. The principals endeavor to optimize their financial performance and worth, whilst the agents strive to attain their investment goals, such as optimizing ROI. The study of venture capital financing and financial success of e-commerce enterprises is grounded on agency theory, which examines the principal-agent relationship and its implications for ROI. The study conducted by Triani and Tarmidi (2019) examines the manner in which venture capitalists (VC principals) strategically align their interests with e-commerce enterprises (agents) in order to optimize ROI. This alignment serves to minimize conflicts and facilitate effective allocation of capital.

2.3 Empirical Literature Review

The process of doing an empirical literature review entails the examination and integration of previously completed studies and research articles pertaining to a certain subject matter (Rosário & Raimundo, 2021). This section discusses prior research conducted on the impact of VC funding on the financial performance of e-commerce-driven enterprises in Kenya. The studies examined several factors including the cost of capital, financing methods, capital management support, and

regulatory frameworks. This study examined research conducted both internationally and regionally, in addition to those conducted specifically in Kenya. Research pertaining to each individual variable was taken into account.

2.3.1 Cost of Capital and Financial Performance

The study "Cost of Capital and Firm Value: Evidence from Indonesia" conducted by Kurniasih and Rustam (2022) focused on understanding the impact of the cost of capital (COC) on the market value of pulp and paper companies using data from the Indonesia Stock Exchange (IDX) spanning the years 2013 to 2020. Employing methods like moderation regression analysis, the research found empirical evidence supporting the notion that the cost of capital has a positive effect on a company's value. The study observed an upward trend in stock prices, attributed to a significant increase in debt usage as a financing method, sending an encouraging message to the market. The rise in the cost of capital, encompassing both debt and equity charges, was associated with an increase in the overall worth of the companies studied. As a result, the study suggests that investors interested in shares of pulp and paper industry companies should consider the cost of capital, as it can influence the company's value. However, while Kurniasih and Rustam focused on the Indonesian context and its pulp and paper industry, their study lacked a comprehensive analysis of how changes in capital costs affect the e-commerce industry in Indonesia. To address this knowledge gap, the current research aims to investigate the impact of financing costs on Kenyan e-commerce companies within their specific industry. By examining the relationship between capital costs and firm valuation in the Kenyan e-commerce setting, this study seeks to provide insights into how financial considerations affect the value of companies operating in the Kenyan e-commerce sector.

A study by Mkansi (2022) aimed to assess the costs associated with e-business adoption and the tactics used by micro-retail enterprises in the UK. In order to assess the strategies e-retail microbusinesses and other small e-commerce firms utilize to increase their adoption of e-business practices, this study used the technology-organization-environment theoretical framework. The study's results illuminate the non-financial effects of removing these cost barriers on e-business adoption and the strategies used to lower these costs through organizational measures, technological advancements, and environmental factors. The clothes retail industry was the basis

for the research, restricted to just two areas. The findings of this study apply to a broader range of sectors and areas. According to the report, additional research should focus on adapting the model to different retail marketplaces and geographic regions to make it more usable and generalizable. The research did not contain any comparisons to other sorts of businesses; it solely concentrated on small firms engaged in retail in the UK. This study's overarching goal is to draw parallels and contrasts between conventional brick-and-mortar stores and their digital competitors across various sectors. By adopting this approach, we can better understand the specific factors influencing the cost of capital and financial performance of e-commerce enterprises.

In a study conducted by Hussain, Ahmad, Khan, Rashid, and Rehman (2021), the focus was on investigating the relationship between a company's cost of capital and its financial performance using data collected in Pakistan. The research utilized secondary data from 52 different companies to analyze how financing costs influenced their success. The study highlighted a notable reliance of businesses in Pakistan on external loan finance rather than generating capital internally. The statistical analysis revealed a robust negative association between capital expenditure and company performance. The findings of the study suggest that, for optimal performance, companies should strive for a debt-to-equity ratio that minimizes costs. In essence, the research indicates that maintaining an appropriate balance between debt and equity is crucial for achieving the best financial outcomes for companies in the Pakistani context. Furthermore, companies should lower the proportion of their short-term debt, which is leverage based on the results. Instead, companies should put their efforts into developing internal projects that will boost their financial success. The research only looked at the direct relationships between the factors that affected capital costs and the financial performance of the capital markets. One area where research is lacking is investigating potential moderating factors that could explain or at least lessen the impact of the observed correlation. This study aims to investigate the potential moderating role of the regulatory framework in the relationship between financial performance and the factors determining the cost of capital.

2.3.2 Financing Methods and Financial Performance

Wang and Han (2021) conducted research on developing an innovative financial e-commerce platform to improve access to capital for Chinese small and medium-sized enterprises (SMEs). The study examined how different financial e-commerce models relate to SME financing, using multiple linear regression and logistic regression analysis. The findings suggest that the network financial model can help SMEs effectively apply for and obtain loans by allowing them to register on the platform and upload required documents. This system simplifies labor-intensive processes, reducing both time and costs for SMEs. Financial institutions also benefit from lower labor expenses, and access to diverse funding options helps more SMEs grow by easing operational burdens. However, the study's focus on financial e-commerce platforms for SMEs overlooked the impact of non-financial factors, such as entrepreneurial experience, managerial skills, market competition, and external networks, which could be limitations of the research. In response, the current study integrates these extra-financial factors to gain a more comprehensive understanding of success drivers for e-commerce businesses.

Omollo, Muturi, and Wanjare (2018) conducted a study focusing on the performance of companies listed on the Nairobi Securities Exchange in Kenya and the impact of various debt financing choices on their financial results. The research employed various panel econometric methods, including pooled ordinary least squares (OLS), fixed effects (FE), and random effects (RE), to assess the influence of debt on the financial performance of forty non-financial companies traded on the Nairobi Securities Exchange. The empirical findings revealed a strong inverse relationship between Return on Assets (ROA) and total, short-term, and long-term debt. Interestingly, irrespective of the estimation approach used, the study found that these debt indicators had no significant effects on equity returns. The study suggests that financial managers should carefully consider debt levels to optimize performance, emphasizing the need to avoid both excessive debt and accumulating too much cash. The findings also suggest that caution is advisable for banks when extending loans to companies, and establishing maximum loan amounts is crucial to mitigate default risks associated with over-leverage. However, the study acknowledges limitations related to relying on self-reported data, which may lead to the exclusion of certain funding approaches and non-financial considerations. To address this gap, the research recommends longitudinal

analysis to track the financing strategies and financial outcomes of e-commerce-driven companies over time. This approach allows for a more comprehensive understanding of how financing decisions evolve and impact the financial performance of companies in the dynamic context of e-commerce.

Gisele, Githui, and Muhavani (2021) conducted a descriptive research study investigating the funding strategies and financial outcomes of textile and garment manufacturing businesses based in Nairobi, Kenya. The study focused on executives and middle managers from 39 different companies in Nairobi, with 156 participants enrolled using random and purposeful sampling techniques. Data collection was carried out through questionnaires and processed using the Statistical Package for the Social Sciences (SPSS). Visual representations, including tables, charts, and bar graphs, were created to illustrate the collected data. The research emphasized that a company's financing mix significantly influences its bottom line, highlighting the crucial role of financing options in investment decisions. Strategic decisions, such as choosing the optimal combination of short- and long-term funding sources, were identified as key considerations for effective management. The study suggested that the textile and garment sectors in Nairobi benefited from government assistance in securing specialized financing, a practice currently utilized primarily by startups. The report argued for the extension of these financing choices to businesses in other sectors. Recognizing the diverse factors influencing the financial success of e-commerce enterprises, the study suggested that future research should explore aspects such as the cost of capital, financing methods, and support for capital management. The research aimed to shed light on the best balance of funding tactics for various e-commerce enterprises at different stages of development. The primary objective of the study was to examine the advantages and disadvantages of different financing options and their impact on financial performance

2.3.3 Capital Management Support and Financial Performance

Pradhan, Arvin, Nair, Bennett, and Bahmani (2019) looked at how venture capital and GDP growth have changed over time in Europe, specifically in the context of the digital economy. Using vector error-correction modeling, this study investigated the connections between private equity investment, information and communication technology infrastructure, and GDP growth. The data

was examined from twenty-five different European nations. The variables were determined to be cointegrated, suggesting the existence of long-term relationships. The intersection of economic growth, information and communication technology (ICT) infrastructure development, and venture capital investments has far-reaching consequences for both early-stage and late-stage ventures, as well as total venture capital funding. The study revealed that internet use is influenced by late-stage venture capital investments and economic growth, emphasizing the interconnectedness of these factors. Notably, the study underscores the substantial impact of late-stage venture funding on GDP growth. The findings highlight the need for a comprehensive policy strategy that addresses and enhances venture capital, economic growth, and Europe's ICT infrastructure simultaneously. Recognizing the stable short-term correlations among these variables, the study advocates for a coordinated approach to advance these critical areas. The current research aimed to provide a better understanding of the financial opportunities and threats faced by e-commerce businesses in the rapidly evolving e-commerce sector. In today's highly competitive e-commerce landscape, the ability to secure capital and make strategic investments can be decisive factors in determining the success or failure of a company.

Battisti, Nirino, Leonidou, and Thrassou (2022) conducted a study exploring the relationship between corporate venture capital (CVC) and Corporate Social Responsibility (CSR) performance, employing an improved methodology grounded in the resource-based perspective. The empirical investigation aimed to understand the long-term impact of CVC on CSR performance, utilizing the Generalized Least Square (GLS) model for a longitudinal analysis of one hundred Fortune Global 500 companies from the US and Europe. The study found that corporate volunteering and giving initiatives positively influenced social and environmental performance. This research contributed to the fields of corporate social responsibility and corporate venture capital, expanding the analysis within the Resource-Based View (RBV) paradigm. The insights gained from the study provide valuable lessons for professionals seeking to successfully implement both CVC practices and CSR initiatives simultaneously, highlighting the key factors for excelling in both domains. In contrast to previous research utilizing cross-sectional data and conducting short-term analyses, this study aims to investigate the long-term effects of capital management assistance on the financial performance of e-commerce enterprises. By documenting changes and trends over an extended

period, the research provides a comprehensive understanding of the relationship between venture capital funding and the financial outcomes of e-commerce firms.

Wandiri, Nyangau, and Ochieng (2020) examined the effects of financial development initiatives on small and medium-sized enterprises (SMEs) in the manufacturing sector of Nairobi County, Kenya. Focusing on 451 SMEs in Nairobi County that are members of the Kenya Association of Manufacturers (KAM), the study selected 210 responding firms using a systematic approach to ensure comprehensive coverage. The results indicated that SMEs could benefit from pooling resources and strengthening relationships with banks, applying risk diversification and efficient capital allocation to multiple investment projects, positively correlating with growth and profitability. The study emphasized the importance of industrial savings pooling for building relationships with banks and other financial institutions, facilitating more efficient access to investment capital. The paper recommended the Kenya Association of Manufacturers (KMA) to draft rules facilitating the acquisition of financial services by SMEs and state-owned enterprises (SOEs) in Kenya, potentially improving their financial situations and growth potential. Utilizing various research methodologies, this study explores the intricate causal relationships between e-commerce-driven firms and the venture capital funding they receive. The research delves into the complexities of these relationships, shedding light on the dynamics between venture capital and the financial performance of e-commerce enterprises

2.3.4 Venture Capital Funding, Regulatory Structure and Financial Performance

According to Dong and Zheng (2022), existing literature suggests a favorable correlation between venture capital funding, regulatory landscape, and financial performance. Venture capital funding is positively associated with growth, profitability, and market value. The study indicates that more venture capital funds are attracted to companies in jurisdictions with investor-friendly legislation, underscoring the impact of regulatory frameworks on the venture capital industry. The findings provide valuable insights for policymakers, entrepreneurs, and investors, offering a better understanding of the dynamics and effects of venture capital investment and regulatory frameworks on business development.

Cheong, Lee, and Weissmann (2020) focused on the relationship between the availability of loans, tax policies, and the performance of small and medium-sized manufacturing enterprises (SMEs) in Malaysia. Using the GMM technique with firm-specific and macroeconomic parameters as control variables, the study found that SMEs do not necessarily perform better when relying on debt funding. Tax incentives and access to funding from non-banking sources, however, resulted in better performance for SMEs. The study highlighted the impact of regulatory frameworks, particularly tax policies, on SMEs in Malaysia and suggested that changes in regulations can significantly affect financial outcomes. However, a gap exists as the study focuses primarily on debt funding and tax incentives, overlooking the potential impact of venture capital funding as an alternative financing source. The study also does not examine how regulatory changes might specifically moderate the relationship between venture capital and SME financial performance. The current study addresses these gaps by investigating how venture capital as a non-debt funding source affects e-commerce businesses performance and how changes in regulatory frameworks, such as tax and compliance adjustments, influence this relationship. By focusing on venture capital within the broader regulatory environment, this study will provide a more comprehensive understanding of how both financial resources and regulatory shifts impact performance.

Hakimah, Pratama, Fitri, Ganatri, and Sulbahrie (2019) explored the impact of intrinsic corporate governance on the financial performance of small and medium-sized enterprises (SMEs) in Indonesia. Using panel data analysis on 50 SMEs between 2013 and 2017, the study found that family firms were less profitable, indicating challenges within these types of companies. Moreover, boards with more women and larger sizes were associated with improved financial performance, emphasizing the benefits of diversity in corporate decision-making. The research suggested that corporate governance dynamics play a crucial role in determining the financial success of SMEs in Indonesia. While the study highlights governance dynamics within family firms and the influence of board diversity, it does not address how external funding options or evolving regulatory frameworks interacts with internal governance factors to affect financial performance. The current study addresses this gap by examining the role of venture capital as a key financial input and how regulatory shifts impact its effectiveness. By integrating venture capital funding as an external factor alongside regulatory considerations, this study will provide a

broader perspective on how both internal governance and external financial and regulatory environments jointly contribute to e-commerce financial performance.

In the context of Zimbabwe, Edmore's research in 2017 highlighted the significant impact of the regulatory environment on the growth of small and medium-sized enterprises (SMEs). The literature review emphasized that SMEs heavily rely on legal and regulatory considerations for their expansion. The study recommended government involvement in creating a policy and institutional climate conducive to SMEs' growth and development. The report underscored the importance of implementing policies that support SMEs to avoid long-term economic stagnation. The research suggested measures inspired by pro-SME reforms enacted in Botswana, such as policies encouraging entrepreneurship, aiding financial institutions, promoting exports, and creating an enabling business environment. The current study collectively emphasizes the intricate relationships between venture capital funding, regulatory frameworks, and financial performance in different contexts. The study offers valuable insights for stakeholders and policymakers to make informed decisions and implement strategies that support the growth and success of businesses, particularly SMEs and startup companies.

Table 2.1: Summary of Literature and Gaps Identified

Author (s)	Title of the study	Key Findings	Research Gap	Gaps to fill
Edmore, (2017) - Zimbabwe	Evidence from Zimbabwe on how the legal and regulatory environment affects the growth of SMEs.	The legal and regulatory environment in Zimbabwe has a major effect on the growth of SMEs.	The effects of a shifting legal landscape on the growth of SMEs were not investigated.	Explore how changes in legal and regulatory frameworks impact E-Commerce businesses in Kenya's e-commerce sector, focusing on adaptability and growth.
Omollo, Muturi & Wanjare, (2018) - Kenya	Impact of debt financing choices on companies' financial performance on Nairobi Stock Exchange.	Numerous debt financing options exist for companies on the Nairobi Securities Exchange, each with distinct	Long-term effects of policy changes were not considered in the study.	Investigate the long-term impacts of policy changes on venture capital financing in Kenya's e-commerce sector.

		impacts on financial performance.		
Ekanem, Owen & Cardoso, (2019) - Nigeria	Institutional context's impact on entrepreneurship financing in Nigeria.	A supportive regulatory environment fosters venture capital investments and an entrepreneurial ecosystem.	No specific focus on e-commerce or Kenya.	Examine the effect of regulatory contexts on venture capital investments in Kenya's e-commerce-driven firms.
Hakimah, Pratama, Fitri, Ganatri & Sulbahrie, (2019) - Indonesia	Impact of intrinsic corporate governance on financial performance of SMEs.	Long-term venture capital investment is influenced by GDP growth and ICT infrastructure.	Variations in debt financing and impact on financial performance by region were not analyzed.	Analyze how regional debt financing variations impact the financial performance of Kenyan e-commerce firms receiving venture capital funding.
Suwarni, Fahlevi & Abdi, (2020) - Indonesia	VC value of Indonesian startups: an empirical analysis.	Economic success of Indonesian SMEs is strongly influenced by corporate governance standards.	No specific investigation on how venture capital affects different sectors like e-commerce.	Assess how venture capital investment, influenced by corporate governance standards, impacts the success of Kenya's e-commerce-driven firms.
Wandiri, Nyangau & Ochieng, (2020) - Kenya	Financial development programs' impact on Nairobi County's SMEs.	Increased profits for SMEs linked to larger boards and gender diversity.	Did not examine the role of institutions in promoting or hindering venture capital growth.	Investigate the role of institutional support in encouraging venture capital funding within the Kenyan e-commerce sector.
Cheong, Lee & Weissmann, (2020) - Malaysia	Success of manufacturing SMEs in Malaysia in light of credit access and tax structure.	Access to credit and favorable tax structures influence the success of Malaysian SMEs.	Lacks insight on venture capital's effect on economic development in the long term.	Study the long-term economic impact of venture capital funding on Kenya's e-commerce-driven firms.
Gisele, Githui & Muhavani, (2021) - Kenya	Financing access for companies in Nairobi's clothing and textile sector.	Future sales prospects are crucial in venture capital valuation, considering market	Insufficient research on the effects of venture capital in the e-commerce sector.	Explore the role of venture capital in scaling Kenya's e-commerce sector and its evaluation

		size, competition, and growth.		metrics in this specific industry.
Wang & Han, (2021) - China	Multiple linear logistic regression model for funding SMEs in e-commerce.	Financial development programs benefit SME expansion.	Focused on short- and long-term impacts of venture capital on the digital economy, with no specific focus on Kenya or the e-commerce sector.	Assess short- and long-term effects of venture capital on Kenya's digital economy, with a focus on e-commerce-driven firms.
Zada, Yukun & Zada, (2021) - Pakistan	Fiscal management techniques and growth of forestry businesses.	Credit availability and tax arrangements affect various sectors differently.	No clarity on the knowledge of Indonesian SMEs on corporate governance's benefits.	Determine the level of understanding and application of corporate governance principles in Kenya's e-commerce-driven firms benefiting from venture capital.
Hussain et al., (2021) - Pakistan	Firm performance and the cost of capital.	Malaysia's current tax system hinders SME growth and may encourage accounting fraud.	Emphasis was primarily on SMEs with no specific focus on venture capital in e-commerce sectors.	Explore tax policy's role and cost of capital considerations specific to venture capital investments in Kenya's e-commerce-driven firms.
Kurniasih & Rustam, (2022) - Indonesia	Value of firms and cost of capital in Indonesia.	Venture capital investment and regulatory framework influenced short-term financial success.	Focused only on short-term success, with limited insights on the long-term financial success and scalability of venture capital-funded e-commerce firms.	Analyze both short- and long-term financial impacts of venture capital investments on e-commerce-driven firms in Kenya to determine scalability and sustainable growth potential.
Mkansi, (2022) - United Kingdom	E-commerce adoption strategies and costs for small retail enterprises.	SMEs adopting e-commerce benefit from better access to credit and reduced financing costs.	Did not investigate specific valuation methodologies and frameworks used by VCs to evaluate companies.	Research the specific valuation frameworks and methodologies venture capitalists use when assessing e-commerce firms in Kenya to ensure

				alignment with industry standards.
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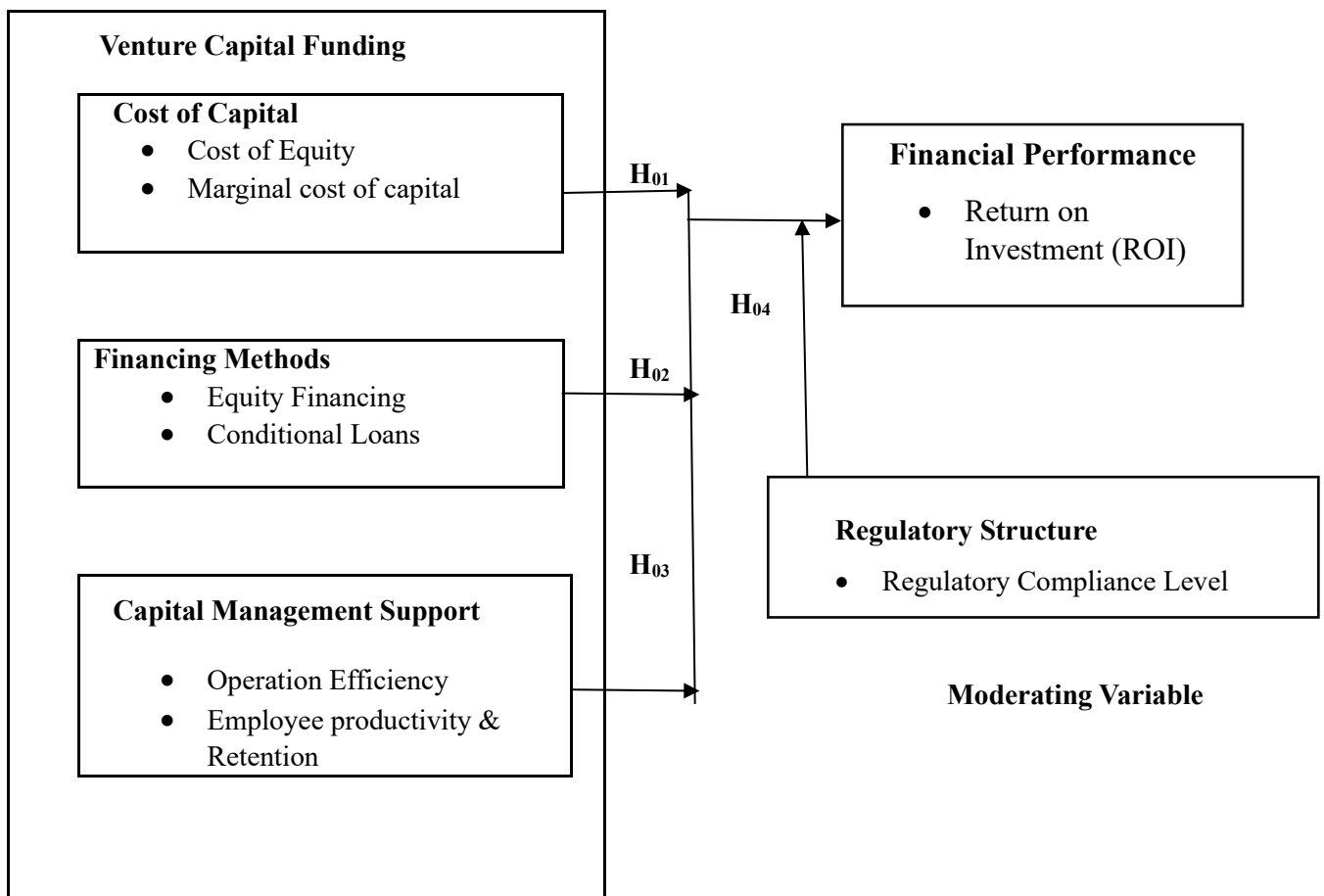
Source: Researcher (2024)

2.5 Conceptual framework

A conceptual framework is a graphical representation of the interconnections between the many research concepts, variables, and points of emphasis. Below is an image that shows how venture capital funding is related to the financial performance of e-commerce-driven firms in Kenya. The return on investment (ROI) measures financial performance, whereas the cost of capital, financing approaches, and capital management support make up venture capital funding. We will use the Regulatory Compliance Level as a moderating variable to assess the regulatory system.

INDEPENDENT VARIABLES

DEPENDENT VARIABLE



Source: Researcher (2024)

Figure 2.1: Conceptual Framework

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the study methodology used to investigate the influence of venture capital funding on the financial performance of e-commerce businesses. This section discussed various topics such as research philosophy, empirical model design, operationalization and measurement of variables, target population, sampling strategy, data collection instrument, data collection techniques, data processing, diagnostic tests, and ethical considerations.

3.2 Research Philosophy

Research philosophy is the set of underlying beliefs and principles that shape a researcher's approach and methods. Philosophies of inquiry range from positivism and realism to pragmatism and interpretivism. Positivism, as described by Muturi & Njeru (2019), is a research philosophy that uses empirical data and scientific methods to establish correlations between variables. Realism asserts the existence of an objective reality independent of individual subjective perceptions. Pragmatism is an academic philosophy that focuses on the importance of real-world relevance and practical application of knowledge. Interpretivists focus on understanding a person's actions and the meaning they attach to their experiences in the research process (Kremez, Frazer, Weaven, & Quach, 2021).

This research utilized positivism to present a full knowledge of the link between VC funding and financial performance of e-commerce-driven firms (Momanyi, Ndemo, Maalu & Owino, 2023). Since this research makes heavy use of quantitative methodologies, it benefits from positivism's focus on empirical evidence, objectivity, and scientific rationalism. It enables scholars to examine and comprehend interrelationships, recognize patterns, and form solid inferences from empirical data. This mindset is reasonable because it gels with the use of quantitative techniques, which may provide concrete, quantifiable information about venture capital funding and financial performance (Bahlmann, 2023). A key idea in this worldview is that universal rules and cause-

and-effect relationships can be understood by observing and measuring the world objectively. The research adopted a positivist approach to ensure objectivity in data collection and analysis, with the aim of making its findings applicable to a wider range of e-commerce-driven businesses.

3.3 Research Design

A research design is a carefully devised plan or strategy that functions as a framework for conducting research. Within the academic realm, meticulous attention and implementation of research methodology, data gathering techniques, sample design, and data analysis methods are imperative. The primary goal of this study, as articulated by Peng, Zhang, Wang, and Liang (2019), was to validate or refute specific research hypotheses. The study sought to investigate the influence of VC funding on the financial performance of e-commerce enterprises, utilizing a descriptive cross-sectional survey research design. This particular approach was selected to gather data from a specific subset of e-commerce enterprises within a defined period. The collection of data for this study involved the distribution of questionnaires. Surveys conducted by Geng, Wang, Chen, Song, and Yu in 2020 were instrumental in gathering information on venture capital costs, various financing methods, levels of support for capital management, and financial indicators such as ROI. The analyzed data offered a succinct overview of the correlation between venture capital funding and business performance in the e-commerce industry.

The rationale for employing a descriptive cross-sectional survey research methodology in this study is justified by its efficacy in efficiently collecting data from a substantial sample size, thereby ensuring an accurate representation of the current conditions within the business (Gatauwa, 2020). According to Wang and Cheng (2020), this approach facilitates the collection of comprehensive quantitative data and allows for the consideration of multiple perspectives.

3.4 Empirical Model

Mangiaracina (2019) defines an empirical model as a mathematical representation illustrating the relationship between variables that can be analyzed using data. The research utilized a linear regression model to explore the influence of venture capital funding on financial performance. Additionally, this model considered various additional factors that may affect financial performance, making adjustments for their impacts. The preference for the linear regression model

over alternative models stems from its inherent simplicity, interpretability, and straightforward implementation. This method offers a clear and precise approach to comprehending the relationship between variables and making predictions based on the derived coefficients. The study adopts an empirical model suggesting that a firm's financial performance is affected by venture capital (VC) funding, along with other control factors such as return on investment (ROI). Estimating the coefficient associated with VC funding enables the determination of the strength and direction of relationships between variables, as well as the testing of hypotheses regarding the effects of VC funding on financial performance while considering other factors (Costa, Leal, Balancieri & Galdamez, 2022).

Hose and Hanss (2019) recommended using ordinary least squares regression, a widely used statistical method, to estimate the parameters of a linear regression model with linearity. The regression coefficients within the model provide insights into the extent to which the level of venture capital funding or changes in the control variables are expected to impact financial performance. The model's suitability was assessed by utilizing the R-squared statistic, measuring the percentage of variation in the dependent variable explained by the independent variables incorporated in the model (Sundjaja, Arisanto, & Fatimah, 2020).

3.4.1 Model without Moderation

The study aimed to forecast the financial viability of Kenyan firms in the e-commerce sector using a multivariate regression analysis model. In this model, venture capital funding was considered as the independent variable, while financial performance served as the dependent variable. The investigation relied on the insights and findings presented by Chandavarkar and Nethravathi (2023) to form the foundation for this analysis.

$$ROI = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \dots\dots\dots (3.1)$$

Where variables for models are:

ROI -Return on Investment of e commerce firms.

β_0 -Constant

β_1 - Regression Coefficient of cost of capital

- β_2 - Regression Coefficient of Financing methods
- β_3 - Regression Coefficient of Capital management support
- X_1 - Cost of Capital
- X_2 - Financing methods
- X_3 - Capital management support

Elia, Giuffrida, Mariani, and Bresciani (2021) developed a model to examine the relationship between venture capital funding and the financial success of e-commerce-driven enterprises. The model accounts for factors such as cost of capital, financing strategies, and capital management support. Even after controlling for other variables affecting financial performance, the model still presumes that venture capital gives businesses the tools they need to grow and thrive (Alzahrani 2019).

3.4.2 Model with Moderations

$$ROI = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 M + \varepsilon \dots \dots \dots (3.2)$$

This research intended to investigate how regulatory framework influences the relationship between venture capital funding and financial performance of e-commerce-driven companies. The study accounted for the independent factors and the moderator (M) to isolate the unique impact of the regulatory structure (Shirokova, Morris, Laskovaia & Micelotta, 2021). The next step involves interaction term as shown below:

$$RO = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 M + \beta_5 X_5 M + \beta_6 X_6 M + \beta_7 X_7 M + \varepsilon \dots (3.3)$$

Where:

M - Regulatory structure (Moderating Variable)

B₄ – This is the coefficient of the moderating variable (Regulatory structure)

$\beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8$ - are coefficients of the interaction term.

ε - Stochastic error term

$X_5 M$ - cost of capital * Regulatory structure

$X_6 M$ - Financing methods * Regulatory structure

X₇M - Capital management support * Regulatory structure

The moderation effect was estimated by examining the regression coefficients related to the interaction term, specifically β_5 , β_6 , and β_7 . When β_5 , β_6 , and β_7 exhibit statistical significance, it indicates a substantial level of moderation introduced by the regulatory structure.

In the event that β_1 , β_2 , β_3 , and β_4 lack statistical significance, while β_5 , β_6 , and β_7 are statistically significant, it suggests the presence of full moderation. Conversely, when β_1 , β_2 , β_3 , and β_4 demonstrate statistical significance and β_5 , β_6 , and β_7 do not, this implies partial moderation. If none of these coefficients, including β_1 , β_2 , β_3 , β_4 , β_5 , β_6 and β_7 exhibit statistical significance, it suggests the absence of any moderation introduced by the regulatory structure.

ϵ =is the error term, which captures the unobserved factors that affect financial performance.

Tetteh, Kwarteng, Gyamera, Lamptey, Sunu, and Muda (2023) evaluated the hypothesis that a third variable affects the relationship between venture capital funding and financial performance. This third variable has the potential to influence both the magnitude and orientation of the relationship. The primary assumption of the model is that the impact of a moderating variable on the link between venture capital financing and financial success might vary. The model estimate was conducted using ordinary least squares (OLS) regression, a commonly used approach for estimating linear regression models (Lakshmi et al., 2021). The statistical significance of the coefficients was assessed using t-tests, and the overall fit of the model to the data was evaluated based on the R-squared value.

The model included control variables to account for factors potentially affecting financial performance. Peng, Zhang, Wang, and Liang (2019) suggested including a moderating variable to test if a third factor influences the relationship between venture capital funding and financial performance. Singh and Srivastava (2019) indicated that e-commerce businesses could quantitatively evaluate this relationship using an empirical model with moderation. The proposed

model aimed to identify scenarios where venture capital funding impacts financial performance differently and to highlight factors contributing to financial performance in this context.

3.4.3 Operationalization and Measurement of Research Variables

Operationalization is the process of clearly defining a variable so that it can be quantitatively assessed, while measurement is the act of gathering and evaluating data using suitable tools and methods. Both are crucial stages in the research process that contribute to maintaining the accuracy and dependability of research results (Henrekson & Sanandaji, 2020).

Table 3.1: Operationalization and Measurement of Variables

Variables	Nature of Variables	Operationalizations	Measurements
Cost of Capital	Independent Variable	- Cost of Equity	Likert Scale
		- Marginal Cost of Capital	Likert Scale
Financing Methods	Independent Variable	- Equity Financing	Likert Scale
		- Conditional Loans	Likert Scale
Capital Management Support	Independent Variable	- Operational Efficiency	Likert Scale
		- Employee Productivity & Retention	Likert Scale
Regulatory Structure	Moderating Variable	- Regulatory Compliance Level	Likert Scale
Financial Performance	Dependent Variable	- Return on Investment: (ROI)	Ratio Scale

Source: Researcher (2024)

3.5 Target Population

The target population refers to the particular group or population of individuals or items that a research study intends to study (Lin, Wang & Hajli, 2019). It is a set of individuals or items that satisfy the criteria for study inclusion based on particular traits or qualities that are pertinent to the research problem (Hu, Chen & Davison, 2019). In this study, the population of interest was the 115 registered e-commerce firms in Kenya that have received VC funding as provided by VC directories, (Appendix III). These are the firms that have formally registered their business with the Communications Authority of Kenya and conduct their e-commerce activities in compliance

with the relevant laws and regulations. The target population was segmented based on the sectors in which the e-commerce firms operate, such as retail, travel, hospitality, healthcare, and education (Ikumoro & Jawad, 2019).

Table 3.2: Distribution of the Target Population

Sector	No. of Firms	Sample Size
Retail	21	8
Electronics and Technology	19	7
Fashion and Apparel	16	6
Food and Groceries	15	6
Home and Furniture	5	2
Health and Beauty	16	6
Travel and Hospitality	7	4
Automotive	16	6
Total	115	45

Source: Researcher (2024)

3.6 Sampling Design

When doing research or collecting data from a broader community, a sampling design is the method or approach used to pick a sample that is statistically and demographically representative of the whole population (Wilson & Christella, 2019). A proportional sampling approach was employed in the research of VC funding and financial performance of e-commerce enterprises. The justification for using proportional sampling lies in its ability to ensure that each category of e-commerce businesses categorized by shared features such as size or industry was represented in proportion to its occurrence within the total population. This approach maintains a balanced representation by assigning sample sizes that reflect the actual distribution of each category within the e-commerce sector, enhancing the accuracy of data on the correlation between VC funding and financial success across various business types. By sampling proportionally within these segments, this method not only ensures comprehensive demographic coverage but also supports detailed insights within each category, offering a reliable foundation for conclusions on VC funding's impact on financial performance (Mahmud, Huang, Salloum, Emara, & Sadatdiynov, 2020).

The researcher reached out to the e-commerce-driven businesses that secured VC funding to ensure adequate representation of the target population. According to directories maintained by venture capital firms, 115 e-commerce businesses were active in the nation. The researcher chose 45 businesses using a proportional sampling approach. A proportional sampling approach ensures the sample reflects Kenya's diverse e-commerce sector structure, capturing variations in firm size and funding levels, thus providing accurate insights into venture capital impacts on performance (Rahi, 2017). This 45-company sample was representative of Kenya's e-commerce ecosystem since it spans a wide range of sizes, industries, and financing levels. The 45 sample was reached at by using a proportional sampling approach as shown in the below formula (Roy, 2019).

$$n_1 = (n/N) N_1$$

Where:

n_1 =Stratified Sample, n =total sample size, N =Total population, N_1 =Population of subgroups.

$$n_1 = (21/115) 45$$

$$=8$$

3.7 Data Collection Instrument

Alam (2021) states that "data collection" is the systematic procedure by which researchers get the information necessary to answer research questions. As shown in Appendix II, questionnaires were the primary means of data collection in this study. Questionnaires have multiple advantages, including the rapid and cheap collection of data from a large sample (Binti, 2021). Furthermore, it is simple to examine the results. Questionnaires are either open-ended or closed-ended. A uniform and well-organized dataset is ensured with closed-ended questions because respondents can only choose from possible responses. In contrast, open-ended questions were intended to elicit various replies from participants to promote the inclusion of varied perspectives.

3.8 Validity and Reliability of Instruments

The dependability and validity of the measuring instruments employed to gather data determine the precision and uniformity of the outcomes. It is crucial for measurement instruments to have high levels of validity and reliability, as stated by Rodríguez (2020), to make their results more credible and trustworthy.

3.8.1 Validity of Study Instruments

Validity in a measurement instrument is defined as the degree to which it accurately captures the intended construct. As highlighted by Sürücü and Maslakci (2020), validity is essentially concerned with how well the measurement results align with the characteristics of the phenomenon under investigation. Ensuring that the measuring instruments employed in this research effectively capture all facets of the studied phenomenon is crucial for establishing content validity. The survey utilized for data collection on the performance of e-commerce-driven businesses included questions related to return on investment (ROI) and various financial metrics (Wang, 2019).

Construct validity was of utmost importance to ensure that the measuring tool reliably assessed the pertinent underlying concepts or ideas. The study's objectives required the development of survey questions capable of accurately evaluating the impact of venture capital funding on the financial performance of e-commerce-driven enterprises in Kenya. The survey covered aspects such as the quantity, timeliness, and impact of venture capital funding on financial performance (Lerner & Nanda, 2020). Criterion validity was crucial to establishing that the measuring tool correlates with other measurements of the same or related phenomena (Clark & Covin, 2021). To validate the measurement tool, the research compared its results with those of other well-established financial performance indicators, such as financial reports.

Main component analysis was applied, and the results for the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) were presented in Table 3.3.

Table 3.3: KMO Table for Study Variables

Variables	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
		Chi-Square	df	Sig
Cost of Capital	0.889	276.017	15	0.000
Financing Methods	0.741	199.077	15	0.000
Capital Management Support	0.880	276.125	15	0.000
Regulatory Structure	0.840	342.723	15	0.000

Source: Researcher (2024)

Table 3.3 shows the results of a Kaiser-Meyer-Olkin (KMO) test, used to evaluate whether the sample size is enough for performing factor analysis. A KMO score ranging from 0.5 to 1.0 indicates that factor analysis is appropriate for application (Musiega, Rading, & Oruko, 2021). The KMO values, ranging from 0.741 to 0.889, suggest that factor analysis was appropriate for this study. The chi-square values and p-value of .000 from Bartlett's test of sphericity were statistically significant at a 95% confidence level. This shows that the items used in the research were enough for the sample size.

3.8.2 Reliability of Research Instruments

Reliability refers to the degree of consistency and stability demonstrated by a measuring instrument when used over an extended period and across various samples. It reflects the extent to which a measuring instrument produces consistent results under different conditions and with diverse participants (Chakraborty, 2019). Test-retest reliability was conducted to confirm that the measurement instrument provides consistent outcomes when administered to the same sample on multiple occasions. The study presented the measurement instrument to the same sample at two distinct time points and compared the obtained results to assess test-retest reliability (Kennedy, 2022). Internal consistency reliability was employed to assess the coherence among the various items or questions in the measurement instrument. The study used methods like Cronbach's alpha to evaluate the internal consistency and reliability of the measurement instrument (Hayes & Coutts, 2020). The Cronbach's alpha test was administered using SPSS software. The commonly accepted

criterion for Cronbach's alpha is a minimum of 0.70 for acceptable reliability, 0.80 for improved internal consistency, and 0.90 for higher-stakes assessments.

Table 3. 4: Reliability Table

Variable	No of items	Cronbach alpha	Verdict
Cost of Capital	6	0.948	Reliable
Financing Methods	6	0.897	Reliable
Capital Management Support	6	0.949	Reliable
Regulatory Structure	6	0.965	Reliable
Summary	24	0.940	Reliable

Source: Researcher (2024)

Table 3.4: Reliability Table summarizes the reliability of different variables in the study, measured by Cronbach's alpha. Each variable Cost of Capital, Financing Methods, Capital Management Support, and Regulatory Structure contains six items and shows high reliability, with Cronbach's alpha values ranging from 0.897 to 0.965. The overall reliability for all 24 items is 0.940, confirming that the data collection tool is consistent and reliable across these variables. Oyewobi, Adedayo, Olorunyomi, and Jimoh (2021) considered 0.7 to be an acceptable reliability coefficient.

3.9 Data Collection Procedure

Institutional approval, along with NACOSTI authorization, is required before any data collection (Issa & Kiruthu, 2019). The researcher gathered data by compiling a database of all the e-commerce-driven companies in Kenya that had received VC investment. This information was gathered from venture capital directories (Cristobal, 2020). Once the list was readily collected, the researcher needed to contact the companies to seek their participation in the study. They accessed the questionnaire by email and a website. Time was allowed for the respondents to fill out the surveys (Rungsisawat, Sriyakul, & Jermsittiparsert, 2019). The email explained why the survey was being conducted. In addition to the URL, the email also included the survey as a PDF attachment.

To guarantee a high response rate, the researchers sent follow-up reminders to non-respondents after an acceptable length of time. Kindness and encouragement in the reminders were key to

getting responders to finish the survey. Respondents were given a sufficient amount of time to finish the survey. The questionnaire was piloted to ensure it is straightforward before being sent to the general public (Arromdee, 2020). For the pilot study, the research employed an additional subset of e-commerce-focused businesses. Completeness, correctness, and consistency checks were performed by the researcher to guarantee high-quality data. If a responder provided information that was unclear or contradictory, they were contacted again. No personal information of respondents was shared with any third parties without their express permission, and the researcher ensured the confidentiality of all data collected (William, 2022).

3.10 Data Analysis and Presentation

Prior to engaging in data analysis, it is crucial to initiate the preliminary stage of cleaning and preparing the data (Wang, 2020). This process involved identifying discrepancies, irregularities, and inconsistencies in the data. The subsequent analysis was conducted using SPSS (Social et al.) (Arshad et al., 2022). Descriptive statistics, such as the mean, standard deviation, and frequency distributions, were employed to provide a summary of the data, outlining its distribution and central tendency. Inferential statistical approaches, including correlation and regression analysis, were utilized to test the hypotheses. Regression analysis, as demonstrated in a study by Kyere (2021), was employed to explore the impact of venture capital (VC) investment on financial performance.

Furthermore, correlation analysis was used to assess the nature of the relationship between VC funding and financial success. Data visualization techniques, such as charts, graphs and tables, were employed to present information clearly and comprehensibly. The results and trends facilitated data analysis, leading to a more straightforward interpretation (Wai et al., 2019). The data analysis results were interpreted in light of the study goals and hypotheses, providing insights into the correlation between venture capital funding and the financial performance of e-commerce-driven enterprises in Kenya, and addressing the initial research concerns. The analysis culminated in a conclusion summarizing the main findings and a set of recommendations suggesting avenues for further research and practical implications for policies and practices (Alvarez, 2020).

3.11 Diagnostics Tests

Diagnostic tests, as per Leeflang (2019), are statistical techniques used to evaluate the reliability and validity of findings from a statistical research or model. Researchers may assess the validity of their findings and pinpoint flaws with the data, model, and assumptions using these tests. Diagnostic tests were used to evaluate the accuracy and effectiveness of statistical analysis. Various diagnostic tests such as normality tests, multicollinearity tests, linearity tests, and Heteroscedasticity Test were conducted throughout the statistical study. Researcher used a series of statistical tests to ensure the accuracy and dependability of the results (Attar, Shanmugam, & Hajli, 2021).

3.11.1 Normality tests

To assess whether the data in the sample or dataset adheres to a normal distribution, a normality test can be conducted. In evaluating if the financial performance data of e-commerce firms follows a normal distribution, the researchers employed normality tests (Keshri, 2019). This step is crucial because many statistical approaches and models hinge on the assumption that the data adheres to a normal distribution. The normality of the data was assessed using the Shapiro-Wilk test, a widely utilized statistical method (Inthiran, 2022). The underlying theory regarding the normal distribution of the data was under scrutiny. The determination of whether a dataset significantly deviates from a normal distribution or can be considered nearly normally distributed within a specific threshold relies on the normality test threshold, typically set at a significance level of 0.05. If the p-value of the test is less than the specified significance level, such as 0.05, then the null hypothesis is rejected, indicating that the data does not follow a normal distribution.

3.11.2 Multicollinearity tests

The presence and extent of statistical multicollinearity among predictor variables can be identified and measured through multicollinearity tests (Senaviratna, 2019). Elisabet and Pribadi (2022) recommended conducting multicollinearity tests to determine the degree of interdependence among the independent variables used to describe the financial performance of an e-commerce company. An effective method to detect multicollinearity is to analyze the correlation matrix

among the independent variables. Multicollinearity is identified when three or more variables exhibit a strong association. The Variance Inflation Factor (VIF) is utilized in this context because it assesses the degree to which the correlations among the independent variables in a regression model are magnified. A high VIF for an independent variable indicates that including it in the model is unlikely to provide any benefits (Thies, Huber, Bock, & Benlian, 2023). A widely used criterion for VIF cutoff value is 5. Multicollinearity arises when the Variance Inflation Factor (VIF) of a predictor variable exceeds the threshold. Therefore, addressing this concern is crucial for regression analysis (Thies, 2022).

3.11.3 Linearity tests

A linearity test is a statistical tool used to determine whether a linear relationship exists between two variables. In the context of the study proposed by Junedi, Yahya, and Anastasya (2022), linearity tests can be employed to investigate the presence of a linear correlation between venture capital (VC) funding and the financial performance of e-commerce firms. The study aimed to assess linearity by using a linear regression model on the dataset and evaluating the statistical significance of the linear coefficients. Both the null and alternative hypotheses assume linearity, with the alternative hypothesis implying a non-linear correlation. The linearity test typically uses a significance level of 0.05. If the p-value associated with the linearity test is below the predetermined threshold, it suggests that the linear model under examination may not be suitable. In such cases, exploring other nonlinear models may be advantageous (Ramrez, Grandón, & Arenas 2019).

3.11.4 Heteroscedasticity Test

Heteroscedasticity refers to the phenomenon where the residuals of a regression model display varying variances. In this study, the goal is to investigate whether the error variances in the regression model demonstrate heteroscedasticity across all levels of the independent variables (Ali & Terzi, 2021). The presence of heteroscedasticity in the statistical inference of regression models can result to inaccurate standard error and coefficient estimates. Therefore, it is essential to conduct heteroscedasticity tests to evaluate the reliability of the regression analysis findings (Yin & Choi, 2022). The research utilized the well-established Breusch-Pagan test to assess heteroscedasticity,

employing squared residuals in a regression analysis to predict the impact of the independent variables. While the significance level for testing heteroscedasticity is commonly set at 0.05, there is some flexibility in choosing this value. If the regression coefficients demonstrate statistical significance, it suggests the presence of heteroscedasticity, as suggested by Daryanto (2020). If heteroscedasticity is identified, researchers may need to employ weighted least squares regression or generalized least squares regression to address and rectify the issue.

3.12 Ethical Considerations

Research involving human subjects, such as surveys and interviews, necessitates researchers to address ethical considerations in order to safeguard the well-being of participants and maintain the research's integrity (Chawla & Kumar, 2022). The researcher safeguarded the confidentiality and privacy of participants by employing data gathering procedures that assured anonymity or used pseudonyms, securely storing the data, and ensuring the protection of participant identities. The researcher shown a high level of regard for the participants and refrained from engaging in any kind of forceful or manipulative behavior. Participants were granted the freedom to openly articulate their thoughts and perspectives without any apprehension of facing retaliation. Participants were not exposed to any type of harassment or prejudice. The researcher exhibited honesty regarding the selected methodology and expected conclusions, while also taking responsibility for assuring the accuracy and validity of the produced results. By considering these ethical concerns, the researcher ensured that the study is conducted with a dedication to integrity, respect for participants, and protection of their rights and well-being. The proposed research is expected to receive permission from the School of Business, Economics, and Tourism at Kenyatta University. The National Council of Science, Technology, and Innovation (NACOSTI) made it easier to obtain a permission. Furthermore, it was crucial to guarantee that all sources of information were duly acknowledged through citations.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This research intended to investigate how venture capital funding affects the financial performance of e-commerce enterprises in Kenya. This chapter outlines the study's findings derived from the research goals and methods.

4.2 Response Rate

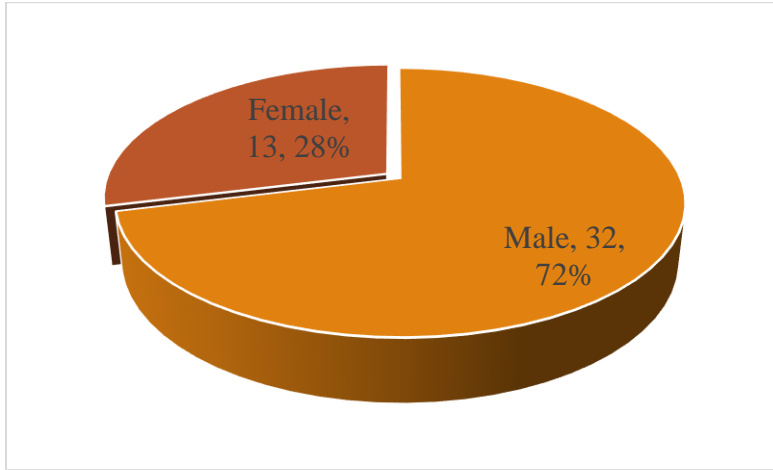
The study conducted a sample of 45 participants and successfully gathered data from all 45 e-commerce enterprises. This corresponded to a response rate of 100.0%, which, as stated by Bogdan & Kalińska-Kula (2020), was deemed enough for the purposes of data analysis and interpretation. The extensive involvement of participants improves the dependability of the data, ensuring that the findings are strong and accurately represent the entire e-commerce industry.

4.3 Demographic Analysis

The primary objective of the research was to assess the gender distribution among participants. The study aimed to gain a comprehensive understanding of the demographic composition of the research sample by analyzing and categorizing the respondents based on their gender.

The findings in Figure 4.1 indicate that most respondents were male, with 72% (32 persons) classified as male, while 28% (13 individuals) were female. Studies suggest that having a diverse leadership team, which includes gender diversity, is associated with enhanced financial performance in companies. The study supports the findings of Hedija and Němec (2021) regarding the relationship between gender diversity in leadership and corporate success. The imbalanced gender makeup of e-commerce enterprises may significantly affect venture capital investment and financial results.

Figure 4. 1: Gender Respondents



Source: Researcher (2024)

4.3.1 Educational Background of the Respondents

The goal of this study was to explore the existing level of educational attainment within the group, specifically emphasizing the identification of the highest degree of education achieved by the majority of its members.

Table 4.1: Educational Background

Educational Background	Frequency	Percentage
Bachelor's Degree	28	62.2
Master's Degree	15	33.3
PhD	2	4.4
Total	45	100.0

Source: Researcher (2024)

Table 4.1 indicates that 62.2% (28) of the participants had a Bachelor's Degree, 33.3% (15) had a Master's Degree, and 4.4% (2) had a PhD. Studies indicate that diverse educational backgrounds in leadership positively impact corporate outcomes. Rehman and Iqbal (2020) presented research that supports the correlation between knowledge-oriented leadership, knowledge management, innovation, and organizational success in higher education. The research indicates that persons with Bachelor's, Master's, and PhD degrees influence the decision-making processes and financial

performance of e-commerce enterprises. This effect might possibly change the funding obtained from venture capitalists and the overall financial performance of the business.

4.3.2 Years of Experience of the Respondents

This study examines the different levels of experience of those participating, revealing how accumulated expertise can impact the dynamics of venture capital investment and overall financial performance in the e-commerce sector.

Table 4.2: Years of Experience of the Respondents

Years	Frequency	Percent
3 to 6	6	13.3
7 to 11	27	60.0
More than 11	12	26.7
Total	45	100.0

Source: Researcher (2024)

The data presented in Table 4.2 reveals that 13.3% of participants indicated having 3 to 6 years of experience, 60.0% reported having 7 to 11 years of experience, and 26.7% reported having more than 11 years of experience. The distribution of experience holds substantial influence over the decision-making processes and financial performance. This, in turn, can affect venture capital funding and the overall financial performance of the organization. Abdullah, Ramli, Bakodah, and Othman (2020) have supported the establishment of a causal relationship between various elements within the realm of e-commerce. The research suggests that having executives with diverse levels of experience could enhance decision-making, thereby influencing the financial dynamics of e-commerce enterprises.

4.3.3 Department of the Respondents

Comprehending the organizational dynamics is vital in the investigation of venture capital funding and financial performance in e-commerce enterprises. This study examines the departmental affiliations of the participants, providing insight into the various responsibilities that contribute to the overall financial landscape in the e-commerce industry.

Table 4.3: Department of the Respondents

Department	Frequency	Percent
Accounts Receivables	5	11.1
Accounts Payables	13	28.9
Sourcing and Procurement	20	44.4
Sales and Marketing	7	15.6
Total	45	100

Source: Researcher (2024)

Based on the data presented in Table 4.3, 11.1% of participants were employed in the accounts receivables department, 28.9% in the accounts payables department, 44.4% in the sourcing and procurement department, and 15.6% in the sales and marketing department. The distribution across different departments indicates a potential correlation between various functions and their impact on venture capital funding and financial performance within the e-commerce industry. This observation aligns with the findings of Xin, Miao, Chen, and Shang (2022) regarding the interconnectedness of user participation, knowledge management capabilities, and service innovation. The study implies that diverse departmental backgrounds may influence the financial performance and decision-making processes of e-commerce enterprises, potentially shaping their overall financial dynamics and success.

4.4 Descriptive Statistical Analysis

A five-point Likert scale questionnaire was used. Participants were directed to choose the most appropriate answer for each problem in tables 4.4, 4.5, 4.6, and 4.7. This section used percentages in the descriptive analysis to demonstrate the participants' replies, as seen in the tables for each variable.

4.4.1 Cost of Capital

The research investigated the influence of the cost of capital on the financial performance of e-commerce-driven enterprises in Kenya, considering the cost of capital as the key independent variable. Respondents were asked to express their level of agreement with six statements designed to evaluate the cost of capital. The outcomes of this assessment are detailed in Table 4.4.

Table 4.4: Cost of Capital

No	Cost of Capital	5	4	3	2	1	Mean	S.D
1.	The financial performance of a company is significantly influenced by the costs associated with venture capital.	28.9	37.8	17.8	2.2	13.3	3.67	1.30
2.	As the cost of venture capital increases, the financial performance of a company tends to decrease.	33.3	24.4	26.7	8.9	6.7	3.69	1.22
3.	Companies that have access to lower-venture capital costs generally exhibit superior financial performance	22.2	35.6	31.1	6.7	4.4	3.64	1.05
4.	When making financial decisions, companies consider the cost of venture capital as a crucial factor.	15.6	44.4	24.4	11.1	4.4	3.56	1.03
5.	The cost of venture capital is an important consideration for companies when making financial decisions.	37.8	33.3	17.8	6.7	4.4	3.93	1.12
6.	The cost of venture capital significantly impacts the financial performance of a company.	37.8	33.3	15.6	6.7	6.7	3.89	1.19
Aggregate Score							3.73	1.15

Source: Researcher (2024)

The average aggregate score in Table 4.4, which is 3.73, suggests a reasonable level of consensus among participants evaluating the impact of venture capital costs on the financial performance of e-commerce companies. On average, respondents perceive a significant correlation between the costs related to venture capital and the financial results of e-commerce enterprises. The standard deviation of 1.15 indicates the extent of variety or dispersion in the respondents' opinions. A more significant standard deviation signifies increased variability in the responses. Here, a standard deviation of 1.15 indicates a significant variation in how participants assess the connection between venture capital cost and financial performance. Participants expressed strong agreement, while others said strong disagreement, resulting in a significant dispersion overall. On average, most respondents concurred that a company's financial success is significantly impacted by the costs related to venture capital. Respondents generally agree that a negative correlation exists between the cost of venture capital and a company's financial performance. Companies with lower-cost access to venture capital tend to have better financial success, as indicated by the aggregate

score. On average, the participants agree that the cost of venture capital is a vital consideration for organizations when making financial choices. It is well acknowledged that the cost of venture capital greatly influences a firm's financial performance.

The analysis supported Awiagah and Lim's (2016) findings that the perceived cost of venture capital has a strong impact on financial decisions and performance in the e-commerce industry. Companies recognize the correlation between the costs linked to venture capital and their overall financial results. This finding holds significant value for researchers and practitioners alike, as it aids in comprehending the intricacies of venture capital funding and its impact on the financial success of e-commerce enterprises.

4.4.2 Financing Methods

The research explored the influence of financing methods on the financial performance of e-commerce-driven enterprises in Kenya, employing financing methods as the second independent variable. Participants were required to express their level of agreement with six statements designed to evaluate finance approaches. The findings from this evaluation are presented in Table 4.5.

Table 4.5: Financing Methods

No	Financing Methods	5	4	3	2	1	Mean	S. D
1.	The choice of venture capital financing method impacts the financial performance of a company.	13.3	46.7	24.4	13.3	2.2	3.56	0.97
2.	Certain venture capital financing methods are more cost-effective than others.	20	42.2	24.4	11.1	2.2	3.67	1.00
3.	It is important for companies to thoroughly evaluate the potential influence of various venture capital funding strategies on their financial performance prior to reaching a conclusive decision.	24.4	40	20	13.3	2.2	3.71	1.06
4.	The methods employed for venture capital funding significantly impact the financial performance of companies.	33.3	35.6	20	8.9	2.2	3.89	1.05

5.	The selection of a particular venture capital funding strategy has a significant impact on the financial success of firms.	28.9	44.4	17.8	6.7	2.2	3.91	0.97
6.	Venture capital funding strategies help organizations in gaining access to significant skills and networks, therefore enhancing their financial performance.	31.1	40	22.2	4.4	2.2	3.93	0.96
Aggregate Scores							3.78	1.00

Source: Researcher (2024)

The combined score presented in Table 4.5, calculated from the mean and standard deviation, provides a comprehensive overview of the general consensus regarding the relationship between venture capital funding strategies and the financial performance of e-commerce enterprises. The results indicate a moderate level of agreement among respondents, as reflected in a mean aggregate score of 3.78 and a standard deviation of 1.00. On average, participants agree that venture capital financing methods have a noticeable impact on the financial performance of e-commerce enterprises. A standard deviation of 1.00 suggests a certain degree of diversity in responses, indicating that while there is a consensus, participants hold different perspectives. The aggregate score, approaching four on a scale of 1 to 5, indicates a leaning towards consensus. The relatively low standard deviation suggests significant agreement among participants, supporting the idea that the influence of venture capital on financial success is widely acknowledged in the context of e-commerce enterprises. Explicit statements, such as the impact of funding strategies and the importance of comprehensive assessment, further reinforce the notion that strategic decisions in venture capital funding play a substantial role in achieving financial prosperity. Therefore, the study results suggest that participants recognize the significance of venture capital choices in impacting the financial outcomes of e-commerce companies, with some variation in viewpoints.

The aggregate scores generally indicate a positive opinion among respondents regarding the influence of venture capital funding methods on the financial performance of e-commerce enterprises, aligning with the findings of Magnier-Watanabe and Benton (2017). The relatively low standard deviation signifies a level of agreement, enhancing the reliability of the results. This study, conducted by Phelps, Wang, Miao, and Zhang (2022), focused on E-commerce,

emphasizing the crucial role of venture capital decisions in shaping the financial performance of e-commerce enterprises, as acknowledged by the respondents.

4.4.3 Capital Management Support

The study employed capital management support as the third independent variable to investigate the impact of capital management assistance on the financial performance of e-commerce-driven enterprises in Kenya. Participants were asked to express their level of agreement with six statements designed to assess support for capital management. The results are presented in Table 4.6.

Table 4.6: Capital Management Support

No	Capital Management Support	5	4	3	2	1	Mean	S.D
1.	Venture capital investors provide strategic guidance and support for business operations.	20	42.2	15.6	4.4	17.8	3.42	1.36
2.	Venture capital investors assist in financial planning and management.	42.2	31.1	8.9	2.2	15.6	3.82	1.42
3.	Venture capital investors actively participate in product development and innovation	17.8	44.4	17.8	2.2	17.8	3.42	1.32
4.	Venture capital management support positively impacts company's financial performance.	22.2	35.6	24.4	0	17.8	3.44	1.34
5.	Venture capital management support hinders company's access to additional funding from other sources.	11.1	64.4	8.9	0	15.6	3.56	1.20
6.	The expertise and guidance provided by venture capital managers contribute to the financial success of companies.	28.9	33.3	20	2.2	15.6	3.58	1.36
Aggregate Scores							3.54	1.33

Source: Researcher (2024)

The aggregate scores presented in Table 4.6, computed based on the mean and standard deviation, provide valuable insights into respondents' perspectives regarding the impact of venture capital management support on the financial performance of e-commerce enterprises. The aggregate

score, calculated as the average, is 3.54, with a standard deviation of 1.33, indicating moderate consensus among participants.

On average, participants believe venture capital investors provide strategic counsel and support, with a mean lower than the total aggregate score. Respondents exhibit a higher level of agreement about the active involvement of venture capital investors in financial planning and management, contributing to the overall aggregate score. The average score signifies consensus regarding the active participation of venture capital investors in product development and innovation, aligning with the overall combined score. On average, respondents agree that the management support provided by venture capital has a beneficial effect on the financial success of their companies. Bonini and Capizzi (2019) state that the mean score is close to the entire aggregate, indicating a moderate consensus that venture capital management support hinders access to further investment from other sources, although it is still lower than the overall total. Participants generally agree that the proficiency and counsel offered by venture capital managers significantly contribute to the financial success of e-commerce businesses, as indicated by a mean score that closely aligns with the entire aggregate.

The overall results indicate a predominantly favorable view among respondents regarding the influence of venture capital management support on many facets of e-commerce companies. Pham & Pham (2021) support the study's findings that a moderate standard deviation indicates a certain level of opinion diversity. However, participants acknowledge the valuable role venture capital investors play in offering guidance and assistance and making positive contributions to the financial success of e-commerce companies.

4.4.4 Regulatory Structure

The findings presented in Table 4.7 shed light on the participants' perspectives regarding the moderating role of regulatory structure in the relationship between venture capital financing and the financial success of e-commerce enterprises. The aggregate score, calculated based on the mean and standard deviation, provides valuable insights into the overall consensus among respondents.

Table 4.7: Regulatory Structure

Regulatory Structure	5	4	3	2	1	Mean	S. D
1. E-commerce firms that prioritize regulatory compliance are more likely to attract venture capital investment.	51.1	13.3	24.4	6.7	4.4	4.00	1.21
2. Compliance with regulatory requirements positively affects the financial performance of companies.	17.8	35.6	22.2	20	4.4	3.42	1.14
3. E-commerce firms that fail to comply with regulations are at a higher risk of legal issues and financial losses.	33.3	31.1	13.3	17.8	4.4	3.71	1.24
4. Venture capital investors actively monitor and assess the regulatory compliance of the e-commerce firms in their portfolios.	37.8	31.1	20	8.9	2.2	3.93	1.07
5. E-commerce firms should regularly conduct compliance audits to ensure adherence to relevant regulations.	40	20	17.8	17.8	4.4	3.73	1.29
6. The government plays a crucial role in setting and enforcing regulations that impact the e-commerce sector.	35.6	20	24.4	15.6	4.4	3.67	1.24
Aggregate Scores						3.74	1.2

Source: Researcher (2024)

The aggregate scores presented in Table 4.7, derived from the study on venture capital funding and financial performance of e-commerce firms, focusing on Regulatory Structure, provide valuable insights into the perceptions of respondents regarding the impact of regulatory compliance on venture capital investment and financial performance. The aggregate score, calculated as the mean, is 3.74, with a standard deviation of 1.2, suggesting a moderate level of agreement among participants. On average, participants indicate a moderate level of agreement regarding the significance of regulatory compliance in influencing the relationship between venture capital funding and the financial performance of e-commerce firms. The mean score, approaching four on a scale of 1 to 5, suggests a tendency towards consensus. The standard deviation of 1.2 indicates a certain level of diversity in opinions among respondents. These results imply that participants recognize the regulatory structure as an influential factor in moderating the impact of venture capital funding on the financial success of e-commerce enterprises. While there is a generally positive view, the standard deviation suggests some variation in perspectives among

respondents. Overall, the findings suggest that regulatory compliance is perceived to play a meaningful role in moderating the relationship between venture capital funding and the financial success of e-commerce enterprises.

Respondents strongly agree that prioritizing regulatory compliance enhances the likelihood of attracting venture capital investment, contributing to the overall high aggregate score. Participants, on average, agree that compliance with regulatory requirements positively affects the financial performance of their companies, although the mean score is slightly below the overall aggregate. The mean score suggests agreement that non-compliance with regulations poses a higher risk of legal issues and financial losses, contributing to the overall aggregate. Participants, on average, agree that venture capital investors actively monitor and assess regulatory compliance in their portfolio firms, with a mean score higher than the overall aggregate. The mean score indicates agreement that regular compliance audits are necessary for adherence to relevant regulations, contributing to the overall aggregate. Participants generally agree that the government plays a crucial role in setting and enforcing regulations in the e-commerce sector, contributing to the overall aggregate score.

The results were supported by Bonini and Capizzi (2019) that the aggregate scores highlight a generally positive perception among respondents regarding the importance of regulatory compliance in the context of venture capital funding and financial performance in the e-commerce sector. The moderate standard deviation suggests some diversity in opinions, but overall, participants recognize the significance of prioritizing compliance for attracting venture capital, minimizing legal risks, and ensuring financial success.

4.4.5 Financial Performance

In this study, financial performance was used as the dependent variable. The respondents were required to state the company's Net profit for every year-end in the past five years in the range of Kes 1,000,000- 100,000,000 between 2018 and 2022 as shown in Table 4.8

Table 4. 8: Net Profit between 2018 and 2022

Range	2018	2019	2020	2021	2022
0-20,000	33.33%	22.22%	26.67%	24.44%	13.33%
20,001-40,000	33.33%	40%	40%	33.33%	37.78
40,001-60,000	22.22%	22.23%	17.78%	24.44%	26.67%
60,001-80,000	6.67%	11.11%	11.11%	11.12%	15.56%
80,001 and above	4.44%	4.44%	4.44%	6.67%	6.66%

Source: Researcher (2024)

The net profit distribution showcased in Table 4.8 for e-commerce firms spanning the years 2018 to 2022 reveals insightful patterns regarding their financial performance, offering crucial implications for the study of venture capital funding within this sector.

In 2019, the highest net profit percentage is evident in the income range of \$20,001-\$40,000, accounting for a substantial 40% of the total. This robust performance suggests a notable profitability margin within this specific bracket. The plausible reason behind this performance is that companies within this income range have successfully attracted higher venture capital amounts, enabling them to implement effective strategies, scale operations, and achieve commendable financial outcomes as supported by Mwasi and Aluoch (2023)

Conversely, in 2022, the lowest net profit percentage is observed in the income range of \$80,001 and above, constituting only 4.44% of the total. This low net profit percentage implies that a smaller proportion of e-commerce firms operating in the higher income bracket experienced comparatively lower profitability than their counterparts in other income ranges as supported by Sroufe and Gopalakrishna (2019). The possible explanation for this performance is that companies within this income range have struggled to attract significant venture capital amounts, limiting their capacity to implement effective strategies, expand operations, and achieve commendable financial outcomes. The results were supported by Yang, Wang, Wang, Koondhar, and Kong (2021) that the insufficient venture capital funding hindered these firms from implementing crucial strategies such as technological upgrades, market expansion, or marketing campaigns that are

essential for sustained growth and profitability. The research was also supported by Bonini and Capizzi (2019) that these trends reinforce the connection between venture capital funding and the prevalence of moderate net profits as a key financial outcome in the e-commerce sector.

4.5. Initial Cost of Investment

The respondents were further asked to indicate the initial cost of their investments. The results are shown in Table 4.9.

Table 4.9 Initial Cost of Investment

Initial Cost of Investment (Ksh) '000,000'	Frequency	Percentage
0.4 - 1.0	0	0
1.0 - 10.0	27	60
10.0 - 30.0	15	33.3
Above 30.0	4	6.7
Total	45	100

Source: Researcher (2024)

The Table 4.9, presents the distribution of respondents based on the initial cost of investment, with the highest percentage (60%) indicating an initial investment between Ksh 1.0 million and 10.0 million and the lowest percentage (0%) for the range of Ksh 0.4 million to 1.0 million. The majority of respondents, constituting 60%, indicated that their initial cost of investment falls within the range of Ksh 1.0 million and 10.0 million. This concentration suggests a preference for businesses requiring a moderate level of initial capital, which aligns with the typical characteristics of e-commerce firms. These businesses often need substantial funding for scaling operations, developing technology, expanding marketing efforts, and establishing a strong market presence. The study by Nanda, Samila, and Sorenson (2020) supports the notion that higher initial investment amounts increase the likelihood of attracting venture capital funding, as investors may see potential in ventures that require larger investments for growth and market capture.

The absence of respondents indicating an initial cost of investment between Ksh 0.4 million to 1.0 million suggests a clear trend in the preference for larger-scale ventures with high-growth potential. This absence of respondents in the lower investment bracket implies that the surveyed

e-commerce firms are more inclined towards attracting substantial capital for impactful growth. This aligns with the typical characteristics that venture capitalists seek businesses where their investment can significantly influence the growth trajectory. The study by Nanda *et al.*, (2020) supports this, indicating that higher initial investment amounts make businesses more attractive to venture capital funding, as investors see potential in ventures requiring larger investments for substantial growth and market capture.

4.6: Primary goal of Venture Capital Funding

The respondents were also asked to indicate their primary goal of venture capital funding for e-commerce firms in relation to ROI with the following options, maximize ROI for investors, minimize regulatory compliance, to increase marketing expenses and to monitor employee satisfaction. The results are shown in Table 4.10.

Table 4.10 Primary goal of Venture Capital Funding

Venture Capital Funding Goal	Frequency	Percentage
Maximize ROI for Investors	26	55.6
Increase Marketing Expenses	14	31.6
Monitor Employee Satisfaction	3	7.2
Minimize Regulatory Compliance	2	5.3
Total	45	100

Source: Researcher (2024)

The Table 4.10, presents the primary goals of venture capital funding for e-commerce firms, with the highest percentage (55.9%) indicating the goal of maximizing return on investment (ROI) for investors and the lowest percentage (5.3%) associating venture capital funding with minimizing regulatory compliance. The majority of respondents, comprising 55.9%, prioritize maximizing ROI for investors as the primary goal of venture capital funding. This aligns with the fundamental nature of venture capital, where investors expect significant financial returns to justify the associated risks. The result suggests that a substantial portion of e-commerce firms views venture capital as a strategic means to secure funds with the overarching objective of delivering strong

financial performance and growth. The study by Lerner and Nanda (2020) supports this finding, indicating that the focus on maximizing ROI implies a heightened pressure on these e-commerce firms to demonstrate substantial financial performance, potentially influencing strategic decisions and resource allocation to achieve profitability.

The smallest percentage (5.3%) associating venture capital funding with minimizing regulatory compliance suggests that, for a limited number of respondents, regulatory considerations play a role in the decision to seek venture capital. This finding aligns with the idea that, while regulatory compliance is a factor for some e-commerce firms, it is not a primary goal for the majority. The study by Drover *et al.* (2017) supports the notion that the primary goals of venture capital funding for e-commerce firms are centered around maximizing ROI for investors and increasing marketing expenses, emphasizing the financial and growth-oriented nature of venture capital in this sector.

4.7: Firms Considering Venture Capital Funding

The study also aimed to determine whether the sampled firms have contemplated seeking venture capital funding for their e-commerce enterprises.

Table 4.11: Firms Considering Venture Capital Funding

Consideration of Venture Capital Funding	Frequency	Percentage
Yes	45	100
Total	45	100

Source: Researcher (2024)

The table 4.11 indicates that 100% of the sampled firms have considered seeking venture capital funding for their e-commerce ventures. From open ended question, certainly, the consideration of seeking venture capital funding has been an integral part of their strategic planning. This was supported by Lerner, and Nand (2020) that in the dynamic landscape of e-commerce, access to substantial capital can be a game-changer for rapid expansion, innovation, and market penetration. The firms carefully evaluated the potential benefits and challenges associated with venture capital, recognizing it as a viable option to propel their firm to the next level. The results support Colombo

(2021) that venture capital funding was considered in regards to rapid growth, Expertise and guidance, network, and credibility.

4.8 Most Critical Factor When Evaluating Venture Capital Investors

The study also aimed to identify what respondents considered the most critical factor when evaluating venture capital investors, as depicted in Figure 4.12.

Table 4.12 Most Critical Factor When Evaluating Venture Capital Investors

Factors	Frequency	Percentage
Experience and Track Record of Investors	3	6.7
Mentorship and Strategic Guidance by Investors	2	4.4
Speed and Efficiency in Funding Process	35	77.8
Control and Ownership Expectations of Investors	5	11.1
Total	45	100

Source: Researcher (2024)

The Table 4.12 presents the survey results on the most critical factors when evaluating venture capital investors in the context of e-commerce firms. The highest-weighted factor is "Speed and Efficiency in Funding Process" with a substantial 77.8%, while the lowest-weighted factor is "Mentorship and Strategic Guidance by Investors" with 4.4%. The overwhelmingly high percentage assigned to speed and efficiency in the funding process underscores its paramount importance among respondents. This factor indicates a significant concern among e-commerce firms about the quick access to capital. This aligns with the findings of Boonlua, Gan, Palasak, and Chuwiruch (2022), supporting the notion that, in the dynamic and competitive e-commerce industry, swift access to funding is crucial. Timely injections of capital enable companies to capitalize on market opportunities, scale operations, and respond promptly to challenges, directly impacting their financial performance.

The low percentage assigned to Mentorship and Strategic Guidance by Investors should not be overlooked. The acknowledgment of the importance of mentorship and strategic guidance by

investors reflects the understanding that beyond financial backing, these elements play pivotal roles in the growth and performance of e-commerce firms. The study by Khuan, Andriani, and Rukmana (2023) supports this perspective, emphasizing the value of investors actively involved in providing guidance to help entrepreneurs make informed decisions and refine their business strategies.

4.9 Inferential Statistics

This section presents inferences made on the whole population based on the sampled data. SPSS software version 26.0 aided in analyzation of the data. The researcher used multiple regression analysis to identify causal relationships between the variables. The research presents findings on correlation coefficient, model summary, ANOVA, and coefficient of regression, indicating statistically significant differences in the variables.

4.9.1 Correlation Analysis

In this subsection, we present the findings of the correlation analysis, examining the relationships between the dependent variable (financial performance), the independent variables (cost of capital, financing methods, and capital management support) and the moderating variable (regulatory structure). The assessment of the linearity of these relationships was conducted through correlation analysis. The correlation coefficient ranges from -1 to +1, where +1 indicates an extremely positive association, -1 indicates an extremely negative association, and 0 suggests no relationship between the variables. Correlation coefficients from 0.0 to 0.19 are considered extremely weak, from 0.20 to 0.39 as weak, from 0.40 to 0.59 as moderate, from 0.6 to 0.79 as strong, and from 0.80 to 1.0 as very strong.

The study employed Pearson moment correlation analysis to investigate the interdependence of predictor variables and the relationship between the response variable (financial performance) and predictor factors (venture capital funding). The relevant results are summarized in Table 4.13.

Table 4.13: Multiple Correlations Table

		Cost of capital	Financing methods	Capital management support	Regulatory Structure
Cost of capital	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	45			
Financing methods	Pearson Correlation	.125	1		
	Sig. (2-tailed)	.412			
	N	45	45		
Capital management support	Pearson Correlation	.238	.520**	1	
	Sig. (2-tailed)	.115	.000		
	N	45	45	45	
Regulatory Structure	Pearson Correlation	.409**	-.091	-.022	1
	Sig. (2-tailed)	.005	.554	.885	
	N	45	45	45	45
Financial Performance	Pearson Correlation	.536**	.551**	.606**	.377*
	Sig. (2-tailed)	.000	.000	.000	.011
	N	45	45	45	45

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

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

Source: Researcher (2024)

Table 4.13 presented a positive correlation ($r=0.536$) between the cost of capital and financial performance. Similar findings are supported by research conducted by Kurniasih and Rustam (2022) and others, suggesting that the cost of capital positively influences the company's value. Contrary to Hussain, Ahmad, Khan, Rashid, and Rehman (2021), who found a strong correlation between capital expenditure and adverse company outcomes, the results imply that firms should aim for an optimal debt-to-equity ratio to minimize costs for optimal performance.

There was also a positive correlation between financing methods and financial performance ($r=0.551$), aligning with the findings of Wang and Han (2021). This indicates that small and medium-sized enterprises (SMEs) can leverage the network financial model to their advantage when seeking and receiving loans. However, conflicting results were found in studies showing a robust and negative correlation between ROA and total, short-term, and long-term debt (Omollo, Muturi, and Wanjare, 2018). Financial managers are advised to exercise caution when deciding on debt levels for optimal performance.

The favorable correlation between capital management support and financial performance ($r=0.606$) suggests that economic performance is positively influenced by capital management support. These findings are consistent with research by Pradhan, Arvin, Nair, Bennett, and Bahmani (2019), indicating that venture capital investment has a profound impact on economic growth and ICT infrastructure advancement. Additionally, Wandiri, Nyangau, and Ochieng (2020) found a strong positive association between capital availability and the growth of small and medium-sized manufacturing enterprises (SMEs).

Table 4.13 demonstrated a positive correlation ($r=0.377$) between regulatory framework and financial performance. Additional research on the correlation between regulatory frameworks and economic outcomes supports these findings (Dong & Zheng, 2022). The study suggests that tax incentives and access to funding from non-banking sources positively influence SMEs' performance, but obstacles to expansion may arise due to tax policies. In Malaysia, SMEs heavily rely on legal and regulatory considerations for expansion (Edmore, 2017).

4.9.2 Diagnostic Tests

Chapter Three of the study outlines the application of various diagnostic tests to ensure the accuracy and efficiency of the regression model parameters. The tests conducted include Normality tests, multicollinearity tests, linearity tests, and the Heteroscedasticity Test. These diagnostic procedures are crucial for identifying any inconsistencies or inefficiencies in the regression model and ensuring the reliability of the study's findings.

4.9.2.1 Normality Test

The Shapiro-Wilk test, a widely used statistical approach, was employed to assess normality (Inthiran, 2022). This test evaluates the assumption of normal distribution in the data. The normality test threshold is typically set at a significance level of 0.05. If the p-value of the test is less than the significance level, such as 0.05, the dataset is considered to significantly deviate from a normal distribution, leading to the rejection of the null hypothesis. In Table 4.14, the results of the Kolmogorov-Smirnov and Shapiro-Wilk tests were conducted with a significance level of less

than 0.05, leading to the rejection of the null hypotheses that state the datasets for the four variables do not follow a normal distribution.

Table 4.14 :Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Cost of capital	.100	45	.200*	.964	45	.177
Capital management support	.116	45	.150	.940	45	.122
Financing methods	.128	45	.064	.934	45	.051
Regulatory Structure	.101	45	.200*	.937	45	.107
Financial Performance	.108	45	.200*	.935	45	.140

Source: Researcher (2024)

The results from the Tests of Normality in Table 4.14, which include Kolmogorov-Smirnov and Shapiro-Wilk statistics, offer insights into the distribution of variables related to venture capital funding and financial position in e-commerce firms. The low values of the Kolmogorov-Smirnov statistic and the non-significant Shapiro-Wilk values suggest that the variables Cost of capital, Financing methods, Capital management support, Regulatory Structure, and Financial Performance do not significantly deviate from a normal distribution (Sukri & Yusoff, 2021)..

4.9.2.2 Multi-collineality Test

The Variance Inflation Factor (VIF) is employed in this context because of its utility in assessing the degree to which the correlations among the independent variables in a regression model are magnified. If the VIF for an independent variable is high, it suggests that including it in the model is unlikely to provide any benefits (Thies, Huber, Bock, & Benlian, 2023). A VIF cutoff value of 5 is a widely used criterion. Multicollinearity occurs when the VIF of a predictor variable exceeds this threshold. Therefore, it is crucial for regression analysis to consider and address this concern (Thies, 2022).

Table 4.15: Collineality Statistics

Independent Variable	Tolerance	VIF
Cost of capital	.770	1.298
Financing methods	.722	1.386
Capital management support	.696	1.437
Regulatory Structure	.809	1.236

Source: Researcher (2024)

Results in Table 4.15 indicate that the tolerance values for the independent variables surpass the common threshold of 0.1, suggesting the absence of multicollinearity. Moreover, the corresponding variance inflation factor (VIF) values, all below 5, further affirm the absence of severe collinearity issues. This implies that the factors examined in the context of venture capital funding and the financial position of e-commerce firms are relatively independent, allowing for a more accurate assessment of their individual impacts on financial performance (Gupta, Bakhru, & Shankar, 2023). Stakeholders can confidently analyze the influence of the cost of capital, financing methods, capital management support, and regulatory structure without the distortion introduced by multicollinearity, aiding in strategic decision-making and resource allocation for e-commerce firms in the competitive landscape of venture capital and financial positioning.

4.9.2.3 Linearity Test

Testing linearity is a crucial step in understanding the relationship between variables. In the study, linearity was assessed by employing a linear regression model on the dataset and examining the statistical significance of the linear coefficients. This approach helps determine whether there is a linear correlation between venture capital funding and the financial performance of e-commerce firms. Both null and alternative hypotheses were considered, with the null hypothesis assuming linearity, while the alternative hypothesis suggested a non-linear correlation. The linearity test typically uses a significance level, often set at 0.05. If the p-value associated with the linearity test is below this threshold, it indicates that the linear model under examination may not be suitable, prompting consideration of alternative nonlinear models (Ramrez, Grandón, & Arenas, 2019).

Table 4. 16: Levene's Test of Equality of Error Variances

Dependent Variable: Financial Performance			
F	df1	df2	Sig.
2.800	32	12	.131
Tests the null hypothesis that the error variance of the dependent variable is equal across groups.			

Source: Researcher (2024)

The results of the Levene's test for homogeneity of variance, as presented in Table 4.16, provide insights into the consistency of error variances across different groups of e-commerce firms based

on venture capital funding. The non-significant p-value (0.131) suggests that there is no statistically significant difference in the error variances among these groups. This implies that the variance in financial performance, a key measure of e-commerce success, remains relatively stable across firms regardless of their venture capital support. This stability in error variances is essential for investors, indicating a potentially more predictable and less volatile financial performance landscape for e-commerce ventures (Hidayat et al., 2022).

4.9.2.4 Heteroskedasticity Test

This section presents the results of the Breusch-Pagan test for heteroskedasticity, which is crucial in assessing the validity of regression model estimates. Heteroskedasticity refers to the condition where the variance of residuals varies across different levels of independent variables, potentially leading to biased or inefficient regression estimates. Understanding and addressing this issue is important for ensuring reliable predictions and inferences from the regression model (Yin & Choi, 2022).

Table 4.17: Heteroskedasticity Test

Breusch-Pagan Test for Heteroskedasticity^{a,b,c}		
Chi-Square	df	Sig.
2.869	1	.090

a. Dependent variable: Financial Performance
 b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.

Source: Research (2024)

In the context of e-commerce enterprises, where Financial Performance serves as the dependent variable, Table 4.17 presents the findings of the Breusch-Pagan Test for Heteroskedasticity. This test explores the relationship between the variance of errors and the independent variables. The calculated Chi-Square statistic yielded a significance level (Sig.) of 0.090, corresponding to 2.869 with 1 degree of freedom. While the p-value exceeds the conventional threshold of 0.05, indicating no statistical significance, the proximity of the values is noteworthy. These results suggest the possibility of intricate interactions between independent variables and the variance of errors in financial performance within the realm of e-commerce venture capital funding (Daryanto, 2020).

Investors should exercise caution, given these findings, as they prompt further exploration into factors influencing financial performance, including the impact of venture capital.

4.10 Hypothesis testing

The null hypotheses were formulated using a combination of the B coefficient, t-statistics, and P values. Rejection of the null hypothesis occurred when the B coefficient was not equal to zero ($B \neq 0$), the t-statistic exceeded 1.96, and the P value was less than 0.05, as illustrated in the following example (Winship & Zhuo, 2020)

H₀₁: Cost of capital does not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.

The hypothesis that the cost of capital does not significantly affect the financial performance of e-commerce-driven firms in Kenya was rejected based on statistical results. The coefficient $B=0.345$ indicates a positive relationship between the cost of capital and financial performance, suggesting that as the cost of capital increases, there will be a corresponding positive impact on financial performance. This means that firms can secure capital effectively, despite costs, and may leverage it towards growth and competitive advantage, positively impacting their financial metrics. With a t-value of 4.110, which is above the critical value of 1.96, and a p-value of 0.000 (significant at $p < 0.05$), this relationship is statistically significant, confirming that the cost of capital plays a crucial role in shaping financial performance. The hypothesis was rejected, aligning with Khoa and Thai's (2021) findings that high capital costs can still drive growth when strategically used. Their study showed that capital costs positively impact financial performance when invested in operational efficiency, technology adoption, or expansion efforts.

H₀₂: Financing methods do not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.

The hypothesis that financing methods do not have a significant effect on financial performance was rejected. The coefficient $B=0.281$ represents a positive association between financing methods and financial performance, suggesting that various financing approaches whether debt or equity contribute positively to a firm's financial success. The t-value of 2.809, which exceeds 1.96, and a

p-value of 0.008 ($p < 0.05$) indicate that the effect is statistically significant. This implies that adopting suitable financing methods is essential for e-commerce firms in achieving financial goals. Appropriate financing options may reduce the cost of funds, improve liquidity, and enhance financial flexibility, which can then be translated into improved performance metrics. Therefore, strategic financing choices are instrumental in driving financial outcomes. The results align with Riddiough and Steiner (2020), who found that strategic financing choices, whether through debt or equity, significantly impact a firm's financial performance. Their study indicated that suitable financing methods enhance liquidity and flexibility, allowing firms to seize growth opportunities and optimize performance.

H₀₃: Capital management support does not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.

The hypothesis that capital management support does not significantly affect financial performance was rejected based on the analysis. The coefficient $B=0.216$ suggests a positive effect of capital management support on financial performance, indicating that effective management of capital resources can significantly boost financial outcomes for e-commerce firms. The t-value of 2.901, above the critical threshold of 1.96, and the p-value of 0.006 ($p < 0.05$) highlight the statistical significance of this relationship. Capital management support likely aids firms in optimizing resource allocation, maintaining efficient cash flows, and making strategic investments that enhance profitability. Thus, structured support in managing capital is essential for e-commerce firms to remain competitive and achieve sustainable financial performance in a rapidly evolving market. This was in line with Nasimiyu (2023), who found that effective capital management significantly impacts a firm's financial performance. The study highlighted that structured capital management enhances resource allocation, cash flow efficiency, and strategic investment, driving profitability and competitive advantage.

H₀₄: Regulatory structure does not have a significant moderating effect on the relationship between venture capital funding and financial performance of E-commerce-driven firms in Kenya

The hypothesis that regulatory structure does not have a significant moderating effect on the relationship between venture capital funding and financial performance was rejected. The coefficient $B = -0.230$ indicates an inverse moderating relationship, where regulatory structures either impose constraints or necessitate adaptations in venture capital-funded firms, potentially dampening direct financial benefits. The t-value of -2.061 , with an absolute value above 1.96 , and the p-value of 0.046 ($p < 0.05$) confirm the statistical significance of this moderating effect. This suggests that regulatory frameworks can influence how effectively venture capital impacts financial performance, potentially by shaping firm practices, reporting requirements, or compliance costs. Therefore, a supportive regulatory environment is crucial to optimizing the positive effects of venture capital on financial outcomes. These findings align with Bonini and Capizzi (2019), who demonstrated that regulatory structures play a crucial moderating role between venture capital and financial performance. Their study revealed that stringent regulations can limit firms by raising compliance costs, thereby diminishing the direct financial benefits of venture capital. Consequently, a supportive regulatory environment is essential for realizing the full potential of venture capital in driving firm success.

Figure 4.18: Summary of Hypothesis Testing

Hypothesis	$B \neq 0$	$t > 1.96$	$P < 0.05$	Verdict
H01: Cost of capital does not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.	0.345	4.110	0.000	Rejected
H02: Financing methods do not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.	0.281	2.809	0.008	Rejected
H03: Capital management support does not have a significant effect on the financial performance of E-commerce-driven firms in Kenya.	0.216	2.901	0.006	Rejected
H04: Regulatory structure does not have a significant moderating effect on the relationship between venture capital funding and financial performance of E-commerce-driven firms in Kenya	-0.230	-2.061	$.046$	Rejected

Source: Researcher (2024)

In the realm of venture capital, these findings underscore the importance of taking into account factors such as the cost of capital, financing methods, capital management support, and regulatory structure. Moreover, these insights offer valuable guidance for policymakers, investors, and e-commerce companies seeking to enhance their financial performance in the Kenyan market (Ndemi & Mungai, 2018).

4.10.1 Multiple Regression of Financial Performance and Venture Capital Funding

This study aimed to investigate the influence of venture capital funding on the financial performance of e-commerce-driven businesses in Kenya through the application of standard multiple regressions. By incorporating constructs such as the cost of capital, financing methods, and capital management support as a block in the model, the study sought to discern the individual impact of each venture capital funding construct on the financial performance. This approach allowed for the determination of the coefficients of the study model and the R-square of the study. The null research hypotheses were further tested using beta coefficients and t-statistics, with the results presented in Table 4.19.

Table 4.19: Model Summary of Multiple Linear Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779 ^a	.606	.577	.507

a. Predictors: (Constant), Capital management support, cost of capital and financing methods
b. Dependent Variable: Financial Performance

Source: Researcher (2024)

During the investigation, it was observed that the correlation coefficient (R) was 0.779, as indicated in Table 4.19. This result suggests a high level of predictability for financial performance, the dependent variable in the research. The coefficient of determination, also known as R-square, was found to be 0.606, indicating that venture capital investment could account for 60.6% of the observed financial performance. Additionally, the modified R-square, at 0.577, offered a more precise representation of the variances. Taking this into consideration, Cost of capital, Financing methods, and capital management support collectively explained 57.7% of the variations in financial performance. However, there was a slight disparity between R and adjusted R-square

when predicting the relationship between venture capital and financial performance. This difference reflects how well the model fits the data in terms of the correlation prediction between the two variables. Notably, the remaining 39.4% of changes in financial performance were attributed to other variables not included in the scope of the research.

Table 4.20: ANOVA Results for Multiple Linear Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.250	3	5.417	21.040	.000 ^b
	Residual	10.555	41	.257		
	Total	26.805	44			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Capital management support, Cost of capital, Capital management support

Source: Researcher (2024)

Sawyer, Thoroughgood, Stillwell, Duffy, Scott, and Adair (2022) emphasize that analysis of variance (ANOVA) is employed in research to assess the significance of findings and provide insights into the level of variability in the regression model. It enables the researcher to choose a model that yields meaningful outcomes based on responses. A substantial F-statistic indicates that the regression model is statistically more significant than other models, suggesting that it can explain a considerable percentage of the variance in the dependent variable beyond what would be expected by chance alone. In the ANOVA table, the model's significance was determined to be 21.040, with a p-value less than 0.05. This indicates that the model is significant at a confidence level of 95%, affirming its feasibility and suitability for this study.

Table 4.21: Regression Coefficients Results for Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.718	0.425		1.689	0.099
Cost of capital	0.345	0.084	0.415	4.110	0.000
Financing methods	0.281	0.100	0.322	2.809	0.008
Capital management support	0.216	0.074	0.340	2.901	0.006

a. Dependent Variable: Financial Performance

Source: Researcher (2024)

In the context of constant venture capital funding, the results of the multiple linear regression analysis presented in Table 4.21 reveal that factors such as the cost of capital ($\beta = 0.415$, $p < 0.001$), financing methods ($\beta = 0.322$, $p = 0.008$), and capital management support ($\beta = 0.340$, $p = 0.006$) have a significant impact on the financial performance of the e-commerce firms. Introducing the cost of capital is associated with an increase in financial performance ($\beta=0.345$, $p\text{-value}=0.000$). Similarly, the implementation of financing methods contributes to an improvement in financial performance ($\beta=0.281$, $p\text{-value}=0.008$). In the same way, providing capital management support would result in an increase in financial performance by ($\beta=0.216$, $p\text{-value}=0.006$). Consequently, the multiple regression model is expressed as $Y = 0.718 + 0.345 \text{ CC} + 0.281 \text{ FM} + 0.216 \text{ CMS}$.

A constant, denoted by α , is the intercept, and Y represents the financial performance.

The cost of capital is abbreviated as CC , Financing methods are referred to as FM , while capital management support pertains to CMS .

The regression analysis in Table 4.21 shows that the coefficient for the cost of capital is 0.345, with a significance level of $P=0.000$. When controlling for other factors, an increase of one unit in the cost of capital leads to a 0.345% enhancement in the financial performance of e-commerce enterprises in Kenya. The t-statistic value of 4.110 demonstrates statistical significance, indicating a positive coefficient direction and statistical relevance. A t-statistic is considered statistically significant in statistical inference when its value is 2 or above, according to statistical conventions. This is particularly true when doing statistical inference.

The p-value was less than 0.05, but the standard error was 0.084. Kurniasih and Rustam (2022) validated the hypothesis that the cost of capital positively impacts the company's worth. These conclusions are supported by the researchers' findings mentioned earlier. There has been a notable rise in the use of debt for financing, which signals positively to the market and results in an upward trend in stock prices. Mkansi's (2022) research shows the real costs involved in adopting e-business, the ways to reduce these costs with technology, company efforts, and outside factors, and how removing these cost barriers can encourage e-business adoption beyond just financial benefits. In contrast, the results contradicted the findings of Hussain, Ahmad, Khan, Rashid, and Rehman (2021), who established a substantial adverse correlation between capital expenditure and

company success. The research suggests that businesses should have a lower debt ratio to maximize their performance. Moreover, the results indicate that enterprises should reduce their reliance on short-term debt in order to stay competitive.

The regression analysis in Table 4.21 shows that the coefficient for different sources of funding is 0.281, which is statistically significant at a level of 0.008. An increase of one unit in the number of financing choices leads to a 0.281 unit improvement in the financial performance of e-commerce-driven enterprises in Kenya, irrespective of other factors in the model. The t-statistic value of 2.809 demonstrates statistical significance, showing that the coefficient is positively directed and has statistical relevance. Despite the p-value being less than 0.05, the standard error was 0.100. Wang and Han (2021) found that SMEs may easily get loans by using the network financial model, a conclusion that aligns with our own research. You may do this by using the system's platform to register and submit any necessary documents. This strategy streamlines labor-intensive operations and decreases the time and money spent, providing an additional advantage. Gisele, Githui, and Muhavani (2021) emphasized the significant influence of a company's financing structure on its profits and the essential significance finance choices have in investment determinations. Effective management requires strategic decision-making, including identifying the best mix of short-term and long-term finance sources. Omollo, Muturi, and Wanjare (2018) discovered a notable negative relationship between returns on assets and overall debt, as well as short-term and long-term debt. The study's results indicate that financial managers must be cautious in calculating the optimal levels of debt to attain peak performance. Research has shown that these debt indicators have a considerable influence independent of the estimating method used.

The regression analysis in Table 4.21 shows that the coefficient for the capital management support is 0.216, which is statistically significant at the 0.006 level. Controlling for other factors in the model, a one-unit increase in capital management support is associated with a 0.216 unit increase in the financial performance of e-commerce-driven firms in Kenya. A t-statistic score of 2.901 demonstrates statistical significance, showing that the coefficient is positively directed and has statistical relevance. The standard error was determined to be 0.074, and the statistical analysis yielded a p-value below 0.05. Pradhan, Arvin, Nair, Bennett, and Bahmani (2019) discovered that economic growth and the development of information and communication technology (ICT)

infrastructure significantly affect early-stage, late-stage, and total venture capital investment in the long term. The growth of the economy and late-stage venture capital funding also fueled the usage of the internet. It is crucial to recognize the lasting impact of late-stage venture capital on the economy's overall development. Battisti, Nirino, Leonidou, and Thrassou (2022) discovered that corporate volunteering and donating (CVC) initiatives positively influence an organization's social and environmental performance. Wandiri, Nyangau, and Ochieng (2020) demonstrated a significant correlation between capital availability and the growth of small and medium-sized firms (SMEs) in the manufacturing industry.

4.10.2 Moderating Influence of Regulatory Structure on the Relationship between Venture Capital Funding and the Financial Performance

The fourth objective of the research was to assess how regulatory structure influences the relationship between venture capital financing and financial success of E-commerce businesses in Kenya. This was the study's fourth objective. A hierarchical regression analysis was conducted to see whether the regulatory structure had a moderating effect on the link between venture capital funding and the financial performance of e-commerce companies in Kenya. Null hypothesis H04 posits that the regulatory framework does not significantly moderate the connection between venture capital funding and the financial performance of e-commerce-driven firms in Kenya. An estimate was derived using the regression model provided:

$$RO = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4M + \beta_5X_5M + \beta_6X_6M + \beta_7X_7M + \varepsilon$$

Where;

M - Regulatory structure (Moderating Variable)

B₄ – This is the coefficient of the moderating variable (Regulatory structure)

β₅X₅ + β₆X₆ + β₇X₇ - are coefficients of the interaction term.

ε - Stochastic error term

X₅M - cost of capital * Regulatory structure

X₆M - Financing methods * Regulatory structure

X_{7M} - Capital management support * Regulatory structure

To assess the validity of this hypothesis, the researcher employed the SPSS tool to examine the moderating impact on the relationship between the dependent and independent variables. The analysis involved a hierarchical regression approach comprising three stages, resulting in four models. Changes in R², F-values, and significance levels were documented at each stage of the process.

1. **Stage 1:** The independent variables (cost of capital, financing methods, and capital management support) were introduced into the model, producing Model 1, as shown in Table 4.21.
2. **Stage 2:** The moderator variable, Regulatory Structure, was incorporated into the model, creating the second model.
3. **Stage 3:** The interaction effect of independent and moderating variables was introduced into the model, representing the cross-product of regulatory structure and individual independent variables. This resulted in the third model.

To assess moderation, the researcher initially standardized the predictor variables to mitigate multicollinearity issues. By normalizing the variables and determining whether the score is above the mean (positive) or below the mean (negative), a z-score was computed to indicate the specific location of each value within the distribution. The z-score was obtained by dividing the total score by the mean. The numerical value of the z-score provides a precise indication of the distance from the mean by measuring the number of standard deviations between X and μ . This approach helps illustrate the distribution with a mean score of zero and a standard deviation of one.

Table 4.22: Hierarchical Regression Model Summary

Model	R	R ²	Std. Error		R ² Change	F Change	Change Statistics		Sig. F Change
			Adj. R ²	of the Estimate			df1	df2	
1	.779 ^a	.606	.577	.507	.606	21.040	3	41	.000
2	.824 ^b	.680	.648	.463	.074	9.187	1	40	.004
3	.865 ^c	.748	.701	.427	.068	3.351	3	37	.029

b. Predictors: (Constant), Capital management support (CMS), Cost of capital (CC), Financing methods (FM)

c. Predictors: (Constant), CMS, CC, FM, Regulatory Structure (RS)

d. Predictors: (Constant), CMS, CC, FM, RS, CMS*RS, CC*RS, FM*RS
Source: (Researcher 2024)

Referring to Table 4.22, the analysis revealed notable findings for each model:

Model 1: All independent variables (cost of capital, financing methods, and capital management support) exhibited a significant and positive correlation with financial performance ($p=0.000$). This model yielded an R^2 of 0.606, indicating that 60.6% of the variation in financial performance was explained by the independent variables, and this result was statistically significant at $P=0.000$.

Model 2: The introduction of regulatory framework as a moderator demonstrated a significant and collective association between the independent variables and the moderating variable with financial performance ($p<0.05$). The R^2 increased from 0.606 (60.6%) to 0.680 (68.0%), suggesting an additional explanation of 7.4% in the model.

Model 3: The inclusion of interaction terms between specific independent variables and the moderator (Regulatory Structure) in the regression model resulted in Model 3. This allowed an examination of how regulatory structure modifies the relationship between venture capital funding and financial performance. The final model indicated a significant moderating effect of regulatory structure on the relationship between venture capital funding and the financial performance of Kenyan e-commerce driven firms. Specifically, the interaction between venture capital funding constructs and regulatory structure accounted for significantly more variance than just regulatory structure and venture capital funding alone ($R^2 = 0.748$, $p = 0.000$).

Table 4.23: Regression Coefficient of Moderating influence

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.718	.425		1.689	.099
	Cost of Capital	.345	.084	.415	4.110	.000

	Financing Methods	.281	.100	.322	2.809	.008
	Capital Management Support	.216	.074	.340	2.901	.006
2	(Constant)	.147	.431		.341	.735
	Cost of Capital	.235	.085	.282	2.770	.008
	Financing Methods	.310	.092	.355	3.373	.002
	Capital Management Support	.229	.068	.361	3.367	.002
	Regulatory Structure	.220	.073	.301	3.031	.004
3	(Constant)	-2.056	1.153		-1.782	.083
	Cost of Capital	1.087	.484	1.308	2.248	.031
	Financing Methods	.196	.697	.225	.281	.780
	Capital Management Support	.115	.379	.181	.303	.764
	Regulatory Structure	1.000	.333	1.368	2.999	.005
	CC*RS	-.230	.111	-1.842	-2.061	.046
	FM*RS	-.002	.162	-.014	-.014	.989
	CMS*RS	.020	.088	.158	.232	.818

a. Dependent Variable: Financial Performance

Source: Researcher (2024)

The study second regression model is as shown below from regression coefficient of Table 4.23.

$$RO = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 M + \beta_5 X_5 M + \beta_6 X_6 M + \beta_7 X_7 M + \varepsilon$$

$$Y = -2.056 + 1.087X_1 + 0.196X_2 + 0.115X_3 + 1.000Z - 0.230X_1 Z - 0.002X_2 Z + 0.020X_3 Z$$

Where

Y=Financial performance of E-commerce driven firms in Kenya

X₁=Cost of capital

X₂= Financing methods

X₃= Capital management support

Z= Regulatory structure Framework

The results for the moderating effect of regulatory structure on the relationship between venture capital funding and the financial performance of Kenyan e-commerce enterprises are outlined in Table 4.23. In the initial step, where venture capital funding structures were entered (Step 1), each construct exhibited a positive and statistically significant predictive power ($P < 0.05$). Step 2 revealed a favorable and significant impact on financial performance with the inclusion of regulatory framework in the model ($\beta = 0.220$, $P = 0.004$). This implies that a one-unit change in regulatory structure leads to a substantial 0.220-unit change in financial performance.

Moving to Step 3, regulatory structure retained significance and gained more predictive power ($B = 1.00$) with the introduction of the interaction term (cross-product across venture capital financing constructs). It was identified that one of the additional interaction terms was significant, namely the interaction between regulatory structure and the cost of capital ($\beta = 0.230$, $t = -2.061$, $p = 0.046$). However, the combination of interaction terms involving financing methods, capital management, and regulatory structure did not show significant effects, as all p-values related to regulatory structure were higher than 0.05, indicating negligible moderation influence. Thus, the findings of Model 3 suggest that the relationship between venture capital funding and financial performance is somewhat moderated by regulatory structure.

Several insights can be drawn from Model 3. Firstly, the impact of the cost of capital on financial performance significantly decreases by 0.230 units ($P = 0.046$) as regulatory structure increases by one unit. This is attributed to the negative coefficient of the regulatory structure, signifying a negative interactive effect. However, the same is not observed for capital management support and financing methods. The evidence suggests that regulatory structure moderates the effects of venture capital funding on financial performance to a certain extent.

Support for these findings is evident in additional research exploring the link between regulatory structure and financial performance. Dong and Zheng (2022) highlighted the substantial influence of regulatory frameworks on the venture capital (VC) market, with more VC funding directed towards companies governed by investor-friendly regulations. In contrast, Cheong, Lee, and Weissmann (2020) indicated that SMEs do not experience enhanced performance when relying on loan funding. Instead, the performance of SMEs improves when they receive tax benefits and access funding from non-banking sources alongside traditional institutions, reducing the opportunity costs associated with riskier ventures. The study also noted that Malaysia's current tax laws pose obstacles to SME expansion, potentially leading to financial record fraud. Investors in Malaysia tend to favor SMEs adhering to conservative accounting and tax regulations. According to Edmore (2017), legal and regulatory considerations are crucial for the growth of small and medium-sized enterprises (SMEs).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the key points covered in the preceding chapters. It encapsulates the conclusions drawn from the study's findings and presents recommendations for future research.

5.2 Summary of Findings

The primary aim of the study was to investigate the influence of venture capital funding on the financial performance of Kenyan e-commerce companies, with specific objectives focusing on assessing the impact of venture capital costs, analyzing financing methods, evaluating the effect of capital management support, and exploring the potential moderating role of regulatory structure in the relationship between venture capital funding and financial performance. Data from 45 Kenyan e-commerce companies were collected through a questionnaire, and subsequent descriptive and inferential analyses were conducted at a 95 percent confidence level ($p < 0.050$).

In the pursuit of understanding how Kenyan e-commerce companies' financial performance is influenced by venture capital funding, the study first delved into the impact of the cost of financing. Descriptive statistics revealed widespread agreement among respondents regarding the essential consideration of venture capital costs in financial decision-making. The inferential analysis uncovered a direct correlation ($r = 0.536$, $P = 0.000$) between the cost of capital and the financial performance of Kenyan e-commerce companies. This indicated that an increase in the cost of capital corresponds to an enhancement in the financial performance of these companies. Multiple linear regression further demonstrated that a unit rise in the cost of capital significantly increased performance by 0.345 units ($\beta_1 = 0.345$, $P = 0.000$), thereby rejecting the first null hypothesis (H_01), which posited that the financial performance of Kenyan e-commerce enterprises is not significantly impacted by the cost of financing. The hypothesis was rejected, supporting Khoa and Thai's (2021) findings that high capital costs can drive growth when strategically invested in

operational efficiency, technology adoption, or business expansion, positively affecting financial performance.

Moving on to the second objective, the study aimed to examine the impact of financing methods on the financial performance of Kenyan e-commerce enterprises. Descriptive analysis affirmed respondents' acknowledgment of the significant impact of venture capital funding approaches on firms' financial performance. Inferential results from Pearson Correlation analysis indicated a positive association ($R=0.551$, $P=0.000$) between financing methods and the financial performance of e-commerce-driven enterprises in Kenya. This suggested that an increase in financing options substantially improves the financial performance of Kenyan e-commerce companies. Multiple regression findings supported this, revealing that a one-unit increase in financing methods significantly improved performance by 0.281 units ($\beta_2=0.281$, $P=0.008$). Consequently, there was sufficient evidence to reject the second null hypothesis (H_{02}), which posited that financing methods have no appreciable impact on the financial performance of Kenyan e-commerce enterprises. The results align with Riddiough and Steiner (2020), who found that strategic financing decisions, through debt or equity, enhance liquidity, flexibility, and performance, enabling firms to seize growth opportunities.

The third objective focused on investigating how capital management support impacted the financial performance of Kenyan e-commerce companies. Descriptive results indicated widespread agreement among respondents regarding the positive impact of venture capital investors on financial planning and management. Inferential analysis, using Pearson Correlation, demonstrated a direct and significant association ($R=0.606$, $P=0.000$) between the financial performance of Kenyan e-commerce enterprises and capital management support. Multiple regression coefficients further indicated that a one-unit increase in capital management support resulted in a substantial improvement in performance by 0.216 units ($\beta_1=0.216$, $P=0.006$). Thus, there was enough evidence to disprove the third null hypothesis (H_{03}), which suggested that capital management support has no appreciable impact on the financial performance of Kenyan e-commerce enterprises. Nasimiyu (2023) found that effective capital management improves financial performance by enhancing resource allocation, cash flow, and strategic investments, driving profitability and providing a competitive edge.

The fourth objective focused on examining how the regulatory structure influenced the relationship between venture capital funding and the financial performance of Kenyan e-commerce companies. Key insights included venture capital investors actively monitoring regulatory compliance, the importance of compliance in attracting investment, and the risks of non-compliance, such as legal and financial consequences. Pearson correlation analysis showed a positive relationship ($R=0.377$, $P=0.000$) between regulatory structure and financial performance, suggesting that a strong regulatory framework enhances financial success. Hierarchical regression analysis revealed that regulatory structure accounted for 7.4% of the change in financial performance, with the interaction between venture capital investment and regulatory structure explaining an additional 6.8%. The negative moderating effect between the cost of capital and regulatory structure led to the rejection of the fourth null hypothesis (H_{04}), which posited that regulatory structure does not moderate the relationship between venture capital funding and financial performance. Bonini and Capizzi (2019) highlighted that regulatory structures moderates venture capital's impact, with strict regulations increasing compliance costs and limiting financial benefits.

5.3 Conclusion of the Study

The study concludes that the cost of capital has a significant impact on the financial performance of Kenyan e-commerce enterprises. Given that venture capital costs play a crucial role in influencing financial performance, businesses are advised to consider these costs in their financial decision-making processes. Consequently, the initial null hypothesis was refuted.

In addition, the findings indicate that financing strategies wield a substantial influence on the financial performance of Kenyan e-commerce companies. This suggests that diversifying funding methods could enhance overall financial performance. Companies, before finalizing decisions, carefully evaluated the potential impact of various venture capital funding tactics on their financial outcomes. As a result, the second null hypothesis was also rejected.

The study further asserts that the financial success of Kenyan e-commerce companies is significantly affected by capital management support. Practically, this implies that factors such as staff productivity, retention, and operational efficiency play a pivotal role in influencing financial performance. The expertise and guidance provided by venture capital managers, along with the

support in financial planning and management from venture capital investors, contribute to this impact. Consequently, the third null hypothesis was disproven.

The final noteworthy finding is that regulatory framework serves as a significant moderator in the association between venture capital funding and the financial success of Kenyan e-commerce enterprises. This is evident from the substantial increase in the coefficient of determination, rising from 60.6% to 74.8%. The study classifies this moderating effect as partial moderation, as an escalation in regulatory framework significantly diminishes the influence of the cost of capital on the financial performance of e-commerce-driven enterprises in Kenya. Consequently, the fourth null hypothesis was rejected.

5.4 Recommendations of the Study

5.4.1 Recommendations for Practice

Although venture capital can offer startups and high-growth enterprises critical investment and support, there are costs and considerations associated with it that could impact financial results. As a result, the study suggested that management should thoroughly understand the total cost of capital related to venture funding. This covers all associated fees, warrants, and other financial instruments in addition to the stated interest rates and equity percentages. Furthermore, the study suggested that to reduce the cost of capital and optimize the company's control and flexibility, the management of Kenyan e-commerce-driven businesses should bargain over the conditions of the venture capital agreement.

The study suggested that as every financing method has pros and downsides of its own, management should weigh the trade-offs between various financing methods. Therefore, before making a final decision, they should carefully consider the potential impact of different venture capital funding models on their financial performance.

Succeeding in managing venture capitalists' money well can help a business remain viable and thriving in the long run. As a result, the study suggested that management create a strategic strategy for allocating cash obtained via venture capital funding. They should also effectively distribute funds to projects that complement the company's financial success plan.

Finally, e-commerce companies must thoroughly examine Kenya's current regulatory framework to traverse the regulatory environment successfully. This entails being aware of the laws that control data privacy, consumer protection, e-commerce activities, and any upcoming changes. A thorough understanding of the regulatory landscape provides the groundwork for making well-informed decisions.

5.4.2 Recommendations for Policy

The study suggested that a framework for monitoring and evaluation should be established to gauge the effectiveness of the policies put into place. Review the state of VC funding, the performance of e-commerce-driven businesses, and the ecosystem's general health regularly. Policies should be adjusted as necessary to take advantage of new opportunities and solve developing issues.

The report also suggested that cooperation between the public and private sectors be encouraged to establish a more reliable support system. This can entail forming public-private partnerships, in which the private sector's experience improves the viability and profitability of e-commerce businesses while the government offers financing or guarantees.

A regulation framework that supports and enables venture capital investments must be established. Simplify legal requirements, lower administrative barriers, and offer tax breaks to e-commerce enterprises and venture capital firms. This will draw in other investors and create an atmosphere favorable for expansion.

E-commerce companies should actively support legislative frameworks that encourage innovation and growth in conjunction with industry groups. Firms can help shape policies supporting the distinct dynamics of the e-commerce sector by participating in lobbying initiatives. A regulatory framework conducive to e-commerce businesses makes them more appealing to venture capitalists.

5.5 Suggestion for Further Research

Even with its contributions, this study brings to light a few points that should be taken into account by other studies. First, the study's conclusions highlight how crucial it is for E-commerce-driven businesses to have efficient and successful venture capital financing. The three independent variables of venture capital funding explained up to 60.6% of the variance; however, the addition of regulatory framework increased the explanation to 74.8%, suggesting that there may be other factors influencing financial performance in addition to venture capital investment that needs to be taken into account in future research.

The study's methodology concentrated on Kenyan e-commerce companies. This makes the study's proposal less applicable and generalizable to other Kenyan businesses; as a result, future research should focus on other start-ups. In keeping with the methodology section, as the study employed quantitative data, future research should consider using a mixed methodology to facilitate triangulation.

The results of the study demonstrated that regulatory framework significantly modifies financial performance. A negligible moderating effect was noted regarding finance strategies and capital management support. Similar studies might consider utilizing alternative moderating variables to determine whether similar observations can be maintained.

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APPENDICES

Appendix I: Respondent Letter

Dear Participant,

I am currently an enrolled student in the Master of Science (Finance) program at Kenyatta University.

At present, I am engaged in a research project that aims to examine the influence of venture capital funding and the financial performance of e-commerce-driven firms in Kenya.

To accomplish this goal, I humbly request your assistance in filling out the accompanying questionnaire. The active involvement of participants in submitting their responses is critical for the successful culmination of this research undertaking.

Kindly be informed that your involvement in this survey is entirely optional. Furthermore, any data you provide will be treated with strict confidentiality and solely utilized for scholarly purposes.

You are greatly appreciated for your participation.

Appendix II: Questionnaire

Guidelines:

Please complete the questionnaire by marking the appropriate options or providing the necessary information where applicable. To ensure the questionnaire's validity, kindly respond to all questions.

SECTION A DEMOGRAPHIC DATA

Please indicate your response by selecting the relevant option with a checkmark (✓) or by providing the necessary information.

1. What is your gender?

- a) Male
- b) Female
- c) Prefer not to say
- d) Other: _____

2. What is your educational background?

(Please select the highest level completed)

- a) High School
- b) Bachelor's degree
- c) Master's degree
- d) Doctorate/Ph.D.
- e) Other: _____

3. Number of years of experience

- (a) Less than 2 Years []
- (b) 3 to 6 Years []
- (c) 7 to 11 years []
- (d) More than 11 years []

4. Name of the department.

- (a) Accounts Receivables Department []
- (b) Accounts Payables Department []
- (c) Sourcing and Procurement Department []
- (d) Sales and Marketing Department []
- (e) Any other department

Mention []

5. Has your institution secured any form of funding from venture capitalists?

Yes [] No []

If yes, how much	
If no, explain why	

SECTION B: COST OF VENTURE CAPITAL

6. Kindly rate each statement using a scale of 1 to 5, where 1 indicates a strong disagreement and 5 indicates a strong agreement:

1- Strongly disagree 2 - Disagree 3 –Neutral 4- Agree 5- Strongly agree

No.	Questionnaires	1	2	3	4	5	Mean	S.d
a.	The financial performance of a company is significantly affected by the costs associated with venture capital.							
b.	As the cost of venture capital increases, the financial performance of a company tends to decrease.							
c.	Companies that have access to lower venture capital costs generally exhibit superior financial performance							
d.	When making financial decisions, companies consider the cost of venture capital as a crucial factor.							
e.	The cost of venture capital is an important consideration for companies when making financial decisions.							
f.	The cost of venture capital significantly impacts the financial performance of a company.							

SECTION C: VENTURE CAPITAL FINANCING METHODS

7. Kindly rate each statement using a scale of 1 to 5, where 1 indicates a strong disagreement and 5 indicates a strong agreement:

1- Strongly disagree 2 - Disagree 3 –Neutral 4- Agree 5- Strongly agree

No.	Questionnaires	1	2	3	4	5	Mean	S.D
a.	The choice of venture capital financing method impacts the financial performance of a company.							
b.	Certain venture capital financing methods are more cost-effective than others.							
c.	It is important for companies to thoroughly evaluate the potential effect of various venture capital funding strategies on their financial performance prior to reaching a conclusive decision.							
d.	The approaches used for venture capital funding have a substantial effect on the financial performance of firms.							
e.	The selection of a particular venture capital funding strategy has a significant impact on the financial success of firms.							
f.	Venture capital funding strategies help organizations in gaining access to significant skills and networks, therefore enhancing their financial performance.							

SECTION D: VENTURE CAPITAL MANAGEMENT SUPPORT

8. Kindly rate each statement using a scale of 1 to 5, where 1 indicates a strong disagreement and 5 indicates a strong agreement:

1- Strongly disagree 2 - Disagree 3 –Neutral 4- Agree 5- Strongly agree

No.	Questionnaires	1	2	3	4	5	Mean	S.D
a.	Venture capital investors provide strategic guidance and support for your business operations.							
b.	Venture capital investors assist in financial planning and management.							
c.	Venture capital investors actively participate in product development and innovation							
d.	Venture capital management support positively impacts company's financial performance.							

e.	Venture capital management support hinders company's access to additional funding from other sources.							
f.	The expertise and guidance provided by venture capital managers contribute to the financial success of companies.							

SECTION F: REGULATORY COMPLIANCE LEVEL

9. Kindly rate each statement using a scale of 1 to 5, where 1 indicates a strong disagreement and 5 indicates a strong agreement:

1- Strongly disagree 2 - Disagree 3 –Neutral 4- Agree 5- Strongly agree

No.	Questionnaires	1	2	3	4	5	Mean	S.D
a.	E-commerce firms that prioritize regulatory compliance are more likely to attract venture capital investment.							
b.	Compliance with regulatory requirements positively affects the financial performance of companies.							
c.	E-commerce firms that fail to comply with regulations are at a higher risk of legal issues and financial losses.							
d.	Venture capital investors actively monitor and assess the regulatory compliance of the e-commerce firms in their portfolios.							
e.	E-commerce firms should regularly conduct compliance audits to ensure adherence to relevant regulations.							

SECTION G: FINANCIAL PERFORMANCE

10. What was the company's Net profit for every year end in the past five years?

- a) Year 2018 Kes 1,000,000- 10,000,000
- b) Year 2019 Kes 10,000,000- 20,000,000
- c) Year 2020 Kes 20,000,000- 50,000,000
- d) Year 2021 Kes 50,000,000- 80,000,000
- e) Year 2022 Kes 80,000,000- 100,000,000

11. What was the initial cost of the investment?

- a) Kes 400,001- 1,000,001
- b) Kes 1,000,002- 10,000,001
- c) Kes 10,000,002- 30,000,001
- d) Above Kes 30,000,001

12. The primary goal of venture capital funding for e-commerce firms in relation to ROI is to:

- a) Maximize ROI for investors
- b) Minimize regulatory compliance
- c) Increase marketing expenses
- d) Monitor employee satisfaction

SECTION H: OPEN-ENDED QUESTIONNAIRES

14. Have you considered seeking venture capital funding for your e-commerce firm?

- a) Yes, actively exploring funding options
- b) Yes, but still evaluating the benefits and drawbacks
- c) No, we are self-funded and not interested in external funding
- d) No, we are exploring other financing methods

15. What do you consider the most critical factor when evaluating venture capital investors?

- a) Experience and track record in the e-commerce industry
- b) Willingness to provide mentorship and strategic guidance
- c) Speed and efficiency in the funding process
- d) The level of control and ownership they expect in return
- e) Other (please specify)

Appendix III: E-Commerce Driven firms in Kenya

AliExpress	Deals Kenya	Jiji Kenya	Mother and Baby shop	Saruk Kenya
Auto Classifieds Kenya	Digger Classifieds	Jumia Kenya	Mr. Price clothing Kenya	Standard Clothing Store
Autocheck Kenya	Dove Computers	Just Brands Kenya	My Dawa Kenya	Style Connection
Autos Kenya	Elite Digital	Kalimoni Greens	Nairobi Home Appliances	Techix Kenya
Bigman Computers	E-pharmacy Kenya	Kilimall Kenya	PataBay	Western Cosmetics
Brandshop	Fashion 254	LG Online	PataUza	
Bright Technologies	Furniture Palace	Maskani Kenya	Pigiame	
Cameras Africa	HotPoint	Masoko	Property24	
Cars45	Jade collection Kenya	Mighty Ape technologies Kenya	Ramptons Kenya	
Chandarana food plus	Jambo shop	Mobile Hub	Sarai Afrique Kenya	

Source: Venture capital Directories (2022)

Appendix IV: Venture Capital Firms Operating in Kenya

Capital Aavishkaar Group	Ethos Capital	Nisk Capital	Cdf-Cliffe Dekker Hofmeyr	Pharo Ventures Kenya
Acumen	Exeo Capital	Phatisa	Cornerstone	Private Equity Support
Admaius Capital Partners	Fca Investments	Tiserin Capital	Ecp Private Equity	Proparco Group-Afd
Africinvest	Finnfund	Zoscales Partners	Everstrong Capital	Sayani
African Infrastructure Investment Managers	Grant Thornton	Actis	Ey-Building A Better Working World	Swedfund
Amethis	I & M Burbidge Capital	Adenia Partners	Fanisi	East Africa Trade Investment Hub
Araf-Acumen Resilient Agriculture Fund	Invhestia	Afza Capital	Fie- Consult	International Finance Corporation (Ifc)
Catalyst Principal Partners	Kenya Climate Ventures	Chandaria Capital	Goodwell- Impact With Impact	
Centum	Kpmg	Norfund	I-Dev International	
Energy Access Ventures	Mazars	Novastar Ventures		

Source: East Africa Venture Capital Association (EAVCA) (2022)

Appendix V: Research Authorization Letter



KENYATTA UNIVERSITY
OFFICE OF THE EXECUTIVE DEAN GRADUATE SCHOOL

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NAIROBI, KENYA

Tel. 020-8704150

our Ref: D58/CTY/PT/21741/2021

DATE: 22nd January 2024

Director General,

National Commission for Science, Technology and Innovation

P.O. Box 30623-00100

NAIROBI

Dear Sir/Madam,

**RE: RESEARCH AUTHORIZATION FOR MR. VICTOR MWENDWA MUINDE-
D58/CTY/PT/21741/2021**

REG. NO.

I write to introduce Mr. Victor Mwendwa Muinde who is a Postgraduate Student of this University. He is registered for M.sc degree programme in the Department of Accounting and Finance.

Mr. Victor Mwendwa Muinde intends to conduct research for a M.sc. Thesis Proposal entitled, " Venture Capital Funding and Financial Performance of E-Commerce Driven Firms in Kenya".

Any assistance given will be highly appreciated.

Yours faithfully,



PROF. ELISHIBA KIMANI

EXECUTIVE DEAN, GRADUATE SCHOOL



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NAIROBI, KENYA

Website: www.ku.ac.ke Tel. 020-8704150

Internal Memo

FROM: Executive Dean, Graduate School **DATE:** 22nd January 2024

TO: Mr. Victor Mwendwa Muinde **REF:** D58/CTY/PT/21741/2021
c/o Department of Accounting and Finance

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that Graduate School Board at its meeting on **17th January 2024**, approved your Research Proposal for the M.Sc Degree entitled ***Venture Capital Funding and Financial Performance of E-Commerce- Driven Firms in Kenya***"

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation and Ethics Review Committee, Kenyatta University.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and Progress Report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your thesis before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines. Thank you.

ANGELA KIMARU

FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

CC. Chairman, Department of Accounting and Finance

Supervisors:

1. Dr. James Gatuawa
c/o Department of Accounting and Finance
Kenyatta University
2. Dr. John Mngai
c/o Department of Accounting and Finance
Kenyatta University



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This is to Certify that Mr.. VICTOR MWENDWA MUNDE of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: VENTURE CAPITAL FUNDING AND FINANCIAL PERFORMANCE OF E-COMMERCE -DRIVEN FIRMS IN KENYA for the period ending : 08/February/2025.

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 - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
 - iv. Result in exploitation of intellectual property rights of communities in Kenya
 - v. Adversely affect the environment
 - vi. Adversely affect the rights of communities
 - vii. Endanger public safety and national cohesion
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13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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