

**STAGED CAPITAL AND FINANCIAL PERFORMANCE OF VENTURE CAPITAL
FIRMS IN KENYA**

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DECLARATION


I declare that this research project is my original work and has not been presented for a degree in any other university

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ABBREVIATIONS AND ACRONYMS

AVCA- African Venture Capital Association

CMA-Capital Market Authority

DFI- Development Finance Institutions

EAVCA- East Africa Venture Capital Association.

IPO- Initial Public Offering

KPMG-Klynveld Peat Marwick Goerdeler.

NASDAQ- National Association of Securities Dealers Automated Quotation

PE- Private Equity

ROE-Return on Equity

ROI- Return on Investment

SMEs – Small and Medium Enterprises

SPSS- Statistical Package for Social Sciences

USAID- United States Agency for International Development

VCPE- Venture Capital and Private Equity

VCs- Venture capitalist

OPERATIONAL DEFINITION OF TERMS

Early stage financing	this is where venture capitalist give finance to firms that may be in the process of setting up or have been in business for a short period of time or have not be generating profits.
Entrepreneur/ Investee	they are owner/directors of the firm in where the venture capitalists stage their capital.
Financial Performance	This is the return from venture capitals investment from the staged finances.
Growth stage Financing	Venture capital financing in stages where the invested firms are at break-even or trading profitably but require additional capital to increase production, expand market presence and/or further develop their products.
Late stage Financing	this is financing to companies with a proven product and either profits or a clear path toward profitability.
Portfolio	Firms that the venture capitalists stage their investment with the expectation of return.
Staged Capital	Financing method that allows venture capitalists to periodically update their information about the firm, monitor its progress, review its prospects, and evaluate whether to provide additional funding or abandon the project.
Staged venture capital financing	it is sequential issue of capital from a venture capitalist fund to an investee firm.
Venture capital	a long-term risk capital used to finance high technology projects which involve risk; these projects also possess strong potential for growth.

Venture capitals firm

a firm that invests in different stage in a firm in order to earn profit.

Venture Capitalists

they are individuals who pools their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at higher return. He is the principal in the VC-Entrepreneur relationship.

ABSTRACT

Venture capital industry in Kenya is still in its nascent stage lagging behind both supply and demand side. Since inception of the venture capital industry in Kenya in 1970s several venture capital firms have collapsed and others exited the market due to poor financial performance. The rule of thumb in venture capital industry suggests that out of ten investments only one or two are successful. This makes venture capital industry an extremely high risk investment sector with a high probability of failure. This is painful to venture capitalist since they invest their resources with expectation of high returns from the invested project. To solve the problem of underperformance and huge losses in case of project failure, over 90% venture capital firms stage their financing rather than upfront financing. It gives an option of abandoning poorly performing projects before injecting more capital in subsequent rounds. Existing literature often act a source of knowledge when making critical decisions like staged capital financing. Nevertheless, different scholars have different opinions on effect of staging on financial performance of venture capital firms. These studies have concentrated on developed nations but not as much in developing ones leaving venture capitalist in these nation's with limited reference in their context. This study therefore sought to fill this gap in knowledge by looking at staged capital on financial performance of venture capital firms in Kenya to act as a basis for decision making for venture capital firms in Kenya and developing nations. The study objectives were; to determine effect of early stage venture capital financing on financial performance of venture capital firms in Kenya, to establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya, to establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya. The study was anchored on agency, transactional cost and control theories. Descriptive research design was employed. The study targeted 50 venture capital firms operating in Kenya during the period (2014-2019) as per Kenya treasury report (2019) and EAVCA (2019). A census of the fifty venture capital firms was utilized in the study. Self-administered questionnaires were used to collect primary data from venture capital firms fund managers. Secondary data on financials was collected using a data collection sheet. The study had a response rate of 93% of the target population. Multiple regression analysis was used to analyze collected data with the help of SPSS computer package. Means and percentages were also used. Analyzed data was presented in form multiple regression equation and tables of regression coefficients. The study found out that staging of capital positively affects financial performance of venture capital firms in Kenya. The study found out that return on investment is highest on late stage, followed by growth stage and early stage financing in that order. Finding from this study would help venture capital investors make informed decision when using stage financing as a financing option in their investment. Policy maker will use findings of this study to develop policy to ensure venture capital industry growth and especially staged financing. In additions findings from this study will add to existing literature and elicit the urge for further studies on venture capital industry from scholars and academicians. The study recommend that venture capital firms should stage their financing with more of the investment in late, growth and early stage in that order to enhance return on investment. Further research can be done on effect of stage capital financing on exit strategies adopted by venture capital firms in Kenya. In addition, a study on effect of staged capital financing on financial of venture capital backed SMEs in Kenya can be done.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Venture capital industry in Kenya has been in existence as early as 1970s, their occupancy and influence has not been so relevant though not so certain (Memba, Gakure, & Karanja, 2012). The industry of funding and financing where Venture capital falls is still in its beginning years stage still much behind both in supply and demand side with operation volumes still small accounting for a very small share of the financial market (Zavatta, 2008). Since inception, currently Kenya has 50 operating Venture Capital firms (appendix D). In the years of 1990s USAID and European Union backed Venture capital funds; Kenya equity management fund and rehabilitation advisory services limited collapsed and were deregistered. The main reason for their collapse was that they performed poorly financially due to the poor administration and management of funds and the in availability of the limited resources (Kashangaki & Simba, 2008).

Recently foreign owned VCs firms are slowly entering the Kenyan market (Zavatta, 2008). According to Lerner (2011), it's not clear whether the small growth of VC industry globally can support itself or will be part of firms that are failing to survive and finally collapse. Such collapsing fund may include portfolio insurance and securitized sub-prime. Unfortunately in 2015 Enablis venture capital firm in Kenya failed to renew its agreement with its Canadian investors and closed down since they found their venture model unsustainable (EAVCA, 2016). Another firm, Actis with majority of its investment in Kenya's energy sector exited from the market the same year (EAVCA, 2016).

The Kenyan VCs industry is regulated by a government agency set up the constitution called the CMA. It came to operation in the year 1989 under the after the approval of the Capital Markets Authority Act, Chapter 485A. In the Year 2000, it was changed and named Capital Markets Act. Its main function is to license, regulate and supervise the business that operates within the capital market. The main statute governing registered venture capital firms in Kenya is Capital Markets Regulations Legal Notice 183; 2007. The CMA sets guidelines and rules that a firm that qualifies to be licensed must meet. It also sets rules for registration for venture capital firms, the procedure for registration, the qualified VC enterprises, nomination and the role of venture capital funds managers, the financing activities like fund raising activities and the reporting procedures among other functions.

Vcs in Kenya obtain bulk of their capital from foreign investors' especially multinational donor firms, international investor and development finance institutions. Locally the government of Kenya also provides the Vcs with some financing such as equity financing they are funded through the Industrial and Commercial Development Bank (Zavatta, 2008). They diversify their investment in different companies that create a portfolio in return they get equity shares that earn a return for them. At different stages in the investees firm to fully maximize the value of their ventures and success chances by choosing their length of involvement in financing choosing the length of their involvement in financing to maximize their chances of success and the value of their ventures (Schwienbacher, 2006).

A study by Gosh (2012) on VC firms' portfolios covering more than 2,000 US companies which got a minimum of \$1 million venture funding between the period between 2004

through 2010 found out that almost like 75 percent of firm backed up by ventures will never return the investors' capital. Similar results are obtained by extending the study period to cover year 2000 to 2010. The common rule of thumb is that for every ten start-ups a VC funds, three or four VCs fails, other three or four return their initial investment and one or two get some returns. The National Venture Capital Association approximate about 25 to 30 percent of firm backed up by venture firm never succeed (EAVCA, 2016).

A study by Pitch book (2016) a research firm in Europe, the anxiety about Britain exit from EU made VC backed starts -ups drop by over a 33 percent in the 2nd quarter of 2016. Earlier in 2015 Venture capitalist financing for firms in Europe fell from \$4.3bn in the second quarter of 2015 to \$2.8bn. Across the world, the research firm found a drop in venture capital funding in by half from 4bn to \$2bn in angel in the second half of the year, but there was an upward trend of financing both in early and late stage capital. In the US, financing by VCs amounted to a total of \$21bn, with growth in later stage VC from \$11.2bn to \$13.9bn, while early stage, angel and seed funding is on a downward trend. Qualitatively valuations of VC investment went down across all stages.

To solve the problem of underperformance and huge losses in case of failure of an investment by VC firms is use of stage financing among other methods with most of the invest financing of 90% is financing through stages (Wang & Wang, 2009). It gives them an option of abandoning poorly performing projects before injecting more capital in subsequent rounds. Staging entails sequential issue of capital from a venture capitalist fund to an investee firm having satisfied predetermined goals in exchange for equity shares at different

stages in the investees firm (Schwienbacher, 2006). This can occur in early, growth or late stage of an investment. Some of the VCs investing in seed capital (early stage) in Kenya include EVAfund, Grofin, Savannah fund, Fanisi capital, Venture lab, Nest, Novastar and Acumen venture. Fanisi capital, Novstar ventures, InvesteQ capital and Fusion capital invest growth stage while Fusion capital and Acacia Capital partners invest in late stage.

Effect of staging on financial performance of VC firms in Kenya remains unknown. However, on a global scale with limited focus on developing nations like Kenya, few existing studies show mixed prediction and outcomes on effect of staging on venture capital firms' financial performance (KPMG ;EAVCA, 2015). Wang& Zhou (2004) discussed some theoretical models that show positive profits by financing in stages. His findings support the view that staging of financing lead to more return. Venture capitalists should use staging so as to better their negotiation skills, to ensure that they earn greater return from the triumphant venture they invest in (Booth, Dalgic, & Young, 2004). Other studies show theoretical argument for venture capitalist expecting downward returns from usage of staged finance (Corneli & Yosha, 2003).This study therefore aims at analyzing effect of staged capital financing and financial performance of venture capital firms in Kenya.

1.1.1 Financial performance of venture capital firms

Financial performance has been used to measure the liability of an organization due to the organizational rules, activities and operations stated in a given period in term of financial terms (Adams, 2000). The most important measurement of financial performance is financial returns from investments that the venture capitalist invest it (Wiklund & Söderblom, 2006).If the return from the investment take too long than the VC expected this will force investors to

avoid such investments and the VC will only invest in investment with good financial record. AVCA (2004) revealed that making successful Venture Capital investments is not easy in Africa. The main cause was low financial performance on investment by VC firm and funds in Africa.

Venture capital funds performance has been unforeseeable. The year 1980's the return from the venture capital were substantially little and minimum and were attributed to excess surplus of IPOs, and also the great competitiveness for new establishment (Zwiebel, 2006). In the year 1990's the industry started to have positive feedback and as a result of this there was a boom in the venture capital industry in the year 1995 and has increased in 2000 when the onset of internet bubble was at its peak (Walker, 2001). In March 2000 there was the technology slump and NASDAQ crash that caused many technological companies to collapse and caused disturbance in whole venture capital industry. (McCarthy, 2002). The years that followed a whole lot of VCs firm collapsed and were write-off in large amounts of their financing since many of the firms were significantly underperforming.

Venture capital investors seek to minimize the amount of investment and dedication to venture capital financing and very many occurrences they decided to off load their investments in the secondary market. The venture capital industry by mid-2003 dropped down to around a half its size in 2001. The kickoff of the technology- internet-driven phase between the year 2004 to 2007 aided to bring back the venture capital environments. However, even as a large part of the total private equity market, the venture capital industry haven't fetched reached its value by the mid-1990s level, let alone its peak by the year 2000 (Mulcahy, 2014).

According to Mulcahy (2014) in adequacy of the venture capital industry to outperform public equities is a big letdown to stakeholder who may channel their resources elsewhere. This poses a threat to sustainability of the Venture Capital industry. Firms that thrive in generating good rates of return on their venture are small in size and few in number in respect to the major of venture funds that fails to generate viable returns for the stakeholders. National Venture Capital Association yearbook (2013) indicated that the figure of VC funds has gone down by about 25% in the last decade and Venture Capital firms by 8%. In addition, according to the study the numbers of VC experts have dropped to about 60%.

In 2015 there were only 87 investors looking for investment in East Africa; 61 were PE houses, 6 DFI's, 9 impact investors, 8 venture capitalists and 3 were asset managers (KPMG ;EAVCA, 2015). Scanty information exists on performance of VC firms in Kenya. Nevertheless, VC industry in Kenya is in its birth stage lagging behind both in supply and demand side with operation volumes still small accounting for a very small share of the financial market (Zavatta, 2008). In the year 1990s USAID and European Union backed Venture capital funds; Kenya equity management fund and rehabilitation advisory services limited collapsed and were deregistered. The main reason for their collapse was poor financial performance as witnessed by poor administration of funds and limited resources to manage the firms (Kashangaki & Simba, 2008). However, in the recent years foreign owned VCs firms are slowly entering the Kenyan market (Zavatta, 2008). According to Lerner (2011), it's not clear if the recent growth in venture capital industry globally is sustainable or will be part of fast fading financial funds such as portfolio insurance and securitized sub-prime debt obligations. A confirmation to this statement is the exit of Enablis from Kenya in

early 2015 since it was unable to develop a sustainable model and hence its Canadian partners declined renew their contract. Actis also exited Kenyan market the same year.

1.1.2 Staged venture capital financing

Staged venture capital financing is the sequential issue of financial resources from a venture capitalist fund to an investee firm (Hsu, 2002). Staging is the means that is used by the VCs to acquire more information on the investment and determine performance of the project (Krohmer, Lauterbach, & Calanog, 2006). A typical venture usually has early-stage financing, growth-stage financing and bridge or late-stage financing. In the early 1980s, the three stages of financing were almost equal, and later stage financing was the least. Over the decades VC firms have been set up to focus on later stages, and some initial firms have even seen tremendous growth that they find great and big investments to invest their capital (Bender, 2010).

By the mid-1990s, expansion stage investments developed more than early-stage investments and later-stage investments were more than the VCs in seed stage (Aydm, 2015). By the late 1990s, angel investors have taken over from the venture capital investors during the commencement stage, and growth investments constituted of more than half of all VC investments. Recently, there was a turn -around in this tendency, since the portion of startup investments exceeded 5 percent of total for the first time since the year 1999, while the portion of the growth investment declined to less than 40 percent in 2008 (Metrick & Yasuda, 2011).

The financing option appropriate for a certain stage may not be appropriate for other stages. Return derived from investment that venture capital financed at different level of development greatly depend on funds acquired by investment financed by venture capitalist at various stages of expansion greatly depend on the net portfolio. (Nasika & Dufour, 2009). This indicated that it's the method used by venture investors with the intention of financing and making appropriate decision in an environment that is rocked with high level of uncertainty and a lot of asymmetric information. This game plan makes the investor to make a trade-off between early and later-stage investments.

Major characteristic of staged financing by venture investors is the devotion of capital and the alternate decision to exit at a later stage. In order for the venture capitalist to keep the investment they invest in under control, they chose to invest in stages rather than upfront, with this the capitalist is able to dedicate the return from the investment before making a decision to add more finances and is also able to have an exit option (Gomper, Gornall, & Kaplan, 2020). Venture capitalist find use of staging financing effective since it aims at reducing problems of irregular flow of details and to control possibility of loss due to mismanagement by the managers (Cherif, 2008).

According to Kreamer & Schillo (2011); Wilson & Silva (2013) the nature of VC investment is reliant upon the stage of fund investment and that the number of financing rounds will be high is the firms are privately funded. The various phases in each stage should inform financing policies so that they are suitable to the characteristics of the venture in these phases (Aydm, 2015).Seed capital is the money that is raised during the first round or early-stage

financing. This fund comes from allies, family or angel investors. At this stage specialist VCs might invest (Laine & Torstila, 2005). At every stage a venture exhibit different characteristic, an early-stage venture may exhibit initial development of a product, at the late-stage firms do business with a proof of well-developed product and the return are definite or they are moving towards a clear journey to make profits. A late-stage VC firm usually sees an exit door closely as it has managed to get all its return. This leaves middle-stage (expansion) venture that is the segment between early-stage and late-stage (Metrick & Yasuda, 2011).

1.1.3 Staged venture capital financing and financial performance of venture capital firms

Staging is the serial payments of capital made by the Venture capitalist investor to the company of choice and is dependent on whether the venture is able its already set up objective both operational and financial goals. (Krohmer, Lauterbach, & Calanog, 2006). Venture capital Stage financing is an important way to minimize investment risk and a better alternative for the venture capital firms to deny or valuable option for the VC firm to turn down or delay new funding depending on the financial performance (Gomper P. , 2008). Staging gives the VC an option to terminate projects with little returns in the early stages as this will be the most efficient alternative or may choose to stay if other option is considered (Ray, 2010). A number of past researches looked at the relations between the degree of staging and the performance of venture capital investments. Nevertheless, there has not been any evidence that use of staging can positively or negatively led to success of an investment. Wang & Zhou (2004) discussed a theoretical model that can forecast productive yield from the utilization of staging process. Staging is a better profit making investments compared to

one time investments, due to the low agency costs incurred. His findings support the view that staging of financing lead to more return .in addition Booth et al (2004) suggest that an investor should derive the benefits of staging their investments in order to improve their ability to negotiate their return and hence able to gain more profit from the entrepreneurial projects that excel. Supporting this argument are Corneli and Yosha (2003) who finds out that staging motivates entrepreneurs to positively ensure performance of the investment and also gain during exit. Other studies show theoretical basis that the use of staging can still result to negative return. (Corneli & Yosha, 2003). This was further supported by a study done by (Lauterbach, Hass, & Schweizer, 2014) that found out the more staging is used the higher the chances of expected low performance from the entrepreneurial projects. Investors desire to invest in the later stages of a business rather than in the startup stage. (Amit, Brander, & Zott, 2009).

1.2 Statement of the Problem

Venture capital industry in Kenya is in its infancy stage and still much behind both in supply and demand side with operation volumes still small and accounting for a very small share of the financial market (Zavatta, 2008). Since inception of VC industry in Kenya in the 1970s, there are 50 VC firms operating in Kenya (treasury report, 2019) with only two registered by the CMA (EAVCA 2019; CMA 2019). In the early 1990s, poor financial performance of VC firms led to collapse of USAID and European Union backed Venture capital funds; Kenya equity management fund and rehabilitation advisory services limited and were deregistered (Kashangaki & Simba, 2008). In the recent years foreign owned VCs firms are slowly entering the Kenyan market (Zavatta, 2008). Nevertheless, according to Lerner (2011), it's not clear if the recent growth in venture capital industry globally can be maintained or will be

part of collapsing and dying financial funds. Unfortunately, Enablis and Actis left Kenya market in early 2015 (EVCA, 2016). Enablis was unable to develop a sustainable financial model hence its Canadian partners failed to renew their contract (EAVCA, 2016).

National Venture Capital Association shows that common thumb rule indicates that, out of 10 investments by venture investor, three investments or four of the investment fail completely, another three or four give back initial investment, and only one or two give some good return on investment. Considering 20% per year as the respectable minimum return for a VC, the one or two winner investments have to make an average 30x return to provide to venture capital fund with this return which is only the minimum (Alexy, Sandner, & Wal, 2010). Covering the cost of the bulk ten investment and generate a high return is no easy task on only one or two successful investment. A study by Ghosh (2012) revealed that about seventy five percent of investment funded by venture capitalist do not give any return on invested capital. Fanisi, a VC in Kenya, notes that the industry may grow if only the risk involved could be handled (EAVCA, 2016).

To solve the problem of underperformance and huge losses in case of project failure, over 90% VC firms stage their financing among other methods (Wang & Wang, 2009). It gives an option of abandoning poorly performing projects before injecting more capital in subsequent rounds.

Different scholars have different opinions on effect of staging on financial performance of venture capital firms. Booth, Dalgic, & Young, (2004) study agree that staging of the equity capital improves the venture capitalist's bargaining position, and hence increasing funds' performance. However, the study findings are inconsistent with Baker, (2000) who finds that staging can induce the entrepreneur to aim for short-term success rather than long-term value

creation and consequently adversely affecting performance of VCs. Additionally, Wang and Zhou (2004) show that staging can be inferior to upfront financing.

In light of the studies done on staging, its effect on financial performance of VC firms has only been studied widely in developed nations but not as much in developing ones leaving venture capitalist in these nation's with limited reference in their context. This study therefore sought to determine the effect of staged capital on financial performance of venture capital firms in Kenya and fill this literature gap.

1.3 Objectives of the Study

The main objective of the study was to determine the effect of staged venture capital financing on financial performance of venture capital firms in Kenya.

1.3.1 Specific objective

- i. To determine effect of early stage venture capital financing on financial performance of venture capital firms in Kenya
- ii. To establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya
- iii. To evaluate the effect of the late stage venture capital financing on financial performance of venture capital firms in Kenya.

1.4 Research Hypothesis

H_1 - There is no significant effect of early stage venture capital financing on financial performance of venture capital firms in Kenya.

H_2 - There is no significant effect of middle stage venture capital financing on financial performance of venture capital firms in Kenya.

H_3 - There is no significant effect on late stage venture capital financing on financial performance of venture capital firms in Kenya.

1.5 Significance of the Study

The study will give insight to the venture capital firm on the various stages of financing. This will enable them to decide on the best stage to invest in, in order to maximize their financial performance.

The findings from the study will also enable the relevant government authorities, example the capital market authority and Nairobi securities exchange to develop policies that would encourage Venture capital activities to enhance growth of the VC industry in Kenya.

The investee firm will utilize the findings from this study to understand the critical factors related to stage financing. Through this they will understand when to invite the venture investors to invest to maximize the worth of the firm and ensure performance of the firm.

The findings will also add to the pool of existing knowledge on staged venture capital financing and financial performance of the VC industry. This will assist in scholarly work and provoke further research in this field of knowledge.

1.6 Scope of the study

The research focused on staged venture capital financing and financial performance of venture capital firms. The study looked the effect of early stage, growth stage and late stage on performance of venture capital firms in Kenya. The target population of the study was the

fifty venture capital firms operating in Kenya as per the Kenya treasury report (2019). The target respondents were the fund managers. The list of VC firms was further enhanced by information from CMA (2019), and EAVCA (2019) reports. Data collected covered a period of five years from 2014-2019.

1.7 Limitation of the Study.

Most of the financial data of the venture capital firms was considered confidential since most of them are privately owned with no obligation to publish their financial data. The researcher overcame this limitation by assuring VCs firm at most confidentiality in handling their financial data within the scope of the study only. Further, letter of authority to collect data from NACOSTI and Kenyatta University enhanced data collection affirming confidentiality in the process.

No single source comprehensively gave the actual number of VCs firm operating in Kenya. Only two are registered by the governing body CMA, while the rest are unregistered. In this regard the research used a target population of 50 venture capital firms operating in Kenya as per the Kenya treasury report (2019). The list was further enhanced by information from CMA (2019), and EAVCA (2019) reports.

Most of the fund manager were busy or out of office. A drop and pick latter technique was used where the researcher left the questionnaire with the fund manager and picked than after two weeks. This gave the respondents ample time to fill the questionnaire.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical perspective of venture capital firms staged capital concept on financial performance. The chapter also presents the empirical literature review, conceptual framework of the study, critique of existing literature, research gaps, and chapter summary.

2.1 Theoretical Review

2.1.1 Agency theory

This is a principal-agency approach developed by Holmstrom in 1979. Agency relationship develops when the merchandiser involves the VC for the purpose of funding the new business. (Sahlam, 1990). Agency problem may develop between the business owner (agent) and investor who is the principal as an outcome of different objectives and different level of risk preferences (Bruton, Fried, & Hisrich, 2000). This theory views both the entrepreneur and the investor as self-centered with each personal interest and rationality. (Eisenhardt, 1989), and hence each party aim at maximizing their own utility at the expense of the other if the goals are not aligned and enacted. A study by Cumming and Macintosh (2003), shows that there exist three types of relationship associated with venture capital financing They include VC firm have incentives to pursue their own interest instead of investors: the entrepreneur has an incentive to prioritize his interest over those of the VC; a VC firm has an incentive to actively work in favor of the entrepreneur, thus serving as his agent.

Entrepreneurs basically start firms with an expectation that the business will grow to long-term success. Due to capital inadequacy these firms obtain angel financing to facilitate development (Mason & Harrison, 2002). The growth of the venture through the initial startup phase demand more resources hence venture capital financing is often sought. The VC by providing the high risk capital to the most viable business they seek for ownership stake in the business. The Investors also seek to be beneficial to these firms by their financing and the advice they give to the industry firms. This gives rise to a principal-agent relationship between the investors as the principal and the merchandiser as the agent. (Neher, 1999).

This intriguing Venture Capital-Entrepreneur relationship can be explained by agency theory especially during staging by the VCs. Agency theory recommends measures to protect the VC investment from dangerous action of the business owners. If the venture capitalist does not reward the entrepreneur well then, they are likely to undertake some actions for their benefits at the expense of the capitalist. This can be if the business owner do not gain an adequate equity share in his own business, he may decide to invest the capitalist given in loss making business rather than profit making business. (Mehta, 2004). Despite agency theory having been developed focusing mainly on the business listed with diffused shareholders' ownership and directors with a few stakes of ownership can explain the venture capitalist-entrepreneurship relationship. VCs may be viewed as outside stakeholders when they buy into ventures. They scrutinize the investment potential and follow up on the merchandiser ways in order to protect their financial investment from misuse and disinvestment.

2.1.2 Transaction cost theory

It was developed by Ronald Coase in 1937, becoming among the first neoclassical theory. It investigates if certain transaction should be made with the business itself or over the trade market itself. Transactions cost include all costs incurred by the contracting parties during staging. It analyses the key points towards achieving efficiency during transactions and also provide a ground to compare the different option available. (Bender, 2010). In respect to venture capitalist view it's costly to finance a venture with equity. Transaction costs involve other cost rather than the cost of equity which may include the cost of screening projects, due diligence, contracts negotiation between VCs and entrepreneurs and cost of closing the deal. They reduce the price that a VC may be is willing pay to close the deal and in some cases stop the VCs from investing. Every financing round in staged financing give higher transaction costs those shares investment which is done by only one major financing installment. (Engelhardt & Gantenbein, 2010).

Transaction costs are incurred by both the merchandiser and the investor. The choice for the entrepreneurial firm is important because the VCs will not just provide financial support but also value addition in terms of support, control and monitor of the firms they invest in. Thus the choice for the best investor in the business is a factor for success (Bender, 2010).The entrepreneur incurs costs in looking for the best investors to invest in his business and in addition offer valuable information and managerial support to administration members. In addition, the entrepreneur bears the opportunity cost when he loses his time for other managerial duties. The transaction costs incurred may reduce the worth of the shares and the value of the firms (Admati & Pfliederer, 2014).

The transaction cost that are bore by the venture capitalist are costs that help in the organization of the business plan, meeting with entrepreneurs and finally the cost for presentations by the company for staging. The overall transaction costs depend mainly on the complexity and the length for the particular investment. The higher the transaction costs the higher the demand from the investors for greater profits from their investment. Increased financing rounds agreed by both parties will increase the number of negation between the both parties and hence the contracts required in sealing the deal translating to higher transaction costs for both the parties (Kaplan & Stromberg, 2004).

2.1.3 Control theory

The control theory was built on the work of Grossman and Hart (1986) on the unfinished contract literature. The theory tries to show how the owner of the business and the external investor distribute their income and the control right between them as a relationship between the venture capitalist and the entrepreneur. In control theory, VC financings enable allocation of various rights to the venture capitalist that include right on voting, board, liquidation, cash flow and control rights. These rights are given to the VC or based on the viewable terms of measures for non- financial and financial performance. This means that these rights are given to secure the VC and also give him power incase firms perform badly, to take full control of such an investment. (Kaplan & Stromberg, 2004). The likely hood of a future sale of the firm is of great importance to the investor. VCs want to liquidate early in the investment where the average holding period for an investor is less than five years (Zacharakis & Meyer, 2011).

According to Kaplan and Stromberg, (2004) in case the ventures financial performance is poor, the investor will obtain more control rights than the entrepreneur to instill measures to cushion their investment. As the financial return on investment improves, the owner of the business retains or obtains more right to take over the business. In case the investment is doing very well financially, the investor still hold on to their cash flow rights, and they let go their control right as well as liquidation rights to the business owners. In addition, as the firm's financial performance improve so does the cash flow rights of the entrepreneur. To ensure that no problem arises between the investors and the entrepreneur of the business, non-competing and confer provision are made. (Bender, 2010). VCs has a major involvement in general oversight in management of the business, but the owners of the business may view it as a source of conflict. As the venture capitalist control rights increases, the business owners are likely to intervene and this is in line with the control theories. Venture capitalist gains effective control rights to firm by the use of staged financing to enhance the financial performance of the firm. Financial performance of the firm determines the stage in which the venture capital will invest hence the need for control theory. As more financing rounds are completed the investor start to lose control. (Kaplan & Stromberg, 2004). This However, if the firm does not perform with the most Satisfactory way, the venture investor regains control.

2.2 Empirical literature review

2.2.1 Early Stage Financing and financial performance of VCs firm.

A study done by Cumming & Joban (2010) on Venture Capital Investment duration examined cross country evidence on the duration of venture capital investment analyzing

Canadian and U.S VCs firms. Analyzed data comprised a sample of 557 Canadian and 1,607 U.S. VC-backed firms over the period 1991–2004. It revealed that VCs cut down their financing to these firms as many of the VCs quit the investment at the early stage. This is because of longer investment duration at this stage compared to other stages leads to an increased cost involved in maintaining the investment in early stage. At this stage despite the amount of effort by the venture capitalist there may be disagreement on the interest that either the owner or investor may gain. The investors believe by investing in early stage their return on their investment will be low hence the performance will be low. This study is in a developed country and deriving conclusion transferable to VC industry in developing economies like Kenya based on its findings is however not guaranteed.

A study by Ray (2010) on Staged Investments in Entrepreneurial Financing sought to give Effectiveness based view on use of staging financing by investors. The study revealed that use of stage financing can result to lower expected returns in the projects due to probability of termination of the investment after early stage investment. The investor will cut his investment downward in the early stage due to the lower marginal returns expected here. If the investor finds that the average return from the investment is low, then he will shade down his investment. In addition, uncertainty from the early stage makes investors to intentionally not invest largely during this phase due to likely hood of poor performance. The study however only focuses on early stage financing leaving growth and late stages that could significantly add weight to its finding by showing a conclusive study covering the three stages of financing and their effect on financial performance of VC firms. A study by & Jeng (2000) on the function of early financing in venture capital Financing found similar results

but suffer the same limitations. In addition, a study by Hege et al. (2003) on Determinants of Venture Capital Performance in Europe and the United States, sought to analyze individual venture-backed companies and the value generated within the stage financing process. According to the study, established investors view early investments as small investment which is not cost saving due to the large amount of funds that go to analyzing their structure and managing them hence they avoid seed capital investment. The study concludes that the main reason why VCs shy off from early stage financing is because of the dissatisfying risk-reward ratios. This study however focuses on risk and cost leaving behind other factors that can influence its finding like financing rounds.

Further a study done by Davila, Foster & Gupta (2003) on Staging Venture Capital: Empirical Evidence on the Differential Roles of Early Versus Late Rounds sought to explain the purpose of the cash restriction over the use of staged financing in VC investment. The sample of the study included successful firms that have gotten one or more staged round of financing from the venture capitalist. The study revealed that firms in the early stage have a high risk level and thus investors are reluctant to finance at this stage. Despite its focus on financing rounds, some parameters on it like size of fund and inter-round period were not covered in this study. The returns expected at the end of this stage may be lower and hence the VC will stage finance with caution. In agreement to this Witbank (2005) suggests that its riskier to invest at early stage in a business due to the less likelihood to get a positive return from the investment. This study like previous studies above did not focus on developed nations and therefore their findings may not necessary reflect a similar effect on developing nations.

Despite all the above studies showing VCs reluctance to investment in early stage, Krohmer et.al (2006) recommends it in their study examining the Bright and Dark Side of Staging: Investment Performance and the Varying Motivations of Private Equity Firms. They analyzed 712 funding made by 122 PE and VC funds belonging to 51 varying investment managers. These funding consisted of 1,549 stage rounds financing with 2,329 cash brought in for twenty-four years between the periods from 1979 to 2003. The study analyzed both positive and negative outcome of stage financing on investment performance. It revealed relevant positive influence of staging on financial performance of VCs in the beginning stages of the venture capitalist financing hence support for early stage financing. In their argument VC usually boost the potential for investment having a positive return by staging that help to reduce agency problem and ensure control rights. A study by Hsu (2002) analyzed staging as an options valuation framework. It assumed that agents act to maximize the probability of advancing stages. It finds out that some investments are profitable in the early stages hence more investments in this stage.

2.2.2 Growth stage financing and financial performance of VCs firm.

A study by Reiner (2013) titled the determinants of Venture Capital Performance: empirical evidence analyzed the venture capital finding success factors, the relationship between the market volatility and venture capitalist investment. Study findings showed that investment in the growth stage by the VC results in positive financial performance. Venture capitalists in this stage invest only in business since it has a proven record of success, because of this the return on loss drops significantly contributing to positive performance in the industry. The study recommended that a venture capitalist must identify the best stage for staging that will

promote and enhance return on their investment. Critical analysis of venture capital investments success factors, the relationship between market volatility and investment by the VCs success was adequately dealt with in this study. Nevertheless, parameters like agency cost, fund size and investment duration were ignored in the study despite having an effect on VC performance.

A study by Annamalai & Deshmukh (2011) examining Venture Capital and private Equity in India: Analysis of Investments and Exit during the period 2004-2008 analyzed a total of 1912 VCPE transactions in 1503 firms. It found out that growth financing happen five to eight years after incorporation though may extend up to 15 years. If financing is done past fifteen years from the date the firm was started, then further studies must be done since the venture capitalists do not want to plough their finances in earlier stages or in firms that are not willing to get VCPE financing in their beginning years. Despite of the study looking at investment duration, the exact effect on the performance of VC firms seem inadequately covered. It only highlights unwillingness by VCs to invest in this stage but lacks a precise and conclusive argument on their reluctance. It only shows the maximum period for growth stage depicting the duration beyond which it warrants scrutiny.

A study by Krohmer et.al (2006) titled the Bright and Dark Side of Staging: Investment Performance and the Varying Motivations of Private Equity Firms analyzed 712 funding's made by 122 PE and VC funds belonging to 51 varying financing managers covering a period of 24 years from 1979 to 2003. It sought to evaluate pros and cons in using stage financing on investment achievement. During this phase all financing information about the

performance of the firm which can either be negative or positive is received by the investor and hence focused attention. The study revealed that during the second phase of the business there is no evidence that stage financing affects the investment performance. The study recommended that to enhance performance the financing management must be more disciplined when using stage financing in order to adopt negative NPV projects. In contrast to their study, this study seeks to measure financial performance using ROE and ROI to examine any consistency or deviation from their results. In addition, this study will analyze all three stages together in order to derive a comprehensive effect of staging on financial performance of VCs.

A study done by Cumming & Joban (2010) on Venture Capital Investment Duration examined cross country evidence on the duration of venture capital investment. It analyzed data from a sample of 557 Canadian and 1,607 U.S VC-backed firms over the period 1991–2004. It revealed that there are a large number of potential venture capital investors across United States willing to participate in investment rounds at this stage. This is because investors believe the short investment duration compared to early stage is likely to bring high return to the investor. The study covered developed countries and investment duration only ignoring other factors influencing the performance of VCs especially in developing nations. In addition, according to Aydm (2015) the investment is still not certain to be profitable despite the fact that it has made progress. However, the venture capitalist can invest more if the possibility of termination of the investment reduces and the marginal revenue returns rises to the best level.

Davila, Foster & Gupta (2003) studied Staging Venture Capital: Empirical Evidence on the Differential Roles of Early Versus Late Rounds sought to explain the role of cash restrictions over the stage financing of VC investment. Analyzing a sample of VC backed firms that were able to gain more than one financial rounds of funds, the 2nd round gives the investor a higher bargaining power to get more returns. A twist from the norm, the cash restriction suggested that the growth stage strengthens the venture capitalist bargaining position leading to improved financial performance. The study ignores the cost of investment which is a key factor in financing and in analyze of financial performance of the firm.

2.2.3 Late stage financing and financial performance of VCs firm

Annamalai & Deshmukh (2011) examined Venture Capital and private Equity in India: An Analysis of Investments and Exit during the period 2004-2008. On analyzing the entire 1912 VCPE deals involving 1503 business. It revealed that most of the VCPE financing were in the later stage round financing and financing took too much later after several years after inclusion of the business invested in. The financing market is mainly distinguished by a short life span period of investments. The study also showed that late stage financing has a great influence in enhancing financial performance since the investor do not need to provide additional financing round at this stage It further revealed that most VCPE funds in India finance firms with a proven track of good financial success. Despite the study focusing on a developing nation it only focused on investment duration leaving factors like agency cost, financing rounds and fund size that might have significant impact on financial performance of VC firms. This study seeks to study these factors.

A study done by Ray (2010) analyzing Staged Investments in Entrepreneurial Financing sought to give explanation based on effectiveness of venture capitalist using staged financing. The main finding for the study shows that it's effective to allocate more finances and resources in the late stage of an investment since it increases the chances for successful ventures. At this stage the possibility of termination of a project decrease and hence the marginal return on the business goes up and hence the investor invests greatly. The study also showed the implication of staging investments as skewing the effective dispensation of financial and human resources geared to the towards the later stages which will lead to better performance of VCs. The study assumes lead investors finance with the majority of share while the secondary investor shares the risk; the two make the Venture capitalist as a single institution. Further the study only studies fund size ignoring other factors that may contribute to financial performance.

A study by Metrick & Yasuda (2011) titled Venture Capital & the Finance Innovation showed that firms may or may not be profitable in the late stage, but with a higher chances of higher returns than in any other developmental stages of a business and have positive cash flows. If profitable the positive cash flow raises the return on the investments made by the VCs. At this stage, a venture capital firm should view a foreseeable exit especially if firms see that the return will be low. Since the firm is near exits majority business in this stage take a short span of period in terms of years to exit and get their return. The study main focus was on the investment period as one of factors that influence the performance of VC but ignored other factors that directly influence performance like risk, financing rounds and agency cost.

A study by Krohmer et.al (2006) titled The Bright and Dark Side of Staging: Investment Performance and the Varying Motivations of Private Equity Firms sought to analyze both

positive and negative effect of stage financing on the investment performance. It revealed that there are negative consequences of using late stage financing. The argument was that investors in this stage face a termination dilemma. An investor may choose to terminate the financing in a company that its performance is struggling and there is increased monitoring by the venture capitalist. The investor not only avoid injecting more capital after poor results, but also let go the opinion of possibility of performance reconsideration and hence the result of financial success.

A study done by Wiltbank (2005), on Investment Practices and Outcomes of Informal Venture, explored a model of ventures iplough in their investment in the united states. The study finds out that VCs may choose not to invest late in the business since the prices of equity shares are deemed not to be in line of the total industry expectation due the risk of uncertainty and the opportunity for growth declines. The Scope of the study was only limited to informal sectors and not the formal sector and only considered the risk factor that influences the certainty in the market. A study done by Chaplinsky & Gupta (2013) on Investment Risk Allocation and the Venture Capital Exit Market.the study tried to examine how the dollar gained and lost in recent exits and failure of venture backed firms affect VCs' risk allocation(proportion of early versus late stage investment) and returns over a period between 1986-2008. The study reveled that if VCs' risk taking decreases, all else equal, future returns would be expected to decrease due to the lower returns from later stage firms than early stage companies on average. The study ignores returns in growth stage financing and comprehensively studies on risk facing the VCs industry and ignores other factors like

number of financing rounds that would influence the return on investment and hence performance.

2.3 Summary of literature review

Author	Title	Major findings	Criticism
Chaplinsky & Gupta(2013)	Investment Risk Allocation and the Venture Capital Exit Market	Low performance with low returns of firms investing in late stage than early stage financing	Ignores return in growth stage financing. Comprehensively studies risk but ignore other factors like number of financing rounds.
Wiltbank (2005)	Investment Practices and Outcomes of Informal Venture Investors.	VCs avoid investing in late stage.	Scope limited to informal sectors ignoring the formal sector. Based on certainty in the market with less risk.
Metrick & Yasuda (2011)	Venture Capital and the Finance of Innovation	Late stage financing more profitable than in previous stages.	Focus was on the investment period as one that influences the performance of VC while it ignores the other factors.
Krohmer, Lauterbach, & Calanog, (2006)	Bright and Dark Side of Staging: Investment Performance and the Varying Motivations of Private Equity	Negative outcome for use of staged financing in the late stage financing rounds due to the low performance on return of	The study does not evaluate the three stages together and their influence on financial performance

	Firms	investments by VCs.	
Ray (2010)	Staged Investments in Entrepreneurial Financing	A later stage financing increases probability of high return hence a better performance by the VC firm	The study assumes Venture capitalist act one entity while there are two ways. One the leader VC will do most of the financing of the business while the other venture capitalist will diversify the risk through risk sharing
Annamalai & Deshmukh (2011)	Venture capital and private equity in India: an analysis of investments and exits	Late stage financing enhances return of the investor	The study is only on late stage financing.
Davila, Foster & Gupta (2003)	Staging Venture Capital. Empirical Evidence On The Differential Roles Of Early Versus Late Rounds	The venture capitalist gains a better bargaining power to get additional return from using growth stage financing or Second round financing	This analysis ignores cost of investment which is a key factor in financing.
Ray (2010)	Staged Investments in Entrepreneurial Financing	Second stage is more valuable than other stages due to high expected return on investment hence better performance.	The study assumes that the venture capitalist is one unit. One of the venture capitalists provides the major financing while the other does risk sharing.

Reiner, 2013	Determinants of Venture Capital Performance: an empirical evidence	Investment in the growth stage by the VC results in positive performance.	Ignored agency cost, fund size and investment duration as factors influencing VC financial performance.
Breheny & Butler (2015)	A Guide to Venture Capital.	High risk in earlier stage reduces returns which will negatively influence the performance of a VC firm.	The focus is only on early stage ignoring the financial returns in other stages.
Ray (2010)	Staged Investments in Entrepreneurial Financing	Early stage financing make the return from the investment low.	The study assumes that the venture capitalist is one single entity. Majority of the financing is provided but the lead investor , while risk sharing is done by the secondary investor.
Hsu (2002)	Staging of Venture Capital Investment:A Real Option Analysis.	Staging is profitable to early stage VCs.	The study works in the assumption that agents acts to maximize probability of venture capitalist advancing to

			other stages which are more profitable which may not be the real case scenario.
Davila, Foster & Gupta(2003)	Staging Venture Capital. Empirical Evidence On The Differential Roles Of Early Versus Late Rounds	Lower expected return at early stage make VC stage finance with caution.	This analysis ignores the cost of investment which is a key factor in financing.
Witbank (2005)	Investment Practices and Outcomes of Informal Venture Investors.	Earlier stage gives low return hence a negative influence on the performance.	Scope limited to informal sectors ignoring the formal sector. Based on certainty in the market with less risk.

2.4 Research Gap.

The analyzed existing empirical literature on staging venture capital financing is on developed nation with limited focus on developing nations. Different scholars have different opinions on effect of staging on financial performance of venture capital firms. Venture capitalist goal is to enhance the financial performance of the firm also as to gain return on their investment. Hence, use of staging is important in order to achieve back their investment. Most of the venture capitalist is faced with the problem of the most effective stage to inject capital as seen on the empirical literature. Most of literature reviewed is on staged venture capital financing and risk involved. The literature also covered only either early stage, late stage or growth stage and its effect on financial performance, none has critically evaluated in

whole the effect of the three financing stages on financial performance of venture capital firms in developing nation and especially in Africa in a single study to reveal the best stage for investment by a venture capitalist in order to enhance financial performance of VCs. In light this, therefore sought to determine the effect of staged capital on financial performance of venture capital firms in Kenya and fill this literature gap.

2.5 Conceptual framework

Independent variable

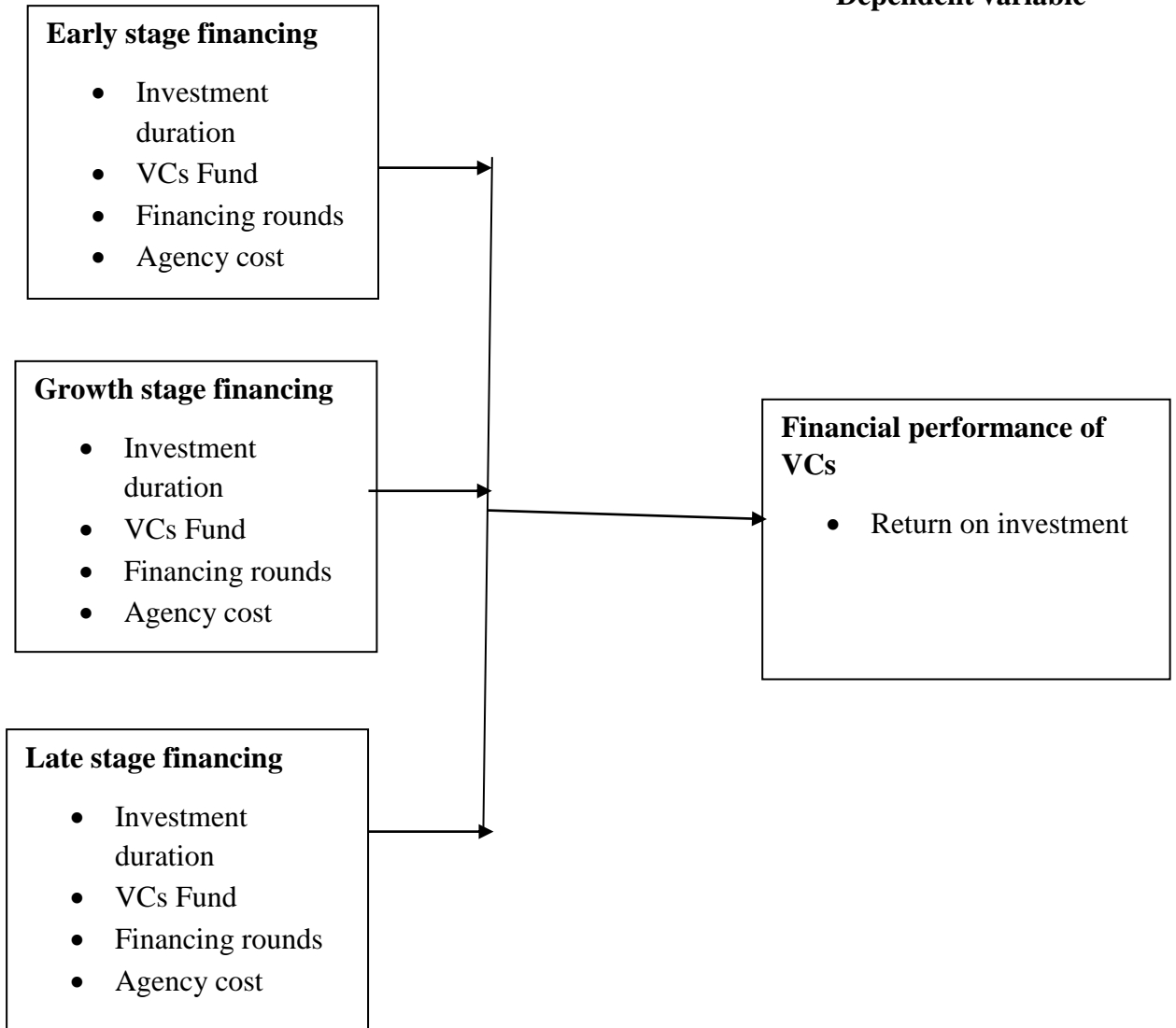


Figure 2.1: Conceptual Framework

Source: Researcher, 2020

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails research design, target population, sampling size and techniques, methods for data collection, validity and reliability of the instruments of the data collection methods and ethical considerations during the study.

3.2 Research design

The study employed a descriptive research design. In this regard the current state of staged financing of venture capital firms and financial success of venture capital firms in Kenya was sought; therefore the research design was appropriate in this study. This design was important to researcher to gain better understanding of the research topic since one acquire a lot of information through description and analysis past financial performance of the VCs firm (Mendenhall & Beaver, 2012). The design was also important to recognize variables; imaginary construct which was further analyzed using other modes. Thus the research design was appropriate for the study.

3.3 Target population

The target population of the study was the fifty venture capital firms operating in Kenya as per the Kenya treasury report (2019). The target respondents were the fund managers. The list of VC firms was further enhanced by information from CMA (2019), and EAVCA (2019) reports. The fund managers were selected since they had adequate knowledge on the subject matter under study.

3.4 Sample and Sampling procedures

The study used a census of all the fifty venture capital firms operating in Kenya. The respondents of the study were fund managers of VC firm operating in Kenya. The use of census was appropriate in the study because a population of 50 respondents used in the study was small and manageable. A census was also appropriate for this study because census data is more accurate, reliable and free from bias sample data sampling error. It also reflects a true sentiment of the population.

3.5 Data Collection instruments.

Self-administered questionnaires were used to gather first-hand data. A Questionnaire can be stated as a pre-organized written group of questions where the respondents will give their answers (Sekaran & Bougie, 2016). The questionnaires had closed ended question on a Likert scale. The Likert technique rating scale in which the total summation rating of responses received from every respondent are added and averaged to get the total outcome on the rated scale. (Sponarski, Beaman, & Vaske, 2005). The closed ended questions aided the researcher to collect data that was quantified during analysis. Secondary data on financials was collected using a data collection sheet. The questionnaires were dropped by the researcher at the fund manager's office and collected after a period of two weeks. This allowed time for the fund managers to fill the questionnaires at their convenient time. This enhanced accuracy and reliability of collected data

3.5.1 Reliability

Test retest method was applied in the study and done at an interval of 2 weeks. It was carried out on 5 respondents who formed 10% of the target population to test its consistency. This aided in adjusting for any inconsistencies in the instrument before the actual data is collected. Further,

reliability of the instruments was evaluated by use of Cronbach's alpha (α) that is mainly applied in evaluating the internal consistency or reliability of total rated scale results. (Nguyen, 2010). The statistics ranges from 0.00 to 1.00, but a negative α value can occur when the items are not positively correlated among themselves. A high coefficient of about 0.7 will indicate a high consistence and therefore will be preferred (Cronbach & Shavelson, 2004).

Table 3.0.1: Reliability and Validity

Variables	Mean	Standard deviation	Cronbach alpha Coefficient
Early stage financing	6.8	6.2	0.776
Growth stage financing	5.5	2.8	0.782
Late stage financing	5.7	3.4	0.764

Source: Research data (2019)

Figures in table 3.1 show a Cronbach's alpha (α) of 0.776 for early stage financing, 0.782 for growth stage financing and 0.764 for late stage financing. The results show a high consistence and therefore preferred as the reliability of the instrument is high.

3.5.2 Validity

Content and construct validity of the research instrument were measured and improved using expert judgment and inputs. On construct validity it ensured indicators and measurement used were carefully developed based on relevant existing knowledge. On content validity it ensured that the items on the questionnaire were adequate to respond to the research objectives. Lecturers from the department of Finance and Accounting opinion and guidance were sought. They were selected based on their knowledge in research work and familiarity with the research topic (Lyman & Lognecker, 2010). This aided achieving the necessary alteration and modification of the research methods therefore enhancing the validity of the instrument. Further, the time between the test run and actual study was short enough to avoid historical effects. To ensure representative of the sample with regard to the target population and the degree to which the

findings can be generated to represent the population, given the number of licensed fund management firms, all the firms documented by CMA (2019), treasury report (2019), and EAVCA (2019), as be operating in Kenya was considered to be a fair representative of the population.

3.6 Data analysis and presentation

Incompleteness and inconsistencies of collected raw data was checked. It was further, classified and coded for analysis using Statistical Package for Social Science computer package. The study employed both descriptive statistics and inferential statistics to establish the relationship between the variables. In this study mean and percentages were the descriptive statistics while inferential statistics involved regression analysis.

Multiple regression was applied to test the effect of staged financing on the financial performance of the VCs firms in Kenya. Multiple regression analysis allows the researcher to assess the strength of the relationship between the financial performance (Return on Investment) of venture capital firms and the predictor variable (early stage financing, growth stage financing and late stage financing) in the study. It also shows the value of each predictor to the relationship. Mean response on the Likert scale was consolidated for further analysis on the SPSS to generate coefficients of regression for formulation of multiple regression equation. The model tried to forecast the average value of the independent variable (venture firms' financial performance) in term of the independent variables (early stage financing, growth stage financing and late stage financing).

3.6.1 Model Specification

Multiple regression function is given as

$$Y_0 = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3$$

Where

Y_0 = Return on Investment

The dependent variable (Y_0) was calculated as

$$ROI = \frac{\text{Gains from investment} - \text{Cost of investment}}{(\text{Cost of investment})}$$

$\beta_0, \beta_1, \beta_2$ and β_3 are coefficients of regression

x_1 = Early stage financing

x_2 = Growth stage financing

x_3 = Late stage financing

Analyzed data in this study was presented in the form multiple regression equation and tables of regression coefficients.

3.6.2: Operation and measurement of variables

Variable	Type	Operationalization	Measurement	Hypothesized direction
Return on Investment	Dependent	It will indicate performance at each stage of financing by giving the ratio of the return/profits on investment.	The ratio $\frac{\text{Gains from investment} - \text{Cost of investment}}{(\text{Cost of investment})}$ will be used to indicate the financial performance of the VCs firms in Kenya	Positive

Early stage financing	Independent	The influence of financing at the early phases of a business venture and how this financing will influence financial performance of a VC firm	The extent to which the early stage financing influence financial performance in a Scale 1-5	Negative
Growth stage financing	Independent	The influence of investing in the expansion stage of a firm and how this financing influence the financial performance of VCs firms	Ordinal measurement will be used of Scale of 1-5 to show the extent to which growth stage influence financial performance of VCs firms	Negative
Late stage financing	Independent	Financing in the late stage of a business and how it shall influence the financial performance of the VC firm	Ordinal measurement with a Likert scale of Scale 1-5 will be used to measure the extent to which late stage financing influence financial performance of VCs firm in the study	Negative

3.6.3 Diagnostics tests

Tolerance value and variance inflation factor were used to test for multi co linearity in the model. Multi co linearity refers to the existence of correlations among independent variables

(Wilson, Sa, & Freud, 2006). The variables were not being affected by multiple co linearity since the tolerance values were greater than 0.01 and variance inflation factor less than 10.

3.7 Ethical consideration

Research ethics is the application of moral rules and professional codes of conduct to the collection, analysis, reporting and publication of information about research subjects, in particular active acceptance of subjects' right especially human subjects right to privacy, confidentiality, and informed consent. The researcher maintained confidentiality of the data and information obtained from the respondents and was used only for academic purpose which ensured access of confidential data from the venture capital firms The principle of informed consent employed on the respondents during the study. This means that the respondents were fully informed about the procedures and risks involved in conducting research and gave their consent to participate which formed a basis of data credibility and legality. Professionalism, respect, full disclosure of the nature of the study, risks and the benefit of the study was also being upheld. The principle of voluntary participation was applied in the study which allowed the respondents not to be coerced into participating in the research but participate out of free will ensured data credibility.

CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

This chapter presents the study findings and discusses the inferential and empirical findings in relation to the study overall objective which was effect of staged financing and venture capital firm's financial performance in Kenya. The analysis is also done as per the study objectives which were; to determine effect of early stage venture capital financing on financial performance of venture capital firms in Kenya, to establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya and to evaluate the effect of the late stage venture capital financing on financial performance of venture capital firms in Kenya. Analysis and interpretation of the questionnaire followed the approaches and techniques as outlined in Chapter three

4.2 Response Rate

The respondent issued all the 50 questionnaires to all the fund managers of the venture capital firm under study. The response rate was shown in Figure 4.1

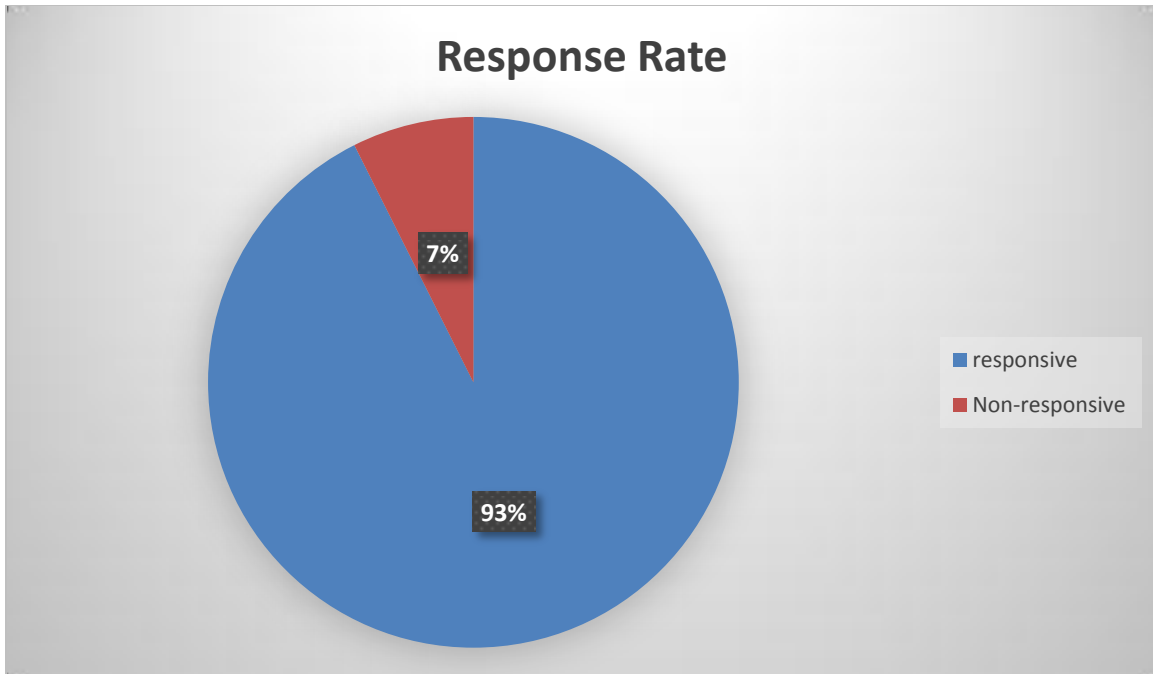


Figure 4.1: Response rate

Source: Researcher (2020)

From figure 4.1 it's clear that 10 of the fund manager did not return their questionnaire on time and thus not considered during analysis. The non-response represented was 7% of the total respondents. Those that responded were 93% of the target population. As recommended by Mugenda and Mugenda (2003) a response rate above 50% is adequate response rate for any survey hence the response rate was rated in this study was enough for analysis and making proper generalization and conclusions.

4.3. Descriptive statistics

4.3.1 Effect of early stage financing on Financial Performance of Venture Capital Firms in Kenya.

The study sought to establish the respondents view on effect of early stage financing on Venture Capital Firms Financial Performance of in Kenya. On the Likert scale 1 Strongly disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 Strongly Agree.

Table 4.1: Respondents view on early stage financing

Statement	Mean	5	4	3	2	1
Long early stage investment duration positively affect financial performance of VC firms.	3.600	40%	25%	5%	15%	15%
Large capital investment in early stage negatively affects financial performance of VC firms.	3.610	42%	23%	3%	18%	14%
Use of debt finance in early stage financing by VCs negatively affect financial performance of VC firms.	2.870	10%	20%	30%	27%	13%
Few financing round in early stage financing positively affect financial performance of VC firms.	3.600	35%	30%	10%	10%	15%
Early investment in early stage financing negatively affect financial performance of VC firms.	3.630	33%	38%	5%	7%	17%
High investment monitoring cost in early stage financing negatively affect financial performance of VC firms.	3.110	25%	29%	2%	20%	24%

Source: Researcher (2020)

The figures in Table 4.1 show respondents view on the effect of early stage financing on financial performance of venture capital firms in Kenya. The figures show that a majority at 65% of the respondent agree that long early stage investment duration positively affect financial performance of VC firms in Kenya with an average mean response of 3.600. On use of large capital investment in early stage financing, majority of the respondent at 65% agree with the research statement. This is further supported by an average mean response of 3.610 show that majority of the respondent agree with the research statement. On the research

statement that use of debt finance in early stage financing by VCs negatively affect financial performance of VC firms in Kenya a mean response of 2.870 shows that majority of the respondent are neutral/ undecided on the effect of early stage use of debt financing on the financial performance of VC firms. Response on whether few financing round in early stage financing positively affect financial performance of VC firms shows that 65% of the respondents agree with the statement. This is also supported by a mean of 3.600 .71% of the respondent agree that early investment in early stage financing negatively affect financial performance of VC firms in Kenya as also supported by a mean of 3.630. Additionally, 54% of the respondents agree that high investment monitoring cost in early stage financing negatively affect financial performance of VC firms with a mean of 3.110.

The finding in 4.1 are consistent with Megginson, and Weiss (1991) who support that long duration of early stage financing positively influence VC financial performance. On the positive influence of few early stage financing round on financial performance of early stage VC the findings concur with Witt and Brachtendor (2011) and Hege, Palomino and Schwienbacher (2003) but inconsistent with Wright and Robbie (2015) and Harrison (2013). This may be attributed to the higher transaction cost when affecting more rounds.

4.3.2 Effect of Growth stage financing on Financial Performance of Venture Capital Firms in Kenya.

The study sought to establish the respondents view on the effect of growth stage financing on Venture Capital Firms Financial Performance in Kenya. On the Likert scale 1 Strongly disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 Strongly Agree.

Table 4.2: Respondents view on growth stage financing

Statement	Mean	5	4	3	2	1
Long growth stage investment duration positively affect financial performance of VC firms.	3.630	44%	20%	7%	13%	16%
Large capital investment in growth stage negatively affects financial performance of VC firms.	2.310	24%	6%	1%	15%	54%
Use of debt finance in growth stage financing by VCs negatively affect financial performance of VC firms.	3.060	15%	18%	36%	20%	11%
Few financing round in growth stage financing positively affect financial performance of VC firms.	3.580	37%	27%	8%	13%	15%
Early investment in growth stage financing negatively affect financial performance of VC firms.	2.320	17%	5%	7%	35%	36%
High investment monitoring cost in growth stage financing negatively affect financial performance of VC firms.	2.930	23%	25%	2%	22%	28%

Source: Researcher (2020)

The figures in Table 4.2 show respondents view on the effect of growth stage financing on financial performance of venture capital firms in Kenya. The figures show that a majority at 64% of the respondent agree that long growth stage investment duration positively affect financial performance of VC firms in Kenya with an average mean response of 3.630. On use of large capital investment in growth stage financing, majority of the respondent at 69% disagree with the research statement. This is further supported by an average mean response

of 2.310 show that majority of the respondent disagree with the research statement. On the research statement that use of debt finance in growth stage financing by VCs negatively affect financial performance of VC firms in Kenya a mean response of 3.060 shows that majority of the respondent are neutral/ undecided on the effect of growth stage use of debt financing on the financial performance of VC firms. Response on whether few financing round in growth stage financing positively affect financial performance of VC firms shows that 64% of the respondents agree with the statement. This is also supported by a mean of 3.580 .71% of the respondent disagree that growth investment in growth stage financing negatively affect financial performance of VC firms in Kenya as also supported by a mean of 2.320. Additionally, on high investment monitoring cost in growth stage financing negative effect on financial performance of VC firms show a mean of 2.930 which suggests indifference in opinion on its effect as those who agree are 48% and those that disagree are 50%.

The finding in table 4.1 are consistent with Megginison, (2015) whose finding agree that long growth stage investment duration positively affect financial performance of VC firms. Also the findings are in line with Karsai (2003), who agree that large capital investment in growth stage positively affect financial performance of VC firms. They are also consistent with Hege, Palomino and Schwienbacher (2003) whose study shows that less financing rounds in growth stage financing positively affect financial performance of VC firms. The findings are in consistent with Davila, Foster & Gupta (2003) whose findings suggest that financial performance of VC firms in growth stage financing increase with number of financing rounds. The findings on large capital investment in growth stage negatively affecting

financial performance of VC firms in this study are inconsistent with Aydm (2015) who finds out that venture capitalist can invest more if the possibility of termination of the investment reduces and the marginal revenue returns rises to the best level.

4.3.3 Effect of Late stage financing on Financial Performance of Venture Capital Firms in Kenya.

The study sought to establish the respondents view on the effect of late stage financing on Financial Performance of Venture Capital Firms in Kenya. On the Likert scale 1 strongly disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 strongly agree.

Table 4.3: Respondents view on late stage financing

Statement	Mean	5	4	3	2	1
Long late stage investment duration positively affect financial performance of VC firms.	2.340	16%	10%	10%	20%	44%
Large capital investment in late stage negatively affects financial performance of VC firms.	3.890	54%	15%	1%	16%	24%
Use of debt finance in late stage financing by VCs negatively affect financial performance of VC firms.	2.740	20%	14%	40%	20%	6%
Few financing round in late stage financing positively affect financial performance of VC firms.	3.500	37%	25%	8%	11%	19%
Early investment in late stage financing negatively affect financial performance of VC firms.	3.720	37%	35%	7%	5%	16%
High investment monitoring cost in late stage financing negatively affect financial performance of VC firms.	3.290	23%	15%	35%	19%	11%

Source: Researcher (2020)

The figures in Table 4.3 show respondents view on the effect of late stage financing on financial performance of venture capital firms in Kenya. The figures show that a majority at

64% of the respondent disagree that long late stage investment duration positively affect financial performance of VC firms in Kenya with an average mean response of 2.340. On use of large capital investment in late stage financing, majority of the respondent at 69% agree with the research statement. This is further supported by an average mean response of 3.890 show that majority of the respondent agree with the research statement. On the research statement that use of debt finance in late stage financing by VCs negatively affect financial performance of VC firms in Kenya a mean response of 2.740 show that majority of the respondent are neutral/ undecided on the effect of late stage use of debt financing on the financial performance of VC firms. Response on whether few financing round in late stage financing positively affect financial performance of VC firms shows that 62% of the respondents agree with the statement. This is also supported by a mean of 3.500 .72% of the respondent agree that early investment in late stage financing negatively affect financial performance of VC firms in Kenya as also supported by a mean of 3.720. Additionally, on high investment monitoring cost in late stage financing negative effect on financial performance of VC firms show a mean of 3.290 which suggests indifference in opinion on its effect.

Table 4.3 findings are in consistent with Megginison, (2015). The study revealed that long late stage investment duration positively affect financial performance of VC firms while Thillai and Deshmukh(2016) disagree that long late stage investment duration has appositive effect. The findings are consistent with Thillai and Deshmukh, (2011) which show that large capital investment in late stage negatively affect financial while Earnst &Young (2014), disagreed with the research statement. Studies that are consistent on Less financing rounds in late stage financing positively affect financial performance of VC firms were Gomper,(2008)

and Hege, Palomino and Schwienbacher (2003). Annamalai & Deshmukh (2011) findings was consistent with the study findings as it also showed that late stage financing has a great influence in enhancing financial performance since the investor do not need to provide additional financing round at this stage. It further revealed that most VCPE funds in India finance firms with a proven track of good financial success. However, the findings are inconsistent with Stuart , Whittam and Wyper (2007), who finds that few financing rounds in late stage negatively influence venture capital firms' financial performance of. A study by Ray (2010) is inconsistent with the study findings on the effect of use of large capital at late stage as they find that it's effective to allocate more finances and resources in the late stage of an investment since it increases the chances for successful ventures. At this stage the possibility of termination of a project decrease and hence the marginal return on the business goes up and hence the investor invests greatly.

4.4 Inferential statistics

4.4.1 Multiple regression analysis

Multiple linear regression analysis was applied to determine the combined effect of early stage, growth stage and late stage financing on venture capital firms financial performance in Kenya. Multiple regression analysis determined the effect that each independent variable had on venture capital firms' financial performance of on a joint model. The model summary for the combined effect was shown in table 4.4

Table 4.4: Model Summary for the Combined Effect

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.752	0.565	0.555	2.91235

Source: Researcher (2020)

The results in table 4.4 of the analysis indicated that adjusted R square was 0.555. This implies that 55.5% of variation in financial performance can be explained by the variation in the independent variables jointly (early stage, growth stage and late stage financing). The remaining 44.5% can be explained by factors that are not in the model. This shows that the model is fit for analysis. The R- square shows that every independent variable in the model explains 56.5% variation in the independent variable hence a moderate correlation between the variables. From the results it can be deduced that the joint effect of the independent variables is more than the individual variable effect.

Further, the analysis of variance (ANOVA) was carried out and results shown in table 4.5.

Table 4.5: ANOVA for Multiple Regression Analysis

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	12625.125	3	12625.125	19.65476	0.000
Residual	9722.167	36	128.516		
Total	8344.526	39			

Dependent Variable: Return on Investment

Predictors:(Constant),Early stage financing, Growth stage financing and Late stage Financing

Source: Researcher (2020)

The figures shown in table 4.5 shows that the model F-value was 19.65476 with a p-value of 0.000 which was less than 0.0. This implies that the overall model is significant in predicting the variations in venture capital firms' financial performance in Kenya. Consequently, the multiple regression analysis on combined effect of independent variables on financial performance of venture capital firms in Kenya was carried out and the regression model coefficients results was shown in Table 4.6

Table 4.6: Multiple regression analysis on combined effect of independent variables

Variables	Unstandardized Beta	Standardized Beta	Standard Error	T	Sig
Constant	0.185		0.051	3.627	0.001
x_1	0.454	0.245	0.229	1.984	0.041
x_2	0.603	0.307	0.302	1.997	0.010
x_3	0.828	0.561	0.411	2.014	0.022

Source: Researcher (2020)

Figures in Table 4.6 show the regression function;

$$Y_0 = 0.185 + 0.454x_1 + 0.603x_2 + 0.828x_3$$

Where

Y_0 = Financial performance of VC as measured by Return on Investment

x_1 = Early stage financing

x_2 = Growth stage financing

x_3 = Late stage financing

The T and P values indicate the effect of predictor variables on the dependent variable. They all have their p-values (sig levels) of less than 0.05 hence statistically significant to the model. The calculated T values of the independent variables are greater than the critical value (1.960) thus we reject the null hypothesis and conclude that the predictor variables significantly affect financial performance of venture capital firms in Kenya.

From the multiple regression function, the coefficients show that holding other factors constant;

A unit increase in early stage financing leads to a 0.454 increase in financial performance.

A unit increase in growth stage financing leads to a 0.603 increase in financial performance.

A unit increase in late stage financing leads to a 0.828 increase in financial performance.

From these coefficients it is shown that late stage financing has the most positive effect on financial performance of VC firms in Kenya, followed by growth stage financing and early stage financing in that order. Overall it's shown that from the model staging has a positive impact on the financial performance of venture capital firms in Kenya. The study findings are consistent with Booth, Dalgic and Young, (2004) study that agree that staging of the equity capital improves the venture capitalist's bargaining position, and hence increasing funds' performance. Staging creates value by generating a real option for the VC investor to abandon financing the project at each financing round, depending on what the VC investor

learns between rounds about the venture or the entrepreneur Fluck, Garrison, & Myers, (2007) whose findings this study concurs with.

The findings are inconsistent with Kaplan & Stromberg, (2003) who finds that VC investors must commit significant time and resources to negotiating and writing new contracts before each new round of capital infusions hence reducing venture capital firms' financial performance. Finding from study do not agree with Baker, (2000) who also finds that staging can induce the entrepreneur to aim for short-term success rather than long-term value creation and consequently adversely affecting performance of VCs. Wang and Zhou (2004) show that staging can be inferior to upfront financing, since VC investors may underinvest in a project in the early stages when a viable project does not look promising ex ante whose finding this study disagree with.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the main findings, conclusion and recommendations emanating from the results of this study. Research findings were aligned to the objectives of the study which were: to determine effect of early stage venture capital financing on financial performance of venture capital firms in Kenya, to establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya, to establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya.

5.2 Summary

The study had a response rate of 93% of the target population. As recommended by Mugenda and Mugenda (2003) a response rate above effect of early stage venture capital financing on financial performance of venture capital firms in Kenya 50% is adequate response rate for any survey hence the response rate was rated in this study was enough for analysis and making proper generalization and conclusions

5.2.1 To determine effect of early stage venture capital financing on financial performance of venture capital firms in Kenya.

The study sought to determine the effect of early stage venture capital financing on financial performance of venture capital firms in Kenya. Based on the study findings long early stage investment duration had a major effect on early on affects financial performance. An indifferent effect on the effect of use of debt in early stage VC financing on financial

performance VC firms in Kenya was noted in this study. Additionally, high investment monitoring cost in early stage financing was found to negatively affect financial performance of VC firms in Kenya

Further, the inferential statistics of the study findings shows the regression equation $Y_0 = 0.185 + 0.253x_1 + 0.458x_2 + 0.619x_3$, where Y_0 is Return on Investment (measure of financial performance) and x_1 is early stage financing. It can be deduced that an increase in one unit of early stage financing leads to a 0.253 increase in venture capital firms' financial performance in Kenya. Therefore, early stage financing has a positive effect on venture capital firms' financial performance in Kenya. Hence, there is a significant positive relationship between early stage venture capital financing and financial performance of venture capital firms in Kenya. These results are inconsistent with a study done by Ray (2010) whose results revealed that use of early stage financing can result to lower expected returns in the projects due to probability of termination of the investment after early stage investment and that investor will cut his investment downward in the early stage due to the lower marginal returns expected in this stage. In addition, the findings are also inconsistent with a study by Hege et al. (2003) who established that investors view early investments as small investment which are not cost saving due to the large amount of funds that go to analyzing their structure and managing them hence they avoid seed capital investment. Nevertheless, the findings of the study are consistent with Krohmer et al (2006) who revealed a positive influence of early stage staging on financial performance of VCs in the beginning stages of the venture capitalist financing. The findings are also supported by a study by Hsu (2002) who finds out that some investments are profitable in the early stages hence more investments in this stage.

5.2.2 To establish the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya.

The study sought to determine the effect of growth stage venture capital financing on financial performance of venture capital firms in Kenya. Based on the study findings majority agree that long growth stage investment duration positively affect financial performance. Majority of the respondent agree that large capital investment in growth stage financing reduce financial performance. In different results on effect of use debt on financial performance was observed. Few financing round in growth stage financing was found to greatly positively affect financial performance. Early investment in growth stage financing was found to negatively affect financial performance. Majority of respondent had indifferent opinion on the effect of investment monitoring cost in growth stage on financial performance of VC firms in Kenya.

The inferential statistics based on the study findings shows the regression equation $Y_0 = 0.185 + 0.253x_1 + 0.458x_2 + 0.619x_3$; where Y_0 is Return on Investment (measure of financial performance) and x_2 is growth stage financing. It can be deduced that an increase in one unit of growth stage financing leads to a 0.458 increase in financial performance of venture capital firms in Kenya. Therefore, growth stage financing has a positive effect on financial performance of venture capital firms in Kenya. Hence, there is a significant positive relationship between growth stage venture capital financing and financial performance of venture capital firms in Kenya. The finding is consistent with Annamalai & Deshmukh, (2011), who find that growth stage financing increases the financial performance of VC firms. The research findings also concur with Reiner (2013) who revealed that investment in

the growth stage by the VC results in positive financial performance since the VC invest only in business since it has a proven record of success, because of this the return on loss drops significantly contributing to positive performance in the industry. Also there exists indifference in findings with a study done by Krohmer et.al (2006) which reveals that the performance of the firm can either be negative or positive and hence is no evidence that growth stage financing affects the investment performance.

5.2.3 To evaluate effect of the late stage venture capital financing on financial performance of venture capital firms in Kenya

The study sought to determine the effect of late stage venture capital financing on financial performance of venture capital firms in Kenya. They study found out that long late stage investment duration negatively affects financial performance of VC firms in Kenya. On the effect of use of debt finance in late stage financing it was found to indifferently affect the financial performance of VC firms. Few financing round in late stage financing were found to positively affect financial performance of VC firms. Investment in late stage financing was found to negatively affect financial performance of VC firms in Kenya. Additionally, there is indifference on the effect of investment monitoring cost in late stage financing on financial performance of VC firms in Kenya.

The inferential statistics in the study findings show the regression equation $Y_0 = 0.185 + 0.253x_1 + 0.458x_2 + 0.619x_3$, where Y_0 is Return on Investment (measure of financial performance) and x_3 is late stage financing. It can be deduced that an increase in one unit of late stage financing leads to a 0.619 increase in financial performance of venture capital firms in Kenya. Therefore, late stage financing has a positive effect on financial performance of venture capital firms in Kenya. Hence, there is a significant positive relationship between

late stage venture capital financing and financial performance of venture capital firms in Kenya. The findings are consistent with OECD, (2013) whose findings encourage late stage financing due to its high return. There are also in line with Annamalai & Deshmukh (2011) who show similar findings. A study by Ray (2010) support the study as it also finds that marginal return on the business goes up at this stage and hence the investor invests greatly. The study findings are indifferent from Metrick & Yasuda (2011) findings that showed that firms may or may not be profitable in the late stage, but also concur to some extent as it also suggests higher chances of higher returns than in any other developmental stages of a business and have positive cash flows. Nevertheless, the findings are inconsistent with a study by Krohmer et.al (2006 that revealed that there are negative consequences of using late stage financing arguing that investors in this stage face a termination dilemma. Additionally, Wiltbank (2005), who finds out that VCs, may choose not to invest late in the business since the prices of equity shares are deemed not to be in line of the total industry expectation due the risk of uncertainty and the opportunity for growth declines.

5.3 Conclusion

Based on the study finding, the following conclusion can be derived;

The study finds that early stage financing has a positive effect on financial performance of venture capital firms in Kenya. The study concludes that large capital investment and few financing round in early stage financing have a positive affect financial performance. The study also concludes that long investment duration, early investment and high investment monitoring cost in early stage have a negative effect on financial performance while there was indifference in opinion on the effect of use of debt financing in early stage on VC firms' financial performance in Kenya.

The study finds that growth stage financing has a significant positive effect on venture capital firms' financial performance in Kenya. Findings show that investment duration, large capital investment, few financing round and early investment positively affect financial performance. The study also found out that there is indifference on the effect of debt finance and effect of investment monitoring cost in growth stage on financial performance of VC firms in Kenya. The study finds that late stage financing has a significant positive effect on venture capital firm's financial performance in Kenya. The study concluded that few financing round have positive effect on financial performance of VC firms in Kenya. The study also concluded that long late stage investment duration and early investment in late stage have a negative effect on financial performance of VC firms in Kenya. Use of debt finance in late stage financing and monitoring cost effect on financial performance of VC firms in Kenya has indifferent opinion on their effect.

Overall the combined effect of early stage, growth and late stage financing on financial performance of VC firms multi regression equation show $Y_0 = 0.185 + 0.253x_1 + 0.458x_2 + 0.619x_3$. Overall its shown that from the model staging has a significant positive effect on the venture capital firms financial performance in Kenya as all coefficients are positive.

5.4 Recommendations

On early stage financing and based on the descriptive statistics the study recommend that firm should invest later in the stage, invest less capital, shorten their investment duration closely monitor their debt levels and cost of monitoring and use few rounds of financing to increase their returns from the investment.

The study recommends that in growth stage financing the VC firms invest large amount early in the stage in few rounds of financing and should closely monitor their use of debt and cost of monitoring in order to enhance their return on investment. At this stage firms have no pressure in their investment duration and hence should critically analysis it and get the best of it.

The study also recommends that in late stage financing the VC firms should invest less amount early in the stage in few rounds of financing, shorten their investment duration and should closely monitor their use of debt and cost of monitoring in order to enhance their return on investment.

Overall, VC firms should stage their financing and limit use of upfront financing as the former enhances investment returns and subsequently their financial performance. From the multi regression analysis, the study recommends that firms using staging of capital invest more on late stage, followed by growth stage and finally early stage as the ROI reduce in that order.

Policy makers: The research will help the policy makers and regulatory bodies like CMA in the Kenya's financial markets, private equity and venture capital industry to develop policies and guidelines that would protect and foster staged capital financing to enhance growth of this industry

Practice: The study will bring into the light the reasons why some venture capital firms opt for staged capital financing and not upfront financing. It will also give an insight on why venture capital that opt for staged financing opt for one stage and not the other as a leveraging strategy to maximize return on investment.

Academicians and researchers: This research builds into the already existing research work on venture capital financing and provides a basis on which further research can be conducted in this area.

5.5 Contribution to the study

The study findings have filled the existing gap of knowledge on staged capital and financial performance in Kenya. In developing economies like Kenya, the study has created new knowledge that staging positively affects financial performance of venture capital firms. In this regard, venture capital firms should limit use of upfront financing. In respect to the knowledge gap that existed on the best stage for investment by VC firms in developing economies like Kenya, findings from the study have shown that firms should invest more on late stage, followed by growth stage and finally early stage as the ROI reduces in that order.

5.6 Suggestion for further studies.

The study recommends the following studies to be done;

Effect of staged capital financing on exit strategies adopted by venture capital firms in Kenya to understand the contribution of staged capital financing on adoption of best exit strategy that VC can use to maximize their ROI. Effect of staged capital financing on financial performance of venture capital backed SMEs in Kenya

Effect of staged capital financing on venture capital firms syndication in Kenya. This study can be done to understand the concept of VC syndication in the light of staged venture financing.

Effect of fund inflows on staging on investment decision of VC firms operating in Kenya. The study will find out if there is any significant relationship between fund inflows in staging and the investment decision adopted by the VCs.

Effect of portfolio investment size on staging decision of venture capital firms in Kenya. The study will find out if there is any significant relationship portfolio investment size and staging decision of venture capital firms in Kenya.

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APPENDIX A: QUESTIONNAIRE

I am Mary Nderitu a student at Kenyatta University, Nakuru Campus taking a master of business administration specializing in finance. I am currently undertaking a research on staged capital and its effect financial performance of venture capital firms in Kenya. Information given will be treated with utmost confidentiality and for academic purpose only. Your response will be highly appreciated.

Please tick where applicable

1. General information

Gender	Male	<input type="checkbox"/>
	Female	<input type="checkbox"/>
Highest Level of Education	Diploma certificate	<input type="checkbox"/>
	Undergraduate	<input type="checkbox"/>
	Master degree	<input type="checkbox"/>
	Doctorate	<input type="checkbox"/>
Years of experience	Less than one year	<input type="checkbox"/>
	1-5 years	<input type="checkbox"/>
	5-10 years	<input type="checkbox"/>
	Above 10 years	<input type="checkbox"/>

2. Measure of return on investment

Year	2014	2015	2016	2017	2018	2019
Initial investment						
End year investment						
Gain from investment						

3. Effect of early stage financing on financial performance of venture capital firms in Kenya.

In a Scale of 1-5 indicate the extent to which you agree with the early stage financing parameters affect financial performance VC firms in Kenya.

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

	1	2	3	4	5
Long early stage investment duration positively affect financial performance of VC firms.					
Large capital investment in early stage negatively affects financial performance of VC firms.					
Use of debt finance in early stage financing by VCs negatively affect financial performance of VC firms.					
Few financing round in early stage positively affect financial performance of VC firms.					
Early investment in early stage financing negatively affect financial performance of VC firms.					
High investment monitoring cost in early stage financing negatively affect financial performance of VC firms.					

4. Effect of growth stage financing on financial performance of venture capital firms in Kenya

In a Scale of 1-5 indicate the extent to which you agree with the growth stage financing parameters affect financial performance VC firms in Kenya.

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

	1	2	3	4	5
Long growth stage investment duration positively affect financial performance of VC firms.					
Large capital investment in growth stage positively affects financial performance of VC firms.					
Use of debt in growth stage financing by VCs positively affect financial performance of VC firms.					
Few financing rounds in growth stage financing positively affect financial performance of VC firms.					
Early investment in growth stage financing positively affect financial performance of VC firms.					
High investment monitoring cost in late stage financing negatively affect financial performance of VC firms.					

5. Effect of late stage financing on financial performance of venture capital firms in Kenya.

In a Scale of 1-5 indicate the extent to which you agree with the late stage financing parameters affect financial performance VC firms in Kenya.

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

	1	2	3	4	5
Long late stage investment duration positively affect financial performance of VC firms.					
Large capital investment in late stage negatively affects financial performance of VC firms.					
Use of debt in late stage financing by VCs negatively affect financial performance of VC firms.					
Few financing rounds in late stage financing positively affect financial performance of VC firms.					
Early investment in late stage financing negatively affect financial performance of VC firms.					
High investment monitoring cost in late stage financing negatively affect financial performance of VC firms.					

End

Thank you



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P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/NKU/PT/28638/2014

DATE: 7th October, 2019

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

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR NDERITU MARY WAITHIEGENI- REG. NO.
D53/NKU/PT/28638/2014.

I write to introduce Nderitu Mary Waithiegeni who is a Postgraduate Student of this University. The student is registered for M.BA degree programme in the Department of Accounting and Finance.

Mary intends to conduct research for a M.BA Project Proposal entitled, "Staged capital and financial performance of venture capital firms in Kenya".

Any assistance given will be highly appreciated.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'E. Kimani'.

PROF ELISHIBA KIMANI
AG: DEAN, GRADUATE SCHOOL



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 7th October, 2019

TO: Nderitu Mary Waithiegeni
C/o Accounting and Finance Dept.

REF: D53/NKU/PT/28638/2014

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 2nd October, 2019 approved your Research Project Proposal for the M.BA Degree Entitled, "Staged capital and financial performance of venture capital firms in Kenya".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

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

Thank you.

ELIJAH MUTUA

FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting & Finance Department
Supervisors:

1. Mr. Joseph Theuri
C/o Department of Accounting and Finance
Kenyatta University



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **336912**

Date of Issue: **26/June/2020**

RESEARCH LICENSE



This is to Certify that Ms.. MARY WAITHIEGENI NDERITU of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: STAGED CAPITAL AND FINANCIAL PERFORMANCE OF VENTURE CAPITAL FIRMS IN KENYA for the period ending : 26/June/2021.

License No: **NACOSTI/P/20/5453**

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Director General
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APPENDIX B: LIST OF VENTURE CAPITAL FIRMS OPERATING IN KENYA

1. Enza Capital
2. Savue Ventures
3. TLCOM Capital
4. Acumen
5. Sunu Capital
6. Africinvest
7. Agrivie
8. AHL venture partners
9. Alios finance
10. Alpha Africa asset managers
11. Amethis finance
12. AOG invest
13. Ascent capital
14. Bamboo capital partners
15. Burbridge capital
16. Business partners' international
17. Catalyst Principal Partners
18. Centum Investment
19. Cross boundary
20. DOB equity.

21. Acacia Venture Capital Partners
22. East Africa Capital Partners
23. ECP
24. Energy Access Ventures
25. African Technology Venture
26. Frontier energy
27. Fusion Capital
28. GenAfrica
29. Grassroots Business Fund
30. Grofin East Africa
31. Helios Investment Partners
32. Inreturn Capital / Jacana Partners
33. Intercontinental Trust
34. Kenya Climate Ventures
35. Kestrel Capital
36. Kibo
37. Kuramo Capital
38. Metier
39. Milost Global Inc
40. Novastar Ventures
41. Pearl Capital

42. Phatisa
43. Progression Capital
44. Quantum Global
45. Adullam investor
46. Pinebridge East Africa
47. Savannah Fund
48. White rhino ventures
49. Terrafirma Africa
50. Voxtra

Source: EAVCA, 2019; Treasury report, 2019; CMA, 2019