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Abstract

Venture capital is a recent source of capital for businesses in Kenya. Most businesses tend to look internally for primary funding before considering finances from banks and cooperative societies. 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 main objective of this research study was to establish the influence of organisational factors 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 organisational innovativeness affects uptake of venture capital by SMEs and to establish how ownership structure of business affects uptake of venture capital by SMEs. The study was anchored on resource view-based, institution and pecking order theory. The study employed descriptive research design with a target population of 300 SMEs who had benefited from venture capital in Kenya through KCB Lions' Den and KCB 2Jiajiri. The researcher sampled 90 respondents, randomly selected and gathered primary data by use of questionnaires in a Likert scale. However, the researcher conducted a piloting exercise to build up reliability and validity of the instrument before data collection. Data gathered from correctly filled questionnaires was coded, tabulated and analysed using Statistical Package for Social Sciences (SPSS) Version 24. The study adopted descriptive and inferential statistics to capture the characteristics of variables under study and analyse the relationship between dependent and independent variables. The researcher conducted this study within the set ethical standards. The study established that organisational innovativeness had a positive and significant effect on uptake of venture capital with β=0.586, t=5.228 and R^2 of 0.259, hence influence uptake of venture capital by SMEs to a great extent and a fundamental pillar to growth and entry to a new market place. Ownership structure had a positive and significant effect on uptake of venture capital (β=0.685, t=5.747) and R^2 of 0.297, thus, determines uptake of venture capital by SMEs to a great extent and primary driving factor for investor and creditors decision. The study recommends that SMEs should invest in research to create innovative products and least cost processes thus continuously enhancing organisational innovativeness. Owners/managers should strive to take up more venture capital since the venture

capitalists do not only assist in provision of funds but can also contribute to the internal operations of the businesses, especially policy formulation.

Keywords: *Organisational Factors; Organisational Innovativeness; Ownership Structure; Venture Capital; Venture Capital Beneficiaries; Kenya Commercial Bank*

1.1 Background of the Study

Uptake of venture capital is 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 organisation (Sharma & Crisman, 2009). Weiblen 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 organisation 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 because 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 that determine the process of uptake of venture capital are opportunity recognition, organisational flexibility and a firm's ability to initiate entrepreneurial actions (Zahra, 2013). They are similar across the board for venturing companies. The researcher founded this study on these three main variables to further interrogate and 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 organisation, strategy and output of the business (Arvin, Cho, Sang, & Mousa, 2016).

A study by Ning, Xu and Long (2019) conducted in China examined what drives the capital venture investments in the Asian country. The study examined the venture capital organisations in China over aduration of 20 years from 1995 to 2014, the authors used multiple regression models with lagged variables to demonstrate the history of high growth with significant variations over time. The study established that the amount of venture capital investments are all significantly impacted by macro-economic conditions such as export, money supply, technological innovations, initial public offerings, interest rates, price to earning ration and gross domestic product (GDP), among others. The findings indicate the 2007 stock market crush and the subsequent global financial crisis motivated venture capitalism in China (Ning, Xu, & Long, 2019). In Africa, a study Kolade (2018) conducted in Nigeria examined capital venture under fire with reference to entrepreneurship education, venture creation and poverty reduction in conflict prone Maiduguri region. The study established that entrepreneurship education programme is required for generating awareness and facilitating skills development, poverty reduction, contributing to new venture creation and positive mindset, which impacts on the inadequate support through venture capital and limited facilities for business incubation (Kolade, 2018). In South Africa, a study by Afful-Dadzie and Afful-Dadzie (2016) examined the decision-making model for selecting start-up business in government capital scheme. The study's intentions were to propose an intuitionistic fuzzy technique for order preference by similarity to ideal solution multiple criteria for

selecting SMEs and start-ups in government founded venture capital. The study established that most of the government-funded venture capital funded start-up and SMEs underperform compared to private capital ventures due to a lack of transparency and unfairness in the selection process.

Venture capital is a recent source of investment for businesses in Kenya. Kenyan businesses tend to look internally for primary funding for business development. Next, they consider 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. It is at this point, where corporate investors become an 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, although investors are protected under the Constitution of Kenya in the Capital Markets Act, Cap 458 A and the Foreign Investments Protection Act, Cap 518. According to the international audit firm KPMG, 2017 global venture capital investments hit an all-time high of $155 billion (15.6 trillion KES). Regrettably, no African countries were included in Venture Pulse, the KPMG venture capital funding quarterly report that shows the global trends in venture funding. A local KPMG report for the fourth quarter of 2016 stated that private equity firms raised $250 million (25.95 billion KES) in 2016 (KPMG, 2017). 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. The venture capital process begins with the entrepreneur recognising an opportunity for investment. In the past, investors identified potential businesses opportunities in antiquated manner, involving collecting data on businesses through questionnaires and interviews. Sandberg and Hofer (2008) questioned this methodology due to its reliance on humans to make decisions. There is no fixed decision-making process since investors can use multiple methods to get information relevant to a firm. The principal evaluation criteria involve five steps, namely, deal origination, deal screening, deal evaluation, deal structuring and post investment activities. Deal origination is the stage of identifying a potential business investment checking criteria such as management skill and experience, market growth and size, product attributes, the venture team and expected returns. Deal screening is the stage of review of business project. Investors review the business plan, assess perceived risks and consider potential return at a deal evaluation stage. Deal structuring involves the negotiation and establishment of the business agreement. Post investment activities involve 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 inhibit 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 recognise 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).

According to Guday, Ulusory, Kilic and Alpkan (2011), innovation is one of the fundamental pillar of organisational growth and entry in new market place. It also helps to increase the exsiting market share and provide organisation a competitive edge amidst increasing tight competition in the marketplace that has been characterised by globalisation. Organisations have started to hold the significance of innovation since dynamics technologies and real competition in the global arena quickly wear away the value-added of existing services and products. Therefore, inventions entail a crucial element of the company strategies for many reasons like applying for manufacturing processes that are more productive, to improve the market, to look for positive image in the perception of the customer and hence to increase justifiable competitive advantage (Kiraka, 2013).

Organisation innovativeness strategy describes work of innovation and invention and gives direction in implementation. However, the role of innovation in assisting companies attain their growth objectives is often not clear and revenue development from innovation is not enough, except when managed with great precision. While there are many theories about and many good articles on innovation strategies, many organisations fail to grow and implement an innovation strategy or inventions with market effect. The term strategy infers something having a potential and huge effect on the firm (Guday, Ulusory, Kilic & Alpkan, 2011). Innovations give firms strategic direction to overcome the challenges they go through while trying to attain justifiable competitive advantage. Introduction of new and better product determines the future of a firm these days. Innovation can be seen as a successful introduction of specific novel and useful things. Innovation entails acting on the creative ideas to make particular and considerable differences in the scope in which innovation has been implemented. Therefore, innovation is the implementation of new thoughts to the products, processes, and management practices and marketing, or any other features of organisation activities that lead to better value (Lin, Peng, & Kao, 2008).

Organisations have various stages of innovative abilities. However, innovative actions require being intensive on many features instantaneously like new products, new firms and marketing practices, and new procedure technologies. Moreover, for any innovation to be considered successful it must have a positive impact on the performance of a firm (Guday, Ulusory, Kilic, & Alpkan, 2011). Thomsen and Conyon (2012) define ownership structure as the distribution of equity concerning share capital and by the identity of the equity owners. The measurement of ownership structure is the percentage of shares held. Berghe and Levrau (2010) explains that ownership structure is primarily the driving factor both for investor and creditors because owners of a firm have economic relations with the organisation and influences the type of decisions taken by the organisation to decrease the level of financial risk and improve growth, development and performance. This is because ownership structure has the capacity to put good governance mechanism structure in place to boost organisational capacity to attract outside capital and investment. Lioui and Shaema (2012) suggested that organisation ownership and capital structure decisions reflect attempts to mitigate problems between various stakeholders to avoid potential conflicts of interest between a controlling shareholder and minority investors.

Ownership identity relates to the identification of the shareholders and levels of shares they have in a business. Majority shareholders can influence decision-making. The main classification of business owners are foreign, domestic and institutional investors. Berghe and Levrau (2010) suggest that state ownership is when ownership of a resource is vested in the state, or any major branch of the state. The overlap between control and ownership should lead to a reduction in conflicts of

interest resulting in higher firm value. The kind of conflicts that might exist includes wrangles between the shareholders and managers, lenders and shareholders or among the shareholders. According to Lioui and Sharma (2012), an organisation's ownership structure can be determined by looking at managerial ownership, institutional ownership and ownership concentration.

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.

1.2 Statement of the Problem

The challenge 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, unfavourable 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 undesired strategic options such as restructuring, downsizing, mergers and privatisation (Agusto, Lisboa & Yasmin, 2014). This inhabiting the growth of SMEs.

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. 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. Lack of awareness inhibits SME's drive to target and apply for venture capital. In effect, many SMEs owner/managers do not make conscious efforts to enhance key organisational factors that could make their enterprises lucrative for venture capital funding. In the first season of Lions' Den TV show, 59 entrepreneurs received capital worth KES 291,000,000. Applications to participate in the show increased to 6,500 in season two. In 2018, the applications were more than 10,000 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. Several studies conducted in relation to venture capital in Kenya mostly focused on role of venture capitalist. Ngugi (2006) carried out a study on the role of venture capital in financing technology-based 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 established that unawareness is the

major contributing factor. Although this study has a bearing to work of other research, the influence of organisational factors and uptake of venture capital by small and medium-sized enterprises from the perspective of venture capital beneficiaries in Kenya has very little information. Hence, the motivations for this study seeking to establish and answer the question: what are the organisational factors that influence uptake of venture capital by SMEs in Kenya?

1.3 Objectives of the study

i. To examine how organisational innovativeness affects uptake of venture capital by SMEs in Kenya
ii. To establish how ownership structure of businesses affects uptake of venture capital by SMEs in Kenya.

2.0 Literature Review

2.1 Theoretical Literature Review

2.1.1 Resource-Based Theory

This study adopted resource-based theory as the main anchor theory. Resource-based theory applied in early 1930s got back to light in 1990 when Jay Barney reengineered it with his study on "firm resources and sustained advantages". This concept is as pivotal in the emergence of resource-based view. The theory sheds light into how an organisation in the same sector performs better than others and lays emphasis on the internal resources of the organisation in developing its strategy to achieve sustainable competitive advantage in the market. According to the theory, not all organisational resources are important for generating competitive advantage. For an organisation to achieve an advantage, 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 organisation possess different capabilities and resources. 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. Resources of an organisation 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 organisation 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 organisation 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. Organisations are elated by structures, routines, cultures and operate at several levels. Which implies that organisation 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), organisations are likely to be induced to adopt what peers do by external isomorphic pressures from competitors, government, trading partners and customers.

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Institutional theory emphasises social behaviour, which considers organisation 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 legitimise their practices to other stakeholders (Othman, 2009). The institutional theory's core concept is that organisational process and structures tend to achieve and acquire stability in their own way rather than based on 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 recognise 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).

Suddbay (2010) contends that institutional research moved from treating organisations as sediment (taken for granted) to being hyper muscular. Suddbay (2010) further postulates that institutional theory should focus more on the processes of how the organisations is institutionalised rather than on the effects of institutionalisation. (Bjorck, 2004; Braton & Ahlstrom, 2010) are proponents of the institutional theory as suggested by Hoskisson (2000 cited in Braton and Ahlstrom, 2010). Institutional theorist Oliver (1997) postulates that institutional theory is particularly powerful in examining international topics related 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 organisation.

Although researchers have attempted to study these institutional factors, the process with which organisations can achieve this relationship is not explained, yet different factors have different effects. Bjorck (2004) further contends that institutional system should be viewed as a class of elements. This is because loci of institutionalised rules, standards and norms do not come from one source, but multiple environments shaped by different actors. This shift is accompanied by other changes such as cultural elements, multiplicity and diversity of organisational sources, markets, strategy, competitors and customers (Othman, 2009). From the foregoing, institution theory provides a useful framework for analysing questions about how organisations interact with their environment and how factors become institutionalised over time.

Today, this theory is applicable in the areas that affect organisational policies, strategies, structures and procedures organisations and how they become institutionalised over time as the organisation interacts with its environment. This in turn affects how it performs in today's turbulent and competitive environment. The study was anchored on this theory because it explains the changes brought about in organisation internal factors such as social values, regulations that affect decision and technological advancements.

2.1.3 Pecking Order Theory

Donaldson developed the pecking order theory in 1984. Myers and Majluf later modified the theory and made it popular. Pecking order theory indicates that managers have more information on organisation or business performance than the subordinates do. Some businesses have higher level of asymmetric information. Such are organisation 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 organisation 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 faces increase in financial costs. When the business has higher probability of incurring financial distress costs, then it has a higher chance of surpassing future financial obligations (Quan, 2012). The study adopted this theory because it explains the role of internal factors such as capital gearing, ownership structure of businesses and organizational innovativeness on decisions organisations take.

2.2 Empirical Literature Review

2.2.1 Organisational Innovativeness and Uptake of Venture Capital

Ji-Hoon and Zong-Tae (2018) conducted a study entiled 'When are Sharks Beneficial: Venture Capital Investment and Statup Innovation Performance' and examined the effects of venture capital investment on start-up innovation performance. However, the effects were enhanced as important but relatively understudied in entreprenuership and strategy research. Ji-Hoon and Zong-Tae (2018) built on the idea of regarding venture capital investment relationship as learning associations and introduced two situational factors as boundary conditions on the performance effects of venture capital investment. The study samples were drawn from start-ups in the human biotechnology industry in the US. The research employed propensity score matching differences techniques. The study established that venture capital investment is beneficial for startup innovativeness when it is established after initial independent venture capital funding (Ji-Hoon & Zong-Tae, 2018).

Ackermann, Stephan and Penrose (2015) examine organisational innovativeness an evidence from corporate narratives. The study was into two folds, which was to quantify the communication of organisational innovativeness on large-scale and also to examine and establish the relationship between communication and the corresponding investments in development of multinational corporations. The researchers examined a total of 3,043 annual reports from 326 multinational corporations while utilising quantitive contents analysis which focused on fixed selected terminologies in the year 1998 to 2008. The authors assumption was that the capacity for organisation innovations was the single most important task in organisational survival. The study used mixed effects regression analysis to analyse the reports and the findings established that corporations that invest in research and development have increased innovativeness. The results show that not only do communications efforts of an organisational innovativeness is of perceived importance but they suggested that innovatiness itself has become more important from a strategic point of view (Ackermann, Stephan & Penrose, 2015). Gikomo (2013) examined the effects of venture capital financing on the growth of SMEs in Kenya with reference to innovation capabilities of the SMEs and how best venture capital can enhance growth. The study targeted top 100 mid-sized enterprises that were ranked in 2012 using a random sample the study choose 30% of the top 100 mid-sized firms. The enterprises were selected through purposive sampling whereby the SMEs were chosen based on fact that they had received venture capital financing. Data was collected using questionnaires and interviews and analysed using inferential statistics that adopted a regression model. The study established that there was a positive and significant relationship between SME growth and venture capital financing. The study also established that increased venture capital financing improves SMEs credit rating, distribution newtworks, marketing and organisation innovation (Gikomo, 2013).

2.2.2 Ownership Structure of Business and Uptake of Venture Capital

Mara, Tommaso, Garrett, and Shaun (2017) conducted a study on 'How Do Family Firms Launch New Business? A Development on Internal Corporate Venturing in Family Business'. The study's conceptual framework depicted that internal corporate venturing in family business consist of two separate and sequential strategic choices that include the decision about the degree of relationship

between the parent organisation and the venture while the second one is the definition of the level venture autonomy. The study was anchored on stewardship theory. The research established family business dynamics and in particular the development of the ownership structure, the influence of how family businesses pursue internal corporate venturing and decisions based on these two steps. The study also established that contingent effect of corporate governance characteristics and of the national legal system affects internal corporate venturing in family business (Mara, Tommaso, Garrett & Shaun, 2017).

A study by Ali, Ashaf and Qiang (2018) investigated the regional dynamics of owneship structure and the impact on firm performance and firm valuation. The study purpose was to analyse the impact of ownership structure on organisation valuation and performance across various geographical regions of mainland China. The study classfied China in six geographical regions. It used cross-sectional data for organisations with A-shares listed on the local stock exchange for the year ending 2015 and data from CSMAR and Wind database was analysed using multivariate regression technique and analytically compared for consistency with the relationship between operational variables of ownership structure with corporate performance and evaluation. The study established that institutional and state ownership negatively affect market valuation throughout various geographical regions of China. Managerial ownership and concetration of shareholding among the top 10 shareholders positively influence the return on equity. Interestingly institutional shareholding negatively affects return on assets while institutional ownership has a impartial effect on profitability in North East China while in East China state ownership and ownership concentration are proportional to profit margins. The study recommended that regions with similar business environment and conditions elsewhere in the world should invite similar ownership structure, which can influence organisation performance and valuation. The study findings outlines the unique understanding of relationships between ownership structure, market valuation and organisation performance. The study results are important for financial institutions, investors and international firms in making investment decisions (Ali, Ashaf, & Qiang, 2018).

Kimani (2017) examined the factors that affect financial access to youth-owned SMEs in Kiambu County in Kenya. The target population was 2,750 registered youth SMEs in the devolved unit. Of the registered SMEs in Kiambu an estimated 2,751 registered SMEs have between one and 50 employees. This study employed stratified random sampling design in obtaining sample from clients. Descriptive statistics was used to analyse data collected. Pearson correlation and regression analysis were used to determine how independent variables influence dependent variable. Statistical Package for Social Sciences (SPSS) software was used to analyse the data. Out of 96 questionnaires that were distributed only 57 were filled and returned, giving a response rate of 59%. Findings revealed that manufacturing industries face more challenge accessing finance than SMEs in trading and service industry, smaller SMEs experience a challenge accessing finance compared to larger SMEs, years of business has been around influence access to finance and registered SMEs are more likely to borrow than the unregistered ones. The findings also revealed that high interest rate influences access to funds. Financial institutions use collateral as security before issuing finance to SMEs. The SMEs must have enough collateral to qualify for a loan. Properly maintained and managed financial records and loan repayment period affects SMEs access to finance (Kimani, 2017).

Karima (2014) examined the effects of access to private equity on the growth of family-owned SMEs. The study adopted a descriptive survey research design. The population in this study was 100 top SMEs registered in Nairobi, acquired from the Nairobi County government records. The study findings established that SMEs need all market participants to ensure the continued growth of

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microfinance and thus the continued impact on poverty alleviation in developing countries. The lack of access to credit is a major constraint inhibiting the growth of SMEs sector, according to the study. SMEs regard external borrowing as the cheapest source of financing because of the tax benefits. Collateral affects requirement of private equity on SMEs growth to a great extent and growth indicators identified in the study findings established an improvement in business efficiency, business costs, increase in sales volume, number of new customer and improvement on new customer satisfaction. The study recommends that SMEs should invest in the right model, especially in the private equity space. Small businesses should have an appropriate capital structure that generates the maximum profit. The researcher proposes that microfinance should serve as a substitute and improve the living standards of the inhabitants and profitable SMEs, which have lot of tangible asset, should be offered as collateral for debt, may have a higher target debt ratio (Karima, 2014).

2.3 Conceptual Framework

The research study was guided by a theoretical structure. The conceptual framework presents and defines the philosophies that attempt to explain the research problem under study with a keen focus on the specific variables being sought in the study. The conceptual model presented and adopted for this research was derived from the literature review.

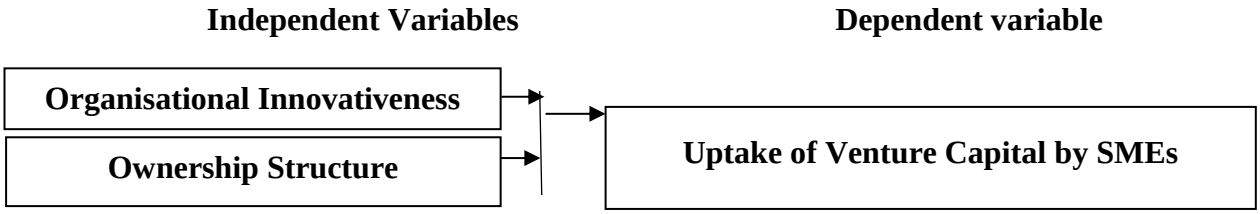

Figure 1: Conceptual framework

3.0 Research Methodology

Target population consists of a group of entities or elements that might be broader than or distinct from sampled group from which the researcher draws conclusions on the interested population (Saunders, Lewis & Thornhill, 2009). According to Kondo (2018), over 10,519 SMEs had benefited from venture capital in Kenya through KCB Lions' Den and KCB 2Jiajiri. However, data was available for only 300 beneficiary SMEs. Thus, the study targeted a population of 300 beneficiaries from the list, as tabulated in Table 1

Table 1: Target population

Sector	Population	Percentage
Food and Beverage	50	17
Manufacturing Sector	50	17
Service Industry	35	12
Technology Sector	30	10
Fashion and Design	45	15
Hair dressing and Barbershops	40	13
Transport Sector	50	17
Total	**300**	**100**

Specifying the sample frame is crucial as it itemises 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 categorised 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. One person from each SME, either the owner/manager or a nominee appointed by themselves, filled the questionnaires.

Data gathering includes a procedure that is exact and involves deliberate social event of data applicable to the exploration sub-issues. The researcher utilised questionnaire as the essential instrument to gather required information. 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 the targeted population. A 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.

The pilot study aims at establishing the validity and reliability of instruments of research (Cooper & Schindler, 2016). The researcher conducted a pilot study on 10 enterprises that had benefited from venture capital from KCB Lions' Den, using a questionnaire tried out by the researcher's supervisor, before primary research, to build up reliability and validity of instrument of information gathering as recommended by Kombo and Tromp (2009). As a result, the researcher made changes and adjustments to the poll after piloting, in readiness for the main exercise. The study adopted content validity to examine the degree to which data collected with the aid of questionnaires is valid. Before using the questionnaires for generating data for the study, a pilot study was conducted with 10 SMEs in Nairobi, each filled by either the owner/managers or a nominee they appointed. The purpose of pre-testing the research instrument was to verify whether the questionnaire is clear to the respondents, establish whether the feedback form would effectively address the data needed for the study, assess and identify any unforeseen issues that the respondents may encounter when filling the questionnaires. In addition to the assistance from researcher's supervisor in examining the questionnaire, 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, hence encouraging important amendments and changes, improving questionnaire 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 as recommended by Cooper & Schindler (2011). In this study, data collection instrument, questionnaire, was administered on 10% of the sample size to ensure 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 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 was 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 highly inappropriate for the survey questionnaires. The study used co-efficient of 0.7 and above for all constructs 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, which 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 used. If the questionnaire is consistent over time and yields similar results each time it is used, it is reliable. Due to limitation in time and labour, the procedure for extracting an estimate of reliability should be obtained from the administration of a single test.

The researcher carried out reliability test in evaluating the study questionnaires. This was important to examine the degree to which individual study variables used were consistent with their measures. The widely used Cronbach's coefficient alpha was employed to assess internal consistency. Zikmund (2010) on the other hand posits that a Cronbach Alpha of 0.6 is the acceptable minimum. Saunders, Thornhill and Lewis (2009) are of the view that a reliability results exceeding coefficient of 0.7 reveals a very high degree of reliability. All the alpha coefficients ranged between 0.7 and 0.9 as shown in Table 2. Based on the coefficient values, the items tested were deemed reliable for this study.

Table 2: Reliability coefficient of the study variables

Variable	Number of Items	Cronbach's Alpha Coefficient (α)	Comments
Organizational Innovations	12	0.875	Accepted
Ownership Structure	12	0.885	Accepted
Uptake Venture Capital	4	0.722	Accepted

Table 2, shows that organisation innovations had a Cronbach's Alpha Coefficient (α) of 0.875, ownership structure had Cronbach's Alpha Coefficient (α) of 0.885 and uptake venture capital scored 0.722. Since the reliability test results exceeds the acceptable lower level of 0.7, internal consistency reliability measures used were considered high and adequate to measure the study variables hence considered reliable for analysis and generalisation on the population.

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 summarising 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, analysis and measurement of data collected was guided by the research objectives. The data and information obtained through the questionnaire was first checked for completeness. Data gathered from correctly filled questionnaires was coded, tabulated and analysed 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 organisational factors on the uptake of venture capital, the study conducted inferential statistics and the results presented using graphs and tables. The analysis of variance (ANOVA) was

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checked to reveal the overall model significance and a critical p value of 0.05 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_2 were the regression coefficients. Y shows the multiple linear regression model = $\beta_0+\beta_1X_1+\beta_2X_2+e$, where:

Y is the value of dependent variable

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

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

e is the error term.

Thus, Y=Uptake of Venture Capital; X_1=Organisational Innovations and X_2= Ownership Structure

4.0 Research Findings and Discussions

4.1 Relationship between Organisational Innovativeness and Uptake of Venture Capital

Regression analysis was run to empirically determine if organisational innovativeness was a significant determinant of uptake of venture capital by SMEs in Kenya. The results in Table 4 shows that there is a strong positive correlation (R=0.509) between organisation innovativeness and uptake of venture capital by SMEs in Kenya. This result indicates a satisfactory goodness of fit for regression between organizational innovativeness and uptake of venture capital. The R squared of 0.259 indicates that 25.9% of decisions in uptake of venture capital are explained by organisational innovativeness. The unexplained 74.1% could be accounted for by other factors including ownership structure.

Table 4: Model Summary for Organisational Innovativeness

Model	R	R Square	Adjusted R Square	Std. Error
1	0.509 (a)	0.259	0.250	0.66676

The overall model significance was presented in Table 5. The f statistics of 27.328 and sig. 0.000 indicates that the overall model was significant. This implies that organisational innovativeness is significant in shaping the decisions for the uptake of venture capital by SMEs in Kenya.

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Table 5: ANOVA for Organisational Innovativeness

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.149	1	12.149	27.328	0.000(b)
	Residual	34.676	78	0.445		
	Total	46.825	79			

In Table 6, the results of coefficients represented (p=0.000) show that organisational innovativeness contributes significantly to the uptake of venture capital since the p-value for the constant and gradient are less than 0.05. Thus, any positive unit change in organisational innovativeness is poised to influence uptake of venture capital decisions at the rate of 0.509.

Table 6: Regression Coefficients Results of Organisational Innovativeness

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	1.350	0.446		3.026	0.003	0.462	2.238
	Organisational Innovations	0.586	0.112	0.509	5.228	0.000	0.363	0.809

The regression model $Y=\beta_0+\beta_1X_1$ explaining the results in Table 6 are given by:

$Y= 1.350+0.586X_1$

The study findings are confirmation by other studies such as by Ji-Hoon and Zong-Tae, (2018), Ackermann, Stephan, and Penrose (2015).

4.2 Relationship between Ownership Structure and Uptake of Venture Capital

A regression analysis was conducted to empirically determine if ownership structure was a significant determinant of uptake of venture capital by SMEs in Kenya. Results in Table 7 indicate R of 0.545, which denotes a strong positive correlation between ownership structure and uptake of venture capital by SMEs in Kenya. Therefore, goodness of fit for regression between ownership structure and uptake of venture capital was satisfactory. The value of variance R squared of 0.297 shows that 29.7% of decisions in uptake of venture capital are explained by ownership structure. The

unexplained 70.3% could be accounted for by other factors including but not limited to organisation innovativeness.

Table 7: Model Summary for Ownership Structure

Model	R	R Square	Adjusted R Square	Std. Error
1	0.545 (a)	0.297	0.288	0.64942

The overall model significance was presented in Table 8. The f statistics of 33.027 and sig. 0.000 indicates that the overall model was significant and implies that ownership structure is significant in decisions for the uptake of venture capital by SMEs in Kenya.

Table 8: ANOVA for Ownership Structure

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.929	1	13.929	33.027	0.000(b)
	Residual	32.896	78	0.422		
	Total	46.825	79			

The results of coefficients represented in Table 9 (p=0.000) show that ownership structure significantly determines the uptake of venture capital since the p-value for the constant and gradient are less than 0.05. This implies that types of ownership structure of SMEs influence uptake of venture capital decisions at the rate of 0.545.

Table 9: Regression Coefficients Results of Ownership Structure

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	Constant	1.142	0.442		2.582	0.012	0.261	2.023
	Ownership Structure	0.685	0.119	0.545	5.747	0.000	0.448	0.922

The regression model $Y=\beta_0+\beta_2X_2$ explaining the result in Table 9 is given by:

$Y= 1.142+0.685X_2$

Other researchers such as by Mara, Tommaso, Garrett, and Shaun, (2017) and Ali, Ashaf and Qiang, (2018), support the study findings.

4.3 Multivariate Regression

A multiple regression analysis was carried out to investigate the joint causal relationship between organisational factors and uptake of venture capital by SMEs. The predictors were organisational innovations and ownership structure. Regression results presented in Table 10 indicated a satisfactory goodness of fit for the regression of the combined organisational factors (organisational 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 organisational 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 organisational factors. Only 43.7% is dependent on other determinants.

Table 10: Model Summary for Organisational 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 are presented in Table 11. The results indicated that the overall model was significant, that is, organisational factors were good joint explanatory determinants for uptake of venture capital by SMEs in Kenya (f=24.123, p value=0.000.

Table 11: ANOVA for Organisational Factors

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			

5.0 Conclusion

Based on the objectives and findings of the study, the researcher concluded that organisational innovativeness and ownership structure have great influence on the uptake of venture capital by SMEs in Kenya. The results indicated that organisational innovativeness highly influence uptake of venture capital since a formidable combination of innovative processes, products and market innovation is one of the fundamental pillars of enterprise growth and entry in new marketplace. Innovativeness creates ability to overcome challenges encountered while trying to attain justifiable competitive advantage. Organisational innovativeness was found to have a positive relationship with uptake of venture capital, which implies that the more innovative an organisation is, the more likely it is to attract venture capital funding.

The study also led to a conclusion that ownership structure of businesses determine uptake of venture capital by SMEs in Kenya to a great extent. It is a driving factor for both investor and creditors financing. This is because owners of a firm have economic relationship with the business and influence type of decisions their organisations are prepared to take in order to decrease the level of financial risk, improve growth rates, development and performance. This is because ownership structure has the capacity to put good governance mechanism structure in place to boost organisational capacity to attract outside capital and investment.

6.0 Recommendations

Following the study conclusions, the researcher made the following recommendations: SMEs should continuously engage in organisational innovativeness to enhance the competitive advantage it possesses against other players in the sector by conducting market research among its users and non-users to identify products that should be introduced into their catalogue to attract capital investment. SMEs should consistently analyse and measure their service operations to enhance operations efficiency. This can be achieved by keeping up with best practices across the global and integrating better, newer, least cost state-of-the-art processes in their operations to maintain their competitive advantage. The study also recommends a review of governance policies by the policy makers in order to attract and encourage corporate financial institutions and individuals to join venture capital initiatives and build the funding capacity for more investment. Venture capital has the potential of assisting Kenya in achieving Vision 2030, which advocates for strengthening SMEs to become key industries of tomorrow.

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