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## THE ROLE OF PRIVATE VENTURE CAPITAL INVESTORS IN ENHANCING VALUE-ADDING ACTIVITIES AND INNOVATION OF HIGH GROWTH FIRMS IN UGANDA \*

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**Abstract.** For more than three decades, private venture capital (VC) firms have been recognised for their pivotal role in advancing value-creation and innovation in high-growth enterprises. Recent studies have found VC as a viable driver for the economic growth of developed nations. Research shows that many technological global companies today started as small venture capital (VC) funded companies. However, less evidence is available in emerging economies to support value creation and innovation capacity provided by the VC companies in Uganda. Consequently, how and when venture capitalists (VCs) can give significant oversight and add value to their ventures beyond VC funding has remained unresolved. Therefore, we use survey data from 77 VC firms expounded by interview data from key respondents from the VC industry. Our study finds that VCs' role is essential for nurturing value-added skills in VC-financed firms. Evidence was predictable in improved financial management, sales turnover, profitability, strategic planning, innovation capacity, recruitment, sound BOD, and a broad network for future funding opportunities. Our study contributes to the under-studied space of VC performance, especially in Uganda, where there is limited academic literature in this field. These results may support entrepreneurs/governments to engage in lucrative partnerships with experienced VC firms that can bridge the SMEs' equity financing gap early. Finally, this study offers a foundation for future research direction.

**Keywords:** Private venture capital firms; value-adding activities; venture capitalists; innovation; success of innovative firms; Uganda

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## 1. Introduction

For more than three decades, private venture capital (VC) firms have been recognised for their pivotal role in advancing value-creation and innovation for high-growth enterprises (Ernst & Young, 2008; Giacomo & Gigante, 2021; Lerner & Nanda, 2020; Jeong et al., 2020; Moirangthem & Nag, 2021). Recent studies have found VC as a viable driver for the economic growth of developed nations. VC investors provide capital to innovative enterprises to fill the equity financing gap that hampers their potential to grow (Ahlstrom & Bruton, 2006; NVCA, 2015, 2021; Kato & Tsoka, 2020). A review of the current literature reveals that there is a growing stream of many technology industries such as Google, YouTube, Facebook, Microsoft, and Apple in the US and other global industrialised markets in the UK, China, Canada, and Israel, ascending from VC and VCs' value-adding activities that facilitate new venture creations and sustainability of existing ones (Gompers et al., 2020; Jeong, et al., 2020). Convincingly, prior literature confirms that VC firms support value-creation in the portfolio companies and social-economic development of nations (Ernst & Young, 2016; Gompers et al., 2020; Deloitte & NVCA, 2021; Tereza, 2017). Although abundant literature exists in the advanced economies, less evidence is available in emerging economies to support the value creation and innovation capacity that VC companies deliver to their VC-financed enterprises. Consequently, how and when venture capitalists (VCs) can give significant oversight and add value to their ventures beyond capital has remained unresolved. As a result, this study delivers an empirical understanding of this field that has received insufficient attention from the academic literature.

Besides, VCs deliver a multifaceted compendium of value-added skills transferred from other mature technological markets to innovative firms. These involved far-reaching networks of strategic partnerships, capacity development, vast focused experience and hasten access to expert services essential for attracting future funding opportunities for innovative early-stage firms (Cheah & Ho, 2019; Colombo et al., 2005; Hellmann & Puri, 2002; Chua & Wu, 2012; Lin et al., 2020; Slimane, Chakir & Bouzahir, 2020). Similarly, the studies of Del Bosco et al. (2019), Liang et al. (2019), Owen and Mason (2019), and Wang et al. (2019) have reinforced VC as a catalyst for value-adding activities, innovation, and economic growth of start-ups, especially in more developed economies. Although prior studies have led to surprising empirical results and supported the subject of VC, there is a still-limited understanding of when and how VCs in Uganda conduct value-adding activities. This is accredited to the lack of empirical research and diminutive government support for the VC industry, especially in developing countries. We also discover that this disparity may persist since the US VC industry has remained superior globally compared to Africa, where the VC landscape is remarkably underdeveloped (Divakaran et al., 2014; Shanti, 2018; SAVCA, 2020; World Bank, 2020). Unless the entrepreneurs exhibit willingness and interest in the VCs' advice, no value-added can be achieved through VC involvement. (Fried & Hisrich, 1995; Sapienza et al., 1996). As a result, directing novel research focusing on value-adding activities was essential because these activities distinguish VC from other sources of funds such as bank loans (Gompers & Lerner, 2001; Gompers et al., 2020).

This study contributes to our understanding of how VCs in Uganda can create value-adding activities and successful investments, and it highlights pitfalls that may arise from VC fund managers' presence in the business processes of the start-up firms. Correspondingly, we would like to emphasize that although prior authors' command distinguished empirical conclusions, the matter of value-creation beyond the provision of VC to the portfolio companies has for long remained undecided. Primarily, the capacity of VC investors in Uganda and emerging economies in Africa is limited to embracing the new VC finance technology, owing to the mixed results engendered by varied methodologies and proxies engaged in estimating VC performance (Gompers et al., 2020; Harris et al., 2020; Tykvova, 2018).

Above and beyond, VC data are not easily accessible in Uganda, since many of the VC-backed enterprises are private firms, which rarely publish their results. VC's role in harnessing value-adding activities and promoting successful investments in innovative early-stage firms has not been well interpreted. As a result, this article builds on the understanding that VC firms are associated with enhancing value addition and growth of the portfolio companies, while potential entrepreneurs are interested in VC fund managers with focussed experience in nurturing SMEs with growth potential. To uphold our arguments, we show that countries such as Germany are still grappling with the application of the value addition concept to VC-backed companies (Moirangthem & Nag, 2021). As a result, it is not surprising that this philosophy is new to Uganda.

In a way to gain more insight into these theoretical thoughts, we collected data from 77 survey questionnaires and conducted 24 virtual interviews with key respondents with vast knowledge in VC investment, selected from Uganda's central business districts (CBD) comprising Kampala, Wakiso, Mukono, and Jinja. By so doing, we could shed light on how and when VCs spend their greatest effort to provide oversight and value-added assistance to their investment companies. Consistent with prior empirical work, we found that VCs' strategic involvement as their most important role helps provide financial and business advice and function as a board (Sapienza et al., 1996). For that reason, this article undertakes to advance existing literature by evaluating the study hypotheses to produce a holistic understanding of Uganda's VC market landscape.

This article delivers an in-depth insight into the categories of value-adding activities that VCs underwrite to the portfolio companies and how they positively influence the sustainability of their ventures. Second, massive literature works on VC and entrepreneurship have focused on understanding VC's impact on the performance and growth of SMEs and relatively ignored the latent role VCs play towards value-added to the VC-backed enterprises. We, therefore, offer new knowledge that supports these conclusions. Additionally, the study results have indispensable implications for VC fund managers and policymakers to design customised programmes focused on increasing awareness of value-adding activities that the VC companies can offer to the SMEs. Therefore, understanding the significance of these superior skills for promoting successful investments can help build teams that increase firm performance. Finally, we offer several important topics for future research.

The rest of the article is organised as follows: Section 2 provides a synopsis of Uganda's economics and SME development, while section 3 delivers a comprehensive literature review underpinning the VCs' role in young innovative firms. In Section 4, we illustrate the research design and methods adopted for data collection. Section 5 reports the results and discussion, and finally, Section 6 presents conclusions and recommendations for future research. In the current section, the present findings were confronted with the theoretical approaches to the influence of the VC industry on entrepreneurship development in emerging economies described in the literature. We point out significant conclusions and the directions for further research.

## **2. Synopsis of Uganda's economy and SME development**

SMEs are the drivers of Uganda's economy, comprising services (50%), commerce and trade (33%), manufacturing (10%), and others (7%). The SME sector contributes 20% of the national GDP and employs over 2.5 million Ugandans (UIA, 2018). However, heavy reliance on the informal entrepreneurship sector, characterised by a growing failure rate of SMEs from business, undermines the inclusive growth of Uganda's economy. Several studies have cited poverty and lack of access to funding for SMEs as one of the global challenges primarily for developing countries in Africa (United Nations, 2021; World Bank, 2016). The continent continues to host most world's poor communities and increasing levels of inequality (Schoch & Lakner, 2020). The gap between the rich and poor has continued to grow in most countries in Africa, including in Uganda. Approximately 40% of the total wealth in Africa is owned by a handful of the richest people, which is nearly 0.0001 percent of the continent's population (Seery et al., 2019). We observe that the rapid and sustained

poverty reduction requires inclusive growth that allows people from different groups and sectors to contribute to and benefit from economic growth. (United Nations, 2021). As a result, SME development in Uganda is one of the policy agendas of the government to boost economic growth and development.

Considering entrepreneurship development, one of the government's key interventions is increasing foreign investment. This funding mechanism offers the young innovative firms an opportunity to access affordable capital and superior skills with competency to boost economic growth. Recent authors argue that fostering VC investment, coupled with sustainable entrepreneurship, has a direct positive result on employment creation, national GDP growth, and the creation of new firms. As an example, the fabulous YOZMA VC Fund in Israel is one of the global successful VC-funding models (Lerner, 1995), the Uganda government can emulate to avert the alarming failure of start-up firms (Muriithi, 2017; Uganda Investment Authority, 2016; UMTIC, 2015; World Bank, 2016, 2020). Unfortunately, the government programmes have been futile in confirming effective recognition of the full growth potential and financial development of SMEs. This study was motivated by the growing importance of upholding sustainable entrepreneurship and SME development in Uganda. This is because the role of entrepreneurship and SMEs in gross domestic product (GDP) and overall economic development in Uganda has been a subject of discussion by many scholars (Eton et al., 2021). However, no research has been conducted to understand how VC investment can encourage entrepreneurship development. Some studies carried out largely revolve around the advanced economies, thus widening the literature gaps in emerging countries such as Uganda.

### **3. Theoretical background and empirical review**

Several entrepreneurship theories have been advanced to support the surroundings under which VCs can deliver value-added skills to the portfolio companies. Nearly all scholars give the impression that the human capital theory offers a firm foundation for this subject. (Barney et al., 1994; Cumming et al., 2005). Human capital theory posits that a management team with superior skills has been confirmed to realise advanced performance in the VC market (Deloitte & NVCA, 2022). VC firms normally offer various value-adding activities, such as networking and support in setting up strategic partnerships, besides financial capital. Research has observed that more skilled VCs expressively enhance value-adding activities in the portfolio companies than those with less business-explicit experience (Lerner, 1995; Proksch, et al. (2017; Gompers et al., 2021). To support this concept, Sapienza et al. (1996) contended that VCs would most add value to ventures when the venture lacked resources or when uncertainty was high, such as ventures in the earliest stages and for ventures pursuing innovation strategies.

Considering this discourse, we are compelled to conclude that human capital theory ostensibly resonates well with the concept of value-added by VCs to early-stage firms. It is further stated that the VC-backed enterprises have a competitive advantage over their counterparts, owing to the superior skills of the VC investors (Gorman & Sahlman, 1989; Sapienza, 1992; Maula et al., 2005; Chua & Wu, 2012). VCs who allocate adequate time to assess and focus on value-added to POs beyond VC funding have reported more successful exits and negligible failed VC-funded firms with no return. These findings seem to show VCs are more engaged in their portfolio firms, while entrepreneurs have a robust partiality for VCs with parallel experiences as their own (Lerner, 1995).

Even though the human capital theory has been accredited by several authors as it offers a greater insight into VC activity in emerging markets (De-Clercq & Dimov, 2012; Harris et al., 2014), some scholars have contested that it is short of tenets, which encourage the role of networks in the VC model. In this article, we advance the concept of value-adding activities, in which VC fund managers add value to the projects they finance and uphold their sustainability in business as well. Therefore, this paper is guided by our attempt to address three research hypotheses, in the next chapter, we debate the first research hypothesis stated as the following:

**3.1. H1: VC firms' role in the early-stage firms positively contributes to value-adding activities and success of early-stage firms**

Recent literature present conflicting conclusions, such as Bottazzi, Da, Rin, and Hellmann, 2008; Luukkonen, Deschryvere & Bertoni, 2013) debate that VCs-focused experience is a foundation for value-creation for young innovative firms. Whereas the empirical research of Large and Muegge, (2008) submits that working, outreach, consulting, mentoring, and recruiting are dominant value-added activities, nevertheless, these results are inconclusive. Alternatively, others (Gompers & Lerner, 2001; Busenitz, Fiet & Moesel, 2004; Chemmanur et al., 2014; Kaplan & Sensoy, 2015) propose that VC investors hold a dedicated familiarity with various industries and strategic network of contacts that they share with their funded companies. Mason and Harrison (2004) write that venture capital firms typically also adopt a "hands-on" investment style to limit risk and add value to their investments, and certainly, it requires close contact with investee companies. In contrast, studies by Lee and Wahal (2004) find no difference between the VC-financed companies and the non-VC-finance enterprises in terms of growth to IPOs and post-IPO performances. A future research direction to shed more light on these discrepancies would be beneficial to enriching existing literature in the current domain.

We observed that the reputation of young innovative firms with growth potential has been at the frontier of insightful research undertaking expressly on the benefits derived from this nature of investment (Ingstad et al., 2014; Jeong, et al., 2020). Although prior scholars have explored this subject, academic struggles are essentially engrossed in United States technological companies, thus leaving a relatively young VC market in Uganda under-explored. This in part contributes to the paucity of familiarity with how the VC companies in Uganda can enhance value-adding activities in their projects. Besides, even the few studies that have attempted to diagnose the importance of value-added assistance and innovation to the portfolio companies are theoretical reviews (Slimanne et al., 2016), while empirical evidence is questionable.

Previous studies have investigated the nexus between human capital theory and the VC value-creation, largely on investment selection and performance (Bottazzi et al., 2008; Gompers et al., 2005; Eldridge, 2007). Academic literature for Gorman and Sahlman, (1989) found that more skilled VCs spend more than 60% of their time in post-investment undertakings. Their role is evident in strategic planning, management recruitment, and providing a network of contacts. VCs enter the profession once they obtain focused experience as an entrepreneur, while others join after the experience they gained in other similar sectors, such as, Marc Andreessen and Ben Horowitz were both successful entrepreneurs before they founded Andreessen Horowitz, one of the leading VC firms in Silicon Valley. Consequently, this concept of value-addition has generated a novel ground of research that focuses on identifying how human capital factors influence venture capital firms. Similarly, Bygrave and Parhankangas, and Hellström (2007) find that VCs with focussed industrial experience, typically fund more risk ventures at early-stage. It is also stated that industry-specific human capital is certainly connected to VC performance. While Bottazzi et al. (2008) discovers that VC investors with prior knowledge in the related industry are more aggressively involved in VC-financed enterprises.

In contrast, Dimov and Shepherd (2005) find no positive relationship between industry-specific human capital and venture performance. Moreover, they seem to have reservations about both human capital and agency theories as they offer inadequate academic literature focused on VC networks. The human capital concept has stimulated more debate concerning its capability to deliver complete academic insight into VCs and their associated value-added skills to portfolio companies. More so, these theories do not entirely embody the societal nature of VC ecosystems, mainly in the developing economies. These arguments lead to debate and the development of our second research hypothesis.



**3.2. H2: VC firms are the central drivers of evolving early-stage enterprises' investment returns**

Whereas the entrepreneurs are often excited about strategic networking advice offered by the VCs, they lack a good understanding of the expert skills essential for nurturing the growth of SMEs. In such circumstances, entrepreneurs are probably more interested in value-adding skills from the VC fund managers (Barney et al., 1996; Bygrave and Timmons, 1992; Dotzler, 2001; Eldridge, 2007; Chemmanur et al., 2014). For that reason, VCs engage their business networks to assist business entrepreneurs in expanding their supplier chain management and potential partners. Such strategic network partnerships hasten the entrepreneurs' accessibility to external funding (OECD, 2013, Proksch, et al., 2017; NVCA, 2021; Deloitte & NVCA, 2022). Thus, the amount of this non-financial value-adding may differ depending on the VCs' experience, venture needs, and entrepreneur's skills (Slimanne et al., 2016). In contrast, if entrepreneurs are more knowledgeable, less value may be recognised from the VCs' professional advice (Sapienza et al., 1996).

On a different standpoint, Giacomo and Gigante (2021) study using a panel of corporate venture companies (CVC) associated with the European listed firms from 2008 to 2019, exposed VCs created value-added assistance consistent with North American's past evidence. The limitation of this study is that the focus was directed to corporate venture companies, whereas our study investigates the value-adding activities offered the private VCs to their funded companies. Therefore, the scope of this research is to provide a new understanding of how VC involvement in the portfolio companies is beneficial for value creation and innovation for SMEs in Uganda.

Kumar (2013) examined the value-added services in India, and the results revealed various value-added assistance offered by VC firms, such as marketing, customer network, and monitoring services improved with the increase in financing. But again, there is evidence of the replacement of CEOs, which seemed to have no well in the eyes of the founder entrepreneurs. While Jin et al. (2021) showed that VC-backed firms are more successful owing to VC firms' entrepreneurial skills, motivations, and strategy. While entrepreneurs yearn for most strategic value-added assistance, especially in the form of financial support and networking advice given by VC investors, again they are unclear about guidance regarding inner organisation problems. They may only demand VC expertise only when they observe a problem (Barney et al., 1996; Bygrave and Timmons, 1992). Therefore, research has shown that more experienced entrepreneurs may not require the services of the VCs in business management and operational advice (Barney et al., 1996). Sapienza et al. (1996). In conclusion, we observe a significant relationship between the VCs' experience and value-added and innovation in the young innovative firms they finance.

**3.3. H3: VC firms play a significant role in innovation and employment creation in early-stage enterprises**

Recent studies exposed that VCs' role has a significant positive impact on the growth of the VC financed companies, manifested in employment, productivity, and sales growth (Bertoni et al., 2011). It is alleged that frequent interactions between the investors and entrepreneurs attract greater value-added offered by VCs (Sapienza, 1992). As result, the financial support and non-value-added assistance combined have a vital effect on the growth of the portfolio companies (Bertoni et al., 2011).

Considering value-adding activities, VCs' involvement may be the most significant driver shaping the amount of value-added to their investee companies. We discover that VCs who have financed and monitored hundreds of new ventures have started some of their own, hence contributing to employment creation. VCs provide money and non-monetary contributions to high-growth ventures to help them become great companies (Sapienza 1989; Wiencke, 2017). Whereas we observe appealing results presented from developed countries, the situation in Uganda appears different. The VC market is predominant in South Africa, Kenya, Nigeria, and, lately, Egypt, which accounts for greater than 85% of Africa's entire gross VC investment (SAVCA, 2020). Our analysis of Uganda's VC contribution is virtually less than 5%, a clear demonstration of the underdevelopment of this industry in the country. It necessarily follows that little is known to entrepreneur founders about the value-added

skills delivered by the private VC firms to their start-ups in Uganda. Thus, this paper contributes a novel monography supporting the benefits of value-adding activities to entrepreneurs.

We also further investigate the extent to which VCs may inspire the growth and innovation of early-stage firms. Currently, VCs are recognized as the main source of innovation and new jobs, and the growth engine of an economy (Gompers et al., 2020; NVCA, 2020). Lately, VC fund managers have invested in a handful of portfolio companies because VCs are new in Uganda and are in their early-stage development. Our literature analysis reveals that Uganda has fewer than 25 VC companies. There is a lack of data about closed deals, besides data management companies' offering generic information. Therefore, empirical future research in this field is essential to close this knowledge deficit. Comparison to earlier studies find that VCs in the US and UK take a hands-off approach to oversight, nonetheless, VC firms in Uganda are actively involved in the VC-backed companies (Divakaran et al., 2014).

#### **4. Research design/method**

##### **4.1 Sample and sampling techniques**

The study aimed to debate to what extent VCs contribute to value-adding skills in the portfolio companies and their ensuing impact on the success of early-stage enterprises. The authors used both stratified and purposive sampling techniques to select the respondents. Whereas the stratified sampling technique enabled the researcher to select participants from the four districts of Kampala, Wakiso, Mukono, and Jinja known locations for a huge number of SMEs in Uganda, the purposive technique was vital in choosing entrepreneurs with more than 5 years of experience in business operation. Additionally, the experimental mixed-method research design was implemented, which permitted a quantitative research method to construct on a qualitative one (Creswell, 2013). The qualitative approach allowed the study to extensively explore to what extent VCs' efforts nurture value-added skills and SMEs' successful development.

The data presented in this article was a follow-up based on the interviews and prior empirical work of 2019–2020. In a way to adequately measure the role of VCs in value-adding activities, we conducted a supplementary survey from July–December 2021. The standardised questionnaire contained closed and open-ended questions to explore when and how the VC firms contribute to value-added assistance to the portfolio companies. We administered the study to 96 key informant respondents purposively selected from the primary dataset of the Uganda Investment Authority (UIA) and the online profiles for VC firms (Table 1). These categories of respondents were essential to the study as they are alleged to hold a rich understanding of the VC industry in Uganda. Additionally, our study sample comprised key infants stratified and purposively selected from four commercial business districts in Uganda including Kampala, Wakiso, Mukono, and Jinja, because above 35% of the SMEs in the country are located in these districts. The approach applied to data collection was consistent with earlier studies (Manigart et al., 1996; Sapienza, 1994; Kato & Tsoka, 2022) which also involved similar respondents.

**Table 1.** Sample size distribution

Respondent Categories	No of Respondents	Survey responses	Response %
VC investors (Venture capitalists)	36	30	83%
VC-funded Innovative firms	58	45	78%
Government Agencies	1	1	100%
SMES associations	1	1	100%
Total	96	77	80%

Source: Primary Data, (2021)

As it can be seen in Table 1, we received a very high response rate of 80%, where 77 questionnaires were completed and returned from 96 issued to the respondents. An earlier study by Kato and Tsoka (2020) revealed that a response rate of 80% demonstrated an excellent and reliable sample for the study. We selected a bigger proportion of VC-backed companies and VC investors because value-addition is essentially offered by the VC companies to their ventures. Such a selection approach ensures the collection of reliable data as the two categories of the respondents are interdependent in terms of promoting value-adding activities in high-growth companies.

**Table 2.** Value-adding activities offered to VC-funded companies

Variables	No of Respondents (N=77)	% Response
Growth of SMEs into IPOs	15	20%
Introduction to potential customers and suppliers	52	68%
Increased investment returns	54	70%
Market share expansion	59	76%
Help get steady financing	60	78%
Recruitment of top management	62	80%
Networking for strategic partnerships	62	80%
Sounding BOD for CEOs	62	80%
Innovation capacity	65	84%
Strategic planning	69	90%
Improved profits	71	92%
Improved sales turnover	72	94%
Financial management	74	96%

Source: Primary data, (2020–2021)



As it can be seen from Table 2, 74 of 77 respondents reported financial management as one of the key value-adding activities provided by VCs to the young innovative firms. This resonates well with the preliminary work done by the VC investors to ensure that VC-backed firms allocate funds following the strategic work plan. We also observe improved sales turnover and profits as significant value-added arising from the VC efforts, 72 respondents out of 77 favoured sales turnover, while 71 out of 77 agreed to improved profits due to the superior skills of the VC investors. However, IPOs/trade sales received the least respondents of only 15 of 77 respondents supporting the VC role in encouraging IPOs that is 20%. As we conclude, we discover that financial management ranked the highest at 96%, followed by sales turnover at 96% and improved profits at 94%. This confirms that VCs' role in value-added activities is more outstanding in financial management sales turnover and improved profits.

Second, we conducted 24 in-depth face-to-face interviews with the same group to expound on the statistical results, as value-adding activities are more validated qualitatively. These interviews reported a very high response rate of 80%, where 24 of 30 respondents provided excellent feedback on the VCs' major roles in the POs. The interviews were recorded, data transcripts were validated by the interviewees, and a content analysis was used to generate the results. This access enabled us to collect in-depth qualitative data regarding the value-added activities and general quantitative data about the investments. The limitation of this study is that it relied on data collected from four districts in Uganda (Kampala, Wakiso, Mukono, and Jinja), hence the results ought to be used with caution as they may not represent the general picture of VC in Uganda. We depend on content analysis to regulate value-adding activities VCs apply to enhance success in their portfolio firms. This process involves a systematic method to understand a body of manuscripts, pictures, tables, and videos, essentially not from authors or users.

#### **4.2. Measuring value-adding activities offered to the VC firms**

It centered the essential concepts in this study on how the VC companies contribute to value addition and successful development of VC-backed enterprises. As earlier noted in the literature analysis, VCs influence and support unswerving VC projects through active involvement in the business processes of the VC-backed firms, for instance, at board meetings, recruiting senior management staff, creating networks for strategic partnerships, financial management, improved profits, market share expansion, strategic planning and other informal interactions with CEOs. To measure the value-added activities provided by the VC firms, we asked VCs, government representatives, and entrepreneurs to rate the significance of these activities to the portfolio companies, on a scale from 1 = unimportant at all, to 5 = of great importance. These roles were derived from prior research (Gorman & Sahlman, 1989) and our own fieldwork. VCs also rated their effectiveness in conducting these roles (from 1 = not at all effective, to 5 = extremely effective). By multiplying the importance by the effectiveness rating, we derived a measure of value-added for each role (with a range of 1 = no value added to 5 = very high value-added).

We unquestionably used this data collection method because several studies that have examined VC performance have largely used a quantitative approach in isolation from the qualitative one, to collect data. However, these types of data collection are subject to several limitations. In most cases, the response rate of surveys is rather low, which reduces the relevance of the study because it represents only a small share of the whole population. Besides, databases are limited in detail because they are primarily based on publicly available data and thus do not offer data on the internal practices of VC companies.

The study analysed using a Meta-analysis, which is a set of analytical tools that allow researchers to bring coherence to varying findings across studies and draw robust conclusions about whether and how much a theoretical relationship has received empirical support. Uncovering to what extent findings support established theory is important because such knowledge becomes the foundation upon which new and more detailed theoretical relationships can be developed.

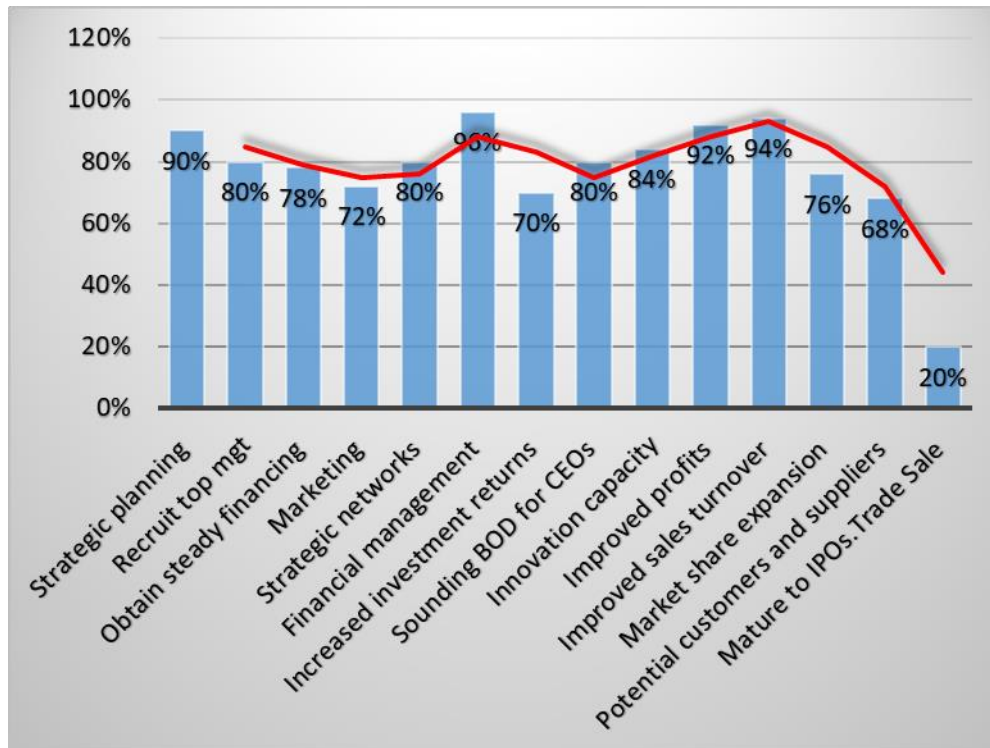
**5. Results and Discussion**

In this section, we debate results explaining how VC role influences the value-added assistance and innovation of the high growth potential firms. Our results are organised according to the three study hypotheses as earlier mentioned in the theoretical review section and hypothesis development. In a way to adequately analyse the specific research hypotheses, we conducted various methodical data analyses such as descriptive statistics, sample-paired correction results, and ANOVA analysis using SPSS computer-aided software, while for interview data, we relied on Atlas.ti software recommended for qualitative data analysis. We tested the survey questionnaire for normality factor analysis, and it was found normally distributed.

We asked the VC firms and entrepreneurial founders and senior management team a series of questions to collect their views about a set of value-added assistance provided by the VCS to the portfolio companies using a 5-point scale survey questionnaire. We conducted an extensive analysis covering the non-financial value-adding activities which were supported by evidence from the financial performance, for instance, a surge in profits, investment returns, market share expansion, and sales turnover. In the next section, we present our findings concerning VCs’ role in value-added mechanisms and the success of the VC-backed start-ups.

**5.1. VC firms’ role in value-adding activities and success of early-stage firms**

To measure the value-adding activities provided by the VCs to their funded companies, we use role VCs on the BOD, VC finance, and VCs' experience and skills, as our independent variables. While for the dependent variables, we applied a robust set as illustrated in Fig. 1 to assist in identifying the value-adding activities evident in the disruptive young firms. These variables were comprehensively assessed to establish how they are truly manipulated by the VC's presence in the business processes of their ventures. Our approach to the analysis of value-adding activities is categorised into non-financial value-added and financial value-added to the investee companies.



**Figure 1.** Value-adding activities provided by VCs to the Innovative early-stage firms

Source: primary data: 2019–2020

We asked the key informants to give their opinion on the most value-adding activities provided by the VC firms to the young innovative firms (Figure 1). We noticed that financial management received the highest score of 96% (74 Of 77 respondents), closely followed by sales turnover of 94% (72 Of 77 respondents) and improved profits at 92%,( 71 of 77 respondents), and strategic planning at 90% (69 of 77 respondents). We observe that financial management appeared on top of the value-added assistance to start-ups because it is fundamental to determining the growth or failure of a company. VCs' priority is to deal with information asymmetries in their ventures. It involves training staff in financial management, marketing, and human resources among others. Once a company has a sound financial management system, this provides a platform for the firms to interest more value-added skills. As a matter of emphasis, 94% of the respondents confirmed a surge in sales turnover, while 92% submitted a great improvement in annual profits after the elimination of financial information asymmetries. It is also important to report that 90% of the respondents were happy about the VCs' role in strategic planning. Our study unveiled a prodigious diversity of value-adding activities, some of which support the conclusions of earlier studies (Fried & Hisrich, 1995; Sapienza, Manigart & Vermeir, 1996; Jeong, et al., 2020; Gompers et al., 2020; Lerner, 2010; Slimane et al., 2020; Deloitte & NVCA, 2022) as well contributes to contemporary literature.

More results from descriptive statistics conveyed recruitment of senior managers-80%, strategic partnerships ranked also 80% and steady financing was ranked 78%. Our findings support recent studies (e.g. Bygrave and Taylor, 1989; Sapienza & Timmons, 1989; Hellmann & Puri, 2002). They also attest that VC involvement is critical for value-added and innovation in young innovative firms because it differentiates VC funding from other sources of funds. In a nutshell, we are compelled to deduce that financial improvements, a surge in sales turnover, annual profits, and strategic planning, besides BOD governance improvements, are among the most frequently recorded value-adding activities. Our findings are consistent with the conclusions of Hellmann and Puri (2002). These results address the research hypothesis H1 which states "VC firms' role in the early-stage firms positively contributes to value-adding activities and success of early-stage firms. In a nutshell, while we performed a robust evaluation of several value-adding activities, financial management, improved sales turnover and profits, and strategic planning emerged as the most value-adding activities provided by the VC investors to their ventures. Unlike prior scholars whose conclusions are largely confined to developed nations, this paper provides a distinguished understanding of VCs' value-creation and innovation in the young innovative firms in emerging economies like Uganda. In summary, results extracted from the survey corroborate well with our first research hypothesis presented as the following: H1.

Additionally, results from the face-to-face interviews correspondingly expose irresistible evidence of value addition to start-ups, displayed in mentoring exercises, access to international markets, coaching in financial management, and delivering hands-on assistance to companies through their networks. Our findings support earlier findings (e.g Large & Muegge, 2008, Lerner, 2010, Gompers et al., 2020). They argue that the most important value-added contribution of VCs rests in the development of the right professional group for the venture. Mutually, survey questionnaires and face-to-face interviews convey similar results in supporting our first research hypothesis.

In contrast, when we asked the respondents about how many innovative firms have successfully been elevated to the level of IPOs or trade sales. Surprisingly, only 20% of the respondents knew IPOs or trade sales. Besides, there has not been a single formerly VC-backed presented for IPOs on Uganda's Stock exchange market as reported in comparable emerging economies. Uganda's stock exchange market is still small compared to those of Kenya, Nigeria, and South Africa. Specifically, the Kenya VC industry has witnessed many originally VC-financed companies listed on the Nairobi Stock exchange market for instance recent empirical studies in Kenya Jumia, SafariCom, M-Pesa among others. Consistent with our findings, Gompers (1996) displays that realising a successful IPO exit is valuable for VC companies to create a standing and advance new capital in agreement. This study conveys that either the VC investors in Uganda fear exit due to unsatisfactory returns or a potential

threat to creating a strategic acquisition, instead of a divestiture. In conclusion, this paper serves as a springboard to facilitate future additional studies that can investigate why the Uganda VC market has not registered any IPOs arising from the VC-backed companies. We argue that future studies should examine ‘VC exit successes as a high-impact-dependent variable, and place greater emphasis on the measurement of directly observable events for both value-adding inputs and value-added outcomes.

**5.2. VC firms as drivers for investment returns for early-stage enterprises**

In this section, we discuss Ha2, which presupposes that *VC firms' presence in their ventures assists to increase their investment returns*. Empirically, it is difficult to measure the exact returns on investment earned by VC companies using commercially available datasets because doing so requires data on deal structure and eventual exits that are usually unavailable. Therefore, to adequately estimate returns on investment, we employed both survey questionnaire and interview approaches, to get a deeper understanding of the value-added concept. Since returns on investment is the outcome of a profitable business venture, we used robust non-financial and financial performance variables. These variables facilitated the evaluation of Hypothesis H2: We uncover how far the individual responses from the survey differ from the mean. Using the standard deviation method facilitated the researcher to establish how the responses are spread out, for instance, if our results have a normal distribution with no outliers from the mean results.

**Table 3.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial management	77	2.0	5.0	4.351	.6441
Improved sales turnover	77	2.0	5.0	4.184	.7017
Improved profits	77	2.0	5.0	4.065	.7837
Strategic planning	77	1.0	5.0	3.974	.8881
Innovation capacity	77	1.0	5.0	3.844	1.0009
Sounding BOD for CEOs	77	2.0	5.0	3.779	.9545
Recruitment of top management	77	1.0	5.0	3.779	.9950
Networking for strategic partnerships	77	1.0	5.0	3.779	1.0339
New technology	77	1.0	5.0	3.740	.7678
Help get steady financing	77	1.0	5.0	3.701	.9876
<b>VC firms' increase investment returns</b>	<b>77</b>	<b>2.0</b>	<b>5.0</b>	<b>3.675</b>	<b>.8498</b>
Market share expansion	77	1.0	5.0	3.659	1.0073
Transfer of Technologies to VC -funded companies	77	2.0	5.0	3.636	.8570
Increased investment returns	77	2.0	5.0	3.597	1.1501
Introd'n to potential customers and suppliers	77	1.0	5.0	3.506	1.1428
Growth of SMEs into IPOs	77	1.0	5.0	2.540	1.0188
Valid N (listwise)	77				

Source: Primary Data, (2021)

As it can be seen in Table 3, survey responses convey SD results that are concentrated around the mean, it appears that there are no outliers as the results do not show an extreme deviation from the mean. Returns on investments portray a mean-rounded score of 3.7 and SD 0.8498. When we compare these results with the determinants of investment returns for instance financial planning generated a SD 0.6441, ale turnover, 0.7017 And profits SD 0.7837 respectively. The survey results, when rounded off, almost all generated a mean score of 4 which was denoted as agree. Looking at the mean alone, financial management was ranked the highest value-added to the VC-backed firms with a mean of 4.35. But observing the mean alone in the isolation of standard deviation (SD) and standard error may not convey reliable results. Therefore, we further assess the distribution and validity of the survey responses in consideration of SD, which is adequate for measuring how far the survey responses are concentrated or scattered from the mean. It can be inferred observed that investment returns are one of the most value-adding activities offered by VC firms to their ventures. Our findings are like the studies of (Hellman & Puri, 2008; Slimanne et al., 2016). Besides, these results collaborate positively with our hypothesis *Há2: VC firms are the central drivers of developing early-stage enterprises' investment returns.*

In addition, we also discovered that VC participation on the BOD received a mean score of 3.78 and SD 0.9545. It can be observed that the standard deviation results range from 0 to 1, an indication that our results command no outliers. The implication of these outcomes is that VCs typically secure minority seats in the BOD to boost start-ups' financial performance to achieve high returns. To sustain our declarations, a VC stated, *"We are cautious of the extent to which equity relates to what we do when we invest. We are looking for an exit. One channel of exiting is when we come out of the business and we are ready to sell our stake, either to the business owners or to the equity market. This can only be successful if there is an opportunity to list, for which there has not been a typical prime channel for an exit. But if there is an opportunity to list, we may monitor to see when the best time to bring that exit to the IPOs, but that has not been the case so far"* The point to make here is that VCs find it difficult to exit by making a trade sale to the equity markets since Uganda's stock exchange market is not developed to deliver a prime channel to IPOs. Most VCs were quick to point out that government support has been vital for the success of the VC market in Israel, New Zealand, Thailand, and above all US. This study supports previous literature work of Lerner (1995), Gompers and Lerner (2001), Tykvova (2018). VC firms play a cardinal role in remitting to limited partners' good investment returns to attract higher capital funding opportunities from the pension funding. It is not surprising that VC investments are associated with high value-added assistance to portfolio companies. For that reason, VCs secure minority seats in the BOD to ensure that the CEOs of the POs adhere to their recommendations. In this scenario, the Uganda government must develop the stock markets if the VC market is to realise better performance.

We also find that expanding VC access at the different funding stages, such as seed, expansion, and IPOs or buyouts, comes along with-it value addition to the funded companies. This financial strategy helps the fund managers to quickly detect and minimise the financial risks, which would otherwise impede expected investment returns from their ventures. Furthermore, Respondent DRS12 reported that *"We are not there to bring only cash on the table, but rather bring broader networks and talent for further financing to help POs grow. We also come along with experience from other markets in terms of how we scale businesses.* Our results conform to the findings of (Sapienza, 1992). It is therefore important to say that VCs add value to the POs in terms of scaling up the networks for future funding opportunities, talent development, and vast experience from other markets, which escalates the SMEs' growth.

Considering value-creation in the young innovative firms, we discover that VC investors work with the business entrepreneurs by acquiring equity shares and ensuring steady growth to get good returns on investment. Besides, contrary to bank financing that hinges on monthly instalments recovery irrespective of the business performance, VCs significantly support the growth of early-stage firms and are often ready to share both losses and profits. This arrangement of business partnerships promotes the growth of the small-medium enterprises. Likewise, the respondent (DRS05) commented that VC secures BOD seats to quickly discover the financial risks at an early



stage. It is also vital to underscore that VC firms with experienced fund managers, ordinarily conduct less monitoring than those with junior managers. These results are to the outcomes of Khan et al., (2021) study in Europe, who illuminated that the US VC investors conduct not as much monitoring as the European VC firms because they are more skilful and knowledgeable.

**5.3. Role of VC firms in innovation and employment creation**

Considering innovation and employment creation as non-financial value-adding activities, we use a bivariate Pearson Correlation to test whether there is a statistically significant linear relationship between VC role in nurturing innovation capacity and employment creation in the young innovative firms and to conclude the strength and direction of the relationship. To evaluate the null hypothesis (H0) and alternative hypothesis (H1) of the significance test for correlation, we express the significance level as a two-tailed test.

Two-tailed significance test assumptions

H0:  $\rho = 0$  (population correlation coefficient is 0; there is no association)

H1:  $\rho \neq 0$  (population correlation coefficient is not 0; there is a correlation relationship).

**Table 4.** Pearson Correlations analysis

Pearson Correction		VC firms	Employment	Innovation capacity	Investment returns
VC firms	Pearson Correlation	1	.348**	.538**	.554**
	Sig. (2-tailed)		0,004	0,000	0,000
	N	68	68	68	68
Employment	Pearson Correlation	.348**	1	0,185	.335**
	Sig. (2-tailed)	0,004		0,131	0,005
	N	68	68	68	68
Innovation capacity	Pearson Correlation	.538**	0,185	1	.463**
	Sig. (2-tailed)	0,000	0,131		0,000
	N	68	68	68	68
Investment returns	Pearson Correlation	.554**	.335**	.463**	1
	Sig. (2-tailed)	0,000	0,005	0,000	
	N	68	68	68	68
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Source: Primary data, (2021)

As it can be seen in Table 4, Pearson correlation coefficient 'r' for VCs' role in innovation capacity, employment creation, and investment returns, there is a significant correction 'r' because  $p < .001$  for a two-tailed. The results convey that VCs role and employment creation have a statistically significant linear relationship ( $r=.348$ ,  $p < .001$ ), while innovation capacity and VC's experience also show a strong correlation as  $r=.535$ ,  $p<.001$ ). The p value (quoted under Sig. (2-tailed) is .000 (reported as  $p < .001$ ) that is less than 0.05. We can therefore conclude that there is significant evidence to reject the null hypothesis that the correlation is 0. As a result, there is evidence to conclude that VCs' role in the young innovative firms they finance contributes to their innovation capacity, employment creation, and surge in the investment returns. As such, for entrepreneurs looking out to grow their companies, it is inevitable to partner with the VC firms since they have the expertise needed for the success of these firms.

Existing studies (e.g. Barney et al. 1996; Dotzler, 2001) convey that the superior skills of employees positively contribute to labour productivity. Consistent with the later author, Gompers et al. (2020) state that experienced VCs spent less time on monitoring the VC-funded companies compared to less skilled VC fund managers. VCs in advanced markets like US, UK, and Canada typically seek to add value to the funded firms, which is alleged to be one of the critical aspects of their success. However, as reported earlier, VCs' role is limited in the funded companies in emerging markets, VC contracts appear complex to enforce in Uganda because of the prevalence of family business. Since most SMEs are family-owned their capacity to interest the VC investors is limited, this slows down their ability to create more employment opportunities. But some of the VC recipients have reported a positive increase in the number of employees.

Besides, VCs recruit only competent employees with vast knowledge to keep their ventures growing. In a worse situation, they are compelled to fire the entrepreneur founders if they are unable to demonstrate good leadership of the funded companies. Therefore, on the face of it, it may appear to contribute to the creation of more jobs, nonetheless, they are also held accountable for replacing the CEOs, which usually sparks organisational conflicts. Companies (Belke et al., 2017). A recent study of NVCA (2021) reveals that the impact of VC is beyond investment returns. In the US, several VC-backed companies have scaled, gone public, and become household names and at the same time have generated high-skilled jobs and trillions of dollars of benefit for the US economy.

Unfortunately, Uganda's VC market is still grappling with no record of any IPOs compared to Kenya and South Africa. Despite the slow take of the VC industry in Uganda, interview results revealed an average of 40% new job creation by VC recipient companies. Although these companies are known to employ a few employees, such achievements cannot go unnoticed. Besides, VC-funded companies have been in a position to conduct R&D to improve product development. Some of the portfolio companies reported tremendous innovation capacity in their production that facilitated their expansion to regional markets for their products. The Uganda government has also joined the race by creating less competitive local markets with foreign investors. Because foreign companies come along with technology that the locals do not have. Besides, they increase investment in the country, which creates job opportunities, thus contributing to economic growth. Playing the game with previous studies (Fired & Hisrich, 1995; Khan et al., 2021), our study conveyed similar results suggesting that VCs can play a significant role over and above those commonly discussed in the current literature.

## **6. Conclusion and Future research directions**

This paper explored the role of venture capital firms in harnessing value-adding activities and innovation of high growth firms in Uganda. VCs have been playing an increasingly important role in the growth of early-stage companies around the globe. For many years now, VC firms have been hailed for their enormous contribution to value-creation and innovation in their high-growth start-ups, however, there is limited information in the public domain to underpin this new human capital concept. We find that VC role is significantly related to enhancing much value-adding activities in the young innovative firms, for instance financial management, a surge in sales turnover, profitability growth, strategic planning, recruitment of senior management, employment creation, returns on investment among others.

Therefore, this article delivers concrete information beneficial to the entrepreneurs/founder managers seeking to enhance the growth of their enterprises by partnering with the VCs that are more knowledgeable in managing the financial risks. Such partnerships may help close the financing gap hindering small firms' growth. More so, our results are beneficial not just for entrepreneurs anticipating obtaining money. They also offer insights to educators teaching the subsequent generation of founders and investors; leaders of current companies pursuing to match the VC process; policymakers demanding to shape start-up ecosystems; and university officials who hope to commercialise innovations developed in their schools.

Furthermore, this study contributes to the under-studied space of VC value-creation and innovation, especially in Uganda, where there is limited academic literature in this field. Thus, our study offers an insight into how value-added is created between the VCs and the high-growth entrepreneur firms, as well as contributes to closing this knowledge deficit in the arena of VC role to value-adding activities. As such, our results may support entrepreneurs/government to engage in lucrative partnerships with experienced VC firms that have the capacity to bridge the SMEs' equity financing gap at an early stage. Finally, this paper offers a foundation for future research direction. On this note, it would be beneficial for the Uganda government to enact policies that make it easier for firms to develop and commercialise new ideas by lowering the costs of failure and encouraging firms to experiment with potential growth opportunities.

As earlier empirical surveys, our study also suffered some limitations such as, it was confined to early-stage enterprises selected from four districts in Uganda. Therefore, the results may not be generalised to represent the entire VC industry performance in Uganda and similar emerging economies. Also, future research should try investigating the impact of the VC in IPOs as our sample revealed no VC-backed companies, which had matured to IPO level. Our results further show that VCs cut down on the time they devote to their portfolio companies owing to the proximity and geographical location of the firms they finance. The geographic distance significantly limits face-to-face interaction, and it appears to have less impact on the amount of value-added.

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