
CAPITAL GEARING, ENTREPRENEURIAL COMPETENCIES AND UPTAKE OF VENTURE CAPITAL BY SMALL AND MEDIUM ENTERPRISES: A CASE OF SELECTED VENTURE CAPITAL BENEFICIARIES OF KENYA COMMERCIAL BANK

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ABSTRACT

Purpose of the Study: The main objective of this research study was to establish the influence of capital gearing, entrepreneurial competencies and uptake of venture capital by small and medium enterprises: a case of selected venture capital beneficiaries of Kenya Commercial Bank. Specific objectives were to determine how capital gearing affects uptake of venture capital by SMEs and to establish how entrepreneurial competencies of owner/manager affects uptake of venture capital by SMEs. Venture capital is financing that private investors provide to businesses, in the start-up and early growth phases, which they believe have long term, high growth potential. These are deals predominantly funded by equity. Venture capitalists are important source of equity that can invest in any form of business, regardless of size, depending on their assessment and postulation of the success of the business. The study was anchored on resource view-based theory, institution theory and pecking order theory.

Statement of the Problem: Despite having increased significantly over the past few years across the world, recourse to venture capital in Kenya is still relatively modest compared with other markets like United States and Europe. As per a local KPMG report for the fourth quarter of 2016 it was stated that private equity firms raised \$250 million (25.95 billion KES) in 2016.

Research Methodology: The study employed descriptive research design with a target population of 300 SMEs who have benefited from venture capital in Kenya through KCB Lions' Den and KCB 2Jiajiri. Ninety respondents, randomly selected, were sampled. Questionnaires were used as the main data collection tool and before primary research, piloting was carried out to build up reliability and validity of instruments. Data gathered from correctly filled questionnaires was coded, tabulated and analyzed using Statistical Package for Social Sciences (SPSS) Version 24. Descriptive statistics which included mean and standard deviation and inferential statistics which include Pearson correlation and regression coefficient were used to capture the characteristics of the variables under study and analyses the relationship between capital gearing, entrepreneurial competencies and uptake of venture capital.

Results: The study established that that capital gearing significantly influences the uptake of venture capital by SMEs in Kenya.

Conclusion: The study concluded that the amount of debt a SME has relative to its equity influences uptake of venture capital decisions the study also established that that entrepreneurial competencies of owner/manager is a significant determinant for the uptake of venture capital by SMEs in Kenya and the study concludes that entrepreneurial competencies of owner/manager contributes significantly to the uptake of venture capital.

Recommendation: The study recommends that SMEs with high capital gearing should attract a large amount of debt that is relative to their equity. SME owners and managers should know that the gearing ratio is the measure of financial risk and expresses the amount of an organization's debt in terms of equity. SMEs with a gearing ratio of 2.0 would have twice as much debt as equity. Another recommendation for SME owners and managers is that venture capitalist does not only assist in provision of funds but also in the internal operations of the businesses, especially policy formulation.

Key Words: *Organizational Factors; Capital Gearing; Entrepreneurial Competencies; Venture Capital; Venture Capital Beneficiaries; Kenya Commercial Bank*

1.1 BACKGROUND OF THE STUDY

Venture capital is financing that private investors provide to businesses, in the start-up and early growth phases, which they believe have long term, high growth potential. These are deals predominantly funded by equity (Damanpour, 2011). For start-ups without access to capital markets, venture capital is an essential source of funding. Risk is typically high for investors. The need for venture capital stems from the specific requirements of such businesses, and from the value add role that experienced venture capital fund managers can play in structuring, supporting and nurturing those businesses (Zahra, 2013). Venture capital is not limited to investments in high-technology type businesses but also to other sectors where above-average growth and associated returns may be found. In such instances, high-growth returns are underpinned by other factors such as access to large untapped markets, or by differentiators such as exclusive operating licenses or comparable enablers that give the investments substantial advantages over their peers. High-tech businesses nevertheless remain a primary source of high-growth returns for venture capitalists.

Africa has associations that promote and enable private equity investment in the continent. African Private Equity and Venture Capital Association (AVCA) with headquarters in 37 North Row, London W1K 6DH in the United Kingdom plays a significant role as a champion and effective change in Africa by equipping, educating, connecting members and stakeholders with independent industry research, best practice training programmes and providing network opportunities. Members of the association include private equity and venture capital firms, institutional investors, pension funds, foundations and endowments, professional service firms, international development finance institutions among other associations (Hovakimian, Ople, & Titman, 2015). East African Venture Capital Association is the representative organization for private equity and venture capital funds in East Africa. Based in Nairobi, the association has 65 member organizations comprising private equity firms, direct foreign investors and venture capitalists. It was founded in 2013 with the objectives of establishing investors interested in investing in East Africa and providing market intelligence trends and opportunity that affects investing in the region. The association hopes to bridge the information gap that allows the investors to have a preface in East Africa that further guides strategy of investment (KPMG, 2017).

Despite existence of East African Venture Capital Association in Kenya, corporate entrepreneurship remains a recent form of investment for enterprises that need to broaden their scope and increase profitability. Enterprises in Kenya tend to look internally for primary funding for business development, financing from banks and cooperative societies, although a great hindrance to this step, especially for smaller businesses is the lack of adequate security to access loans. Corporate investors are there for important source of equity as they can invest in any form of business, regardless of size, depending on their assessment and postulation of the success of the business. No financial security is required for a corporate investor-business merger thus attracting many businesses to this model, while investors are protected under the Constitution of Kenya (KPMG, 2017). A report by KPMG (2017) on global venture capital investments is approximated to be more than KES 15 trillion. Unfortunately, Kenya is not included in the Venture Pulse, the KPMG venture capital funding quarterly report that shows the global trends in venture funding. The Kenyan chapter of KPMG report (2017) indicate that private equity firms risen to KES 25.95 billion (KPMG, 2017). This implies a strong presence of venture capital in Kenya capable of raising equity for promising ventures.

This is an indicator that there is a strong presence of venture capital within the country raising equity for promising companies. The East African Venture Capital Association (EAVCA) further states that venture capital is most common in the information technology and manufacturing sector (EAVCA, 2017). There are different approaches to identifying and carrying out investment evaluation criteria.

According to Sharma and Crisman (2009), uptake of venture capital is defined as the process where a group of people or an individual is associated with an existing company, creating a new company or instigating renewal and innovation of an organization while, Weilblen and Chesbrough (2015) view capital venture as a means through which corporations contribute in the success of external innovations to help them gain insight into non-core markets and access to capabilities. According to Guth and Ginsberg (2010), uptake of venture capital embraces two different kinds of portents that include new venture creation that exist within the organization and uptake of venture capital through strategic renewal. The idea of venture capital is said to have originated in the United States of America in 1914 when DuPont, a chemicals and plastics manufacturing company, invested in a small start-up automobile company General Motors. After the First World War (WWI) the need for automobiles grew, further increasing the demand for DuPont's products as they were used in the car manufacturing industry. This venture led to both strategic and financial growth of the parent company, leading DuPont to become one of the first venture investment companies (Gompers & Lerner, 2011).

Three main variables of entrepreneurial behaviour determine the process of uptake of venture capital: Opportunity recognition, organizational flexibility and a firm's ability to initiate entrepreneurial actions (Zahra, 2013). They are similar across the board for venturing companies and were a focus of study in this research project to further understand venture capital (VC) decisions. Covin and Slevin (2010) described a CVC firm as a company with entrepreneurial behaviour encompassed by expert top managers, flexibility to environment and varied operating styles, results oriented and with an amiable working atmosphere. However, when dealing with family firms there are additional factors that affect the process and success of a venture capital decision as families are complex social systems both as a group and at the individual level, all of which affect the organization, strategy and output of the business (Arvin, Cho, Sang, & Mousa, 2016).

The venture capital process begins with the entrepreneur recognizing an opportunity for investment. In the past, identification of potential businesses opportunities would be done in an antiquated manner; this involved collecting data on businesses through questionnaires and interviews. This methodology was questioned by Sandberg and Hofer (2008) due to its reliance on humans to make decisions. There is no fixed decision-making process. Multiple methods can be used to collect information relevant to the venture capital firm. The principal evaluation criteria involve five steps; Deal origination: this is the stage of identification of a potential business investment. Identification of a potential investment involves the following criteria; management skill and experience, market growth and size, product attributes, the venture team and expected returns; Deal screening: this is the stage of review of business project; Deal evaluation: this is the stage at which the business plan is reviewed, and perceived risks and potential return are considered; Deal structuring; this involves the negotiation and establishment of the business agreement and Post investment activities; this involves provision of value added activities such as human resource to improve the business performance (Tyebjee & Bruno, 2014).

Most of the SMEs in Kenya lack access to finance, which is one of the major factors that inhabit the growth in the sector. The challenges that limit SMEs in acquisition of financial services are inadequate tangible security, complex legal and regulatory framework that does not recognize innovative strategies for lending to SMEs, perception that small businesses are a financial risk by lenders, among other factors. According to Mead and Liedholm (2008), financial accessibility is an important ingredient to development and financial constraints will affect business creation and improvement. In Kenya, SMEs have difficulties in accessing both equity and financial credit. Venture capital is one of the sources of funding that SMEs can receive that is non-banking (Kueschning, 2010). Venture capitalists are organised providers of financing for winning but risky business projects for SMEs that are most promising but yet unproven. However, if they are convinced the idea is promising they will take an ownership stake in the business and provide the needed funds while sharing the risk (Hisrich & Peters, 2015). Kenya Commercial Bank developed a programme to support young entrepreneurs, especially in terms of finances as part of its social corporate responsibility. The KCB Lions' Den not only provides funds but also help the young SMEs to get mentors and take their business to the next level. On the other hand, KCB 2Jiajiri's objective is to empower and equip unemployed and out-of-school youth to grow micro enterprises by providing them with technical skill training opportunities. The bank supports SMEs as financial catalyst. KCB also partners with other media house such as Standard Media Group to connect SMEs with successful venture capitalist that have already cut the niche in their businesses through the Lions' Den TV show.

According to KPMG (2017), capital gearing is the process of borrowing funds for investment. Organizations use capital gearing to accelerate wealth creation by allowing investors to deposit large investments, which determine productivity and performance. Organizations use the deposited investment in ways such as direct shares, property development and managed investments (Mahesh & Daddikar, 2013). Capital gearing is an effective strategy, especially for organization if the tax capital gain and income return of the geared investment exceeds after-tax costs of funding investment, as long as net gains from the organization investments over the long-term outweigh the borrowing cost. Capital gearing will boost the gains. Studies have shown that capital gearing is considered as an effective long-term strategy because results have shown that over a long-term growth based investments can deliver higher possible returns. However, investment suitable for capital gearing is generally more volatile than others and can also lose value. Capital gearing is only

appropriate for growth-based investments that include property and shares and should be viewed as long-term strategy (Hovakimian, Ople, & Titman, 2015).

According to Mahesh and Daddikar (2013), capital gearing reflects the debt amount used in capital structure of the organization and has an impact on returns of a change in the extent to which organization assets are financed with borrowed funds. Debt carries a fixed service obligation of payments of the interest and capital gearing measures exposure to financial risk. Studies shows that most of the organization management prefer equity financing to debt since it has less risk and when surplus increases the deficit reduces. Capital gearing is a prerequisite for achieving optimal capital structure hence, the determination of optimal debt level and the impact on the organization's overall capital structure that is regarded as an integral organization financial decision (De Wett, 2009).

Man, Chan and Theresa (2012) describe entrepreneurial competencies as higher level characteristics encompassing personality traits, knowledge and skills that are the total ability of the entrepreneur to carry out their duties successfully. In entrepreneurship, major competence areas are identified as commitment, opportunity, strategic, organizing, strategic and conceptual competencies. Successful entrepreneurs are characterized as diligent people with a restless attitude in their work. Strong entrepreneurship competence is totally committing, dedicating and determining as well as taking proactive actions towards responsibilities and duties that also include proactive orientation, which calls for the entrepreneurs taking actions before being asked or forced to by events. The commitment competencies are those that drive the entrepreneur to move ahead with the business (McClelland, 2009).

The entrepreneur must give direction for the whole organization, one requires vision that should have clear goals to achieve or to formulate and implement strategies to meet organizational goals and vision. Ownership structure of business competencies are related to setting, evaluating and implementing strategies of the enterprise while calling for abilities and skills from a broader and long term perspectives (Huck & McEwen, 2011). The relationship competencies relate to person or group interactions that involve building a context of cooperation and trust, persuasive ability, interpersonal and communication skills. To successfully do so, the entrepreneur needs to possess competencies in relationship building, communication, persuasive and interpersonal abilities such as entrepreneurial bonding. The most distinguishing competence for entrepreneurs is ability to see an opportunity. According to McClelland (2009), one of the core competencies for successful entrepreneurs is the ability to see and act on the opportunities. Another competency an entrepreneur requires is efficiency orientation that involves monitoring the quality of work and competencies the organization needs in managing various functional areas. In general, organization competencies are similar to the managerial competence that calls for the ability to lead, organize, control, monitor and develop the internal and external resources towards the organization capabilities through the entrepreneurs organizing competencies in different areas (Man, Chan, & Theresa, 2012).

1.2 STATEMENT OF THE PROBLEM

Despite having increased significantly over the past few years across the world, recourse to venture capital in Kenya is still relatively modest compared with other markets like United States and Europe. As per a local KPMG report for the fourth quarter of 2016 it was stated that private equity firms raised \$250 million (25.95 billion KES) in 2016. This is an indicator that there is a strong presence of venture capital within the country raising equity for promising companies. The problems most entrepreneurs face when starting or continuing their businesses is how to access working capital. Getting capital is particularly an uphill task

for family-owned businesses, which structurally, are mostly sole proprietorship or partnership arrangements among family members. Bank loans are difficult for family entrepreneurs to get because lenders require collateral, which may not be available, besides, unfavorable interest rates that are relatively higher than the rate of return for many start-up ventures or small family businesses (KPMG, 2017). Inability to access robust working capital options amidst increased changes in business environment could force businesses to strategic options such as restructuring, downsizing, mergers and privatization. These strategic options could rapidly increase conflict at workplace and affect organization performance (Agusto, Lisboa, & Yasmin, 2014).

During the first season of Lions' Den TV show, only 59 entrepreneurs received KES 291 million in capital and the applications to participate in the show increased to 6,500 in season two. In 2018, the applications were more than 10,000. Most SMEs in Kenya lack access to finance, inhabiting the growth in the sector. According to Mead and Liedholm (2008), financial accessibility is an important ingredient to development and financial constraints affect business creation and improvement.

In Kenya, SMEs have difficulties in accessing both equity and financial credit. Ngugi, 2006, states that uptake of venture capital has been present for a while, especially among large scale manufacturing companies, although barriers do exist in their initiative to invest such as extended bureaucracy processes and a lack of support from managerial level staff. Thus, despite numerous CVCs identified within the Kenyan business market many of which have taken interest in start-up companies particularly in the information technology sector, manufacturing sector and the health sector, most family entrepreneurs do not readily opt to pitch their business ideas to venture capitalists. Several studies have been conducted in relation to venture capital in Kenya and most of their focus has been on venture capital firms and their requirements in financing SMEs. Ngugi (2006) carried a study on the role of venture capital in financing technology in SMEs and his findings established that many technology-based firms do not qualify for venture capital finance due to a lack of basic requirements. Sigara (2004) studied what hinders SMEs from using venture capital finance and unawareness was established to be the major contributing factor. Although this study has a bearing to the work of other research, the influence of capital gearing, entrepreneurial competencies and uptake of venture capital by small and medium enterprises in of selected venture capital beneficiaries of Kenya commercial bank has very little information. This study therefore sought to hence the motivation for the study that sought to establish and answer the question: does capital gearing and entrepreneurial competencies affect uptake of venture capital by SMEs in Kenya?

1.3 OBJECTIVES OF THE STUDY

- i. To determine how capital gearing affects uptake of venture capital by SMEs in Kenya
- ii. To examine how entrepreneurial competencies of owner/manager affects uptake of venture capital by SMEs in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 Resource-Based Theory

Resource-based theory was adopted as the main anchor theory of this study. Resource-based theory has been applied from early 1930s but is still and it came back to light in 1990 when Jay Barney reengineered it with his study on "firm resources and sustained advantages" and this has been seen as pivotal in the emergence of resource-based view. This theory throws

light into how an organization in the same sector performs better than others. The theory lays emphasis on the internal resources of the organization in developing its strategy to achieve a sustainable competitive advantage in the market. According to the theory, not all resources of the organization are important to enable it to generate competitive advantage. For an organization to achieve the advantage, its ability to generate average profits the resources must be inimitable, valuable, non-substitutable and non-transferable (Kraaijenbrink, Spende, & Groen, 2010). This shows that different performances are attributed to distinct resources and capabilities. According to Fahy (2009), elements of resource-based theory are strategic choices by management, the characteristics and kind of advantage generating resources, superior performance and competitive advantage. Business enterprises combine different sets of resources to achieve competitive advantage. According to Shook (2009) each organization possess different capabilities and resources; and the way organization maintains, acquires, bundles, develop and applies the resources will definitely lead to superior performance and having a competitive edge within a given period of time. Resources of an organization constitute the tangible assets, external assets and intangible assets (Hunt & Derozier, 2004). This theory indicates that capital gearing is strategic and affects performance; it shows the relationship between capital gearing and uptake of venture capital by SMEs of the organization and resources available at their disposal.

2.1.2 Institution Theory

Goguen and Burstall came up with this theory in 1984. Institution theory puts emphasis on the organization environment, which is important in shaping firms' structure and actions. The theory states that decisions are not purely driven by rational goals of efficiency but by cultural and social factors and apprehensions for acceptability. Organizations are elated by structures, routines, cultures and operate at several levels. According to institutional theory, organizations become the same because of pressure for sincerity and isomorphic. Which implies that organization that deal with same products or services tend to be homologous within a period, customer needs and requirements facilitate copying other corporate leaders. According to Othman (2009), organizations are likely to be induced to adopt what peers do by external isomorphic pressures from competitors, government, trading partners and customers.

Institutional theory emphasizes social behaviour, which considers organization process by which configurations, schematics, guidelines, customs and procedures that are conventional as commanding strategies. According to the theory, strategies are influenced by other external factors that include political, social and economic pressure and decision-making within the firm seek to legitimize their practices to other stakeholders (Othman, 2009). The institutional theory's core concept is that organizational process and structures tend to achieve and acquire stability in their own way rather than on the basis of examining organizational innovations and practices that have no technical perseverance and, therefore, these do not enhance performance. Although scholars vary in the relative emphasis on the elements and level of analysis at which they work, studies recognize the common theme that social behaviour and associated resources are anchored in rules and schemas. Notwithstanding the above, critiques of institutional theory argue that researchers have overlooked the problem of appropriately measuring the institutions (Bjorck, 2004).

Sudbay (2010) contends that institutional research moved from treating organizations as sediment (taken for granted) to being hyper muscular. Sudbay (2010) further postulates that institutional theory should focus more on the processes of how the organizations become institutionalized rather than on the effects of institutionalization. (Bjorck, 2004; Braton & Ahlstrom, 2010) are proponents of the institutional theory as suggested by Hoskisson (2000

cited in Bratton and Ahlstrom, 2010). Institutional theorist Oliver (1997) postulates that institutional theory is particularly powerful in examining international related topics which relate to institutions. Daft (2007) concurs that factors such as structure, strategy, culture, policies and practices and technology play a crucial role in the overall performance of the organization. Institution theory provides a useful framework for analyzing questions about how organizations interact with their environment and how factors become institutionalized over time. Today, this theory has been welcomed and it is applicable in the areas that affect organizational policies, strategies, structures and procedures in the organization and how they become institutionalized over time as the organization interacts with its environment. This in turn affects how it performs in today's turbulent and competitive environment. The theory states that decisions are not purely driven by rational goals of efficiency but by cultural and social factors and apprehensions for acceptability. Organizations are elated by structures, routines, cultures and operate at several levels.

2.1.3 Pecking Order Theory

This theory was originally developed by Donaldson and in 1984 and was modified by Myers and Majluf who made it popular. Pecking order theory indicates that managers have more information on organization or business performance than the subordinates. Some businesses have higher level of asymmetric information such are organization with complex production and have less accounting transparency. The theory states that large businesses prefers to be financed with internal funds while small firms that lack resources will have to rely on debt financing. In simple terms the theory suggests that organization will decrease or increase their debt ratio if they have a positive cash flow (Vanacke & Manigart, 2010). Business enterprises are concerned not only by current but also future financial cost. When a business climbs up the pecking order, it is faced with an increase in these costs. When the business has higher probability of incurring financial distress cost and has a higher chance of surpassing future financial obligations (Quan, 2012). The study adopted this theory because it explains the decisions in organization are based on internal factors such as capital gearing, ownership structure of businesses and organizational innovativeness.

2.2 Empirical Literature Review

2.2.1 Capital Gearing and Uptake of Venture Capital

Chowdhury and Maung (2013) investigated the effects of corporate entrepreneurship and debt financing with references to Gulf Cooperation Council countries. The objective was to establish if lack of entrepreneurship in publicly listed Gulf Cooperation Council affects their ability to acquire debt financing. The study used stochastic frontier approach and estimated an optimal revenue function given operating expenses, labour cost and the existing physical infrastructure of the organization. According to Chowdhury and Maung (2013), the differences between the optimal and actual level of organization revenues from the revenue frontier function, which partially results from managerial inefficiency due to a lack of corporate entrepreneurship and the study applied the use of fixed effect panel regression and simultaneous equation system to determine the effects of such inefficiency on debt financing. The study found out that entrepreneurial activities increase organization ability to borrow money from financial institutions. The study also established that increased lending improves internal governance practices and indirectly compel the management to become more efficient. Their study concluded that improved entrepreneurship affects organization access to external financing when the financial markets are under developed and plagued with information asymmetry and agency problems (Chowdhury & Maung, 2013).

Lai, Chiu and Liaw (2010) investigated the external corporate venturing broadens organization technological scope and the role of complementary assets. The study adopted resource-based view and organizational learning that was aimed at exploring how external corporate venturing options influences the technological scope. The data was collected from 583 IT firms in Taiwan from 1997 to 2006. The study found out that external corporate venturing facilitates an established organization broadening of its technological scope. The study established that increasing investments in specialized complementary assets will urge firms engaged in external venture capital to concentrate on their technological scope. Miller and Wesley (2010) also conducted an assessment of resources for social change with the aspect of organizational identity perspectives on social venture capitalist decision criteria. The study adopted organizational identity theory where it examined how dual identity of social ventures grounded within social and entrepreneurship sector prompts social venture capitalists have emerged to provide a new source of finding social entrepreneurship that value capital gearing and goals. The study established that funding criteria of both sector is influenced by social venture capitalists assessment and the entrepreneurial sector were relied on strongly during the assessment.

Weru and Rotich (2017), examined strategic determinants of access to venture capital among SMEs in Nairobi County in Kenya. The study adopted a descriptive research design with a target population of 594 finance managers and a sample size of 119 respondents that was arrived at using stratified random technique and structured questionnaires were used for data collection. Data was analyzed using SPSS version 17.0. The study established that the level of information awareness affects access of venture capital financing in their organisation to a great extent and in relation to resources on access of venture capital. It established that it has a great effect on access to venture capital financing by SMEs. The study also found out that entrepreneurial competence affects access of venture capital financing to a very great extent (Weru & Rotich, 2017).

2.2.2 Entrepreneurial Competencies of Owner/Manager and Uptake of Venture Capital by SMEs

Aggarwal, Kryscynski and Singh, (2015) carried out an evaluation of venture technical competence in venture capital investment decisions. The study collected data from 33 venture capitalists and 308 enterprises. It established that corporate venture decision predicts venture capital investments while venture technical competence predicts subsequent failure. The study also established that technical competence leads to higher assessments. The researchers concluded that venture technical competence enhances accuracy of corporate venture decisions in a positive way. Xiang (2009) investigated entrepreneurial competencies as a distinctive examination of the competency approach in defining entrepreneurs. The study assumed that entrepreneurial competency differentiates entrepreneurs from non-entrepreneurs without empirically examining it in his research. The study surveyed business owners and managers and adopted discriminant analysis. It established that business owners generally possess higher level of entrepreneurial competence than the business managers. The managers can be discriminated based on their entrepreneurial competency level, which supported the study hypothesis.

Mitchelmore and Rowley (2010), reviewed literature on entrepreneurial competence that was aimed at providing an integrated account of contributions relating to entrepreneurial competence by various scholars from different countries and across different sectors at different points and develop an agenda for future research and the practice in relation to entrepreneurial competencies. They concluded that the concept of entrepreneurial competencies is used widely by government agencies and other drivers of economic

development and business success, as the core concept of entrepreneurial competence. Its measurement and its relationship to entrepreneurial performance and business success need further research. The study integrated models of entrepreneurial competence that are aimed at developing an entrepreneurial competency framework. Mitchelmore and Rowley (2013) also conducted another study on the impact of entrepreneurial competencies on organisation growth and performance. Their aim was to conduct an empirical research into the competencies reported by women entrepreneurs who are committed to growth of their enterprises. The study used a survey based questionnaire that was distributed to women entrepreneurs in Wales and England. The study established that personal and human relations, management and entrepreneurship are valued highly by women entrepreneurs than the male counterparts. The study concluded that female entrepreneurial competence framework could be used to support women entrepreneurs in self-assessment of their competencies.

Song, Daisy and Kee (2018) investigated the core competence of successful owner-managed SMEs. The study's aim was to measure the impact of uptake of venture capital leadership entrepreneurial, competence and technical competence on organization performance using innovations in SMEs. The study collected data from 178 SMEs in Malaysia using questionnaires that were analyzed using partial least squares structural modelling. The findings showed that there is a link between innovation process and uptake of venture capital leadership, and all relationships linking uptake of venture capital leadership, entrepreneurial and technical competencies with innovativeness were significant. Leadership and innovations are management core components that positively impact on SMEs uptake of venture capital and sustainability to do well in business with fewer resources (Song, Daisy, & Kee, 2018).

Sabana (2014) investigated the relationship between entrepreneur's financial literacy, financial access, transaction costs and performance of microenterprises in Nairobi, Kenya. The study sampled 396 SMEs that were drawn from the target population and questionnaires were used to collect data. The data was analyzed using descriptive statistics. Regression and correlation analysis were applied to show the relationship between variables. The study findings established that entrepreneur financial literacy had a statistically significant influence the performance and at the same time it has a statistical significant on financial access. Therefore, the hypothesis that financial literacy influences financial access was supported. The study also revealed that intervening influence of financial access on the relationship between entrepreneur financial literacy and performance microenterprises was statistically significant (Sabana, 2014).

2.3 CONCEPTUAL FRAMEWORK

The research study was guided by a theoretical structure. The conceptual model that is presented and adopted for this research has been derived from the literature review, the study variables on the framework have been used to develop research questions that were tested during the study.

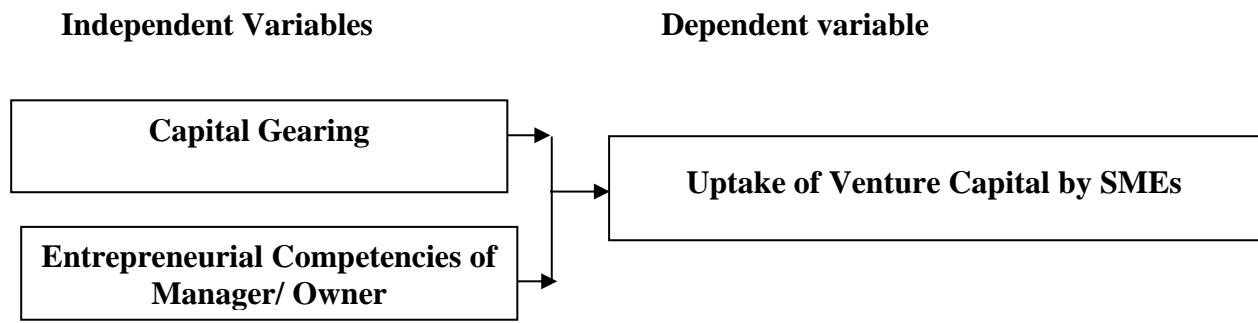


Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

The study employed descriptive research design. This design was the most appropriate because it ensures that the data obtained gives suitable answers to the research questions. Descriptive study was used to describe characteristics of a population or phenomenon under the study. The data collection was done by asking the target representative population structured and pre-determined questions. Target population consists of a group of entities or elements that might be huge than or distinct from sampled group from which the researcher draws conclusions on the interested population. According to Kondo (2018), over 10,519 SMEs have benefited from venture capital in Kenya through KCB Lions’ Den and KCB 2Jiajiri. However, according to KCB, data was available for only 300 beneficiary SMEs, Thus, the study targeted a population of 300 beneficiaries from the list, as tabulated in Table 2.

Specifying the sample frame is crucial as it itemizes all items in the population from which a sample is obtained for analysis to test the research propositions. According to Kothari (2009), a sample size of between 10% and 30% is a good representation of the target population, for populations below ten thousand. In stratified random sampling, the population is categorized into various categories. Random sampling was then applied in the selection of the respondents from each of the strata. The study adopted a stratified random sampling technique to select 30% of the target population as the sample size and as recommended by Mugenda and Mugenda (2003). Therefore, the sample size for this study was 90 SMEs and the questionnaire was filled by one person from each SME, either the owner/manager or a nominee appointed by them.

Data gathering includes a procedure that is exact and involves deliberate social event of data applicable to the exploration sub-issues. The researcher utilized questionnaire as the essential instrument for information gathering. Questionnaire was formatted to contain sections reflecting the study variables. Closed questions were employed in each section for collection of respondents’ views and opinion. The data was collected via drop and pick technique to target population. Use of self-administered questionnaire is recommended for eliciting self-report on respondents’ opinion, attitude and value (Kombo & Tromp, 2009). The questionnaires are deemed reasonable because of the high literacy levels among the category of participants selected in the study.

Pilot study was conducted on 10 enterprises that have benefited from venture capital from KCB Lions’ Den. The piloting was carried out before primary research to build up reliability and validity of instrument of information gathering (Kombo & Tromp, 2009). It was completed before main examination to try out instrument by my research supervisor. Changes and adjustments were conducted to the poll after study piloting was conducted in readiness

for primary exercise. The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2016). The study adopted content validity to examine the degree to which data was collected with the aid of questionnaires. Before using the questionnaires for generating data for the study, a pilot study was conducted with 10 SMEs in Nairobi; one questionnaire being filled by either the owner/managers or a nominee they appointed. For this examination, the researcher looked for suppositions of specialists in study fielding particular speakers in the division of venture administration to set up the validity of the exploration instrument and also the study supervisor assisted in validating the study questionnaires. This encouraged the important amendment and change of the examination instrument in this manner improving validity.

Reliability refers to the repeatability, stability or internal consistency of a questionnaire. Cronbach's Alpha was used to test the reliability of the measures in the questionnaire (Cooper & Schindler, 2016). In this study, data collection instrument, which is a questionnaire, was conducted on 10% of the sample of the questionnaires to ensure that it was relevant and effective. Reliability was tested using questionnaire duly completed by 10 randomly selected respondents. These respondents were not included in the final study sample to control response biasness. The use of different measures for the same concept or the same measurements repeated over time should yield the same results if the test is reliable (Treiman, 2009). The questionnaire responses were input into SPSS Version 24 and Cronbach's Alpha coefficient generated to assess reliability. The closer Cronbach's Alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2008). A coefficient of 0.7 is recommended for a newly developed questionnaire. Reliability is the degree to which a question is consistently measured (Sekaran & Bougie, 2013). Cronbach's Alpha is a popular method for estimating the reliability of an instrument, but it is highly inappropriate for the survey questionnaires. The study used co-efficient of 0.7 and above for all constructs that were considered adequate for the study.

The construct multiple of reliability is Cronbach Alpha, according to Kombo and Tromp (2009). The standard acceptable reliability coefficient is 0.7 the study adopted. Cronbach Alpha was used to test research instruments reliability. According to Mugenda and Mugenda (2003), a reliability test of research instruments is one that consistently produces the expected results. According to Kothari (2009), a questionnaire has the same expectation, that is, it reliably does what it is designed to do every time it is used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. They say that because of economy in time and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test. The researcher used the questionnaire and administers the questionnaire to 10 respondents from the target population randomly. Reliability test was carried out in evaluating the study questionnaires, this was important to examine the degree to which individual study variables used are consistent with their measures. The widely used Cronbach's coefficient alpha was employed to assess internal consistency. Zikmund (2010) posits that a Cronbach Alpha of 0.6 is the acceptable minimum. As recommended by Saunders, Thornhill, & Lewis (2009), the reliability results exceeded coefficient of 0.7 revealing a very high degree of reliability. All the alpha coefficients ranged between 0.7 and 0.9 as shown in Table 3 Based on the coefficient values, the items tested were deemed reliable for this study.

According to Kombo and Tromp (2009), data collection is important in research because it allows for the dissemination of accurate information and development of meaningful programmes. The researcher informed the respondents that the instruments being administered was for research purposes only and the response from the respondents remained confidential. The researcher obtained an introduction letter from the Management University

of Africa and a permit from the National Commission for Science, Technology and Innovation (NACOSTI) in order to collect data from the field and then personally delivered the questionnaires to the respondents. The respondents were guided through the inquiries and outlined contrasting options to guarantee proper reaction. Drop-and-pick later strategy for information accumulation was conducted to improve the reaction rate. The data was then transformed into one form of qualitative data taking up numerical and quantitative forms for ease of analysis.

According to Zikmund (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. This involves coding, editing, data entry and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected. The data and information obtained through the questionnaire was first checked for completeness. Data gathered from correctly filled questionnaires was coded, tabulated and analyzed using SPSS Version 24 by both descriptive statistics, which include mean and standard deviation, to capture the characteristics of the variables under study. Additionally, to test the significance of organizational factors on the uptake of venture capital, the study conducted inferential statistics. Since most organizational factors are constructs factor analysis was used to reduce the constructs into factors that were used in the regression mode. The data was presented using graphs and tables. The analysis of variance (ANOVA) was checked to reveal the overall model significance. A critical p value of 0.05 was used to determine whether the overall model was significant or not. A multiple linear regression model was used to test the significance of the influence of the independent variables on the dependent variable. To estimate model of composite index of uptake of venture capital measure, y a regression constant or intercept, β_1 to β_4 are the regression coefficient. The multiple linear regression model was as laid below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where: Y = the value of dependent variable. Uptake of venture capital

$\{\beta_i; i = 1, 2, \dots\}$ = coefficients representing the various independent variables.

$\{X_i; i = 1, 2, \dots\}$ = are values of the various independent variables.

e is the error term.

Y = Uptake of Venture Capital; X_1 = Capital Gearing and X_2 = entrepreneurial competencies of owner/manager

4.0 FINDINGS AND DISCUSSIONS

The study gave out a total of 90 questionnaires to the sample population and the valid sample that was used for the study is 80. ($n=80$). The responses from the filed data show that most respondents who participated in the research study were female. The majority indicated their age was between 31 and 40, followed by respondents aged between 26 and 30. The respondents indicated their level of education and majority had attained diploma level of education.

Relationship between Capital Gearing and Uptake of Venture Capital

A regression analysis conducted to empirically determine if capital gearing is a significant determinant of uptake of venture capital by SMEs in Kenya was done. Results in Table 4 show R at 0.577, which is a strong positive correlation between capital gearing and uptake of

venture capital by SMEs in Kenya. This implies a satisfactory regression fit between capital gearing and uptake of venture capital. The R squared of 0.333 denotes 33.3% of decisions in uptake of venture capital are explained by capital gearing. The unexplained 66.7% could be accounted for by other factors including organisation innovativeness, ownership structure and entrepreneurial competencies of owner/managers.

Table 1: Model Summary for Capital Gearing

Model	R	R Square	Adjusted R Square	Std. Error
1	0.577 (a)	0.333	0.324	0.63297

The overall model significance presented in Table 2 indicates the F statistics of 38.871 and sig. of 0.000. This shows that the overall model was significant and capital gearing is significant in the uptake of venture capital by SMEs in Kenya.

Table 2: ANOVA for Capital Gearing

Model		Sum of Squares	Df	Mean Square	f	Sig.
1	Regression	15.574	1	15.574	38.871	0.000(b)
	Residual	31.251	78	0.401		
	Total	46.825	79			

The results of coefficients (p=0.000) represented in Table 2 show that capital gearing significantly influence the uptake of venture capital since the p-value for the constant and gradient are less than 0.05. Thus, the amount of debt a SME has relative to its equity influences uptake of venture capital decisions at the rate of 0.577.

Table 3: Regression Coefficients Results of Capital Gearing

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error				Lower Bound	Upper Bound
1	Constant	1.152	0.407		2.831	0.006	0.342	1.962
	Capital Gearing	0.687	0.110	0.577	6.235	0.000	0.468	0.907

The regression model $Y=B_0+B_1X_1$ explaining the results in Table 3 are given by:

$$Y= 1.152+0.687X_1$$

Relationship between Entrepreneurial Competencies of owner/manager and Uptake of Venture Capital

Regression analysis was run to empirically determine if entrepreneurial competencies of owner/manager was a significant determinant of uptake of venture capital by SMEs in Kenya. The results, R=0.609, in Table 4 shows a strong positive correlation and denotes a satisfactory goodness of fit for regression between entrepreneurial competencies and uptake of venture capital. The R squared of 0.371 indicates that 37.1% of uptake of venture capital decisions is explained by entrepreneurial competencies of owner manager. The unexplained 62.9% could be accounted for by other factors including ownership structure, ownership structure and capital gearing.

Table 4: Model Summary for Entrepreneurial Competencies

Model	R	R Square	Adjusted R Square	Std. Error
1	0.609 (a)	0.371	0.363	0.61465

The overall model significance was presented in Table 5. The F statistics of 45.944 and sig. 0.000 indicates that the overall model was significant implying that entrepreneurial competencies of owner/manager is a significant determinant for the uptake of venture capital by SMEs in Kenya.

Table 5: ANOVA for Entrepreneurial Competencies

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	17.357	1	17.357	45.944	0.000(b)
	Residual	29.468	78	0.378		
	Total	46.825	79			

The results of coefficients represented in Table 6 show that entrepreneurial competencies of owner/manager contributes significantly to the uptake of venture capital since the p-value for the constant and gradient are less than 0.05, that is p=0.000. Therefore, any positive unit change in entrepreneurial competencies of owner/manager influences uptake of venture capital decisions positively at the rate of 0.609.

Table 6: Regression Coefficients Results of Entrepreneurial Competencies

Model		Unstandardize		Standardize	T	Sig.	95% Confidence Interval for B	
		d	Coefficients				B	Std. Error
1	Constant	1.096	0.383		2.86	0.00	0.462	2.238
	Entrepreneurial Competencies	0.713	0.105	0.609	6.77	0.00	0.363	0.809

The regression model $Y=B_0+B_2X_2$ explaining the result in Table 6 is given by:

$$Y= 1.096+0.713X_2$$

Multivariate Regression

A multiple regression analysis was carried out to investigate the joint causal relationship between organizational factors and uptake of venture capital by SMEs. The predictors were organizational innovations and ownership structure. Regression results presented in Table 9 indicated a satisfactory goodness of fit for the regression of the combined organizational factors (organizational innovativeness and ownership structure) and uptake of venture capital by SMEs in Kenya. The R was 0.750, which implies strong positive correlations between the organizational factors and uptake of venture capital by SMEs in Kenya. An R squared of

0.563 indicates that 56.3% of uptake of venture capital is explained by the organizational factors. Only 43.7% is dependent on other determinants.

Table 7: Model Summary for Organizational Factors

Model	R	R Square	Adjusted R Square	Std. Error
1	0.750 (a)	0.563	0.539	0.52254

ANOVA results for the overall model were presented in Table 8. The results indicated that the overall model was significant, that is, organizational factors were good joint explanatory determinants for uptake of venture capital by SMEs in Kenya ($f=24.123$, p value=0.000).

Table 8: ANOVA for Study Variables

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	26.347	4	6.587	24.123	0.000(b)
	Residual	20.478	75	0.273		
	Total	46.825	79			

The model then became: $Y = 1.152 + 0.687X_1 + 1.096 + 0.713X_2 + 0.005$

5.0 CONCLUSION

The study concludes that capital gearing influences the uptake of venture capital by SMEs in Kenya to a great extent in that it is an effective strategy, especially for organization if the capital gain tax and income return of the geared investment exceeds after tax costs of funding investment, as long as net gains from the organization investments are over the long term outweigh the borrowing cost. Capital gearing is considered as an effective long-term strategy because results have shown that over a long term growth-based investments can deliver higher possible returns. Capital gearing reflects the debt amount used in capital structure of the organization and has an impact on returns of a change in the extent to which organization asset are financed with borrowed funds. Capital gearing is a prerequisite for organization achieving optimal capital structure hence, the determination of optimal debt level and the impact on the organization overall capital structure that is regarded as an integral organization financial decision. Finally, the study concludes that entrepreneurial competencies of owner or manager influence and determine uptake of venture capital by SMEs in Kenya to a great extent. Entrepreneurial competencies have higher level characteristics encompassing personality traits, knowledge and skills that are the total ability of the entrepreneur to carry out their duties successfully. In entrepreneurship, major competence areas are identified as commitment, opportunity, strategic, organizing and conceptual competencies. Successful entrepreneurs are characterized as diligent people with a restless attitude in their work. Strong entrepreneurship competence is totally committing, dedicating and determining as well as taking proactive actions towards responsibilities and duties that also include proactive orientation, which calls for the entrepreneurs taking actions before being asked or forced to by events. The commitment competencies are those that drive the entrepreneur to move ahead with the business.

6.0 RECOMMENDATIONS

The study recommends that SMEs with high capital gearing should attract a large amount of debt that is relative to their equity. SME owners and managers should know that the gearing ratio is the measure of financial risk and expresses the amount of an organisation's debt in terms of equity. SMEs with a gearing ratio of 2.0 would have twice as much debt as equity. Another recommendation for SME owners and managers is that venture capitalist does not only assist in provision of funds but also in the internal operations of the businesses, especially policy formulation. Therefore, SME owners and managers should be aware that venture capital has demonstrated the business case for SMEs investment. Venture capital has the potential of assisting Kenya in achieving Vision 2030 which advocates strengthening SMEs to become key industries of tomorrow, the study recommends that more corporate financial institutions and individuals should be encouraged to join venture capital initiatives to build the fund capacity for more investment. The study recommends that given the importance of entrepreneurship to economic growth and the new job creation, policymakers and instructors may consider developing competency-based training and education programmes to enhance the competence of both non-entrepreneurs to make them entrepreneurs as well as to improve entrepreneur's competence to better fulfil their entrepreneurial role. The study suggests a research on uptake of venture capital by corporate organizations in Kenya, whereby the study should seek to provide more insights on the current study findings and validate the finding.

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