

# Venture Capital Risk Measures, Entrepreneurial Characteristics And Access To Venture Capital Financing By Smes In Nairobi County, Kenya

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## **Abstract**

*Small and medium Enterprises are vital for economic growth especially in the developing countries. However, empirical evidence shows that most of these enterprises fail due to poor/lack of access to finance. Access to venture capital by the small and medium enterprises could be a plausible alternative but unfortunately research has pointed out that majority of the enterprises do not access venture capital financing, which is considered an important option for small and medium enterprises trying to grow. This study sought to investigate the effect of venture capital risk measures on access to venture capital by small and medium enterprises in Nairobi, Kenya. The study was guided by the following specific objectives; To determine the effect of syndicate of investment on access to venture capital and to establish the effect of staging of capital infusion on access to venture capital. Agency theory underpinned the study. The study adopted the explanatory non-experimental research design and positivism philosophy guided the study. Target population of the study was 334 Small and medium size enterprises ranked by KPMG between 2008 and 2017 in their annual survey. Proportionate random sampling technique was used to select the firms. Primary data was collected by use of semi structured questionnaire, using drop and pick method. Both descriptive statistics and inferential statistics were used to analyze the data. Nested multinomial logit model was used to establish the effect of venture capital risk measures on access to venture capital financing. Results showed that venture capital risk measures, had positive influence and was statistically significant to access to venture capital financing among SMEs.*

**Keywords:** *Venture capital, risk measures, access financing, SMEs, Nairobi county, Kenya.*

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Date of Submission: 24-06-2026

Date of Acceptance: 04-07-2026

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## **I. Background Of The Study**

Small and Medium Enterprises (SMEs) are important in any economy for they have ability to grow into bigger productive units, adopt modern technologies, and they are able to cope with new economic situations (Katua, 2014). Financial problems can however mess up a great SMEs business idea, make the business fail, or hubber its growth as well as development (Ayyagari, Demircuc-Kunt, & Maksimovic, 2011). According to Abdullah, Khadijah, and Manan (2010), inability to access adequate funds is the key hindrance to the growth and performance of SMEs in both developed and developing nations. The SME sector adequately responds to challenges of creating reliable employment opportunities, trigger economic growth and poverty eradication in a nation (Abdullah *et al.*, 2010).

In most nations, this sector is a main source of jobs, and stimulator of country growth. For instance, in 2011 the SMEs sector in Poland created approximately fifty percent of the Gross Domestic Product. Additionally, in 2011 the sector incorporated 6.3 million people of the total 9.0 million of the labor utilized in private sector (United Nation, 2011). Nyang'ori, (2010) shows that in European economy, SMEs account for 99 percent of enterprises and they are main source of entrepreneurial skills, creativity and job creation. Okafor (2011) argues that SMEs are the major creators of employment in third world and developing countries, comprising over ninety percent of African business operations and contributing to over fifty percent of African job creation and GDP. In Kenya, SMEs output was approximated as Kes.3369.1billion against a total country output of Kes.9971.4 which accounted for 33.79% in 2015 (Kenya National Bureau of Statistics, 2016). Despite SMEs importance, past studies shows that 29.6 percent of the 2.2 million enterprises closed in the past 5years, mostly as a result of limited operating money. Most financial institutions mostly perceive SMEs as a risk-prone sector due to poor guarantees and lack of evidence on their repayment capabilities (Olando, Mbewa, & Jagongo, 2012). Many SMEs have limited access to most sources of funds because of legal and regulatory framework which do not emphasize on innovativeness for lending to the SMEs (Sigara & Memba, 2011). This lack of sufficient capital and credit is often a major handicap to the development of SMEs particularly in their early stages (Lemuel, 2009).

Venture capital a form of equity that provide a firm with funds based on their perceived potential by the investor (Mckaskill, 2009). Venture capitalists bridge the financing gap occasioned by information asymmetry

for new and innovative businesses (Burżacka & Gąsiorowska 2016). However, venture capital firms are known for being highly selective in funding SMEs, and therefore receipt of venture capital finance usually strengthens among stakeholders (Graham & Sichelman, 2010). Always a minimum of one of the members of a venture capitalist must sit on the board of directors, or in any other similar position of control, that provides structure and management to the fledgling company (Gompers & Lerner, 2001). Venture capital finance is mostly financial investment for start-ups or established SMEs that are seen to have unique ideas and great growth ability (Kumar & Siddharthan, 2013).

Venture capitalists mostly focus on: market served, product/service provided, the entrepreneur him/herself, the management team in place and financial considerations (Deloitte, 2009). Once the VCs are settled with the screening, they agree on the terms and condition of the investment with the business owners, aiming to control the decisions and minimizing the possible cost and risk (Ndabeni, 2014). According to Obeng and Mwebi,(2012), venture capitalists rarely provide full amount of funds applied by SMES, instead they provide certain percentage of total funds requested based on the perceived ability of the SME. According to SAVC (2009), VCs employ two main risk reducing measures; syndicate of investments and staging of capital infusion. According to Cumming, (2011),majority of venture capital dealings include staging of capital which is capable of mitigate the agency problem effects. This allows the owner–manager to have some control during the investment period. Venture capitalists also use syndication, where two or more venture capitalists share in a single financing round. This mechanism helps in minimizing the problems of adverse selection through the participation of a co-investor sharing the common investment risk (Smolarski & Kut, 2011). Staged capital infusion is where funds are provided to SMEs in stages and not in lump sum. According to Ndabeni, (2014) this venture capitalists to subdivide their investment into various stages of the investment life hence minimizes risks, controls moral hazard and give an opportunity to the investor to gather information and monitor progress while maintaining the option to abandon the project at any time.

VC, which is quite prevalent in developed countries and has played a great role in enhancing growth of SMEs through provision of equity capital. Some of the world's greatest companies, such as Home Depot, Starbucks, Whole Foods, Microsoft, Apple, Google, JetBlue, eBay, and Staples were initially backed by Venture capital (Kavanaugh *et al.*, 2014). Access to VC has played a significant role in the economic development of the United States (Dolencic, 2010). In 2012, it was estimated that venture-backed companies that went public accounted for 10.4 million jobs and \$2.3 trillion in revenues, this accounts for a share of 17.6 percent in the total U.S. Gross Domestic Product (GDP) (Kavanaugh *et al.*, 2014). Accordingly, in 2014, the value of investments in Poland accounted for 19.1percent of the total value of investments in Central and Eastern Europe (RBC Wealth Management, 2017). In Africa unlike in developed countries, VCs are few and hence they have created little impact to the SMEs. In the year 2013 for instance, there were only 176 venture capitalists in South Africa and only 26 active VC firms dedicated to East Africa (AEAVC, 2015). Kenya dominate the private equity industry in Eastern Africa, accounting for over than 60 per cent of private equity deals in the East African region (KPMG, 2015). Kenya received investment deals worth Kenya shillings 49.7 billion out of the Kes78.9 billion, accounting for 63 per cent of the deals for East Africa (KPMG & EAVCA 2015).

VCS mostly put into account the following before providing funds to an enterprise; the business plan, basic concept of the project, past record of entrepreneur, quality of the management team, the nature of the product, market served or technology employed among others (Memba, 2011). According to KNBS (2016), out of all sources of capital use by SMEs, equity financing is accounted for by only 4.1 percent. With VC funds being available in Kenya, it is unclear why SMEs uptake to VC is very low yet they are struggling to raise funds.

### **Venture capitalist risk measures**

Usually, Venture capital investment is associated with a lot of uncertainty. When financing a firm, venture capitalist encounters significant adverse selection problem, the agency problem and moral hazard (Smolarski & Kut, 2011). The type of financial instrument used in venture capital operation is designed to respond to expected agency problems and depends on the type of firm financed, the venture capitalists' philosophy and concerns as well as the legal and business regulations of the country(Ahwireng 2012).

Staged capital infusion enables venture capitalists to subdivide their investment into several stages of the venture's life. It minimises risks, controls moral hazard and allows the venture capitalist to get information and monitor progress with an option to abandon the project at any time (Wang and Zhou, 2004; Gompers, 1995).

Syndication occurs when two or more venture capitalists work together in an investment. It gives valuable second opinion that could fine-tune selection decisions, mitigate adverse selection, and reduce idiosyncratic and financial risks. Furthermore, it involves pooling resources to improve capabilities to add value and to establish social status (Lockett and Wright 2001; Hochberg 2007).

### **Entrepreneurial Characteristics**

These are attributes specific to the owner of the business that can affect performance of a firm negatively or positively. According to Sajilan, n.d.(2015), entrepreneurial characteristic are categorized in terms of attitude and personal behavior while others categorize them as demographic (age and gender) and personal characteristics (need for achievement, entrepreneur's growth strategies need for cognition and internal locus of control). This study, entrepreneurial characteristics are taken to be; entrepreneurial innovativeness and managerial competency. Entrepreneurial innovativeness is measured in terms of new products development, new process development and new markets introduced while managerial competency was indicated by level of education and years of experience. Entrepreneurial characteristics have an impact on the demand for any type of finance (Keil, Maula, & Wilson, 2010). The traits of a small firm owner are inseparable from their business. This is mostly because most of these firms are formed as sole proprietorship and partnership form of businesses where ownership is inseparable from control. Similarly in the case of limited liability firms where there exists a separate legal entity, ownership cannot be separated from control (Nkuah, Tanyeh, & Gaeten, 2013).

### **Small and Medium Enterprises in Kenya**

Kenya National Bureau of Statistics KNBS, (2016) classifies SMEs according to the number of employees; small: 10–49 employees; and medium: 50–99 employees. SMEs are the main vehicles by which new entrepreneurs provide the economy with a continuous supply of ideas, skills, and innovations (Normah, 2006). According to Beck, Degryse and Kneer, (2014) SMEs have ability to fuel economic growth and enhance competition and entrepreneurship hence has external benefits on economy wide efficiency, innovation and aggregate productivity. SMEs dominate the world economies mostly by provision of jobs and number of companies, yet their full potential remain untapped to a greater extent (Schlogl, 2004, Omar, Arokiasamy & Ismail, 2009). In Kenya 90percent of all businesses are SMEs offering jobs to over 60percent of the total population (Katua, 2014). According to statistics they employ an estimated 2.4 million people and contribution to GDP is approximated at 18.4 percent (Mutai, 2011).

### **Statement of the Problem**

Small and Medium Enterprises are the main controller of economic growth in both developed and developing countries, whose survival to a greater extent is largely dependent on access to adequate funds (Njama, 2013). Many types of assistance have been provided to SMEs to boost their performance (IEA&SED 2001). However, 2.2 million SMEs 3.8 years old on average closed down their business in the last 5 years. Out of the 2.2 million, 29.6percent blamed their predicament to poor access to external finance (KNBS, 2016). This is a key scenario that have led to lack of confidence in lending to SME by financial institutions. Therefore this called for SMEs to look for other method of financing their business and VC is one of the best option (Musani, 2014). Venture capital has been in Kenya since the years 1970s, yet it has had little effect on growth of SMEs. According to Olando *et al.*, (2012), only 2percent of Micro, small and medium enterprises, have had access to VC in the past. The East Africa Venture Capital Association (2015) ascertains that VCs in Kenya had raised Kes172.8 billion by 2015, but only invested Kes49.7 billion (28.8percent) in Kenya; this clearly shows that the VCs still have a lot of funds to invest. According to KNBS (2016), equity financing account for only 4.1 percent of all the sources of capital used by SMEs. With these funds being available in Kenya, it is unclear why SMEs utilization of VC is very minimal yet they are struggling to raise funds. Researches carried out in Kenya to investigate the VC risk measures on access to VC funding have not been exhaustive as there is little information on access to venture capital. For instance, Ochieng, Masoud, and Mwirigi, (2013) researched on the determinant of uptake of credit product by SMEs in Nairobi and found out that firm's characteristics have positive correlate uptake of credit product. Memba, Gakure and karanja (2012) carried out a study on the impact of VC on growth of SMEs in Kenya and reported that VC financing has an impact on growth of SMEs. Since the study focused on all SMEs in Kenya, conceptual and contextual gap was established. Jagongo (2012) investigated VC financing; the all-important Micro Small and Medium Enterprises (MSMEs) financing Strategy under neglect in Kenya and found out that all entrepreneurs' stakeholders were largely ignorant of the potentials for VCs to bridge the MSMEs financing gap. The findings from these studies clearly shows that VC may not have been exhaustively explored for financing small and medium firms in Kenya. The Research Objective was to establish the moderating effect of VC risk measures on the relationship between entrepreneurial characteristics and access to venture capital by SMEs in Nairobi County, Kenya. The study hypothesis was:

**H<sub>01</sub>:** VC risk measures do not have significant moderating effect on the relationship between entrepreneurial characteristics and access to venture capital among SMEs in Nairobi County, Kenya.

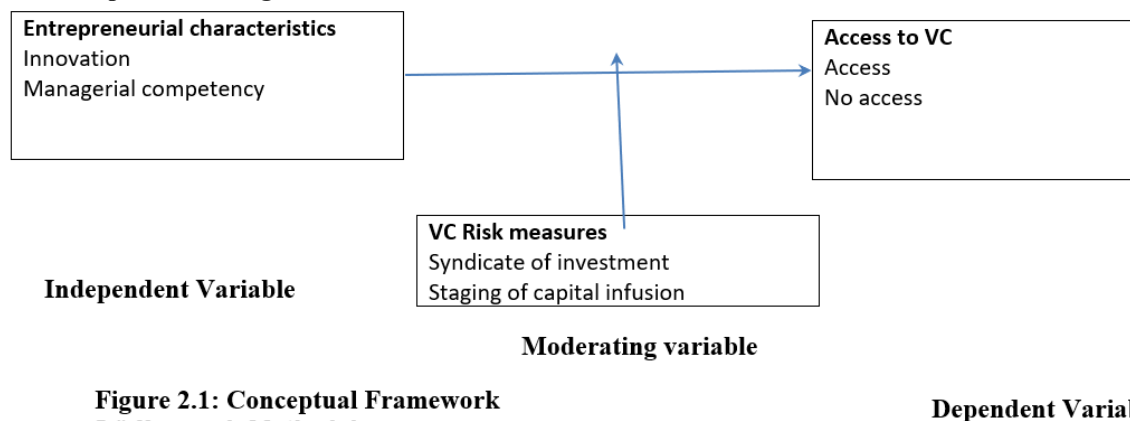
## II. Theoretical Review

### Agency Theory

An agency relationship by Jensen and Meckling, (1976) is a contract where one person (the principal) gives authority to another person (the agent) to undertake some duty on their behalf. If both parties in the engagement are concerned in maximizing utility, there could be a problem since the agent may not act to the interest of the principal. However, it is not possible for the principal or the agent, at zero costs, to ensure that the agent makes best decisions on the principal's point of view (Anderson *et al.*, 2013). The problem comes about where the two parties have different focus and asymmetric information; such that the principal cannot directly ensure that the agent is always acting in his best interest. This is mostly when activities that are relevant to the principal are expensive to the agent, and where elements of what the agent does are costly for the principal to observe Vasilescu, (2010).

Agency cost issues is mostly dire for SMEs due to their lack of transparency which may lead to increased moral hazard and adverse selection problems (Degryse, Goeij and Kappert, 2012). According to Hand, Lloyd, and Rogow, (2011) the main problem of agency in SMEs is between the internal and external contributors, not between owners and managers. Bailos, Daskalaki, Eriotis and Vasiliou (2016) considered that agency costs are more in smaller firms, leading their owner to experience higher risks and in isolation, mostly in the initial years when the firm's sustainability is at stake. Solutions to these problems are quite expensive for SMEs because it may increase the costs of operations between them and their creditors or shareholders (Fauzi & Locke, 2012). Monitoring could proof difficult and expensive in case of SMEs because they are not required to fully disclose accounting information as is usually the case with large firms, (Vasilescu, 2010). On the basis of the arguments of this theory, the major problem highlighted are the agency cost and information asymmetry will help this research to understand interaction of some variables of this research. For instance; agent cost and information asymmetry, of SMEs concerning the VCs main risk reduction measures (syndicate of investments and staging of capital infusion) would affect access to VC which is the dependent variable of the study. According to Cumming, (2011) staging of capital have the capacity to reduce the agency problems. The information symmetry would determine the use of other VC risk measures that is syndication mechanism which is key in reducing the problems associated with adverse selection through the participation of a co-investor sharing the investment risk and staged capital infusion which is a control mechanism that enables venture capitalists to subdivide their investment into various stages of the investment life (Smolarski & Kut, 2011; Ndabeni, 2014). Whereas agency theory has been developed primarily in the context of publicly traded firms with diffuse ownership structures and managers with very limited equity stake, its logic has some appeal for explaining the VC-E relationship. When VCs buy into a venture, they are like outside stakeholders (or large blockholders) who carefully observe the firm to track its business potential and monitor agent behavior to protect against opportunism. However, it seems that the agency problem is not uniform throughout the life of a venture. As a result, agency theory is likely to vary in its usefulness in explaining the VC and entrepreneur behaviors. For example, agency theory may be most applicable in explaining behaviors immediately prior to the initial investment VCs make in a new venture. Then, after the VC has invested in the new venture, it appears that agency concerns rapidly decline followed later by some potential upswings.

**Conceptual framework for Venture capital risk measures, Entrepreneurial characteristics and Access to venture capital financing.**



**Figure 2.1: Conceptual Framework**

## III. Research Methodology

The study utilised Explanatory research design. 334 SEs who appeared in the grouping of the top 100 SMEs lists from 2008-2016 as per to KPMG in Kenya were the target population of the study. Dillman, (2011)

formula of sample calculation was used in guiding the calculation of the sample size of 178SMEs.Semi-structured questionnaires with both open and closed-ended questions was used. The data was analyzed using both descriptive and inferential statistics.

**Empirical model**

This study utilized Logit model, whether a firm has accessed VC or not.

**Model 1 (Binary Logit Model)**

$$U_A = \beta_1\chi_1 + \beta_2\chi_2 + \varepsilon_A \dots\dots\dots 3.1$$

$$U_{A^1} = \beta_1\chi_1 + \beta_2\chi_2 + \varepsilon_{A^1} \dots\dots\dots 3.2$$

Where:

U<sub>A</sub>- Accessed venture capital

U<sub>A<sup>1</sup></sub>-Not Accessed venture capital

χ<sub>1</sub>- Entrepreneurs innovativeness

χ<sub>2</sub>- Entrepreneurs Managerial Competency

**The Moderating Effect Model**

Relationship number three in the conceptual model is the moderating effect of risk measures by venture capitalists on the relationship between the entrepreneurial characteristics and access to venture capital by use of the Baron and Kenny approach

$$P(A|\{A, A^1\}) = P(A^1|\{A, A^1\}) = \beta_0 + \beta_1X_1*M + \beta_2X_2*M + \varepsilon \dots\dots\dots 3.1$$

Where:

β<sub>0</sub>= Constant

β<sub>1</sub>, β<sub>2</sub> = Regression coefficients

M= Risks Measures (Moderating variable)

ε= Error Term

**IV. Results And Discussion**

**Venture Capital Risk Measures**

Venture capital risk measure was measured using the number of venture capitals and method of funding. The respondents were asked to indicate the number of venture capitals that fund their firms. The results are presented in Table 4.19.

**Table 4.1: Number of Venture Capitals Funding the Firm**

Number of Venture Capitals	Percent (percent)
One	97.2
Two	2.1
Three	0.7
Total	100

As per the Table 4.1,97.2 per cent indicated that their business was finished by a single venture capital firm. This shows that most of SMEs in Nairobi do not receive funding from different venture capital firms. Orlando, Mbewa, and Jagongo (2012) observe that majority of financial institutions see SMEs as risk-prone sector because of poor guarantees and lack of information on their capacity to repay loans.

Further, the respondents were asked to indicate how their firms were funded by the venture capitals. The results are presented in Table 4.20.

**Table 4.2: Methods of Funding**

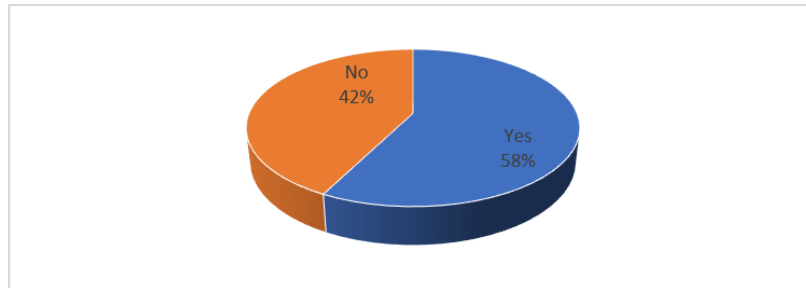
How was funded	Percent (%)
One off	49
In stages	51
Total	100

Above results in Table 4.2 indicate that 51percent were financed in stages while 49percent shows that they were financed one off. According to Obeng and Mwebi (2012), venture capitalists rarely give funds in full amount as applied for, instead they offer certain fraction of requested funds based on the perceive potential of the SME.

The respondents were also asked to show if they were comfortable with the methods of funding. Results indicated 96 per cent didn't like this method of funding while only 4 per cent showed that they were satisfied with the method. This clearly shows that majority of the SMEs were not contented with the funding method utilized by VC firms offer their loans. Beck, Kunt, & Maksimovic (2008) argue that financial constraints can kill a great business idea, lead to business closure, or hinder growth and development of a firm.

**Access to Venture Capital**

Access to venture capital was proxied using the intention of the SMEs to be financed by venture capitalists in future, usage of venture capital since the startup and proportion of the venture capital received of the business. For those who answered that their firms were not funded by venture capitalists, they were asked to indicate if their firms aim to be funded in future. The results are presented in Figure 4.1.



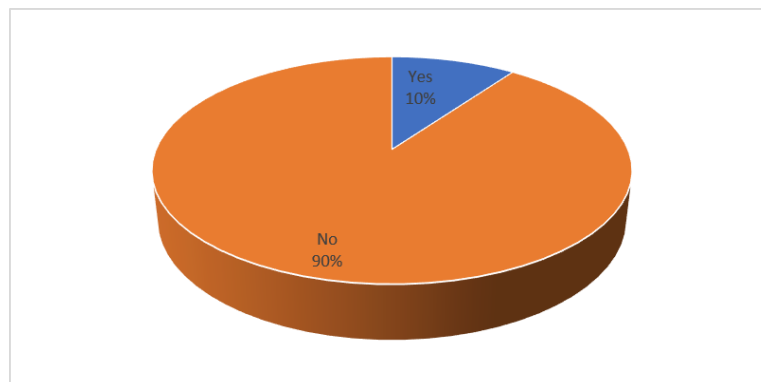
**Figure 4.1: Venture Capital Funding in Future**

Figure 4.1 indicate that 58 per cent wished to be financed in future while 42 per cent indicated that they didnt see this happening in the near future. This means that most of the SMEs in Nairobi do not have adequate capital. Small and Medium Enterprises are drivers of economic expansion in both developed and emerging nations, whose growth is highly dependent on access to adequate financing (Njama, 2013). Regarding access to VC, the respondents were asked to indicate the proportion of venture capital received to their total funds requested for. The results are presented in Table 4.5.

**Table 4.5: Venture Capital Access**

Proportion of Venture Capital	Per cent
Between 1 per cent - 33per cent	19
Between 34 per cent - 66per cent	57
Between 67 per cent - 100 per cent	24
Total	100

Table 4.5 shows that 19 per cent of the respondents received 1-33 per cent of the venture capital applied, 57per cent of the respondents received 34-66 per cent while 24 per cent received 67-100 percent. According to Deloitte (2009), venture capitalists mainly focus on; market attractiveness, product/service, the entrepreneur, the management team and financial considerations. Once the VCs are comfortable with the screening, they negotiate the terms and condition of the investment with the entrepreneur, with the aim of controlling the corporate decisions and minimize the potential cost and risk (Ndabeni, 2014). Further, the respondents were asked to indicate if they were satisfied with the amount which they received. The results are presented in Figure 4.2.



**Figure 4.2: Satisfaction with the Venture Capital Received**

Figure 4.2 indicate that 90 percent of the respondents were not contented while only 10 percent indicated that they were contented According to KNBS (2016), equity financing represent only 4.1 percent of all the possible sources of capital used by SMEs. With the availability of the funds in Kenya, it is unclear why SMEs uptake to VC is very minimal yet they are suffering in raising funds. According to Nour, (2009), the key aspect of interest to VC when funding a firm include the product/service offered by the firm, the market served by the firm, the management team of the firm and the financial projection of the firm.

**VC Risks Measure on access to VC**

**Overall Logit Model**

An overall model was performed for all the independent variables before performing the test of moderation. Results are presented in Table 4.6.

**Table 4.6: Regression Results for all the Independent Variables**

	Coefficients	t-statistics
Constant	-0.982	-0.180
Entrepreneurial Innovation	0.435**	2.01
Managerial Competency (Education)	0.609**	2.55
pseudo R <sup>2</sup>	0.62	

\*\* p < 0.05

Significant if t statistic value absolute -1.96 < negative coefficient or positive coefficients > 1.96

Results before moderation s that firm explain 62 percent of the variations in access to venture capital. On the influence of entrepreneurial innovation variable on access to venture capital, the study clearly shows that being innovative is essential. Specifically, the more innovative a firm is the higher the chances of accessing venture capital by 0.435 which is statistically significant at 5percent level of significance. The study shows that managerial competency as proxied by the level of education that managers possess shows that it has a positive effect ( $\beta = 0.609$ ) which is significant at 5percent level of significance as shown by the results in Table 4.6.

**Moderating Effect of VC Risks Measure on the relationship between entrepreneurial characteristics and access to venture capital among SMEs in Nairobi County, Kenya.**

The general objective was to find out the moderating effect of VC risks measures on the relationship between entrepreneurial characteristic and access to venture capital financing. Results are presented in Table 4.7.

Table 4.7: Moderating Effect of VC Risks Measure on the relationship between entrepreneurial characteristics and access to venture capital.

	Coefficients	t-statistics
Constant	-1.309	-1.16
Entrepreneurial Innovation	0.676**	2.76
Managerial Competency (Education)	0.708**	2.77
Entrepreneurial Innovation *VC risk measures	-19.40**	-2.92
Managerial Competency (Education) *VC risk measures	-12.70**	-2.60
pseudo R <sup>2</sup>	0.74	

\*\* p < 0.05

Significant if t statistic value absolute -1.96 < negative coefficient or positive coefficients > 1.96

From Table 4.7, an examination of the whether VC risks measure moderate the relationship between entrepreneurial characteristics on access to venture capital financing, the study shows that 74 percent of the variations in accessing venture capital is jointly influenced by the factors that were factored into the model on moderation. Specifically, results shows that moderation effect exists. The R<sup>2</sup> before moderation was 62percent. Therefore, the R squared improved from the 62percent to 74percent after moderation. This shows that VC Risks Measure generally moderates the relationship between the entrepreneur’s characteristics and access to venture capital. The study found out that VC risk measures moderates the relationship between entrepreneurial innovativeness and access to Venture Capital since the coefficient value of the interacting term was significant ( $\beta=19.40$ ,  $P<0.05$ ). Additionally, VC risk measures moderates the relationship managerial competency and access to Venture Capital since the coefficient value of the interacting term was significant ( $\beta=-12.70$ ,  $P<0.05$ ). This agrees with findings by Xiang *et al.*, (2014) who carried out a study on the firm-level determinants and impacts

of finance-seeking behavior and outcomes for small and medium-sized enterprises (SMEs) in Australia and established that not only does firm characteristics have the potential of influencing firm access to capital but also other factors such as organizational factors (ownership, firm size, firm age, employment, registration), operational factors (business goals, financial objectives, operating assessment, planning, innovation or growth opportunities, and profitability) and market factors (primary markets for the firm's output, imports, and exports) affect access to capital financing.

## V. Summary Of Research Findings

### **Moderating Effect of VC Risks Measure on the relationship between entrepreneurial characteristics and access to venture capital among SMEs in Nairobi County, Kenya.**

The general objective of the study was to investigate the moderating effect of VC risks measures on the relationship between entrepreneurial characteristic and access to venture capital financing. The regression results showed that there exists a moderating relationship between entrepreneurial characteristic and access to venture capital financing with the moderation being observed on managerial competency and entrepreneur's innovativeness. Similarly, the results reveal that 74percent of the variations in access to venture capital is together explained by the factors that were entered into the model on moderation.

## VI. Conclusion

Venture capitalists should come up policies and procedures for staging of capital infusion which have the capacity to reduce the agency problem leaving the owner with some degree of control during the investment period. Additionally, this research recommends for syndication which will help VCs in minimizing the issues associated with adverse selection through co-investing and sharing the investment risk. VCs should come up with policies that give certain faction of applied finances as per the perception on an SME potential.

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