

# Venture Capital as a New Approach to Developing Early-stage Firms in Emerging Countries: Experience of South Africa & Kenya

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**Abstract:** This study aims to extend our knowledge of the new approaches to entrepreneurial finance that inspire the development of early-stage firms in developing countries. The role of entrepreneurship is well understood internationally owing to its substantial influence on new employment creation, and productivity, and a seedbed for the emergence of innovative young firms. The survival and prosperity of the HGFs are unswervingly linked to access to sustained financing during their early-stage growth, nonetheless, access to funding remains the topmost worry for young firms. Yet VC financing has a competitive edge over banks borrowing, which cannot easily substitute for VC in its absence. We developed a multi-regression model to measure the results using survey data of 61 VC companies dealing with over 327 investment rounds from 2015-2021. The study confirms that VC investment has a dramatically flourishing prominence in nurturing early-stage firms with potential growth. Our study makes three major contributions to advancing this debate: First, our finding is expected to benefit the policymakers and civil society in the practice of creating new VC policies or altering existing ones to attract increased foreign VC investment in active countries and beyond. The government's increased funding to the VC companies might lead to higher survival rates for new innovative industries as observed in the developed. Moreover, we discover that this research arena is recognized by a paucity of theoretical and empirical research underpinning VC's proficiency in nurturing high-growth firms and innovative entrepreneurship.

**Keywords:** Venture capital, high-growth entrepreneurship, emerging countries, South Africa, Kenya, early-stage firms.

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## 1. Introduction

Over the years, high-growth firms (HGFs) have drawn considerable interest from several academics and policymakers due to their central role in economic development across all countries. The survival and success of the HGFs are unswervingly linked to access to sustained financing during their early-stage growth (Alperovych, Groh & Quas, 2020). Over the past two decades, VC has been an important source of financing for innovative companies (Lerner, 2010; Devigne et al., 2018). Venture capitalists offer not only capital but also support entrepreneurs in the decision-making process to build successful companies (Brusche, 2016; Gompers et al., 2020). In this line of reasoning, many of the global technological game-changer industries, like Amazon, Apple, Facebook, Microsoft, Google, and others, raised VC funds in their early years. They have been instrumental to the economic development of the United States (US) and the global economy (Ahlstrom & Garry, 2006; Gompers et al., 2020). Most of these early studies advocate for increased external financing for HGFs to uphold the crucial role these firms play in assuring vibrant productivity and employment growth in the economic system (Ahlstrom & Garry, 2006). VC-funded companies demonstrate higher growth rates when matched to non-VC-funded firms (Lerner, 2010; Sipola, 2021). Notwithstanding the efforts made in previous studies on this subject, they still do not show a suitable funding source for high-growth entrepreneurship, and the question of whether VC investment positively impacts HGFs' progress remains unanswered.

Moreover, the prior body of literature on firm-level performance and regional development still presents mixed conclusions about this subject. Gompers (1994) concludes that promoting an efficient VC industry should be the goal of any administration. Conversely, Brander, Du, & Hellmann, (2010) provide evidence that extensive government support does not maximize value creation and innovation benefits. Equally, Grilli, (2014) contends that little is known about VC's impact on investee companies. Many of these studies focus on high-technology sectors, and they remain unmatched in the literature in supporting VC as the main generator of potential HGFs. Earlier scholars posit that much of the productivity and market internationalization of novel economic data is more linked to high-techno firms, such as Silicon Valley in California, the Cambridge area in the UK, and the Montpellier area in France. This demonstrates a discriminatory funding approach to HGFs with less focus on the manufacturing and service sectors, which constitute the largest segment of SMEs. Moreover, this methodological concept fails to admit the opportunities for rapid entrepreneurial growth in other sectors of the economy (Samila & Sorenson, 2011). Conceivably one of the bare minimum understood facts connected with the HGFs is a flourishing move in the comparative advantage of high-growth entrepreneurship across countries (Alperovych et al., 2020). While the critical demand for HGFs is evident, stimulating their survival and success

has long remained a major mystery to policymakers, regardless of their significant contribution to economic growth and employment creation.

A growing stream of surveys confirms that HGFs depend on sustained financing and strong regulatory policies for their survival and growth (Sazvar & Yahyazadehfar, 2019; Samila & Sorenson, 2011). The literature also suggests that start-ups need dynamic VC investor skills to transform their present business practices and help them adapt to the innovative business environment. Although some scholars have made considerable progress in offering internationally comparable data about the VC market industry, its standing in East and Southern Africa is yet to be recognized. These academic attempts are generic in confronting the unmatched questions of emerging economies (Cullen & De Angelis, 2021). As a result, substantial data gaps still exist in terms of geographical reporting and biased focus on technological industries. Hence, this is creating complexity in understanding the speed of improvement toward the consciousness of VC growth in Africa.

This study was motivated by the lack of a comprehensive analysis of the impact of VC on HGFs' development. Several scholars have attempted to engage in a comprehensive analysis but have generally offered broad-brush conclusions that take little or no practical value to encourage HGFs' growth. The main objective of this paper is to address the primary research questions: How does VC as a new approach to financing impact HGF in the context of emerging economies? To address this question, we surveyed 61 VC firms comprising 327 VC deals from 2015 to 2021 residents in South Africa and Kenya. In various fields, the accessible acumen information, and support are incomplete. We consequently underline areas where more interest could enhance new knowledge about the VC arena. This research makes two significant contributions. First, it extends our understanding of the role of VC investment in boosting HGFs' survival and success between various VC markets in South Africa and Kenya which have been understudied. Second, the study addresses the critical question of whether VC impacts HGFs' development in the context of a developed country.

The paper is arranged as follows. In Section 2, we construct the existing literature to build the theoretical context of this study. In Section 3, we describe the research design and data utilized in our analysis, while Section 4 presents the different inferences. Section 5 examines the primary findings and strengths. Section 6 concludes the paper in which we abridge our primary findings and debate the study's impact on the VC literature, the drawbacks, directions for future research, and policy implications.

## **2. Literature Review and Hypothesis**

### **2.1 Role of venture capitalists on entrepreneurship and economic growth**

Several empirical and theoretical studies have long highlighted the positive effect of VC on the growth of new ventures, exclusively in new HGFs (Samila & Sorenson, 2011; Devigne et al., 2018). Sazva & Yahyazadehfar, (2019) suggest VCs can convey several managerial benefits to VC-funded enterprises, including the development of entrepreneurial ethos, which can foster VC markets internationalization, formation of supportive rules, and business superior skills. Standaert, Knockaert, & and Manigart (2022) also support earlier scholarships that VCs' superior skills and management's strong aspirations are desirable for the firm's growth. However, none of these studies explain evidently how VC can contribute to generating new HGFs in emerging economies. Even the limited accessible studies in Africa tend to focus largely on firm-level performance rather than a regional perspective.

In light of these concerns, earlier surveys unveil the growing necessity of government policy that evidently focuses on innovative entrepreneurship and creating HGFs. Gompers et al., 2020 disclosed that investors and government stakeholders should only invest in new firms with high-growth potential because "a few rapidly growing firms generate a disproportionately large share of all new net jobs" compared with nonhigh-growth firms. Unfortunately, such initiatives are recent because this concept of HGFs is new in the entrepreneurship and finance literature. Whereas some academics support the government's positive role in the success of the VC market (Lerner, 2010; Devigne et al., 2018). Tykvová (2018) exposes that government-funded firms have reported inferior performance due to a lack of experienced VC investors. Kato and Tsoka (2022) disclosed that not all VC-backed firms are successful because 20% of VC-funded firms completely fail, 50% achieve average returns and 30% gain exceedingly high returns that compensate for the losses made in other failed ventures.

Thus, we pursue hypothesis one; *Ho1; The Role of venture capitalists positively impacts entrepreneurship and economic growth*

## 2.2 Venture Capital Leads to Firm Growth and Financial Performance

Despite the growing consensus that HGFs contribute disproportionately to economic growth and prosperity, relatively few countries have policies that specifically promote such firms (Lerner, 2010; Long, Wood & Bennett, 2022). Moreover, the conclusion of a positive relationship between VC, entrepreneurship, and economic growth rests on two potentially inaccurate assumptions; VC-funded firms would not come into existence without VC, and the employees of VC-funded firms create more value for the economy than in firms not funded by VC. Conversely, Samila and Sorenson (2011) argue that there has been little empirical research investigating the validity of the widespread claims of VC as a stimulus for economic growth, confined to the success of the US Silicon Valley and the Yozma model in Israel.

While our efforts to match the influence of VC in Southern and East Africa exposed interesting results over the previous years, the VC market is still young and constrained. Besides, it does not play its due role when equated to mature markets in developed countries (Ahlstrom et al. 2006; Ernst & Young 2022). Equally, Manigart, Baeyens & Hyfte (2002) contend that the presence of VC in the capital structure of a company does not necessarily have a positive impact on the survival rate of that company. In the same line of discussion, Standaert et al., (2022) exposed that there has been a large variation in the growth of firms backed by VCs. In specific terms, emerging markets are associated with rigorous regulatory policy systems that are far from flawless and cannot completely encounter growth demands for example, fundraising is still wanted (Zhao et al., 2015). Also, Brushe (2016) identified critical gaps in the academic literature about decision-making on funding for early-high-tech ventures in Europe. While this study holds great substance, it was conducted six years ago, and it was directed in North America, leaving a gap for future research in Africa. These undesirable results of government and regional programs offer an opening to resolve the paradox of HGFs by explaining how they influence socioeconomic-specific country-level performance. We aim to deliver much more considerable empirical evidence to sustain the VC philosophy which is utterly adopted by VC investors.

Thus, this leads to hypothesis two;  $H_02$ ; *Venture capital leads to firm growth and financial performance*

## 3. Material and Methods

### 3.1 Sample and populations

The study utilized multiple sources of datasets compiled by the different stakeholders in the VC industry, including Southern Africa Venture Capital and Private Equity Association [SAVCA], South African Revenue Services [SARS], and African Venture Capital Association [AFVCA], which maintain records on the performance of VC firms in these regions. Moreover, data on VC firms were cross-checked for consistency by comparing the three databases. These professional bodies are mandated to gather data through yearly surveys that have been used extensively in VC research (Shane, 2009). We also collected annual supplementary data from the websites of the private VC firms from 2015 to 2022, with a footprint in South Africa and Kenya.

We used a lime survey administered to a population of 257 PVC firms domiciled in the two countries. However, out of 257 PVC firms, 98 (38%) reported failed email deliveries due to invalid and obsolete email accounts. Yet, 11% (29) indicated that their company policies prohibit them from clicking anonymous links due to security concerns, and then, seven (7) questionnaires were found to be inappropriate. The study received a response rate of 50% (61 out of 123) returned questionnaires. A response rate of 50% is acceptable compared with the earlier lime surveys. According to Fenton-O'Creevy (1996), a response rate (RR) of 33% involving organizational CEOs and senior management staff is suitable. He also argues that online surveys are associated with low responses, 25% were found too busy, 14% had invalid email accounts and 22% had company policies prohibiting participation in anonymous surveys. Similarly, Watube & Yamugushi, (1995) distributed 1,150 online survey questionnaires, but only 396 were completed and returned, of which 365 were considered for data analysis, thus reporting a response of 31.7%. Considering the above, while we encountered several challenges, the response of 50% was much higher; thus, our data is reliable and dependable when compared to comparable previous studies

### 3.2 Variables

**Table 1: Research variables (independent and dependent variables)**

Research questions/hypotheses	Research hypothesis (H <sup>1</sup> ) Do VC investors contribute to entrepreneurial firms' development and economic growth?	Research hypothesis (H <sup>2</sup> ) Does increasing Venture capital investment lead to firms' growth and financial performance of the investee companies?
<b>Independent variables</b>	<ul style="list-style-type: none"> <li>VC's experience</li> <li>VC's presence on the BOD</li> <li>Private Venture capital</li> </ul>	<ul style="list-style-type: none"> <li>Government and regional programs</li> <li>investment</li> <li>Private venture capital</li> </ul>
<b>Dependent variables</b>	<ul style="list-style-type: none"> <li>Creation of new employment opportunities</li> <li>Number of firms generated</li> <li></li> </ul>	<ul style="list-style-type: none"> <li>Survival rate and success of the HGFs</li> <li>Productivity of the VC-funded firms</li> <li>Innovation capacity of the HGFs</li> </ul>
Control variables	<ul style="list-style-type: none"> <li>Geographical Location</li> <li>Number of years in business</li> <li>Government VC &amp; entrepreneurship policy</li> </ul>	<ul style="list-style-type: none"> <li>Geographical Location</li> <li>No years in business</li> <li>Government VC &amp; entrepreneurship policy</li> </ul>
The method used to test hypotheses	Multiple regression (ANOVA)	Multiple regression (ANOVA)

Source: Primary data, 2022

To capture causal interactions between the dependent and independent variables, we empirically surveyed 61 active VC firms with over seven years of lifespan in business operations. This approach allowed the gathering of dependable and extensive contextual data from South Africa and Kenya. We relied on VC's experience, VC's presence on the BOD, and VC as our independent variables to measure the hypotheses. Alternatively, the creation of new HGFs, the survival rate and success of the HGFs, and the productivity and innovation capacity of the HGFs, were represented as our dependable variables. However, our study moves beyond the ordinary measure of growth using sales and employment growth. We defined a regression model to measure the effect of the predictor variables on the outcome variable. SPSS data analytics was applied for processing the data.

Quantitative data were augmented with 12 hybrid structured interviews, conducted purposively with talented VC participants. The interviews offered the researcher an opportunity to extensively explore matters that were unique to the experiences of the interviewees which facilitated a rich and detailed account at the heart of the study. The concept of saturation guided the direction of the interview process. Saturation occurs whenever the researcher begins to hear the same comments again and again' (Starks and Trinidad, 2007). The verbatim approach was adopted in generating the interview transcripts. To ensure the quality of the interview data, we returned the transcribed data to the participants for quality assurance and agreement (Creswell 2013).

## 4. Results and Discussion

### 4.1 Data Analysis

We use tables to compare the key study results concerning our first hypothesis (H1). We modeled a three-way ANOVA to determine if there is any interaction effect between the three independent variables (VC investment, VCs' superior skills, and role in the BOD) on a continuous dependent variable (entrepreneurship development and economic growth). In measuring entrepreneurship development and economic growth.

**Table 2: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				Durbin-Watson
					F Change	df1	df2	Sig. F Change	
1	.589 <sup>a</sup>	.346	.303	.295	7.950	3	45	<.001	2.680
a. Predictors: (Constant), 15. Venture capital investment 8. VCs' superior skills represent distinctive capabilities. 11. VCs' role (BOD seat) on the Board.									
b. Dependent Variable: 9: Entrepreneurial dev't and economic growth									

**Table 3: A 3-Way ANALYSIS of VARIANCE (ANOVA ANOVA)<sup>A</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	2.078	3	.693	7.950	<.001 <sup>b</sup>
	Residual	3.922	45	.087		
	Total	6.000	48			

a. Dependent Variable: 9. Entrepreneurial dev't and economic growth  
b. Predictors: (Constant), 15. Venture capital investment.  
8. VCs' superior skills  
11. VCs' role (BOD seat) on the Board

Source: Primary data (2022)

As shown in Table 2, three-way ANOVA was run on a sample of 49 participants to examine the effect of the predictor variables on the dependent variables. We are offered the statistical significance level factorial interaction, which is  $F(2, 48) = 7.950, p = .001$ . From this result, we can conclude that VC investment, VC's superior skills, and VC's presence on the BOD confirm a significant amount of variation in entrepreneurship development and economic growth ( $p$  values <.001). These results are less than  $p < .05$ , which implies that there is a statistically significant difference among group means ( $H_0$ ) of ANOVA. Overall, this evidence supports hypothesis H1 because VC investments, VC's superior skills, and VCs' presence in the BOD of VC-backed firms demonstrate greater efficiency levels and improvements in entrepreneurial development and economic growth. We also discover a positive correlation between the VC firm's geographical proximity connected with high-growth entrepreneurship and economic growth. Our findings are consistent with the prior study (Amornsiripanitch, Gompers & Xuan, 2016; Lerner 2020; Gompers et al., 2020), which argues that the role of VCs is fundamental to the success of HGFs. Nonetheless, the role that VCs play on the board in emerging economies in Africa, has just started to be understood.

While these results are encouraging, the causal relationship between VC investment and entrepreneurship development is an open question. Hence, we apply the variance inflation factor (VIF) to detect multicollinearity to estimate the strength of the correlation between the predictor variables in a regression model (Table 4). This permitted us to confirm that our predictor variables are not overly correlated.

**Table 4: Coefficient output for collinearity.**

Model		Unstandardized Coefficients		Standardized Coefficients		Collinearity Statistics		
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	1.560	.604		2.584	.013		
	8. VCs' superior skills represent distinctive capabilities.	.258	.111	.298	2.334	.024	.890	<b>1.124</b>
	11. VCs' role (BOD seat) on the Board	.363	.117	.418	3.093	.003	.797	<b>1.255</b>
	15. Venture capital investment.	-.007	.092	-.010	-.075	.941	.888	<b>1.126</b>

Source: Primary data, (2022)

As can be observed from Table 4, we test the coefficients of variables to confirm that it does not violate the coefficient principles. In this case, the regression coefficients indicate VIF (1.124) and tolerance (0.890) for VCs' superior skills, VCs' role (BOD seat) represents VIF (1.255) and tolerance (0.797), while VC presents VIF (1.126) and tolerance (0.888). VIF below 10 for all the independent variables and tolerance below 2. Therefore, when VIF or tolerance is equal to 1, the independent variable is not correlated with the remaining variables, which means multicollinearity does not exist in this regression model. Prior studies state that the VIF output below 10

and tolerance scores above 0.2 confirm no multicollinearity of data. Therefore, considering that all the VIF results for the predictor variables were below 10 and tolerance was below 0.2, we can declare that our results were consistent and strongly correlated. Considering these results, it can be concluded that the high-growth firms that received VC investment with the support of experienced VC investors on the BOD contributed to the generation of new HGFs, productivity, and the increased survival rate of these firms.

In the second hypothesis (H<sup>2</sup>), we examined if VC had any significant statistical effect on the HGFs by using the linear regression model.

**Table 5: Regression Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.592 <sup>a</sup>	.351	.304	.417	2.384
a. Predictors: (Constant), 15. PVC funding for start-ups, 16. Government and regional programmes, 9. VC investment, 11. VCs' role on the board					
b. Dependent Variable: 24. Firms' growth & financial performance.					

**Table 6: Table 2: Regression A ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.169	4	1.292	7.430	<.001 <sup>b</sup>
	Residual	9.565	55	.174		
	Total	14.733	59			
a. Dependent Variable: 24. Firms' growth & financial performance.						
b. Predictors: (Constant), 15. PVC funding for start-ups, 16. Government and regional , 9. VC investment, 11. Vcs role on the board						

Source: Primary data, (2022)

As can be observed in the table of the model summary, the R-value represents the simple correlation and is 0.592, which indicates a high degree of correlation. However, the R square value of 0.351 indicates that a 35.1% variability in the growth of VC-funded companies can be explained by PVC funds dispensed by VCs while playing a vital on BOD including government support programs These results garner support from the prior study of Sipola, (2021), as it confirmed the rewarding benefit of VC in escalating entrepreneurship growth in developed economies.

To ensure that the statistical model is not subject to autocorrelation in the residuals, we further use the Durbin-Watson statistic to test the assumption that our residuals are independent (or uncorrelated). This statistic can vary from 0 to 4, but we set our model to 2 to comply with this assumption. Values from 0 to less than 2 points indicate positive autocorrelation and values from 2 to 4 indicate negative autocorrelation. In this case, the value is 2.384, so we can say that this assumption has been met. Values outside this range could, however, be a cause for concern. Although the Durbin-Watson statistic is displayed by many regression analyses, it may not be applicable in certain situations. In such settings, we use an ANOVA table, which reports how well the regression model predicts the dependent variable significantly. This indicates the statistical significance of the regression model that was run. Here,  $p < 0.001$ , which is less than 0.05, indicates that, overall, the regression model statistically significantly predicts the outcome variable. These results get support from previous literature that exposes the successful VC and entrepreneurship models globally, for instance, Silicon Valley in the US, Yozma fund in Telvaviv, Singapore, and Canada, received full government support, and experienced VC investors were at the forefront (Lerner, 2020; Gompers et al., 2020; Crunchbase, 2022). Therefore, VC financing to HGFs without support from experienced VCs, may not impact HGFs' prosperity. This approach to enhancing entrepreneurship and VC development resonates with the RBV theory of the firm (Barneys, 1994). VC firms seemingly select firms with growth potential, and they not only provide capital but only offer superior skills by getting involved in their operations at the BOD level. This technique subsequently underwrites the HGFs' competitive advantage and sustained growth. In this context, to promote the prosperity of HGFs in the Southern and East African regions, it is incumbent upon the government and the VC investors to offer adequate support to these fast-growing firms in a way to contributes to economic development.

## 4.2 Interview analysis results

We interviewed 12 VC investors purposely selected from South Africa and Kenya to obtain in-depth insight into the statistical data collected from the lime-survey questionnaires. We interrogated the VC investors about how the VC-backed companies have contributed to national economic growth and innovation from a regional perspective. All the VC investors (100%) acknowledged the crucial role of VC-funded companies in job creation, commercialization of firms, and government taxes. It was reported that portfolio companies offer approximately 5 new jobs. Nevertheless, it was not only VC that accounted for this positive result, but sound macroeconomic policy, political stability, and the nation's entrepreneurship initiatives partially played an increasingly important role in stimulating growth. Our findings were like those of previous studies (Lerner, 2010; Ahlstrom et al., 2006; Brusche, 2016; Wentao & Qian, 2018; Standaert et al., 2022). These results support the statistical figures underpinning the contribution of VC-funded companies to entrepreneurship development in emerging economies.

We also asked the VCs whether VC leads to firms' growth and financial performance of the portfolio companies they support. Approximately 75% (9 of 12) of VC investors revealed promising results for their VC-funded companies. VCs provided VC and PE findings that would never have been accessed from traditional financial institutions and technological knowledge transfer to HGFs. Such factors have been very instrumental in facilitating high-growth entrepreneurship and small business development in East and Southern Africa. While this sounds true, 70% of the selected sample was from Southern Africa, contrary to the East African region. However, in terms of total VC investment in these two regions, they are equally competitive. Previous studies have acknowledged the robust connection between increasing access to VC investment and entrepreneurial activities across nations over time. Similarly, our study adds to the current literature by partially closing the existing gaps in the VC industry. The prosperity of entrepreneurship and HGFs are frequently hampered by the dearth of financing abilities. We found similar funding challenges encountered by the HGF firms in the South and Kenya attributed to the few VC firms. In developed economies, national governments have taken a leading role in adding financial resources in the form of GVC and equity, or combinations thereof. This observation is supported by numerous examples of government intervention that has triggered the growth of the VC market. For instance, the Small Business Investment Company (SBIC) program in the USA and the Yozma fund model in Israel led to the creation of the foundation for much of the current VC industry. Similarly, in South Africa and Kenya, we have witnessed replication of the US Silicon Valley; for example, in South Africa, Silicon Cape was developed, while in East Africa, Silicon Savannah emerged in Nairobi. All these convey prosperity in the VC industry in East and Southern Africa, although it is still at an early stage compared to the US, Canada, Israel, and China.

## 5. Conclusion

The study aimed to measure the impact of VC investment on HGFs' development and economic growth. The primary results are fourfold. First, the results confirm a significant positive impact of VC investment on the survival and success of HGFs. We found tremendous expansion of VC-funded companies in terms of productivity, employment creation, and market internationalization. However, the performance was more popular with HGFs located in the southern region than with HGFs located in the East African region. VC investors contribute to the levels of productivity in the country that emanates from higher levels of innovation. Accordingly, encouraging VC investment into new HGFs/early-stage entrepreneurial firms is crucial to economic growth (Cumming et al., 2018). Second, our results also confirmed that VC investors are instrumental to portfolio companies during periods of financial distress because they increase access to external equity finance for potentially lucrative new business and expansion firms to enhance their productivity and competitive advantage. In this context, to promote the prosperity of HGFs in the Southern and East African regions, it is incumbent upon the government and the VC investors to offer adequate support to these fast-growing firms in a way that contributes to economic development. Third, we discovered that disrupting government and regional programs deplorably influences the success and survival of HGFs. This was evident in the government's reluctance to create supportive regulatory reforms that encourage high-growth entrepreneurship in these regions. Whereas South Africa and Kenya have made efforts to design friendly policies aimed at attracting foreign investors, they are still inadequate compared to the US, Canada, and the UK. We, therefore, trust that if the VC industry in Southern and East Africa receives adequate support from the regime, it may enhance the entrepreneurship growth, employment creation, and economic growth of these regions at large.

Finally, the study confirms that enhancing access to VC investment can facilitate entrepreneurship development and ensuing firms' survival and growth, which in turn can contribute to employment opportunities and the economic development of emerging economies. Nonetheless, the situation of VC development in emerging economies in Africa is seemingly not encouraging, as the concept is still unknown. Investment activities appear to be scarce because of a few well-trained entrepreneurs and the resistance of family-owned enterprises to engage in partnerships with VC investors. This negative entrepreneurial spirit contravenes the RBV theory of the firm. Given that the VCs are denied a chance to exhibit their superior skills. Theoretically, it is difficult to conclude that the presence of VCs in the BOD of VC-funded firms encourages firms' growth and financial performance.

## 6. Theoretical Contributions and Future Research Directions

This research delivers three major contributions. First, we learn that VC financing has a competitive edge over alternative forms of financing, such as banks, which cannot easily substitute for VC in its absence (Lerner, (2020; Kato & Germinah, 2022). This would assist government and VC practitioners in engaging in effective interventions that will encourage foreign VC investments, job creation, increased productivity, and the creation of new entrepreneurial firms. The survey is additionally expected to agitate for the integration of VC as a key component of entrepreneurship development. We also trust that government intervention in the VC industry is inevitable to create a conducive climate for VC by cultivating the macroeconomic atmosphere and entrepreneurship and promoting the availability of VC funds (Sipola, (2021). Therefore, future research that examines how such contingency conditions influence high VC-backed firm growth should prove fruitful.

Second, because IPOs of VC-funded companies are unpopular compared to the leading VC-developed economies, capital gains are assumed to be less significant and attractive. For this reason, many VC investors have expressed doubts about VC applicability in emerging economies, hence negatively impacting VC updates in Africa at large. That said, we discover that the lack of well-developed VC markets, ineffective entrepreneurial incentives, and the entrepreneurial attitudes of the family-owned enterprises all combined stand to explain the poor performance of the VC industry in Africa. On the one hand, the successful development of the VC market certainly demands recognition of high firms for their significant contribution to employment creation and new technological and economic development. Several studies offer plentiful anecdotal evidence from the US and Europe, suggesting that increasing VC investment stimulates entrepreneurship development and that the externalities of this encourage more entrepreneurs to start a business (Ahlstrom & Bruton, 2006; Ernst & Young, 2022). Finally, it is important to recognize the limits of our analysis because of the limited research in the arena of emerging economies in Africa. We trust that it will serve as a stimulus for future research to improve our results concerning the role of VC investment in entrepreneurship and the survival of the HGFs.

This study makes the following contributions to the literature: Recent studies have focused mainly on analyzing the various factors influencing entrepreneurship in developed countries, but they have seldom considered emerging and immature financial markets (Sipola, 2021; Standaert et al., 2022). Our study fills this gap by identifying, through an empirical study, whether VC fosters entrepreneurship in emerging markets. This study provides an interesting addition to the current debate on high-growth entrepreneurship. The study delivers vital knowledge to policymakers and entrepreneurs in need of alternative financing to promote the survival and expansion of HGFs. Therefore, there is an increasing demand for strong regulatory policies that can support and promote innovative entrepreneurship and access to VC investment for early-stage firms.

**Conflicts of interest;** The authors declare no conflict of interest

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