The Role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia: A Case Study

By

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A Dissertation submitted to the University of Zambia in partial fulfilment of the requirements for the award of the Degree of Master of Business Administration Management Strategy.

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DECLARATION

I, SITWALA H. KETANI, do hereby declare that this work is my original work achieved through personal reading and research. This work has never been submitted to the University of Zambia or any other Universities. All sources of data used and literature on related works previously done by others, used in the production of this Dissertation have been duly acknowledged. If any omission has been made, it is not by choice but by error.

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APPROVAL

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ABSTRACT

This Study aimed to investigate the role of venture capital funding in the performance of small and medium enterprises (SMEs) in Lusaka, Zambia. SMEs play a vital role in the economic development of many countries, including Zambia. However, access to financing remains a significant challenge for SMEs, particularly in the early stages of their development. Venture capital funding has been identified as a potential solution to this problem, as it can provide the necessary capital and expertise to help start-up SMEs grow and succeed. Despite the potential benefits that venture capital can offer to SMEs, there is a gap in understanding the specific mechanisms through which venture capital funding influences the growth trajectory and overall performance of these enterprises. Additionally, the contextual factors that may either facilitate or hinder the positive impact of venture capital on SMEs are not thoroughly explored. The study was underpinned by the economic theory of the entrepreneur under the theoretical framework. This theory emphasises the role of the entrepreneur in driving innovation, fostering economic growth, dynamism, and job creation. The research employed a mixed study design with data collection conducted through questionnaires that achieved a 100% response rate from the 102-sample size. A purposive sampling method was employed to select managers and owners of SMEs. Analysis of the findings, utilizing Excel, pie charts, mean and standard deviation indicate a positive influence of venture capital funding on SME performance in Lusaka. Furthermore, a positive relationship was identified between venture capital funding and other financial sources for SMEs, with financial management skills demonstrating a favourable impact on SME performance. The identified challenges encompassed limited access to venture capital firms, awareness issues, scalability concerns, regulatory and legal hurdles, challenges in market size assessment, and varying valuations by start-ups and venture capitalists. Recommendations include the development of growth-centric business plans, utilising venture capital funding to enhance investor confidence, investment in financial management training, especially for start-ups, and implementing initiatives to increase awareness of the benefits of venture capital funding in supporting SMEs.

KEY WORDS: Small and Medium Enterprises (SMEs), Venture capital funding, Performance, Development, Start-up

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DEDICATION

This Dissertation is dedicated to my husband who believed in me when I doubted myself and almost gave up and to my late parents whose memory I carry with me as I strive every day to make them proud.

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LIST OF ABBREVIATIONS AND ACRONYMS

FSD,	Funds for Social Development
ICT,	Information and Communications Technology
IMF	International Monetary Fund
MENA	Middle East/North Africa
MFIs	Micro Finance Institutions
NVCA	National Venture Capital Association
OECD	The Organisation for Economic Cooperation and Development
PACRA	Patent and Companies Registration Agency
SMEs	Small and Medium Enterprises
UNIDO	United Nations Industrial Development Organisation
ZDA	Zambia Development Agency

CHAPTER 1

1.0 INTRODUCTION

Small and Medium-sized Enterprises (SMEs) play a vital role in the economic development of many countries, including Zambia (Kwesiga & Franzel, 2014; Mwansa & Simbanegavi, 2020). However, access to financing remains a significant challenge for SMEs, particularly in the early stages of their development (Ayyagari et al., 2011). Venture capital funding has been identified as a potential solution to this problem, as it can provide the necessary capital and expertise to help start-up SMEs grow and succeed (Chung & Park, 2017).

This study aims to investigate the role of venture capital funding on the growth and performance of SMEs in Lusaka, Zambia. As the country continues to experience rapid economic growth and development (IMF, 2021), there is an increasing need for SMEs to adopt new business models and technologies to remain competitive (Abor & Quartey, 2010). The study will examine how venture capital funding can support these efforts and contribute to the growth and success of SMEs. A case study approach will be used to analyze the experiences of selected SMEs in Lusaka that have received venture capital funding. The findings of this study will contribute to the existing literature on SME financing and offer practical insights for policymakers, investors, and entrepreneurs in Zambia and other developing countries.

1.1 Background to the Study

The role of venture capital can be seen as an important link to support business continuity. Before investing in start-ups, venture capital analysts or internal parties conduct the analysis and selection of start-up companies and their growth and performance. Ramdhan (2016) stated that the funding mechanism, either financially or materially, undertaken by venture capital is different from other financial industries and is considered to have a high risk, so special analysis is needed before deciding to invest in start-up companies.

Start-up companies are a kind of entrepreneurship and new business in the form of companies, organisations, and partnerships that are engaged in technology (Kiwe, 2018). They are generally designed to look for repeat and measurable businesses and can be developed into larger (scalable) ones. The effort taken to develop the start-up business takes the form of innovation in the various stages of its development. Innovation is generally done to find various answers and solutions that arise in the community so that the products produced have benefits in everyday life.

Venture Capital is money provided by investors to startup firms and small businesses with perceived long-term growth potential and good performance. This is a very important source of funding for the growth and good performance of firms that do not have access to capital markets (NVCA, 2007). It typically entails high risk for the investor, but it has the potential for above-average returns. Venture capital firms also provide managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships (UNIDO, 2001). This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity (Heilman, 2018).

According to Muriithi (2012), venture capitalists take different approaches in investing in local companies and are specifically interested in initial stage companies, and these are referred to as angel investors. An angel investor is an affluent individual who provides capital for a business start-up in early development or growth stage, usually in exchange for debt or ownership equity (Amissah, 2009). A small but increasing number of angel investors organise themselves into fund management groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies (Peneder, 2010).

Furthermore, there are various financing structures that angel investors use when investing in start-ups in Zambia. According to Gatauwa & Mwithiga (2012), start-up business venture are formed mostly based on an innovative and disruptive idea to search for a repeatable and scalable business model making them attractive for Venture Capital investors. These include giving away equity stake in the business, revenue share agreement, taking in debt, or having convertible debt. According to an angel investor directory, there is $1.2 million investment by angel investment firms and individuals currently in Lusaka. Most of the investments in Zambia have been made in technology-based companies and usually involve ownership equity given in exchange for funds which average $20,000 per investment (ZDA, 2014).

In addition to financial assistance, start-up and growth of enterprises need proper human capital development due to major advances in technology and great human potential (Sapienza, 2014).

Such business development endeavors among the population, should therefore incorporate training, mentoring and provision of fund for entrepreneurship development to be effective and sustainable and better performance. Leidholm & Mead (2017) suggested that there could be more entrepreneurial opportunities in developing countries than in developed countries which have not been tapped, hence the need for entrepreneurship education and training in many African countries. Human capital can provide a competitive advantage to a firm over its competitors and human resource development directly influences human capital of a firm (Megginson, 2001). This is the kind of training that causes a change in the attitude of young people and imparts an entrepreneurial culture to them. They also need skills that will enable them to use locally available materials and, at the same time, to exploit markets outside their communities where there is a scarcity of local resources.

The benefits of venture capital go beyond the provision of long-term finance since they share risks, and venture capitalists, unlike banks, get actively involved in the functioning of the firm, from management to shop-floor operations (UNIDO, 2002). Given their knowledge gained from investing in other companies with similar growth challenges, venture capitalists or business angels can help their investors overcome specific bottlenecks that hamper their performance. Following profit-making principles, venture capitalists seek high-return opportunities while minimising risks. In the developed world, business angels have played a significant role in the success of small export-orientated high-tech firms, particularly in the fields of electronics and ICT (Wanjohi & Mugure, 2008).

Africa faces the challenge to provide better economic opportunities to its citizens, through-sustained growth led by the private sector and to alleviate the poverty that has long plagued the region according to AVCA (2007). A strong private entrepreneurial sector plays a vital role in this respect, in particular the SMEs that provide many Africans employment, income, and hope for a better future (FSD, 2009). SMEs contribute around two-thirds of national income and provide the foundation for a stable middle class in many countries. They help form strong communities and are a powerful force in reducing poverty. Indeed, SMEs lay a significant role in building economic stability and sustainability for the future (OECD, MENA, 2006).

According to Kauffmann, (2005), on the policy of financing SMEs in African countries. African financial systems are fragmented, and the lack of funding for SMEs has been partially based on micro finance institutions (MFIs), whose growth is due to the flexible loans they offer small businesses. Loans are provided with minimal bank charges, without a minimum deposit, and with informal guarantees (property assets and a guarantor), as well as permanent contact with loan managers. Although adapted to local needs, MFIs remain fragile and modest in size. They lack trained staff and also face limited expansion because of their limited funds; furthermore, their mainly short-term finance means they cannot easily turn the savings they collect into medium or long-term loans.

However, over the last two decades, many governments including the government of Zambia and other developing countries have implemented programs to mobilize venture capital in support of newly established, innovative firms, with the objectives to remedy funding gaps in private capital markets, leverage private sector financing and fostering the creation and growth of technology-based companies (OECD, 2003). Stimulated by the implementation of such initiatives, in recent years several works in the field of entrepreneurial finance have tried to assess the effectiveness of different public policy instruments for the creation of active venture capital markets (Gompers & Lerner, 1999). Venture capital has had a significant impact on SMEs in developed countries. Small businesses have been and are the stepping stone of industrialisation in these countries, whereas venture capital has been present since independence, yet industrialisation is slow (Kaplan & Stomberg, 2009).

According to Ogojiuba & Ohuche (2004), start-up businesses are plagued by several issues that deter this growth and performance, a key challenge being the financing problems due to tight liquidity constraints. The long-term growth and competitiveness of start-ups are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. This is rightly confirmed by Sahlman (1991) that access of SMEs to credit and financial services and human capacity development from venture capitalists has been identified as one of the most important growth accelerators for firms in USA. Locally, start-ups share of financing resources is disproportionately less than their relative importance in domestic employment and to the value added. Generating an entrepreneurial idea is one thing but accessing the necessary finance to translate such ideas into reality is another (Wanjohi, 2010). Graduation of many novel entrepreneurial ideas from start-ups to corporate levels has been thwarted simply because their originators could not fund them and banks could not be convinced that they were worth investing in. Finance, whether owned or borrowed, is needed to expand to maximise profit and given the nature of SMES, financing is necessary (Ngigi, 2017).

1.2 Problem Statement

Small and Medium-Sized Enterprises (SMEs) play a pivotal role in fostering economic development, innovation, and employment. However, these enterprises often face significant challenges, including limited access to adequate financial resources. The role of venture capital funding in the growth and performance of SMEs remains a critical area that requires in-depth investigation.

Despite the potential benefits that venture capital can offer to SMEs, there is a gap in understanding the specific mechanisms through which venture capital funding influences the growth trajectory and overall performance of these enterprises. Additionally, the contextual factors that may either facilitate or hinder the positive impact of venture capital on SMEs are not thoroughly explored.

The business landscape in Zambia thrives with a dynamic private sector, fostering an environment that beckons venture capital firms to invest in emerging startups (Deloitte, 2022). Furthermore, local pension funds and insurance companies have embarked on investment ventures targeting enterprises poised for growth and profitability. Despite these commendable initiatives, SMEs in Zambia continue to grapple with a plethora of challenges, resulting in a notable failure rate ranging from 50% to 95% within the initial five years of their operations. This can be attributed to obstacles like limited access to credit, unfavorable credit terms, and the absence of robust financial and operational strategies (Mead & Liedholm, 2021).

This research aims to address this gap by rigorously investigating the role of venture capital funding in the growth and performance of SMEs. The study will investigate the dynamics of venture capital and SME interactions, exploring how factors such as financial management skills, external economic conditions, and the regulatory environment can modulate the effectiveness of venture capital in supporting SMEs. Through a comprehensive examination of these factors, the research seeks to provide valuable insights that can inform policymakers, investors, and entrepreneurs on optimizing the contribution of venture capital to the sustainable development of SMEs. This research aims to address the identified gaps such as limited access to credit, unfavourable credit terms, absence of robust financial and operational strategies, and high failure rate by conducting a rigorous investigation into the role of venture capital funding in supporting the growth and performance of SMEs in Zambia. Specifically, the study will examine the dynamics of venture capital and SME interactions, considering factors such as financial management skills, external economic conditions, and the regulatory environment. By comprehensively analysing these factors, the research seeks to provide valuable insights that can inform policymakers, investors, and entrepreneurs on optimizing the contribution of venture capital to the sustainable development of SMEs in Zambia.

1.3 Objectives of the Study

1.3.1 Main Objective

The main objective of the research is to investigate the role of Venture Capital Funding on the performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia.

1.3.2 Specific Objectives

The specific objectives of the research are as follows:

a) To assess the influence of venture capital funding on the performance of start-up SMEs.
b) To evaluate the relationship between venture capital funding and other financial sources for start-up SMEs.
c) To examine the impact of financial management skills, including challenges faced, on the performance of start-up SMEs.

1.4 Research Questions

The following are the research questions of the study.

a) What is the influence of venture capital funding on the performance of start-up SMEs in Lusaka, Zambia?
b) What is the relationship between venture capital funding and other sources of finance for start-up SMEs in Lusaka, Zambia?
c) What is the impact of financial management skills including challenges faced, on the performance of start-up SMEs?

1.5 Significance/Justification of the Study

This study will enlighten sector players, policy and strategy makers, SMEs and private equity firms on the impact of entrepreneurial financing in Zambia, the various forms of funding available to SMEs and how it could be embraced. It would help financiers and investors improve their relations with each other and with the regulator.

The study will be very useful for venture capital firms in providing insight on strategic opportunities in the Zambian SME sector, as well as ways to address the challenges currently facing the sector and for potential private equity firm entrants into Zambia, helping them make a smooth entry into Zambia. This is particularly important as it presents the perspective of an African emerging economy with SMEs as the main drivers of growth.

Understanding the relationship between these variables is crucial for policy makers in formulating policies relating to sources of finance, because it determines growth and stability of firms. Therefore, policy makers would have a better understanding of the issues related to the study and would help tackle emerging issues in this field.

The research work could also serve as a source of future reference to future researchers who may find it helpful in carrying out a research work of similar nature or related topic. It would also provide a platform for further Study of the concerned variables.

1.6 Scope of the study

This study will focus on venture capital as a source of SMEs sources of financing both informal and formal. The study will examine the role of venture capital on SMEs performance before and after use of venture capital. This study will selectively examine venture capitalist-financed SMEs to determine whether there has been a significant improvement in performance before and after the use of this kind of financing. The study will consider SMEs from Lusaka that have used venture capital.

CHAPTER 2

2.0 LITERATURE REVIEW

This chapter reviews various literature and theories that underpin the role of Venture Capital Funding on the Performance of start-up SMEs in Lusaka, Zambia. The chapter shall develop on the gaps that arise from the literature that will be considered.

2.1 Theoretical framework

2.1.1 Resource- Based Entrepreneurship Theories

The resource-based theory of entrepreneurship argues that access to resources by founders is an important predictor of opportunity-based entrepreneurship and new venture growth. This theory stresses the importance of financial, social and human resources as cited by Kwabena Nkansah Simpeh (2011). Financial, social and human capital represents three classes of theories under the resource –based entrepreneurship theories (Simpeh, 2011). He asserts that by implication this theory suggests that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities and set up a firm to do so. However, other studies contest this theory as it is demonstrated that most founders start new ventures without much capital, and that financial capital is not significantly related to the probability of being nascent entrepreneurs. (Alvarez & Busenitz, 2001), argues that entrepreneurs have individual-specific resources that facilitate the recognition of new opportunities and the assembling of new resources for the emerging firm.

2.1.2 Trade-off theory

The trade-off theory of capital structure refers to the idea that a firm chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. This theory considers a balance between the deadweight costs of bankruptcy and the tax saving benefits of debt. The theory posits that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs e.g. staff leaving, suppliers demanding disadvantageous payment terms, bondholder or stockholder infighting, etc.

The marginal benefit in debt decreases as debt increases, while the marginal cost increases, so that a firm that is optimising its overall value will focus on this trade-off when choosing how much debt and equity to use for financing. A firm that follows the trade-off theory sets a target debt-to-value ratio and then gradually moves towards the target. The target is determined by balancing debt tax shields against costs of bankruptcy.

The theory states that firms borrow up to the point where the tax savings from an extra dollar in debt are exactly equal to the costs that come from the increased probability of financial distress. Under the trade-off theory framework, a firm is viewed as setting a target debt-to-equity ratio and gradually moving toward it, which indicates that some form of optimal capital structure exists that can maximise the firm value. The trade-off theory has strong practical appeal. Reasonably rationalises moderate debt ratios. It is also consistent with certain obvious facts, for example, companies with relatively safe tangible assets tend to borrow more than companies with risky intangible assets.

The trade-off theory postulated that there is a limit to debt financing and the target debt may vary from one SME's to another depending on profitability, among other factors referring to microfinance. This allows profitable SME's, which have lot of tangible asset that can be offered as collateral for debt, may have a higher target debt ratio (Byers, 1997). The alternative theory of capital structure is known as 'pecking order' theory, the origin of which is asymmetric information where managers know more about a firm's prospect than the outside investors. This theory is based on the premise that successful zero debt firms with high and consistent profitability rarely uses debt financing.

The theory suggests that in avoiding controversy the management may wish to finance project by internal fund generation, such as by retained earnings. Hence, the financing order goes in this way, first-retained earnings, then-debt, and finally, equity when debt capacity gets exhausted, and explains why profitable firms use less debt (Heilman, 2018).

2.1.3 The Economic Theory of the Entrepreneur

While seeking to understand the very nature of commerce, Cantillon (1955) wrote his seminal work on the entrepreneur as a person willing to take risks and able to manage uncertainty. He defined an entrepreneur as non-fixed income earners who take risks in committing themselves firmly, without guarantee as to the solvency of his client or his backers. Entrepreneurship is often classified as the entrepreneurial factor, the entrepreneurial function, the entrepreneurial initiative, and the entrepreneurial behaviour, and is even referred to as the entrepreneurial 'spirit'. The entrepreneurial function can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005). The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of earth, work, and capital, which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of an enterprise (Byers, 1997).

The entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist (Shane and Venkataraman, 2000). The entrepreneurial opportunity is an unexpected and as yet unvalued economic opportunity. Entrepreneurial opportunities exist because different agents have different ideas about the relative value of resources or when resources are turned from inputs into outputs. The theory of the entrepreneur focuses on the heterogeneity of beliefs about the value of resources (Alvarez and Busenitz, 2001).

Entrepreneurial behavior is seen as behavior that manages to combine innovation, risk-taking and pro-activeness (Miller, 1983). In other words, it combines the classic theories of Schumpeter's innovative entrepreneur (1934, 1942), the risk-taking entrepreneur that occupies a position of uncertainty and the entrepreneur with initiative and imagination who creates new opportunities. Reference to entrepreneurial initiative underlines the reasons for correctly anticipating market imperfections or the ability to innovate to create a 'new combination'. Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal, or innovation inside or outside an existing organisation. Lastly, the entrepreneurial spirit emphasises exploration, search, and innovation, as opposed to the exploitation of business opportunities pertaining to managers.

This theory shows that the motivations for additional financing in an SME is expansion of operations of entrepreneurs by venture capitalists. Therefore, venture capitalists assume some levels of risk when financing startups to expand the activities of an SME in return for higher returns. Startups are vital for economic growth and development in both industrialised and developing countries, playing a key role in creating new jobs. According to Ngigi (1997), financing is necessary to help them set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two innovators, who invest their own money and probably turn to family and friends for financial help in return for a share in the business (Reynolds, 2005). But if they are successful, there comes a time for all developing SMEs when they need new investment to expand or innovate further. That is where they often run into problems, because they find it much harder than larger businesses to obtain financing from banks, capital markets or other suppliers of credit. This 'financing gap' is especially important in a rapidly changing knowledge-based economy due to the speed of innovation. If SMEs cannot find the financing they need, brilliant ideas may fall by the wayside and this represents a loss in potential growth for the economy (Memba et al, 2012).

2.2 Empirical Review

2.2.1 The influence of Venture Capital Financing

A qualitative study by Aman (2020), on the role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Russia, where they included structuring internal organisation and appropriate human resources management by developing themes, the results were that venture capitalists help add value to professionalization in the firm and generally the professionalization of the firm is the main benefit from venture capital financing. Apart from that, the study established that venture capital funding has a significant and positive impact on the growth and performance of SMEs.

A study by Fielderes (2021) on the role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Canada, offered a good explanation of the process of professionalization. Besides above-mentioned features, they point out the speed of developing and bringing ambitious product to the market by venture-backed companies. This is crucial to achieve market leadership, especially among innovative firms. It was also found that, venture capital accelerates growth by providing the financial resources necessary for expanding operations, increasing market reach, developing new products, and improving marketing efforts.

According to Jensen and Meckling (2019), on the role of role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Australia, it was found that, venture-backed companies are, in fact, found to pursue more radical and ambitious product or process innovations than other companies in other words, they grow and perform well. It was further found that, market expansion and product development are key areas where venture capital plays a pivotal role.

A study by Makar (2019) on the role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Egypt. I n his study he found that, venture capital funding enhances efficiency, automation, and cost reduction strategies, which lead to higher profit margins. Moreover, venture capital investments in marketing and sales efforts result in acquiring more customers and increasing revenue.

A study by Jangosi (2020) in Kenya on the role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs). In his study he found that, the positive effect on profits is, however, contingent on strategic deployment and the company's ability to execute its growth plans. While venture capital can fuel growth and profitability, it may involve dilution of ownership and a focus on long-term growth. The economic impact includes job creation, contributing to the overall development of Lusaka and Zambia as a whole.

A study by John (2023), on the influence of venture capital financing on Start-up Success: A Literature Review". The literature review was conducted by systematically analyzing peer-reviewed articles, conference papers, and relevant academic publications related to venture capital financing and start-up success. Both qualitative and quantitative studies were included in the review. The review found that venture capital financing plays a significant role in the success of start-ups by providing not only financial resources but also valuable managerial expertise, industry connections, and guidance. Start-ups backed by venture capital tend to grow faster, innovate more, and achieve higher valuations compared to those relying solely on traditional financing methods. Additionally, the review identified various factors influencing the effectiveness of venture capital financing, including the stage of the start-up, the quality of the management team, and the level of competition in the industry. Based on the findings, the review suggests that start-up founders should carefully consider venture capital financing as a means to accelerate growth and increase the likelihood of success. However, it also emphasizes the importance of maintaining a balance between obtaining funding and retaining control over the company's strategic decisions. Moreover, start-ups should focus on building strong relationships with venture capitalists and leveraging their expertise to maximize the benefits of external financing.

A study by Emily (2022), on the venture capital financing and innovation: A Comprehensive Review of Empirical Studies". This literature review synthesized empirical studies investigating the relationship between venture capital financing and innovation. A systematic review approach was employed to identify relevant articles published in academic journals, conference proceedings, and working papers. Both qualitative and quantitative research designs were considered in the analysis. The review revealed a strong positive association between venture capital financing and innovation outcomes in start-ups and entrepreneurial firms. Venture-backed firms tend to invest more in research and development activities, introduce novel products and services to the market, and file patents at a higher rate compared to non-venture-backed counterparts. Furthermore, the review highlighted the role of venture capitalists as active investors who not only provide financial resources but also contribute valuable expertise, networks, and strategic guidance to foster innovation within portfolio companies.

Based on the findings, the review suggests that policymakers and stakeholders should continue to support initiatives aimed at promoting venture capital investment as a catalyst for innovation and economic growth. Additionally, entrepreneurs seeking venture capital should focus on building a compelling business case highlighting the potential for disruptive innovation and market scalability. Moreover, fostering collaboration between venture capitalists, entrepreneurs, and research institutions can further enhance the innovation ecosystem and drive long-term value creation.

2.2.2 The Relationship between venture capital and other sources of finance

A qualitative study by Mead and Liedholm (2018) on the Relationship between venture capital and other sources of finance in five African countries (Botswana, Kenya, Malawi, Swaziland, and

Zimbabwe) found that, that venture capital funding positively influences SMEs' ability to attract other sources of finance.

Another study by Memba et al. (2020) the relationship between venture capital and other sources of finance in Egypt and found that, venture capital funding acts as a strong validation of the business model, management team, and growth potential. Venture capitalists bring valuable networks to the table, introducing SMEs to other potential investors. The analysis concluded that SMEs that use venture capital financial experience other sources of finances which improved growth and thus more SMEs should be encouraged to use this form of finance if the country has to achieve its vision 2030.

A study by Katenga (2021) from Uganda the relationship between venture capital and other sources of finance and found that, on operational support, due diligence assistance, and positive signaling make SMEs more attractive to other sources of finance. Moreover, venture capital investments often lead to liquidity events.

A study by Kayuki (2019) from Tanzania on the relationship between venture capital and other sources of finance and found that, venture capital funding attracts interest from other investors. This validates the role of venture capital in promoting SME performance and access to diverse sources of finance.

A qualitative study by Murithi (2020) assessed the role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) and the relationship between venture capital and other sources of finance among private equity firms in Nigeria. The study revealed that the venture capital financed firms in Nigeria had better growth and performance as compared to other firms without venture-capital financed firms. It also indicated that, on operational support, due diligence assistance, and positive signaling make SMEs more attractive to other sources of finance. Moreover, venture capital investments often lead to liquidity events.

In a recent study on the effect of venture capital financing on SMEs in Kenya, Gikomo (2019) noted that there was a positive and significant relationship between growth of SMEs and venture capital financing, management support and other sources of income.

A study by David (2023), on the relationship between venture capital and other Sources of Finance: A Literature Review". This literature review utilized a systematic approach to analyse existing research on the relationship between venture capital (VC) financing and other sources of finance. Peer-reviewed articles, conference papers, and relevant publications were reviewed to identify key findings and trends. Both qualitative and quantitative studies were considered in the analysis.

The review found that venture capital financing often complements and interacts with other sources of finance rather than replacing them entirely. While venture capital plays a crucial role in funding high-growth start-ups and innovative ventures, entrepreneurs frequently rely on a mix of financing sources, including bank loans, angel investment, crowdfunding, and government grants. Moreover, the review identified several factors influencing the integration of venture capital with other financing options, such as the stage of the firm, industry characteristics, and investor preferences. Additionally, the review highlighted the importance of syndication, co-investment, and strategic partnerships between venture capitalists and other investors in providing diversified funding solutions for entrepreneurial ventures.

Based on the findings, the review suggests that entrepreneurs and start-ups should adopt a strategic approach to financing, leveraging the strengths of different funding sources to meet their capital needs and growth objectives. Entrepreneurs should carefully assess the costs, benefits, and risks associated with each financing option and develop a well-balanced funding strategy tailored to their specific circumstances. Moreover, policymakers and industry stakeholders should focus on fostering a supportive ecosystem for venture capital investment while also promoting collaboration and coordination among different types of investors. By encouraging synergies between venture capital and other sources of finance, policymakers can enhance access to capital for innovative ventures and stimulate entrepreneurial activity in the economy.

A study by Emily (2022), on "venture capital and Alternative Sources of Finance: An Integrative Literature Review". This literature review synthesized empirical studies and theoretical perspectives on the relationship between venture capital and alternative sources of finance, including angel investment, corporate venture capital, crowdfunding, and government funding. A comprehensive search strategy was employed to identify relevant articles from academic journals, conference proceedings, and research reports. Both qualitative and quantitative research designs were considered in the analysis.

The review revealed that venture capital coexists and interacts with a variety of alternative sources of finance, each serving different stages of the entrepreneurial lifecycle and catering to distinct funding needs. While venture capital is well-suited for financing high-risk, high-growth ventures with potential for substantial returns, alternative sources of finance offer flexibility, accessibility, and diversity in funding options. Furthermore, the review identified several factors that influence the choice of funding sources, including entrepreneurial characteristics, industry dynamics, market conditions, and the regulatory environment. Additionally, the review highlighted the importance of networking, reputation, and trust in facilitating transactions and relationships between entrepreneurs and investors across different funding channels.

Based on the findings, the review suggests that entrepreneurs should adopt a holistic approach to fundraising, leveraging a combination of venture capital and alternative sources of finance to optimise their capital structure and mitigate funding risks. Entrepreneurs should actively engage with various types of investors, build relationships, and tailor their fundraising strategies to align with the unique requirements and preferences of each funding source. Furthermore, policymakers should focus on creating an enabling environment for entrepreneurial finance, promoting transparency, investor protection, and regulatory certainty across different funding platforms. By facilitating collaboration and integration between venture capital and alternative sources of finance, policymakers can enhance capital formation, innovation, and economic growth in the entrepreneurial ecosystem.

2.2.3 The Role of Financial Management Skills on the performance of SMEs

According to Gatauwa and Mwithiga (2019) in their qualitative study on private equity and economic growth of a region found out that private equity tends to increase when there is economic growth in an economy as underpinned by the economic growth models; for economic growth to be sustainable there is need for continuous advancement in technical knowledge mainly in the form of new products, processes and markets. Furthermore, a well-developed legal and regulatory framework would lead to increased financial management skills in a country hence facilitating exits which would result in a more favourable legal environment that induces venture capitalists and private equity funds to invest more often in the home country.

According to Soderblom (2018), in Rwanda on his qualitative study on the role of financial management skills, it was found that effective financial management skills enable efficient resource allocation, cash flow management, budgeting, and financial reporting in the country.

A qualitative study by Baldwin and Rafiquzzaman, (2020), on the role of financial management skills on the performance of SMEs in Malawi, it was found that, financial management skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance. Financial management contributes to long-term sustainability, balancing growth objectives with profitability.

Another qualitative study by Phalippou and Gottschalg, (2019) in Zambia on the role of venture capital and financial management skills on the performance of SMEs, this research applied qualitative research to find out more about the role of venture capital and financial management skills as a driver of growth and performance of SMEs in Zambia, it was found that, hence VC investor needs to have the ability to select funds with the potential to deliver attractive returns and that, financial management skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance.

A study by Cumming and Macintosh, (2022) in Zambia on the influence of venture capital on performance of SMEs, and the role of financial management skills, it was found that, Convertible debt is much quicker and cheaper than issuing equity, this improves the performance of SMEs. It leaves valuation flexible in order to meet the needs of subsequent investors and interest payments do not typically need to be paid in cash each month. Venture capital has been instrumental in organising finances for winning but risky business proposals by small and medium enterprises that have promising but as yet unproven ideas. If the venture capitalist is convinced that a business idea is promising, they will take up the ownership stake in the business and provide the needed fund while sharing the risk. It was further found that, financial management skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance. Financial management contributes to long-term sustainability, balancing growth objectives with profitability.

Title:

A study by Sarah (2023), on "the role of financial management skills on the performance of SMEs: A Comprehensive Literature Review". This literature review synthesized existing research on the relationship between financial management skills and the performance of small and medium-sized enterprises (SMEs). A systematic approach was employed to identify relevant articles from academic journals, conference proceedings, and research reports. Both qualitative and quantitative studies were considered in the analysis.

The review found consistent evidence suggesting that strong financial management skills significantly contribute to the performance and sustainability of SMEs. SMEs with proficient financial management practices tend to exhibit higher profitability, better cash flow management, and improved access to external financing. Moreover, the review identified specific financial management competencies, such as budgeting, financial planning, risk management, and financial reporting, that are particularly crucial for SME success. Additionally, the review highlighted the importance of financial literacy among SME owners and managers in making informed financial decisions and navigating complex business environments.

Based on the findings, the review underscores the need for SME owners and managers to prioritize the development of financial management skills through training, education, and mentorship programs. Governments, industry associations, and business support organizations can play a critical role in providing resources and support services to enhance financial literacy and skill development among SMEs. Furthermore, policymakers should consider implementing policies that facilitate access to affordable financial education and advisory services tailored to the needs of SMEs. By investing in financial management capabilities, SMEs can enhance their competitiveness, resilience, and long-term performance in dynamic markets.

A study by Michael (2022), on the financial management skills and SME Performance: A Review of Empirical Evidence". This literature review examined empirical studies investigating the impact of financial management skills on the performance of small and medium-sized enterprises (SMEs). A comprehensive search strategy was employed to identify relevant articles published in peer-reviewed journals, conference proceedings, and working papers. Both qualitative and quantitative research designs were considered in the review.

The review synthesized empirical evidence indicating a positive relationship between financial management skills and SME performance across various dimensions, including profitability, growth, and survival. SMEs that demonstrate proficiency in financial management practices, such as budgeting, cash flow forecasting, and financial analysis, are more likely to achieve higher levels of profitability, liquidity, and operational efficiency. Additionally, the review highlighted the role of effective financial management in mitigating financial risks, enhancing access to external financing, and fostering sustainable growth in SMEs. Moreover, the review identified organizational factors, such as firm size, age, and industry sector, that may moderate the relationship between financial management skills and SME performance.

Based on the findings, the review emphasizes the importance of integrating financial management skills development into SME training and capacity-building initiatives. Governments, educational institutions, and industry associations should collaborate to offer targeted programs and resources aimed at improving financial literacy and managerial competence among SME owners and managers. Furthermore, policymakers should consider implementing supportive measures, such as tax incentives, grants, and subsidies, to incentivize SME investment in financial management training and advisory services. By strengthening financial management capabilities, SMEs can enhance their resilience, competitiveness, and long-term viability in an increasingly challenging business environment.

2.2.4 Challenges Faced by Start-up SMEs in Accessing Venture Capital funding

A qualitative study by Megginso, (2021) in India on the challenges faced by start-up SMEs in Accessing Venture Capital funding it was found that, start-up SMEs faces challenges in accessing this form of funding. Common hurdles include limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges.

Another qualitative study by Megginso, (2021), in Zambia and Zimbabwe, on the challenges faced by start-up SMEs in Accessing Venture Capital funding, it was found that, between 70% and 90% start-ups fail within five years because limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges. However, the presence of venture capital in the capital structure of SMEs has greatly contributed to the reduced failure. It is not only the viability of business that determines whether the venture capitalist will fund a venture.

A qualitative study by Kiungu, (2020), on the challenges faced by start-up SMEs in Accessing Venture Capital funding in Zambia, it was found that, limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges were among the challenges. The study further, indicated on how to address these challenges, it indicated that, start-up SMEs should focus on building a strong business case, improving their pitch, expanding networks, seeking support from local entrepreneurship ecosystems, and enhancing their understanding of the local market. Government initiatives, educational programs, and mentorship can provide valuable support.

A systematic literature review conducted by Brown (2023) explored the hurdles encountered by start-up SMEs in accessing venture capital funding. Peer-reviewed articles, conference papers, and relevant publications were meticulously examined to discern prevailing challenges and recurring themes. This comprehensive analysis incorporated both qualitative and quantitative studies, ensuring a robust understanding of the obstacles faced by start-up SMEs in securing venture capital funding.

The review identified several key challenges faced by start-up SMEs in accessing venture capital funding, including asymmetric information, lack of track record, high risk perception, and stringent investment criteria. Start-ups often struggle to demonstrate their growth potential, market viability, and scalability to venture capitalists, leading to difficulties in securing funding. Moreover, the review highlighted structural barriers such as limited access to networks, mentorship, and investor connections, particularly for entrepreneurs from underrepresented groups or non-traditional backgrounds. Additionally, regulatory constraints, market dynamics, and economic uncertainties were identified as external factors exacerbating the challenges faced by start-up SMEs in accessing venture capital.

Based on the findings, the review suggests several recommendations to address the challenges faced by start-up SMEs in accessing venture capital funding. Entrepreneurs should focus on building strong relationships with venture capitalists, developing a compelling business proposition, and enhancing their visibility and credibility in the investment community. Moreover, policymakers should consider implementing supportive measures such as tax incentives, grants, and venture capital funds of funds to stimulate venture capital investment in start-up SMEs. In addition, industry stakeholders, including incubators, accelerators, and business support organisations, should provide targeted assistance, mentorship, and capacity-building programmes to help start-ups navigate the venture capital fundraising process successfully. By addressing these challenges holistically, policymakers and stakeholders can foster a more inclusive and vibrant venture capital ecosystem that supports the growth and success of start-up SMEs.

A review conducted by Wilson (2023), titled "Overcoming Barriers: A Review of Challenges Faced by Start-up SMEs in Accessing Venture Capital Funding," synthesized empirical studies and theoretical perspectives regarding the challenges faced by start-up SMEs in accessing venture capital funding. The study employed a comprehensive search strategy, scouring academic journals, conference proceedings, and research reports to identify relevant articles. Both qualitative and quantitative research methodologies were utilized in the analysis to provide a thorough understanding of the subject.

The review revealed a range of challenges faced by start-up SMEs in accessing venture capital funding, including information asymmetry, adverse selection, agency costs, and investor biases. Start-ups often struggle to overcome informational barriers and effectively communicate their value proposition, market opportunity, and competitive advantage to venture capitalists. Moreover, the review highlighted the role of investor preferences, risk aversion, and herd behavior in shaping venture capital investment decisions, leading to funding gaps and underinvestment in certain sectors or regions. Additionally, the review identified operational challenges such as resource constraints, managerial capacity, and time constraints as significant barriers limiting start-ups' ability to attract venture capital.

Based on the findings, the review suggests several recommendations to help start-up SMEs overcome the challenges in accessing venture capital funding. Entrepreneurs should focus on building a strong business case, conducting thorough due diligence, and developing a robust investment thesis to address venture capitalists' concerns and mitigate investment risks. Moreover, policymakers should consider implementing policy measures such as regulatory reforms, tax incentives, and government-backed loan programs to facilitate venture capital investment in start-up SMEs. Furthermore, industry stakeholders, including incubators, accelerators, and angel investor networks, should provide mentorship, networking opportunities, and strategic guidance to help start-ups navigate the venture capital fundraising process successfully. By addressing these barriers collaboratively, policymakers and stakeholders can create a more conducive environment for venture capital investment, fostering innovation, job creation, and economic growth in the start-up ecosystem.

2.3 Conceptual Framework

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support each other, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships.

Therefore, the conceptual framework is a diagram that illustrates the relationships among relevant factors that can influence the successful achievement of goals and objectives. It helps to determine which factors will influence and how each of these factors could relate to and affect the outcomes. The conceptual framework of this study relates to independent variables; venture capital financing, venture capital funding and other sources of finance for SMEs financial management skills, and key challenges and the dependent variable; performance of SMEs as shown in **Figure 2.1**.

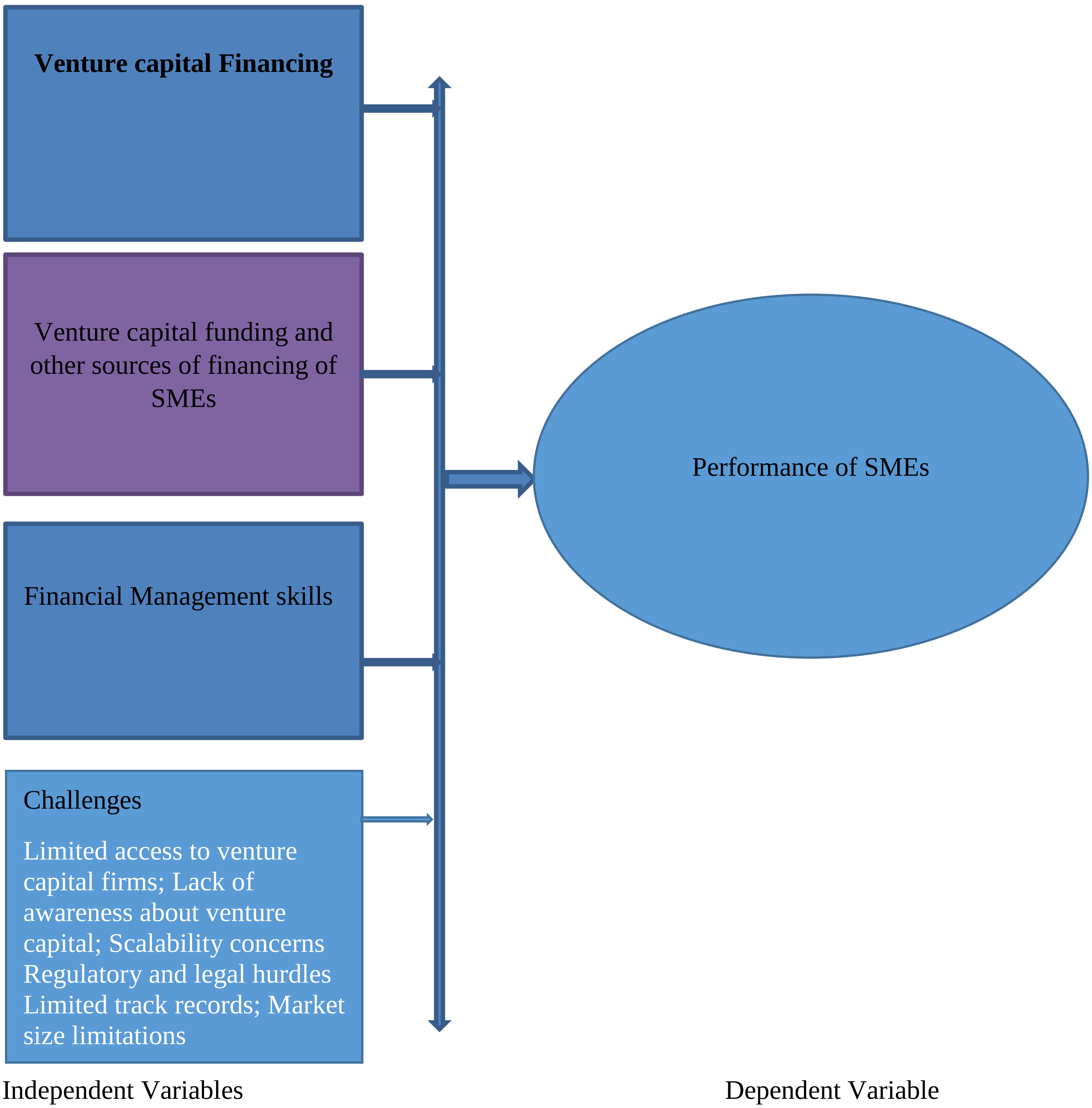

Figure 2.1: Conceptual Framework of the role of venture capital funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia.

2.3.1 Operational Definition

2.3.1.1 Independent variables

An independent variable is the variable the researcher has control over, which researcher can choose and manipulate. It is usually what researcher think will affect the dependent variable (Patton, 1990). The identified independent variables for the proposed study as shown in conceptual model.

2.3.1.2 Dependent Variable

A dependent variable is what the researcher measures in the study and what is affected during the study. The dependent variable responds to the independent variable. It is called dependent because it depends on the independent variable (Patton, 1990). In this study, the researcher related what had been known to be independent/exploratory variables with the dependent variable. Therefore, the performance of start-ups of SMEs will be considered as a dependent variable of the study.

2.4 Research gap

The study by Kiprotich, (2016) conducted a study on the role of venture capital in the performance of start-up enterprises in Nairobi; This study included venture capital debt/equity financing, management support, and venture capitalists' technical support, venture capitalists' monitoring whereas the study by Meita et al. (2018) on the role of venture capital in start-up business development in Indonesia which included; criteria used by venture capital companies before investing in start-ups and the role of venture capital as a supporter of start-up companies in Indonesia. Assessing the influence of venture capital funding on the performance of start-up SMEs. This objective aligns with Kiprotich's study, which investigated the role of venture capital in the performance of start-up enterprises in Nairobi. Kiprotich's study examined various aspects of venture capital, including debt/equity financing and management support, which are directly related to assessing the influence of venture capital funding on start-up performance.

Evaluating the relationship between venture capital funding and other financial sources for start-up SMEs. This objective fills the gap identified in previous studies, such as Meita et al. (2018), which focused on the criteria used by venture capital companies before investing in start-ups and the role of venture capital as a supporter of start-up companies in Indonesia. None of these studies specifically explored the relationship between venture capital funding and other financial sources.

Hence, this objective aims to address this gap by evaluating how venture capital interacts with and attracts other sources of finance for start-up SMEs. Examining the impact of financial management skills, including challenges faced, on the performance of start-up SMEs. While Kiprotich's study did not explicitly focus on financial management skills, it did include aspects such as venture capitalists' monitoring, which can be related to the examination of challenges faced by start-up SMEs in managing their finances effectively. Additionally, Meita et al. (2018) did not delve deeply into the impact of financial management skills on start-up performance. Therefore, this objective aims to complement these studies by examining the role of financial management skills and the challenges faced in the context of venture capital-funded start-up SMEs, filling another gap in the literature. None of the previous studies have included Venture Capital attracting other Sources of Finance. This is the gap that this study aims to fill.

Table 2.4.1 shows the Literature Matrix.

Table 2.4.1: Literature Matrix for the Literature review

Theoretical Framework	**Empirical Review**
Resource based Entrepreneurship Theories • The resource-based theory of entrepreneurship argues that access to resources by founders is an important predictor of opportunity-based entrepreneurship and new venture growth.	The Influence of venture capital financing • A qualitative study by Aman (2020) established that venture capital funding has a significant and positive impact on the growth and performance of SMEs.
Trade-off Theory • The trade-off theory of capital structure refers to the idea that a firms chooses how much debt finance and how much equity finance to use by balancing the costs and benefits.	The Relationship between venture capital and other sources of finance • A qualitative study by Mead and Liedholm (2018) found that, that venture capital funding positively influences SMEs' ability to attract other sources of finance
The Economic Theory of the Entrepreneur • This theory shows that the motivations for additional financing in an SME is expansion of operations of entrepreneurs by venture capitalists. Therefore, venture capitalists assume some levels of risk	The Role of Financial Management skills on the performance of SMEs • Financial management contributes to long-term sustainability, balancing growth objectives with profitability.

when financing startups to expand the activities of an SME in return for higher returns	
	Challenges faced by Start-up SMEs in accessing Venture Capital funding • Between 70% and 90% start-ups fail within five years due to limited access to venture capital firms and a lack of awareness about venture capital

CHAPTER 3

3.0 RESEARCH METHODOLOGY

This chapter focuses on the methodology used to complete the research study. It highlights the areas of the research design, the method for collecting the data, and finally the ways of analysing the collected data.

3.1 Research Design and Methodology

The study employed a mixed-methods approach to investigate the role of Venture Capital Funding on the performance of SMEs in Lusaka, Zambia. This approach consisted of both quantitative and qualitative components:

(i) Quantitative Component:

A quantitative survey was conducted to gather data on various aspects related to venture capital funding and SME performance. This included assessing the influence of venture capital funding on the performance of start-up SMEs, evaluating the relationship between venture capital funding and other financial sources, and examining the impact of financial management skills and challenges faced on SME performance.

Statistical analysis was used to analyse the quantitative data obtained from the survey, enabling the identification of trends and patterns in the data.

(ii) Qualitative Component:

Qualitative data were collected through focus group discussions and in-depth interviews with business owners and managers of SMEs in Lusaka, Zambia. These discussions and interviews explored the role of Venture Capital Funding on SME performance, providing insights into the experiences and perspectives of the participants.

Triangulation was employed to ensure a comprehensive evaluation of the role of Venture Capital Funding on SME performance by integrating both quantitative and qualitative data and considering multiple perspectives.

The primary data collection involved obtaining responses directly from owner managers of start-ups funded by venture capital. Structured questionnaires (see **Appendices 1 and 2**), were used, with a sample size of 102 participants. Questionnaires were either self-administered or conducted through face-to-face interviews to accommodate participant preferences and ensure thoughtful responses.

The use of structured questionnaires with open-ended questions allowed for a mixed-method descriptive approach, enabling the researcher to address the study objectives effectively.

To supplement the quantitative data, discussions were held with owner managers of SMEs to ascertain the challenges faced by start-ups funded by venture capital. This provided clarity and verification of responses obtained through the questionnaire.

Purposeful sampling was employed to ensure the selection of participants with relevant experiences and insights regarding venture capital-funded start-ups.

An area for improvement in the methodology could involve providing a more detailed justification for the chosen approach, explaining why a mixed-methods design was deemed most appropriate for addressing the research questions and objectives. Additionally, discussing the strengths and limitations of the chosen methodology would enhance the rigor and transparency of the research approach.

3.1.1 Study Setting

The study was conducted in Lusaka, Zambia. Whilst located in Lusaka a multi-local set of Headquarters start-ups funded by venture capital. Therefore, Lusaka was selected for participation in the study. It is important to note that all SMEs considered for the study were located within the radius of Lusaka.

3.1.2 Questionnaire Design

Crafting a questionnaire for assessing the influence of venture capital funding on the performance of start-up SMEs, evaluating the relationship between venture capital funding and other financial sources, and examining the impact of financial management skills on the performance of start-up SMEs involves careful consideration of the research objectives and questions. Below is a sample methodology for constructing the questionnaire, along with the rationale behind each question:

Objective 1: Assessing the Influence of Venture Capital Funding on Start-up SME Performance

Research Question 1: To what extent does venture capital funding impact the performance of start-up SMEs?

- Question: How has your start-up SME's performance changed since receiving venture capital funding?
- Rationale: This question aims to directly assess the perceived impact of venture capital funding on the performance of the start-up SME. It provides a qualitative understanding of changes experienced.
- Question: Please rate, on a scale of 1 to 5, the level of influence you believe venture capital funding has had on your start-up SME's growth and success.
- Rationale: This question introduces a quantitative measure to gauge the perceived influence of venture capital funding, allowing for a more structured analysis.

Objective 2: Evaluating the Relationship Between Venture Capital Funding and Other Financial Sources

Research Question 2: How does venture capital funding relate to other financial sources for start-up SMEs?

- Question: Have you utilized sources other than venture capital funding for financial support in your start-up?
- Rationale: This question seeks to identify the existence of other financial sources, providing context for understanding the financial landscape of the start-up.
- Question: If yes, please specify the types of financial sources you have utilized (e.g., bank loans, angel investors).
- Rationale: This open-ended question aims to categorize and identify the various financial sources used, facilitating a comprehensive analysis of the financial structure.

Objective 3: Examining the Impact of Financial Management Skills on Start-up SME Performance

Research Question 3: How do financial management skills, and the challenges associated with them, influence the performance of start-up SMEs?

- Question: How would you rate your financial management skills on a scale of 1 to 10?
- Rationale: This self-assessment question provides an individual perspective on the perceived level of financial management skills, offering insights into the participants' awareness.
- Question: What challenges have you faced in managing the finances of your start-up SME?

- Rationale: By identifying challenges, this question aims to uncover specific areas where financial management skills may be tested, contributing to a qualitative understanding of the impact.

General Considerations:

Demographic Questions: Include questions about the industry, size, and age of the start-up to contextualize responses and identify patterns based on these variables.

Open-ended Questions: Integrate a mix of open-ended and closed-ended questions to allow participants to express their thoughts freely while maintaining structure for quantitative analysis.

Pilot Testing: Before finalizing the questionnaire, conducted a pilot test to identify any ambiguities, redundancies, or issues with the clarity of questions.

Ethical Considerations: Ensure that the questions are unbiased, clear, and respect the privacy of the respondents. By aligning each question with the specific research objectives and questions, the questionnaire becomes a valuable tool for gathering relevant data to

3.1.3 Data collection and sampling

Patton (2002), Babbie and Mouton (2002) described three data collection methods as in-depth, open-ended interviews (see Appendix one at the end of this dissertation for detailed reference), direct observations and the analysis of written documents. Thus, the study used such as structured interviewing is primary methods of data collection. Below was an outline of the data collection methods to be used in the study.

3.1.3.1 Interviews

The researcher started by formulating the structured interview guide (see Appendix one). The questions (open-ended) were grouped to suit the objectives of the study. The researcher expanded each objective to come up with key issues and draft the questions so that the issues are analysed. Themes were then be established as the profile of the respondents, the potential of venture capital debt/equity financing in the aid of start-up companies, SMEs that use venture capital to attract other sources of financing, and the role of venture capital management support in the aid of start-up companies in Lusaka, Zambia. Care was taken to avoid lengthy questions and a very long questionnaire, rather limiting the questions to the most important to allow completion of the interview within approximately 15 minutes. Efforts were made to ensure the questions are easily understood, however the financial and venture capital terminology used was explained to some respondents to avoid inaccurate responses.

An interview is a data collection method designed to allow the researcher to probe more deeply. Brynard and Hanekom (2006) argued that it denotes the meeting of two minds, of the interviewer and the interviewee and access the interviewee's point of view. This method was suitable to achieve the key objective of the study, which was to investigate the role of venture capital funding in aiding start-up SMEs in Lusaka, Zambia. The interviews enabled the researcher to interrogate further on interesting responses that may emerge. The questionnaire contained open-ended questions so that more information was obtained from the interviewees (Neuman, 2010).
However due to time constraints on the part of the researcher and that the researcher moved to the area where data collection was done, the interviews were only be conducted in August 2023. The researcher made appointments with the owner managers of start-ups and schedule a visit to their face to face interview. The questionnaires were given to the respondents to go through during the time of interview. The questionnaires were accompanied by a cover letter stating who the researcher is, the topic of the study, consent, confidentiality. The respondents were interviewed by the researcher in suitable places (Jacobs et al., 2010)

3.1.3.2 Sampling

Purposive sampling was employed to carefully select 102 startup owners based in Lusaka with prior experience in venture capital funding. This non-probability sampling method involved the researcher deliberately choosing participants who were deemed most likely to provide pertinent information for the study (Neuman, 2010; Morra et al., 2009). The study's sample size consisted of 102 respondents, including both managers and owners of SMEs. Considering the total population of SMEs in operation in Lusaka as per PACRA (2022), which stands at 171,063, the chosen percentage was 0.06% of this total. Therefore, the sample size amounted to 102 respondents. This decision was guided by the principle of reaching saturation, implying the point at which the repetition of information had already been obtained from the 102 SME samples in Lusaka.

3.1.4 Data Analysis

Data analysis transforms unordered raw data into a data set of meaningful constructs, themes, and concepts (Wellman et al. 2005). Data drawn existed in qualitative. The researcher organised and managed the data that was collected from interviews and document analysis to make it easy to understand. The data was theorized and classified into the different categories that were in the form of themes. The key themes were then coded to make sense of the data that have been collected and for the interpretation to give it meaning.

Notably, this study heavily relied on formulations of themes for data analysis. Prior to this, data cleaning and management occured, for instance, if any respondent provides insufficient demographic information, they removed from the sample.

3.1.5 Ethical Considerations

Research aimed to achieve what was truthful and finding solutions for real world problems thus rigorous practices for obtaining data should be adhered to an independent, questioning and analytical mind-set was a must (Morra et al., 2009). According to Creswell, (2013), researchers were advised to anticipate ethical issues in multiple phases of the research so that they are adequately addressed. It was incumbent on a researcher to get permission from the people he or she wants to study. Ethical clearance was requested and granted from the Research Ethics Committee of the University (see **Appendix 3**). The researcher asked the respondents to consent before conducting the interviews. Moreover, one has to respect the privacy and confidentiality of the respondents by explaining the objectives and implications of the study, as well as guaranteeing accurate reporting of results of this study.

Those potential respondents who did not wish to participate were allowed to do so without any consequences and will be free to withdraw from participating any time they wish to do so. Furthermore, it will be made clear that the full research findings will be made available to those who were interested. The researcher further indicated that the researcher organized a report back meeting with interested research participants and other relevant stakeholders at a convenient time, the aim of which was to report on key findings and recommendations for possible improvement on capital ventures for start-ups, and which may in addition aid policy development.

As regards validity and reliability, of information to use in the study this researcher employed relevant research guidelines and ethical considerations. For instance, the researcher requested the documents to be verified by the respondents in determining whether they are credible. This is explained in Morra et al. (2009) that by using different methods one increased the accuracy of data and refers to it as a triangulation approach.

3.1.6 Limitations of the study

The researcher was confronted with a few challenges while conducting the research; however, these were not to the extent of compromising the overall quality of data and information to be collected. For example, this researcher moved to the area of data collection during the course of the study, which made access to the participants and the documents for review will be a challenge. However, the researcher made few trips to Lusaka to access some of the information as well as communicating with the targeted groups of respondents.

CHAPTER 4

4.0 RESEARCH FINDINGS

The purpose of this chapter is to present findings of the study following the data collected through semi-structured and in-depth interviews of key informants being managers and owners of the 171063 registered SMEs under PACRA. Thus, this chapter details both data from empirical work conducted within the confines of the research setting i.e. case study Lusaka. The presentation and analysis of data collected is according to predetermined themes; these in fact represent an overarching construct used to classify results (Wellman et al., 2005). These themes are namely

1) The influence of venture capital financing on the performance of SMEs in Lusaka, Zambia.

2) The relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

3) The impact of financial management skills, including challenges faced, on the performance of start-up SMEs

4.1 Result Findings

This section presents descriptive statistics and other relevant findings obtained from semi-structured interviews of managers and owners SMEs. Results generated from an in-depth interview are also presented at the latter parts of the chapter. In order to frame the study, demographic questions were first asked and data collected were as follows.

4.1.1 Response Rate

Table 4.1 shows the response rate.

Table 4.1: Response rate to the questionnaire and interviews

Category	**Frequency**	**Percentage**
Response	100	98%
Non-Response	2	2%
Total	102	100%

According to **Table 4.1**, out of a sample size of 102; 100 responded to the questionnaire. Nonresponse was 2%.

Table 4.2 shows the respondents' background information.

Table 4.2: Respondents' Background Information

Description	**Participants**	**Frequency**	**Percentage**
Sex	Male	52	52
	Female	48	48
Respondent's age	18 - 27 years	22	22
	28 - 37 years	27	27
	38 – 47 years	43	43
	48 – 57	6	6
	57 and above	2	2
Respondents' level of education	No formal education	2	2
	Primary	24	24
	Secondary	40	40
	Tertiary	34	34
Marital Status	Single	14	14
	Married	45	45
	Divorce	27	27
	Widowed	14	14
Position	Owner	56	56
	Manager	44	44
Experience	1 – 5 years	23	23
	5 – 10 years	37	37
	10 – 15 years	24	24
	15 and above years	16	16

According to the Primary data results presented in **Table 4.2**, it showed that, for those who respondents on the questionnaires, there were more males than their counterpart (females), it was also found that, more respondents had their age ranges from 38 years old to 47 years old which gives a good average age for someone who understands the Role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia, the study further found that, more had higher level of education as compared to the small number who had not attained tertiary level of Education. This however, indicates that, the respondents of this study were knowledgeable enough to understand the Role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia and the significance of the study. In addition, study found that, more were married, followed by those who were single, also those who were divorced and then the widowed ones. Furthermore, the study found that, among the respondents, more were owners of the SMEs while few were managers, but more respondents were those who had good experience of about 5 to 10 years about the Role of Venture Capital Funding on the and Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia.

4.2. Statements on each Objective

4.2.1 Statement on the influence of venture capital financing on the performance of SMEs in Lusaka, Zambia.

According to this study, venture capital financing has an impact on the performance of SMEs. The results were indicated below.

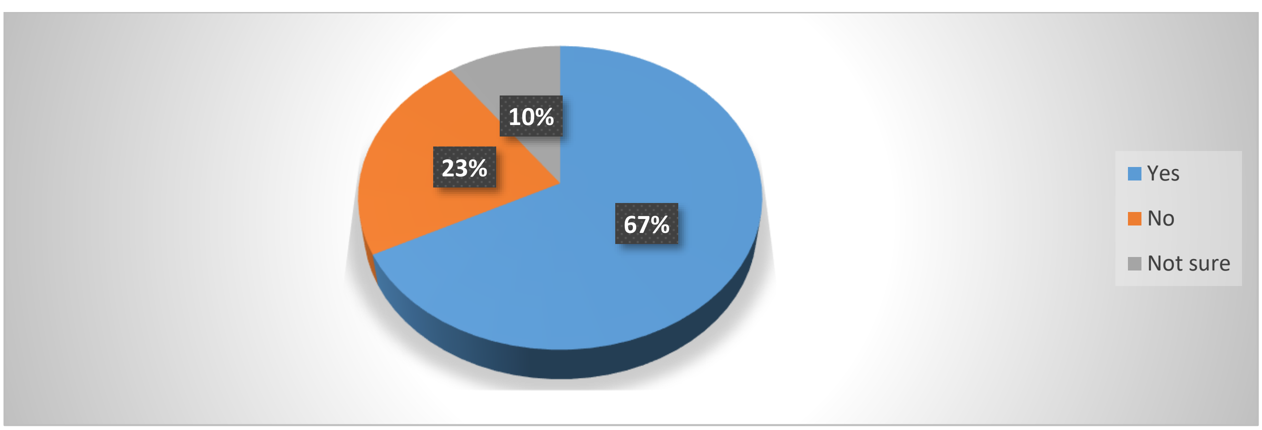

Figure 4.1: Showing venture capital financing impacting on the performance of SMEs

According to the study, it was found that, 67 percent of the respondents agreed that, venture capital financing has an impact on the employee performance of SMEs, 23 percent of the respondents did not agree that, venture capital financing has an impact on the employee performance of SMEs while 10 percent of the respondents were not sure if venture capital financing has an impact on the employee performance of SMEs.

Table 4.3 highlights the responses with regards to the extent at which venture capital financing has an impact on the performance of SMEs

Table 4.3: Showing the responses on the extent at which venture capital financing has an impact on the performance of SMEs,

Response	**Percentage**
Very Great Extent	38%
Great Extent	21%
Moderate Extent	4%
Little Extent	3%
Very Little Extent	1%
Total	67%

According to the study, among the 40 respondents, 67% who agreed that, venture capital financing has an impact on the performance of SMEs, 38% indicated that, at a very great extent, venture capital financing has an impact on the performance of SMEs 21% indicated that, at a great extent venture capital financing has an impact on the performance of SMEs, 4% of the respondents indicated that, at a moderate extent venture capital financing has an impact on the performance of SMEs, 3% indicated that, at a little extent, venture capital financing has an impact on the employee performance of SMEs and 1% indicated that, at a very little extent venture capital financing has an impact on the performance of SMEs.

The study sought to determine the extent to which respondents agree or disagree with the following statements concerning the venture capital financing has an impact on the employee performance of SMEs. The responses, highlighted in table 4.4 below, were rated on a five point Likert scale where: 5 – Strongly agree, 4 – Agree, 3 – Neither agree nor disagree, 2 – Disagree, 1 – Strongly disagree.

Table 4.4 shows the mean and standard deviations of venture capital financing has an impact on the employee performance of SMEs.

	N	Mean	Std. Deviation
Venture capital financing provides SMEs with the necessary capital to fuel rapid expansion, allowing them to scale their operations, enter new markets, and capitalize on growth opportunities that might be unattainable through traditional funding sources.	100	4.81	0.206
Beyond capital, venture capitalists often bring valuable industry expertise, strategic guidance, and extensive networks to the table.	100	4.58	0.944
Venture capital funding encourages SMEs to invest in innovation and research and development (R&D).	100	4.74	0.064
Venture capitalists often require a detailed business plan and strategic vision before providing funding.	100	4.17	0.896
Venture capitalists often require a detailed business plan and strategic vision before providing funding.	100	4.46	0.896
Successful venture capital funding rounds can significantly increase the valuation of SMEs.	100	4.23	0.564

From the findings, majority of the respondents strongly agreed with the statements that, Venture capital financing provides SMEs with the necessary capital to fuel rapid expansion, allowing them to scale their operations, enter new markets, and capitalize on growth opportunities that might be unattainable through traditional funding sources, Venture capital funding encourages SMEs to invest in innovation and research and development (R&D), and Beyond capital, venture capitalists often bring valuable industry expertise, strategic guidance, and extensive networks to the table with a mean score of 4.81, 4.74 and 4.58 respectively. In addition, other respondents agreed with the statement that, Venture capitalists often require a detailed business plan and strategic vision before providing funding, Successful venture capital funding rounds can significantly increase the valuation of SMEs and Venture capitalists often require a detailed business plan and strategic vision before providing funding with the mean score of 4.46, 4.23 and 4.17 respectively. Based on the findings of this study it is appropriate to use venture capital funding to boost the performance of SMEs.

Based on the findings of the study, which indicate strong agreement among respondents regarding the benefits of venture capital funding for SMEs, it is appropriate to conclude that venture capital funding can indeed be an effective tool for boosting the performance of SMEs. The findings suggest that venture capital financing provides SMEs with essential capital to fuel rapid expansion, invest in innovation and R&D, and access valuable industry expertise and networks. Additionally, successful venture capital funding rounds can lead to significant increases in SME valuation.

However, to further strengthen the conclusion and provide deeper insights, it is essential to relate these findings to the study's hypotheses or research questions. For instance:

Hypothesis: Venture capital funding positively influences the performance of SMEs.

The majority of respondents strongly agreed that venture capital financing provides SMEs with the necessary capital for rapid expansion, encourages investment in innovation and R&D, and brings valuable industry expertise and networks. This aligns with the hypothesis, indicating that venture capital funding indeed has a positive influence on SME performance.

Research Question: How does venture capital funding contribute to the growth and success of SMEs?

The findings indicate that successful venture capital funding rounds can significantly increase SME valuation, enabling them to scale operations, enter new markets, and capitalize on growth opportunities. Moreover, venture capitalists often require a detailed business plan and strategic vision before providing funding, suggesting that the disciplined approach of venture capital investors contributes to SME growth and success.

By relating the findings to the study's hypotheses or research questions, the conclusion regarding the appropriateness of using venture capital funding to boost SME performance is grounded in empirical evidence and provides a more comprehensive understanding of the research findings. Additionally, discussing how the findings align with the study's objectives and theoretical framework can further enhance the depth and significance of the conclusion.

4.2.2 Statement on the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

According to this study, the existence of a relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia is highlighted inn **Figure 4.2** below.

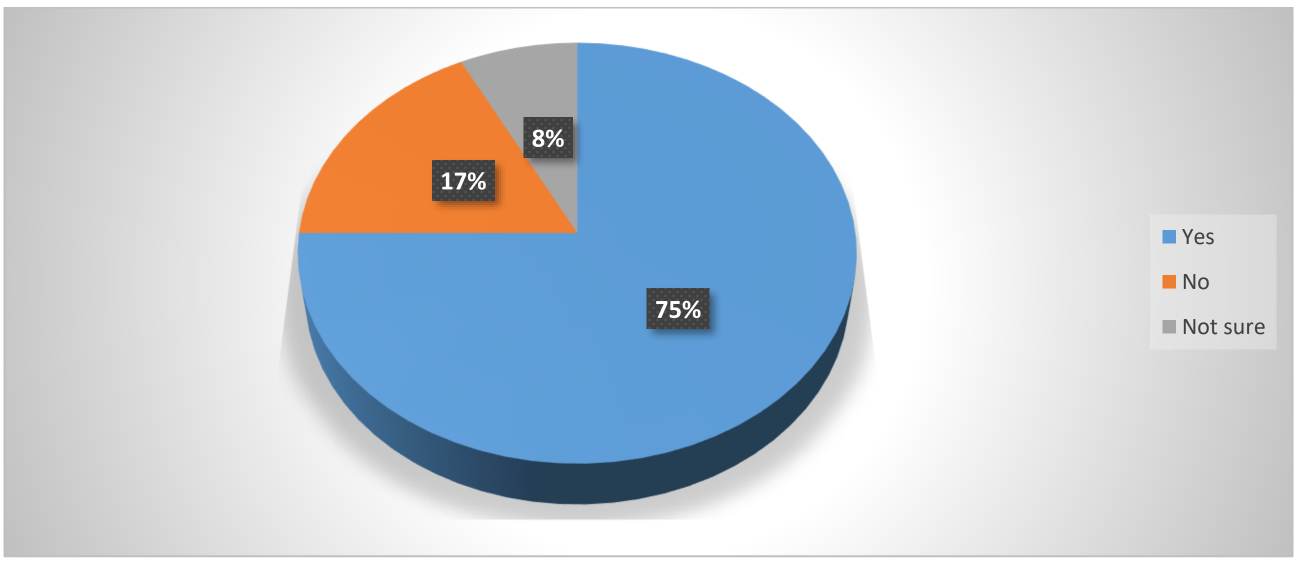

Figure 4.2: Showing the responses on the relationship between venture capital funding and other sources of finance for SMEs

According to the study, it was found that, 75 percent of the respondents agreed that, the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia, 17 percent of the respondents did not agree that, the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia while 8 percent of the respondents were not sure if there is relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

Furthermore, **Table 4.5** below highlights the extent of the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

Table 4.5: Showing the responses on the extent of the relationship between venture capital funding and other sources of finance for SMEs.

Response	**Percentage**
Very Great Extent	33%
Great Extent	27%
Moderate Extent	11%
Little Extent	3%
Very Little Extent	1%
Total	75%

According to the study, among the 40 respondents, 75% who agreed that, there is a relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia, 33% indicated that, at a very great extent there is a relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia, 27% indicated that, at a great extent there is a relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia. , 11% of the respondents indicated that, at a moderate extent there is a relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia, 3% indicated that, at a little extent, there is a the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia and 1% indicated that, at a very little extent the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

The study sought to determine the extent to which respondents agree or disagree with the following statements concerning the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia. The responses, indicated in **Table 4.6** below, were rated on a five point Likert scale where: 5 – Strongly agree, 4 – Agree, 3 – Neither agree nor disagree, 2 – Disagree, 1 – Strongly disagree.

Table 4.6 shows the mean and standard of the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

	N	Mean	Std. Deviation
Venture capital funding often complements other sources of finance for SMEs, such as bank loans, angel investors, or government grants. This diversified funding approach allows SMEs to mitigate risks and access a variety of financial resources to support their different needs.	100	4.92	0.016
SMEs can strategically combine venture capital funding with debt financing to optimize their capital structure. While venture capital provides equity capital, debt financing, such as loans, allows SMEs to leverage their assets and maintain a balanced mix of debt and equity, optimizing their financial structure.	100	4.72	0.879
Venture capital funding frequently follows initial seed funding from founders, friends and family, or angel investors. This early-stage funding helps SMEs establish their viability and attract subsequent venture capital investment, creating a continuum of financial support crucial for sustained growth.	100	4.02	0.787
SMEs may also leverage government grants and subsidies in conjunction with venture capital funding. Government support can provide additional financial incentives, reduce financial burdens, and create a supportive ecosystem for SMEs to thrive alongside venture capital backing.	100	4.20	0.800
Venture capital funding often goes hand-in-hand with strategic partnerships and investments from corporate entities. SMEs can benefit from the expertise and resources of these corporate investors, creating a synergy that enhances the overall financial stability and growth prospects of the business.	100	4.87	0.072

From the findings, majority of the respondents strongly agreed with the statements that, Venture capital funding often complements other sources of finance for SMEs, such as bank loans, angel investors, or government grants. This diversified funding approach allows SMEs to mitigate risks and access a variety of financial resources to support their different needs, Venture capital funding often goes hand-in-hand with strategic partnerships and investments from corporate entities. SMEs can benefit from the expertise and resources of these corporate investors, creating a synergy that enhances the overall financial stability and growth prospects of the business, and SMEs can strategically combine venture capital funding with debt financing to optimize their capital structure. While venture capital provides equity capital, debt financing, such as loans, allows SMEs to leverage their assets and maintain a balanced mix of debt and equity, optimizing their financial structure. This focus on relationship directly influences SMEs performance by enabling them to achieve more in less time with a mean score of 4.92, 4.87, and 4.72 respectively. Moreover, other respondents agreed with the statement that, SMEs may also leverage government grants and subsidies in conjunction with venture capital funding. Government support can provide additional financial incentives, reduce financial burdens, and create a supportive ecosystem for SMEs to thrive alongside venture capital backing and Venture capital funding frequently follows initial seed funding from founders, friends and family, or angel investors. This early-stage funding helps SMEs establish their viability and attract subsequent venture capital investment, creating a continuum of financial support crucial for sustained growth with a mean score of 4.20 and 4.02 respectively. Therefore, based on the findings of this study it is appropriate to use the relationship between venture capital funding and other sources of finance for SMEs to enhance SMEs performance.

Based on the findings of the study, which indicate strong agreement among respondents regarding the positive relationship between venture capital funding and other sources of finance for SMEs, it is appropriate to conclude that leveraging this relationship can indeed enhance SME performance. The findings suggest that venture capital funding often complements other sources of finance, such as bank loans, angel investors, or government grants, allowing SMEs to mitigate risks and access a variety of financial resources to support their different needs. Moreover, strategic partnerships and investments from corporate entities can enhance the overall financial stability and growth prospects of SMEs, while combining venture capital funding with debt financing can optimize their capital structure.

However, to provide deeper insights and strengthen the conclusion, it is essential to relate these findings to the study's hypotheses or research questions. For example:

Hypothesis: The relationship between venture capital funding and other sources of finance positively influences SME performance.

The majority of respondents strongly agreed that venture capital funding complements other sources of finance for SMEs, such as bank loans, angel investors, or government grants. This diversified funding approach allows SMEs to mitigate risks and access a variety of financial resources, ultimately enhancing their performance. Additionally, respondents indicated that SMEs can strategically combine venture capital funding with debt financing, optimizing their financial structure. These findings support the hypothesis, suggesting that leveraging the relationship between venture capital funding and other sources of finance positively influences SME performance.

Research Question: How does the relationship between venture capital funding and other sources of finance contribute to SME growth and success?

The findings indicate that leveraging the relationship between venture capital funding and other sources of finance can enhance SME performance by providing access to diversified funding options, expertise from corporate investors, and a supportive ecosystem created by government support. Moreover, initial seed funding from founders, friends and family, or angel investors can pave the way for subsequent venture capital investment, creating a continuum of financial support crucial for sustained growth. Relating these findings to the research question helps to highlight the mechanisms through which the relationship between venture capital funding and other sources of finance contributes to SME growth and success.

By connecting the findings to the study's hypotheses or research questions, the conclusion regarding the appropriateness of leveraging the relationship between venture capital funding and other sources of finance to enhance SME performance is grounded in empirical evidence and provides valuable insights for policymakers, investors, and entrepreneurs. Additionally, discussing the implications of these findings for theory and practice can further enhance the depth and significance of the conclusion.

4.2.3 Statement on the impact of financial management skills, including challenges faced, on the performance of start-up SMEs

According to this study, the results on the impact of financial management skills, including challenges faced, on the performance of start-up SMEs are indicated in **Figure 4.3** below.

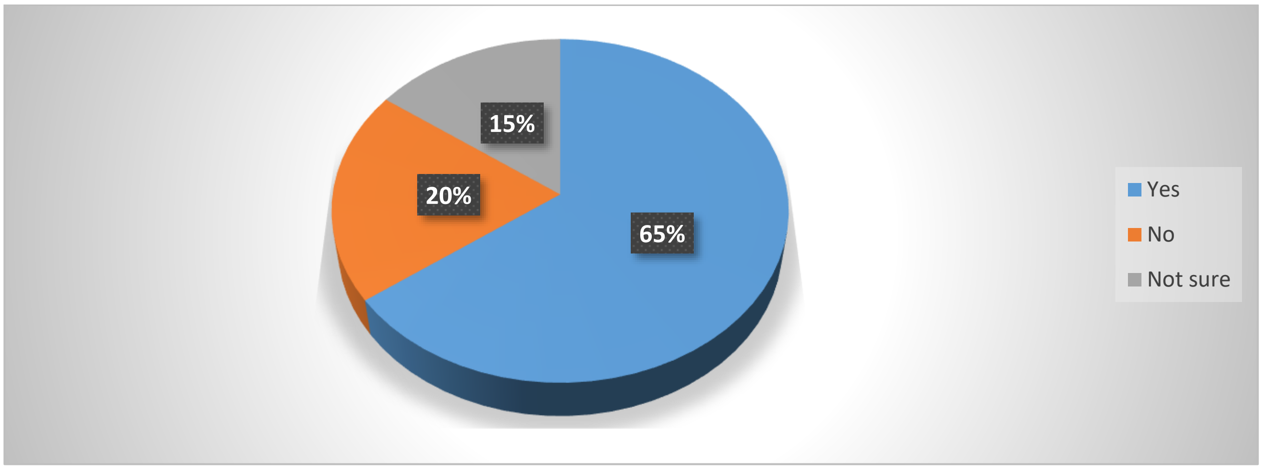

Figure 4.3: Showing the responses on the impact of financial management skills, including challenges faced, on the performance of start-up SMEs.

According to the study, it was found that, 65 percent of the respondents agreed that, there is an impact of financial management skills, including challenges faced, on the performance of start-up SMEs, 17 percent of the respondents did not agree that, there is an impact of financial management skills, including challenges faced, on the performance of start-up SMEs, while 8 percent of the respondents were not sure if there is there is impact of financial management skills, including challenges faced, on the performance of start-up SMEs.

The extent at which financial management skills, including challenges faced, impact on the performance of start-up SMEs is indicated in **Table 4.7** below.

Table 4.7: Showing the responses on the extent at which financial management skills, including challenges faced, impact on the performance of start-up SMEs.

Response	**Percentage**
Very Great Extent	33%
Great Extent	27%
Moderate Extent	11%
Little Extent	3%
Very Little Extent	1%
Total	75%

According to the study, among the 40 respondents, 75% who agreed that financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia, 33% indicated that, at a very great extent financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia, 27% indicated that, at a great extent financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia, 11% of the respondents indicated that, at a moderate extent financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia, 3% indicated that, at a little extent, financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia and 1% indicated that, at a very little extent financial management skills, including challenges faced, impact on the performance of start-up SMEs in Lusaka, Zambia.

The study sought to determine the extent to which respondents agree or disagree with the following statements concerning the impact of financial management skills, including challenges faced, on the performance of start-up SMEs in Lusaka, Zambia. **Table 4.8** below shows the responses rated on a five point Likert scale where: 5 – Strongly agree, 4 – Agree, 3 – Neither agree nor disagree, 2 – Disagree, 1 – Strongly disagree.

Table 4.8 shows the mean and standard deviations of the impact of financial management skills, including challenges faced, on the performance of start-up SMEs in Lusaka, Zambia.

	N	Mean	Std. Deviation
Effective financial management skills empower start-up SMEs to strategically plan and allocate resources. Entrepreneurs with strong financial acumen can develop comprehensive business plans, set realistic financial goals, and allocate funds to areas critical for sustainable growth and performance.	100	4.83	0.136
Financial management skills enable entrepreneurs to assess and mitigate risks effectively. Understanding financial statements and key performance indicators allows start-ups to make informed decisions, identify potential financial challenges, and implement proactive measures to navigate uncertainties.	100	4.55	0.105
Proficient financial management skills are crucial for maintaining healthy cash flow, a lifeline for start-up SMEs. Entrepreneurs with sound financial acumen can optimize cash flow cycles, manage working capital efficiently, and navigate through periods of financial strain, contributing to overall business resilience.	100	4.76	0.189
Effective financial management ensures optimal resource allocation. Entrepreneurs can identify areas of inefficiency, allocate resources judiciously, and streamline operations for enhanced productivity. This strategic allocation contributes to improved performance and sustainable growth.	100	4.06	.617
Financially skilled entrepreneurs are better equipped to adapt to market changes and economic fluctuations. Challenges such as economic downturns or unexpected expenses can be navigated with resilience, as entrepreneurs can employ financial management strategies to weather uncertainties and sustain business performance.	100	4.16	.925

According to the findings of this study, majority of the respondents strongly agreed with the statements that, effective financial management skills empower start-up SMEs to strategically plan and allocate resources. Entrepreneurs with strong financial acumen can develop comprehensive business plans, set realistic financial goals, and allocate funds to areas critical for sustainable growth and performance, Proficient financial management skills are crucial for maintaining healthy cash flow, a lifeline for start-up SMEs. Entrepreneurs with sound financial acumen can optimize cash flow cycles, manage working capital efficiently, and navigate through periods of financial strain, contributing to overall business resilience and financial management skills enable entrepreneurs to assess and mitigate risks effectively. Understanding financial statements and key performance indicators allows start-ups to make informed decisions, identify potential financial challenges, and implement proactive measures to navigate uncertainties with a mean score of 4.83, 4.76 and 4.55 respectively. However, other respondents agreed with the statement that, financially skilled entrepreneurs are better equipped to adapt to market changes and economic fluctuations. Challenges such as economic downturns or unexpected expenses can be navigated with resilience, as entrepreneurs can employ financial management strategies to weather uncertainties and sustain business performance and effective financial management ensures optimal resource allocation. Entrepreneurs can identify areas of inefficiency, allocate resources judiciously, and streamline operations for enhanced productivity. This strategic allocation contributes to improved performance and sustainable growth with a mean score of 4.16 and 4.06 respectively. Therefore, based on the findings above, financial management skills, including challenges faced, impacts on the performance of start-up SMEs in Lusaka, Zambia.

Based on the findings of the study, which indicate strong agreement among respondents regarding the importance of financial management skills for start-up SMEs, it is appropriate to conclude that these skills significantly impact the performance of start-up SMEs in Lusaka, Zambia. The findings suggest that effective financial management skills empower entrepreneurs to strategically plan and allocate resources, maintain healthy cash flow, assess and mitigate risks, and adapt to market changes and economic fluctuations. Moreover, proficient financial management enables entrepreneurs to optimize resource allocation, identify areas of inefficiency, and streamline operations, contributing to improved performance and sustainable growth.

However, to provide deeper insights and strengthen the conclusion, it is essential to relate these findings to the study's hypotheses or research questions. For example:

Hypothesis: Financial management skills positively influence the performance of start-up SMEs.

The majority of respondents strongly agreed that effective financial management skills empower start-up SMEs to strategically plan and allocate resources, maintain healthy cash flow, assess and mitigate risks, and adapt to market changes and economic fluctuations. Additionally, respondents indicated that financially skilled entrepreneurs are better equipped to optimize resource allocation, identify areas of inefficiency, and streamline operations, ultimately contributing to improved performance and sustainable growth. These findings support the hypothesis, suggesting that financial management skills indeed have a positive influence on the performance of start-up SMEs.

Research Question: How do financial management skills impact the performance of start-up SMEs in Lusaka, Zambia?

The findings indicate that financial management skills play a crucial role in empowering entrepreneurs to effectively manage resources, navigate financial challenges, and adapt to changing market conditions. By understanding financial statements, key performance indicators, and employing financial management strategies, entrepreneurs can make informed decisions, allocate resources judiciously, and enhance productivity. Relating these findings to the research question helps to highlight the mechanisms through which financial management skills impact the performance of start-up SMEs in Lusaka, Zambia.

By connecting the findings to the study's hypotheses or research questions, the conclusion regarding the significant impact of financial management skills on the performance of start-up SMEs is grounded in empirical evidence and provides valuable insights for policymakers, investors, and entrepreneurs. Additionally, discussing the implications of these findings for theory and practice can further enhance the depth and significance of the conclusion.

4.3 Results from the qualitative part

Theme One: The influence of venture capital financing on the performance of start-up SMEs in Lusaka, Zambia.

According to this study, 14 respondents agreed that, they have received venture capital from the time they started operations, while 6 respondents disagreed that, they have not received any venture capital from the time they started operations. However, a question on what stage in your business did you receive Venture Capital? According to Respondent number 87 (R87), he mentioned that, venture capital is typically received by businesses at various stages of their development, depending on their specific needs, growth potential, and risk profile.

According to R99 she mentioned of seed stage, this is the earliest stage of a startup's development. At this stage, the business is often just an idea or a concept. Venture capital is used to validate the idea, build a prototype, conduct market research, and develop a business plan.

According to R76 he mentioned of early stage, early-stage financing includes both pre-seed and seed rounds. Companies in this stage have typically developed a product or service and are in the process of bringing it to market. Venture capital is used to fund initial operations, product development, and early marketing efforts.

According to R13, he mentioned of Series A, at this stage, a company has proven its concept and has a track record of growth and customer acquisition. Series A funding is often used to scale the business, expand into new markets, and further develop the product or service.

According to R17 she mentioned of Series B, companies that have reached the Series B stage have already established a solid customer base and demonstrated significant revenue growth. Venture capital at this stage is used for rapid scaling, expanding market reach, and improving the company's infrastructure.

According to R18 he mentioned of Series C and beyond, in later stages of funding, companies are typically more established and have a proven business model. Venture capital in Series C and beyond is often used for large-scale expansion, international growth, acquisitions, or preparing for an initial public offering (IPO) and good performance.

According to R29, she mentioned of growth stage, some companies may receive venture capital at a specific growth stage. This capital is used to accelerate performance, increase market share, and scale operations to maximize profitability. According to R45, she mentioned of late stage, in this stage, companies are typically preparing for an exit event, such as an IPO or acquisition. Venture capital may be used to fine-tune the business, optimize financials, and ensure a smooth transition to the exit strategy, also she mentioned of specialized funding, some companies, particularly those in certain industries like biotechnology or renewable energy, may receive specialized venture capital at various stages to support their unique needs and challenges.

However, R62 indicated that, it's important to note that not all businesses follow this exact progression, and the timing of venture capital rounds can vary based on the specific circumstances of the company and the investor's strategies. Additionally, not all businesses receive venture capital; many opt for alternative sources of funding or bootstrap their operations.

Based on a question on the ventures having an effect on the company profits in a period of one year, Yes or No. (If yes, explain). However, all the respondents who received venture capital said Yes, venture capital had a positive effect on a company's profits within a period of one year, but it is important to understand the conditions under which this occurred.

According to R22 indicated that the effect was acceleration of growth, venture capital often provides funding that allows a company to accelerate its growth. With more resources, a company expanded its operations, increased market reach, developed new products or services, and improved marketing efforts. This growth led to increased revenue and, potentially, profits.

According to R75 indicated, market expansion, venture capital supports a company's expansion into new markets or geographic regions. If executed effectively, this expansion resulted in increased sales and, consequently, higher profits.

According to R33 mentioned of Product Development, with additional capital, a company invested in research and development to create innovative products or enhance existing ones. These new or improved offerings attracted more customers and generated higher profits. Apart from that, R43 indicated efficiency improvements, venture capital was used to invest in operational efficiency, automation, and cost reduction strategies. This led to higher profit margins by reducing costs while maintaining or increasing revenue.

According to R28 mentioned of customer acquisition, venture capital was used to invest in marketing and sales efforts, which resulted in acquiring more customers and increasing revenue and profits. However, R79 added that, it's essential to consider that the impact on profits can vary widely depending on the specific business, its industry, market conditions, and how the venture capital is used. While venture capital can fuel growth and ultimately lead to higher profits, it may also involve dilution of ownership for the founders and come with the expectation of continued high growth. In some cases, companies may prioritize growth over short-term profitability, so the immediate impact on profits may not be significant. Ultimately, the positive effect on profits within one year is contingent on how the venture capital is strategically deployed and how well the company can execute its growth plans.

According to R39, venture capital financing plays a crucial role in promoting the growth and performance of Small and Medium-sized Enterprises (SMEs) in Lusaka, Zambia:

According to R20 indicated access to capital for expansion, SMEs in Lusaka often face challenges in accessing the necessary capital for growth and expansion. Venture capital provides an alternative source of funding that can fuel innovation and expansion, allowing SMEs to invest in new technology, marketing, and talent. This infusion of capital can lead to increased market share, revenue growth, and improved performance.

However, R17 mentioned Strategic Guidance and Mentorship, venture capitalists not only provide financial support but also bring valuable expertise and guidance to the table. SMEs in Lusaka benefit from the experience and network of venture capitalists, helping them make informed decisions, enter new markets, and navigate challenges. This mentorship can contribute to improved business performance and long-term sustainability.

R25 indicated economic impact and job creation, by facilitating the growth of SMEs, venture capital financing contributes to the economic development of Lusaka and Zambia as a whole. As these businesses expand, they often create new job opportunities and stimulate economic activity within the region. The growth of SMEs can have a positive ripple effect on local communities and the overall economic performance of the area.

Moreover, on receiving funding from other investors/companies/individuals after venture capital, 60 respondents indicated that, they have received, funding from other investors/companies/individuals after venture capital while 40 respondents did not receive funding from other investors/companies/individuals after venture capital.

Nevertheless, on the venture capital funding contributed to receiving funding from other investors, according to the respondents, Yes, venture capital funding contributed to receiving funding from other investors in several ways.

According to R32 indicated credibility and validation, venture capital firms often have a rigorous due diligence process, and when they invest in a company, it serves as a strong validation of the business model, management team, and growth potential. Other investors, including angel investors, corporate venture capital, and institutional investors, may view a venture capital investment as a positive signal, which leads to increased interest in the company.

According to R56 indicated follow-on investments, some venture capital firms participate in multiple funding rounds for a company as it grows. When other investors see that a reputable venture capital firm has continued to invest in a company, it instills confidence in the business, making it more attractive to potential co-investors.

According to R19, indicated network and introductions, venture capital firms often have extensive networks in the business and investment community. They introduced portfolio companies to other potential investors, facilitating connections that led to additional funding opportunities.

According to R21 indicated operational support, many venture capital firms provide not only funding but also strategic guidance and operational support to their portfolio companies. This support can help the company achieve milestones, demonstrate progress, and make it more appealing to other investors. According to R13 indicated due diligence assistance, the due diligence conducted by venture capital firms can also benefit other investors. It provides valuable information and analysis on the company, which can expedite the due diligence process for subsequent investors.

According to R48 indicated liquidity events, venture capital funding often plays a role in the growth of a company and contributes to its eventual exit through an initial public offering (IPO) or acquisition. These liquidity events attracts interest from other investors seeking to participate in a successful exit. However, venture capital funding certainly enhances a company's attractiveness to other investors, it's important to note that not all companies that receive venture capital funding will automatically receive additional funding from other sources. The company's performance, market conditions, and the specific needs of the business all play a role in attracting subsequent investment. However, venture capital can be a valuable stepping stone for companies looking to secure additional financing.

Furthermore, yes, venture capital funding can attract other financial sources for several reasons. According to R93 indicated validation and credibility, when a venture capital (VC) firm invests in a startup, it often conducts thorough due diligence. This process validates the business model, market potential, and the competence of the management team. Other investors, including angel investors, corporate venture capital, and institutional investors, may see the VC investment as a vote of confidence, which can enhance the startup's credibility.

Respondent number 7 indicated growth and traction, VC funding is typically used to fuel a startup's growth, which leads to increased traction, market share, and revenue. This growth makes the startup more appealing to other investors who see potential for a return on their investment she added that, network and introductions, Many VC firms have extensive networks within the business and investment communities. They can introduce their portfolio companies to other potential investors, which can lead to additional funding opportunities.

Respondent number 59 indicated operational support, VC firms often provide not only capital but also strategic guidance and operational support to their portfolio companies. This support can help startups achieve key milestones and demonstrate their potential to other investors and added that, due Diligence assistance, the due diligence conducted by VC firms can benefit other investors. It provides valuable information and analysis on the startup, which expedite the due diligence process for subsequent investors. According to Respondent 14 indicated liquidity events, VC funding often plays a role in a startup's growth and can contribute to its eventual exit through an initial public offering (IPO) or acquisition. These liquidity events attracts interest from other investors seeking to participate in a successful exit.

Based on the question of receiving venture capital funding and ran in losses in a financial year, according to this study, 6 respondents said yes, it is possible for a company that has received venture capital funding to incur losses in a financial year. Venture capital funding is typically provided to companies with high growth potential, and investors understand that startups and high-growth companies often operate at a loss during their early stages. Here are a few reasons provided by respondents why a company that has received venture capital funding might run in losses:

According to R5 indicated investment in growth, many startups and growth-stage companies prioritize rapid expansion and market penetration over short-term profitability. They may use the venture capital funds to invest in product development, marketing, hiring, and infrastructure, all of which can result in higher expenses, leading to losses in the short term.

According to R98 indicated market development, in some cases, companies need to invest heavily in entering new markets or building brand recognition. These market development expenses significantly and results in short-term losses.

According to R77 indicated research and development, companies in innovative industries often allocate a significant portion of their funding to research and development efforts. These investments are made with the expectation of long-term benefits but may lead to short-term losses.

According to R20 indicated scaling operations, scaling up a business to meet growing demand often requires upfront investments in production, logistics, and personnel. These expenses can outpace immediate revenue, causing losses in the short term.

According to the question of venture capital funding disadvantaging companies in any way? (If yes, please mention how). According to the respondents, 11 respondents said yes, added that, while venture capital funding offers many benefits, it can also come with certain disadvantages and challenges for companies. Here are some ways in which venture capital funding disadvantage companies.

According to R1 indicated loss of control, venture capitalists often require a significant equity stake in the company in exchange for their investment. This can lead to a dilution of ownership and control for the founders and early stakeholders. As a result, decision-making power may shift away from the original management team, which can be a disadvantage if there are disagreements over the company's direction. R1 added high expectations for growth, venture capital firms typically expect high growth and returns on their investments. This pressure to achieve rapid growth leads to short-term decision-making that prioritizes growth over profitability. This focus on growth at any cost disadvantages if it results in financial instability or long-term sustainability issues.

According to R4 indicated exit pressure, venture capitalists often have a defined investment horizon and an expectation of exit events, such as an initial public offering (IPO) or acquisition. This creates pressure on the company to achieve these liquidity events, which do not align with the long-term vision of the founders or management team.

According to R6 indicated strategic alignment, differences in strategy or vision between the founders and venture capitalists leads to conflicts. Venture capitalists pushes for strategic decisions that don't align with the founders' original vision or goals for the company.

Respondent number 38 and respondent number 10 indicated intensive oversight and reporting, venture capital firms typically require regular reporting and oversight of the company's financial and operational performance. This reporting can be time-consuming and may divert management's attention away from day-to-day operations. Loss of privacy, venture-backed companies often have to disclose more information about their operations, finances, and performance, which can lead to a loss of privacy and competitiveness in the market. High expectations for exits, venture capitalists expect a significant return on their investment, which can create pressure on the company to achieve a valuation that may not be achievable or sustainable in the long run. This can lead to risky decisions or a focus on short-term financial metrics.

According to R34 indicated risk of failure, venture capital financing often comes with high expectations, and not all companies are able to meet these expectations. If a company fails to meet its growth targets or achieve profitability, it faces challenges in securing further funding or sustaining operations.

According to this study, it was found that, 8 respondents indicated that, venture capital funding is not accessible at all, 88 respondents indicated that venture capital funding is accessible and 4 respondents indicated that, venture capital funding is easily accessible.

Theme Two: The relationship between venture capital funding and other sources of finance for start-up SMEs in Lusaka, Zambia.

According to the findings of this study from the respondents, it is inferred that venture capital funding have a positive impact on SMEs in Lusaka, Zambia, and their ability to attract other sources of finance. According to the respondents, here's the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

According to R66 indicated validation and credibility, venture capital funding serves as a strong validation of an SME's business model, management team, and growth potential. This validation can enhance the SME's credibility in the eyes of other investors, making it more attractive to them.

According to R18 indicated access to networks, venture capital firms often have extensive networks within the business and investment community. These networks are leveraged to introduce SMEs to other potential investors, facilitating connections that leads to additional funding opportunities.

Respondent number 99 indicated operational support and guidance, venture capitalists not only provide financial support but also strategic guidance and operational support to their portfolio companies. This support helps SMEs achieve key milestones and demonstrate their potential to other investors.

Respondent number 71 indicated due diligence assistance, the due diligence conducted by venture capital firms benefits other investors. It provides valuable information and analysis on the SME, which expedite the due diligence process for subsequent investors.

According to R12 indicated positive signaling, venture capital funding serves as a positive signal to other investors, including angel investors, corporate venture capital, and institutional investors. This signaling instills confidence in the SME, leading to increased interest from other sources of finance.

According to R65 indicated liquidity events, venture capital funding often plays a role in the growth of an SME and contributes to its eventual exit through an initial public offering (IPO) or acquisition. These liquidity events attracts interest from other investors seeking to participate in a successful exit.

According to R16 indicated that, venture capital funding act as a catalyst for SMEs in Lusaka, Zambia, to attract additional sources of finance. The validation, support, networks, and signaling associated with venture capital investments enhances the SME's credibility and visibility in the broader investment community, making it more appealing to other investors.

Theme Three: The impact of financial management skills, including challenges faced, on the performance of start-up SMEs

Based on the respondents, financial management skills play a crucial role in enhancing the growth and performance of start-up SMEs in Lusaka, Zambia, as they do in businesses worldwide.

According to R6 indicated resource allocation, effective financial management skills enable start-up SMEs to allocate resources efficiently. This includes managing cash flow, optimizing working capital, and allocating funds to areas that drive growth, such as product development, marketing, and talent acquisition. Budgeting, creating and adhering to budgets is essential for managing expenses and ensuring that financial resources are used strategically. Budgets help start-ups set financial goals, track performance, and make informed financial decisions. Cash flow management, proper cash flow management is vital for start-ups, as it ensures that there is enough liquidity to cover daily operational expenses and invest in growth opportunities. Financial management skills help in forecasting cash flow, managing accounts receivable and payable, and avoiding cash flow crises.

According to R12 indicated capital raising, financial management skills are crucial for attracting external funding, including venture capital, loans, or investment from angel investors. Start-up SMEs that can effectively communicate their financial needs, projections, and strategies are more likely to secure capital for growth. Profitability and sustainability, sound financial management contributes to profitability and long-term sustainability. Start-ups need to balance growth objectives with the goal of achieving and maintaining profitability to sustain operations. Financial reporting, accurate and timely financial reporting is essential for transparency and accountability.

This practice builds trust with investors, stakeholders, and potential partners, which can lead to further financial support and business opportunities.

According to R16 indicated investor confidence, effective financial management instills confidence in investors and stakeholders. Start-ups with well-managed finances are more likely to attract investors and partners who are willing to contribute to the company's growth and expansion. Risk mitigation, financial management skills help in identifying and managing financial risks. Start-ups can develop risk mitigation strategies to address potential challenges and minimize the impact of financial setbacks.

According to R19 indicated strategic decision-making, financial data and analysis are valuable tools for strategic decision-making. Start-ups with strong financial management skills can make data-driven decisions that guide the company's growth strategy. Access to Credit and Financing, financial management skills improve creditworthiness and access to financing options. Start-ups with well-maintained financial records are more likely to secure loans and lines of credit to support expansion. Tax Compliance, complying with tax regulations and optimizing tax strategies are essential for managing financial resources. Start-ups that effectively navigate tax laws can reduce tax liabilities and reinvest savings into business growth.

According to the findings of this study, it was found that, 61 respondents indicated that, they have hired financial experts after receiving the venture capital while 39 respondents indicated that, they have not hired financial experts after receiving the venture capital. However, the respondents indicated that, they face challenges by start-up SMEs in Lusaka, Zambia in accessing venture capital funding. Start-up SMEs in Lusaka, Zambia, face several challenges when trying to access venture capital funding. These challenges can vary, but some common issues include.

According to R2 indicated limited access to venture capital firms, Lusaka, Zambia, have a limited number of venture capital firms, making it challenging for start-ups to find suitable investors. The lack of local venture capital firms can mean limited opportunities for funding.

According to R25 indicated lack of awareness, many start-ups are not aware of the existence or benefits of venture capital funding. They do not know how to access these opportunities or how to navigate the venture capital landscape. He added that, the start-up ecosystem in Lusaka may be underdeveloped compared to more established hubs. A lack of supporting infrastructure, mentorship networks, and start-up incubators can hinder access to venture capital.

According to R49 indicated scalability concerns, venture capitalists typically seek businesses with high growth potential and the ability to scale quickly. Some start-ups struggle to demonstrate this potential, which is a barrier to securing funding. Many start-ups lack a significant track record, making it difficult to build trust with investors. Venture capitalists often seek businesses with a proven history of performance or clear indicators of future success.

According to R13 indicated regulatory and legal hurdles, regulatory and legal challenges, such as complex business registration processes or investment regulations, can make it more difficult for start-ups to attract venture capital. Venture capital investors are often willing to take on higher risk, but they also seek returns commensurate with that risk. Start-ups may face difficulties in convincing investors that the potential rewards outweigh the risk. Some start-ups are not adequately prepared to pitch their business to investors. This includes having a well-developed business plan, financial projections, and a clear value proposition.

According to R36 indicated market size, the size of the market in Lusaka and Zambia may be a limiting factor for certain types of start-ups. Investors may be concerned about the scalability and potential market reach of businesses in this context. Networking plays a crucial role in securing venture capital. Start-ups with limited connections to the investor community may find it challenging to access funding.

According to R18 indicated valuation issues, start-ups and venture capitalists have differing valuations of the business. Negotiating a fair valuation are hurdles in securing funding. Venture capitalists typically expect an exit event, such as an IPO or acquisition, as a part of their investment. Start-ups may struggle to provide a clear exit strategy that aligns with investor expectations.

According to R94 indicated on how to overcome these challenges, however, to overcome these challenges, start-up SMEs in Lusaka, Zambia, should work on building a strong business case, improving their pitch, expanding their networks, and seeking support from local entrepreneurship and innovation ecosystems. Government initiatives, educational programs, and mentorship opportunities can also play a role in supporting start-ups in their quest for venture capital funding. Additionally, R20 indicated demonstrating a clear understanding of the local and regional market opportunities and how the business can address them is essential for attracting investors' interest.

4.3.1 Other findings from Interview guide

The responses from the interview guide confirms with the responses from the questionnaire. However, on the typical objectives of venture capital funding companies (VC firms). The primary objectives of VC firms are as follows.

According to R13 indicated the Investment in High-Growth Start-ups, VC firms seek to invest in early-stage and high-potential start-up companies that have the potential for rapid growth and scalability. They aim to identify businesses with innovative products, services, or technologies that can disrupt or revolutionize their respective industries. Generate Attractive Returns, VC firms aim to generate substantial financial returns on their investments. They typically expect a higher rate of return compared to more conservative investment options to compensate for the higher risk associated with start-up investments.

According to R4 indicated support entrepreneurship and innovation, VC firms play a critical role in fostering entrepreneurship and innovation. By providing funding and mentorship, they support the development of new technologies and business models, driving economic growth and job creation.

Provide Expertise and Mentorship: VC firms often offer valuable expertise, industry knowledge, and strategic guidance to the companies they invest in. They may serve on the board of directors, offer operational support, and connect portfolio companies with relevant networks and resources. Diversify Portfolio, VC firms aim to diversify their investment portfolio to spread risk. By investing in a variety of start-ups across different industries and sectors, they reduce the impact of potential losses on their overall returns.

According to R7 indicated achieve exit strategies, VC firms work toward successful exit strategies for their portfolio companies. This may include guiding companies toward initial public offerings (IPOs), acquisitions by larger firms, or other exit events that result in a financial return on the investment. Support Global Expansion, VC firms may help portfolio companies expand their operations into new markets and regions. This support can include connecting them with international networks and resources. Build a Strong Brand, building a strong brand and reputation within the start-up ecosystem is important for VC firms. A positive reputation can attract high-quality entrepreneurs and co-investors.

According to R9 manage investor expectations, VC firms must manage the expectations of their own investors, which may include institutional investors, high-net-worth individuals, and fund-of-funds. They aim to deliver on the investment strategies and performance expected by their limited partners. Identify Emerging Trends, VC firms aim to identify emerging trends and opportunities in various industries. By staying at the forefront of innovation, they can make informed investment decisions. Contribute to Economic Growth, VC firms contribute to economic growth by supporting the development of start-ups that create jobs, stimulate economic activity, and drive innovation in local and global markets.

Furthermore, venture capital funding plays a crucial role in addressing various challenges faced by SMEs (Small and Medium-sized Enterprises). These challenges can vary by region, industry, and specific circumstances, but here are some common issues that venture capital funding helps SMEs overcome. According to R8 indicated a limited access to capital, one of the most significant challenges for SMEs is accessing sufficient capital for growth and expansion. Venture capital funding provides a source of equity financing that is often not available through traditional loans or other financing methods. Early-Stage Funding, many SMEs struggle to secure funding at the early stages of their development when they need capital to validate their business ideas, develop prototypes, and conduct market research. Venture capital can fill this funding gap.

According to R11 indicated high-growth potential, SMEs with high-growth potential often require significant capital to scale their operations, enter new markets, and develop innovative products or services. Venture capital enables them to achieve this growth. Innovation and Technology Adoption, staying competitive in today's rapidly evolving business landscape requires innovation and technology adoption. Venture capital supports SMEs in adopting new technologies, developing cutting-edge solutions, and remaining competitive in their industries.

According to R13 indicated mentorship and guidance, venture capital investors often provide valuable mentorship, industry expertise, and strategic guidance to the companies they invest in. This support helps SMEs navigate challenges, make informed decisions, and achieve success. Market Expansion, many SMEs aim to expand into new markets, both domestically and internationally. Venture capital funding can facilitate market expansion by providing the necessary capital and expertise. Product Development, developing new products or improving existing ones is a common challenge for SMEs. Venture capital enables them to invest in research and development, accelerating the innovation process.

Furthermore, Venture capital firms evaluate various aspects of a company to determine if it qualifies for funding. These factors and indicators include. According to R4 indicated high growth potential, venture capital is typically invested in companies with the potential for rapid and substantial growth. Indicators of high growth potential include a large addressable market, a unique value proposition, and scalability. Innovative Product or Service, companies with innovative and disruptive products or services are attractive to venture capital investors. They look for businesses that can solve existing problems or meet unmet needs in novel ways. Strong Team, the management team is a critical factor. Investors assess the experience, expertise, and track record of the founders and key team members. A capable and dedicated team increases the likelihood of success.

According to R7 indicated market opportunity, venture capital firms evaluate the market size and potential for the SME's product or service. A large, growing market indicates significant opportunities for expansion. Clear Business Model, a well-defined and scalable business model is essential. Investors want to see how the company plans to generate revenue, its pricing strategy, and its path to profitability. Traction and Milestones, start-ups that have achieved significant milestones or demonstrated traction in the form of customer acquisitions, revenue growth, partnerships, or product development progress are more likely to attract venture capital.

According to R15 indicated exit potential, venture capitalists look for a clear exit strategy, such as the potential for an initial public offering (IPO) or acquisition by a larger company. A well-defined exit strategy ensures that investors can realize returns on their investment. Scalability, investors favour companies that can scale their operations efficiently to meet growing demand. Scalability is important for achieving high growth. Demonstrated Product-Market Fit, evidence of a strong product-market fit, such as customer satisfaction, repeat business, and low churn rates, is a positive indicator for venture capital investment.

According to R17 indicated a clear use of funds, SMEs should have a well-defined plan for how they will use the venture capital funds. Investors want to ensure that the capital will be deployed effectively to achieve key milestones. Legal and Regulatory Compliance, companies must demonstrate compliance with legal and regulatory requirements in their industry and region to mitigate risks associated with legal challenges. Risk Assessment, Investors assess the risks associated with the business, including market, technology, competition, and operational risks. A clear understanding of these risks and mitigation strategies is important. Financial Projections, SMEs should provide realistic and well-documented financial projections, including revenue forecasts, expense estimates, and cash flow projections.

According to 7 respondents indicated that, success in the financial performance of an SME is influenced by a combination of factors, including, Execution: The ability of the SME's management team to effectively execute their business plan, meet milestones, and adapt to changing market conditions is a critical factor in financial performance.

According to R6 indicated market dynamics, market conditions and competitive landscapes can impact an SME's ability to generate revenue and profitability. Factors like shifts in consumer preferences, economic downturns, or changes in industry regulations can affect financial performance. Operational Efficiency, the ability to manage costs, optimize operational processes, and maintain efficient resource allocation can impact profitability.

According to R79 indicated customer acquisition and retention, attracting and retaining customers is essential for revenue growth. High customer acquisition costs and low customer retention rates can challenge financial performance. Product Development, Continued innovation and product development are important for maintaining a competitive edge and growing market share. Adaptability, the agility and adaptability of the SME in response to changing market conditions and customer feedback can affect long-term success. Financial management, effective financial management, including budgeting, cash flow management, and financial discipline, is crucial for achieving and sustaining financial success. External factors, economic conditions, industry trends, and regulatory changes can impact the performance of an SME.

According to R66 indicated competition, the level of competition and the ability to differentiate the SME's offerings from competitors can influence financial performance. Management Decision-Making, strategic decision-making, including how to allocate resources, expand into new markets, and develop new products, plays a pivotal role in determining financial success. Customer demand, the level of demand for the SME's products or services, which may vary over time, can impact revenue and profitability.

According to 71 respondents indicated that, Venture capital firms typically don't impose a pre-planned structure or system on how SMEs should manage their business after receiving funding while 29 respondents indicated that Venture capital firms typically impose a pre-planned structure. However, venture capital investors often work closely with the SMEs they invest in to provide guidance, support, and strategic input. This collaboration involves various elements but is typically customized to the specific needs and circumstances of the SME.

According to the respondents it was found that, 14 respondents indicated that, it was not involved in the business after SME receives funding, 68 respondents indicated that, it was involved in the business after SME receives funding, and 18 respondents indicated that, it was highly involved in the business after SME receives funding

According to the respondents they said yes, venture capital (VC) firms often assign individuals from their team to monitor the operations and provide support to the SME (Small and Medium-sized Enterprise) after providing funding. The extent and nature of this monitoring and support can vary depending on the VC firm's practices, the terms of the investment agreement, and the specific needs of the SME. Here are some common roles and responsibilities of VC team members in post-funding monitoring:

According to R4 indicated board of directors, venture capitalists often take a seat on the board of directors of the funded SME. Board members, including VC representatives, participate in key decision-making processes, provide strategic input, and monitor the company's overall performance. Strategic Guidance, VC team members, including partners and associates, may offer strategic guidance to the SME. They can help in setting objectives, defining growth strategies, and identifying areas of improvement. Operational Support, VC team members may offer operational support, including identifying operational efficiencies, recommending process improvements, and assisting with hiring key personnel.

According to R29 indicated financial oversight, VC firms often provide financial oversight and guidance. They help SMEs manage their financials, allocate capital effectively, and make informed financial decisions. Mentorship, VC team members may act as mentors or connect SMEs with experienced mentors in their network. This mentorship can be valuable in addressing business challenges and making informed decisions. Network and Connections, venture capitalists often introduce SMEs to their network of contacts, which can include potential customers, partners, and other investors. These connections can help the SME expand its business and access valuable resources.

Moreover, venture capital firms typically have systems and processes in place to monitor the financial performance of SMEs (Small and Medium-sized Enterprises) that have received funding. These systems are designed to provide ongoing visibility into the financial health and progress of the invested companies. While the specific systems and tools used can vary by VC firm, here are some common methods and mechanisms for monitoring the financial performance of SMEs:

According to R6 indicated regular reporting, VC firms often require SMEs to provide regular financial reports, which may include income statements, balance sheets, cash flow statements, and other financial documents. These reports are typically submitted on a monthly, quarterly, or annual basis, depending on the terms of the investment agreement. Key Performance Indicators (KPIs): VC firms work with SMEs to define and track key performance indicators that are critical to the business's success. These KPIs can include revenue growth, customer acquisition costs, customer lifetime value, gross margins, and other relevant metrics.

According to R11 indicated financial audits, some VC firms may conduct financial audits of the SME to ensure accuracy and compliance with financial reporting standards. These audits help verify the financial health of the company. Budget and Financial Projections, SMEs often provide annual budgets and financial projections to the VC firm, which are used for performance evaluation and to track progress toward financial goals. Financial Management Tools: VC firms may provide financial management tools or software platforms to SMEs to facilitate financial reporting, budgeting, and financial analysis. Financial Performance Meetings, VC firms and SME management teams may hold regular meetings to discuss financial performance, review financial reports, and address any concerns or areas for improvement.

According to R13 indicated Financial Benchmarking, VC firms may compare the financial performance of the SME to industry benchmarks and best practices to assess the company's relative performance. Cash Flow Monitoring, monitoring cash flow is critical for SMEs, and VC firms often pay close attention to cash flow management. They want to ensure that the company has the liquidity needed to meet its operational and growth requirements. Operational Efficiency Analysis, VC firms may assess the efficiency of the SME's operations to identify opportunities for cost reduction and process improvement. Profitability Analysis, VC firms focus on assessing the profitability of the SME, including gross and net profit margins, to gauge the company's financial sustainability. Growth Analysis, VC firms closely monitor revenue growth, market expansion, and customer acquisition to evaluate the success of the growth strategies outlined in the business plan. Risk Assessment, VC firms evaluate and assess risks related to the financial performance of the SME, including market risks, competition, operational risks, and financial stability.

The systems and processes that venture capital (VC) firms use to monitor the financial performance of SMEs (Small and Medium-sized Enterprises) can have a significant influence on the financial performance of the SME. Here are some ways in which these systems can impact financial performance:

According to R23 indicated transparency and accountability, by requiring regular financial reporting and transparency, VC firms promote accountability within the SME. This can lead to better financial management practices and more accurate financial reporting, reducing the likelihood of financial mismanagement. Strategic Guidance, VC firms often provide strategic guidance and recommendations based on their analysis of the SME's financial performance. This guidance can help SMEs make informed decisions about resource allocation, cost management, revenue growth, and profitability. Operational Efficiency, VC firms may identify operational inefficiencies and areas for improvement in the SME's financial operations. This can lead to cost reductions and more efficient resource allocation, which, in turn, can improve profitability.

According to R13 indicated budget adherence, VC firms review budgets and financial projections. Encouraging SMEs to adhere to budgets and meet financial targets can lead to better financial discipline and the achievement of financial goals. Performance Metrics, Monitoring key performance indicators (KPIs) allows both the VC firm and the SME to track progress toward financial and growth objectives. This focus on performance metrics can motivate the SME to achieve better financial results. Risk Mitigation, VC firms assess and help SMEs mitigate financial and operational risks. By addressing potential risks early, the SME can avoid financial setbacks and maintain financial stability. Strategic Decision-Making, Financial performance analysis and reporting can inform strategic decision-making. VC-backed SMEs can make data-driven decisions to allocate resources more effectively and pursue growth opportunities.

According to R17 indicated access to Capital, improved financial performance and transparency can make SMEs more attractive to additional sources of funding beyond the VC investment. This access to capital can support further growth and financial stability. Exit Planning, VC firms work with SMEs to plan for exit strategies, such as initial public offerings (IPOs) or acquisitions. This planning can influence the timing and success of these liquidity events, which have a significant impact on financial performance. Financial Benchmarking, VC firms may use financial benchmarking to compare the SME's financial performance to industry standards. This can identify areas where the SME may need to improve its financial results to remain competitive.

CHAPTER 5

5.0 DISCUSSION OF THE RESULTS

This chapter begins by discussing the results in chapter four of the study then compared with other studies on the Role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia. The discussion was done according to the research objectives of the study and compared with other authors on similar studies.

5.1 The influence of venture capital financing in promoting the performance of start-up SMEs in Lusaka, Zambia.

From this objective, the findings of the study were that, majority of the respondents strongly agreed with the statements that, Venture capital financing provides SMEs with the necessary capital to fuel rapid expansion, allowing them to scale their operations, enter new markets, and capitalize on growth opportunities that might be unattainable through traditional funding sources, Venture capital funding encourages SMEs to invest in innovation and research and development (R&D), and Beyond capital, venture capitalists often bring valuable industry expertise, strategic guidance, and extensive networks to the table with a mean score of 4.81, 4.74 and 4.58 respectively. In addition, other respondents agreed with the statement that, Venture capitalists often require a detailed business plan and strategic vision before providing funding, Successful venture capital funding rounds can significantly increase the valuation of SMEs and Venture capitalists often require a detailed business plan and strategic vision before providing funding with the mean score of 4.46, 4.23 and 4.17 respectively. Based on the findings of this study it is appropriate to use venture capital funding to boost the performance of SMEs.

The study also found that, the effect was acceleration of performance, venture capital often provides funding that allows a company to accelerate its growth. With more resources, a company expanded its operations, increased market reach, developed new products or services, and improved marketing efforts. This growth led to increased revenue and, potentially, profits.
According to R5 indicated, market expansion, venture capital supports a company's expansion into new markets or geographic regions. If executed effectively, this expansion resulted in increased sales and, consequently, higher profits.

According to R33 mentioned of Product Development, with additional capital, a company invested in research and development to create innovative products or enhance existing ones. These new or improved offerings attracted more customers and generated higher profits. Apart from that, R99 indicated efficiency improvements, venture capital was used to invest in operational efficiency, automation, and cost reduction strategies. This led to higher profit margins by reducing costs while maintaining or increasing revenue.

According to R28 mentioned of customer acquisition, venture capital was used to invest in marketing and sales efforts, which resulted in acquiring more customers and increasing revenue and profits. However, R39 added that, it's essential to consider that the impact on profits can vary widely depending on the specific business, its industry, market conditions, and how the venture capital is used. While venture capital can fuel growth and ultimately lead to higher profits, it may also involve dilution of ownership for the founders and come with the expectation of continued high growth. In some cases, companies may prioritize growth over short-term profitability, so the immediate impact on profits may not be significant. Ultimately, the positive effect on profits within one year is contingent on how the venture capital is strategically deployed and how well the company can execute its growth plans.

According to R39, venture capital financing plays a crucial role in promoting the growth and performance of Small and Medium-sized Enterprises (SMEs) in Lusaka, Zambia.

According to R20 indicated access to capital for expansion, SMEs in Lusaka often face challenges in accessing the necessary capital for growth and expansion. Venture capital provides an alternative source of funding that can fuel innovation and expansion, allowing SMEs to invest in new technology, marketing, and talent. This infusion of capital can lead to increased market share, revenue growth, and improved performance.

However, R17 mentioned Strategic Guidance and Mentorship, venture capitalists not only provide financial support but also bring valuable expertise and guidance to the table. SMEs in Lusaka benefit from the experience and network of venture capitalists, helping them make informed decisions, enter new markets, and navigate challenges. This mentorship can contribute to improved business performance and long-term sustainability.

R15 indicated economic impact and job creation, by facilitating the growth of SMEs, venture capital financing contributes to the economic development of Lusaka and Zambia as a whole. As these businesses expand, they often create new job opportunities and stimulate economic activity within the region. The growth of SMEs can have a positive ripple effect on local communities and the overall economic performance of the area.

These results are supported by the results of Hellmann and Puri (2016), who did a study on the role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Russia, where they included structuring internal organisation and appropriate human resources management by developing themes, the results were that venture capitalists help add value to professionalization in the firm and generally the professionalization of the firm is the main benefit from venture capital financing. Apart from that, the study established that venture capital funding has a significant and positive impact on the growth and performance of SMEs.

The results were also in line with the results of Hellmann and Puri (2002) who did a study on the role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Canada, offered a good explanation of the process of professionalization. Besides above mentioned features, they point out the speed of developing and bringing ambitious product to the market by venture-backed companies. This is crucial to achieve market leadership, especially among innovative firms. It was also found that, venture capital accelerates growth by providing the financial resources necessary for expanding operations, increasing market reach, developing new products, and improving marketing efforts.

The results were also supported by the results of Jensen and Meckling (2019) who did a study on the role of role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Australia, it was found that, venture-backed companies are, in fact, found to pursue more radical and ambitious product or process innovations than other companies in other words, they grow and perform well. It was further found that, market expansion and product development are key areas where venture capital plays a pivotal role.

The results were also in line with the results of Makar (2019) who did a study on the role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) in Egypt. I n his study he found that, venture capital funding enhances efficiency, automation, and cost reduction strategies, which lead to higher profit margins. Moreover, venture capital investments in marketing and sales efforts result in acquiring more customers and increasing revenue.

The results were further in line with the results of Jangosi (2020) who did a study in Kenya on the role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs). In his study he found that, the positive effect on profits is, however, contingent on strategic deployment and the company's ability to execute its growth plans. While venture capital can fuel growth and profitability, it may involve dilution of ownership and a focus on long-term growth. The economic impact includes job creation, contributing to the overall development of Lusaka and Zambia as a whole.

The findings of the study indicate strong support for the positive impact of venture capital funding on the growth and performance of SMEs in Lusaka, Zambia. Respondents agreed that venture capital financing provides SMEs with the necessary capital to fuel rapid expansion, allowing them to scale operations, enter new markets, and capitalize on growth opportunities that may be unattainable through traditional funding sources. Additionally, venture capital encourages SMEs to invest in innovation and research and development (R&D), while also providing valuable industry expertise, strategic guidance, and extensive networks.

The study also found that venture capital funding accelerates the performance of SMEs by supporting various aspects of growth. This includes market expansion into new geographic regions, product development through investment in R&D, efficiency improvements through automation and cost reduction strategies, and customer acquisition through enhanced marketing and sales efforts. These findings are consistent with existing literature, as highlighted by Hellmann and Puri (2016), Hellmann and Puri (2002), Jensen and Meckling (2019), Makar (2019), and Jangosi (2020), who also observed similar positive effects of venture capital funding on SME growth and performance in different contexts such as Russia, Canada, Australia, and Egypt.

Furthermore, the study emphasizes the broader economic impact of venture capital financing, including job creation and overall economic development in Lusaka and Zambia. This aligns with the findings of previous studies, suggesting that the positive effects of venture capital extend beyond individual SMEs to contribute to the growth and sustainability of the local economy.

To enhance this section, direct comparisons to the findings of the literature review could be provided. For example, the study's findings on market expansion and product development could be compared to similar findings in the literature review to highlight consistencies and reinforce the validity of the study's conclusions. Additionally, discussing how the study's findings build upon and contribute to the existing body of literature would further strengthen the analysis and provide a more comprehensive understanding of the impact of venture capital funding on SME growth and performance.

5.2 The relationship between venture capital funding and other sources of finance for start-up SMEs in Lusaka, Zambia

The study found that, majority of the respondents strongly agreed with the statements that, Venture capital funding often complements other sources of finance for SMEs, such as bank loans, angel investors, or government grants. This diversified funding approach allows SMEs to mitigate risks and access a variety of financial resources to support their different needs, Venture capital funding often goes hand-in-hand with strategic partnerships and investments from corporate entities. SMEs can benefit from the expertise and resources of these corporate investors, creating a synergy that enhances the overall financial stability and growth prospects of the business, and SMEs can strategically combine venture capital funding with debt financing to optimize their capital structure. While venture capital provides equity capital, debt financing, such as loans, allows SMEs to leverage their assets and maintain a balanced mix of debt and equity, optimizing their financial structure. This focus on relationship directly influences SMEs performance by enabling them to achieve more in less time with a mean score of 4.92, 4.87, and 4.72 respectively. Moreover, other respondents agreed with the statement that, SMEs may also leverage government grants and subsidies in conjunction with venture capital funding. Government support can provide additional financial incentives, reduce financial burdens, and create a supportive ecosystem for SMEs to thrive alongside venture capital backing and Venture capital funding frequently follows initial seed funding from founders, friends and family, or angel investors. This early-stage funding helps SMEs establish their viability and attract subsequent venture capital investment, creating a continuum of financial support crucial for sustained growth with a mean score of 4.20 and 4.02 respectively. Therefore, based on the findings of this study it is appropriate to use the relationship between venture capital funding and other sources of finance for SMEs to enhance SMEs performance.

The study inferred that venture capital funding have a positive impact on SMEs in Lusaka, Zambia, and their ability to attract other sources of finance. According to the respondents, here's the relationship between venture capital funding and other sources of finance for SMEs in Lusaka, Zambia.

According to R66 indicated validation and credibility, venture capital funding serves as a strong validation of an SME's business model, management team, and growth potential. This validation can enhance the SME's credibility in the eyes of other investors, making it more attractive to them.

According to R18 indicated access to networks, venture capital firms often have extensive networks within the business and investment community. These networks are leveraged to introduce SMEs to other potential investors, facilitating connections that leads to additional funding opportunities.

Respondent number 99 indicated operational support and guidance, venture capitalists not only provide financial support but also strategic guidance and operational support to their portfolio companies. This support helps SMEs achieve key milestones and demonstrate their potential to other investors.

Respondent number 71 indicated due diligence assistance, the due diligence conducted by venture capital firms benefits other investors. It provides valuable information and analysis on the SME, which expedite the due diligence process for subsequent investors.

According to R12 indicated positive signalling, venture capital funding serves as a positive signal to other investors, including angel investors, corporate venture capital, and institutional investors. This signalling instils confidence in the SME, leading to increased interest from other sources of finance.

According to R65 indicated liquidity events, venture capital funding often plays a role in the growth of an SME and contributes to its eventual exit through an initial public offering (IPO) or acquisition. These liquidity events attract interest from other investors seeking to participate in a successful exit.

According to R16 indicated that, venture capital funding act as a catalyst for SMEs in Lusaka, Zambia, to attract additional sources of finance. The validation, support, networks, and signaling associated with venture capital investments enhances the SME's credibility and visibility in the broader investment community, making it more appealing to other investors.

These results were in line with the results of Mead and Liedholm (2018) who did a study on the Relationship between venture capital and other sources of finance in five African countries

(Botswana, Kenya, Malawi, Swaziland, and Zimbabwe) found that, that venture capital funding positively influences SMEs' ability to attract other sources of finance.

The results were also in line with the results of Memba et al. (2012) who did a study on the relationship between venture capital and other sources of finance in Egypt and found that, venture capital funding acts as a strong validation of the business model, management team, and growth potential. Venture capitalists bring valuable networks to the table, introducing SMEs to other potential investors. The analysis concluded that SMEs that use venture capital financial experience other sources of finances which improved growth and thus more SMEs should be encouraged to use this form of finance if the country has to achieve its vision 2030.

The results were supported by the results of Katenga (2021) from Uganda on the relationship between venture capital and other sources of finance and found that, on operational support, due diligence assistance, and positive signaling make SMEs more attractive to other sources of finance. Moreover, venture capital investments often lead to liquidity events.

The results were in line with the results of Kayuki (2019) from Tanzania on the relationship between venture capital and other sources of finance and found that, venture capital funding attracts interest from other investors. This validates the role of venture capital in promoting SME growth and access to diverse sources of finance.

Furthermore, the results were in line with the results of Murithi (2020) who assessed the role of Venture Capital Funding on the Growth and Performance of Small and Medium-Sized Enterprises (SMEs) and the relationship between venture capital and other sources of finance among private equity firms in Nigeria. The study revealed that the venture capital financed firms in Nigeria had better growth and performance as compared to other firms without venture-capital financed firms. It also indicated that, on operational support, due diligence assistance, and positive signaling make SMEs more attractive to other sources of finance. Moreover, venture capital investments often lead to liquidity events.

The study's findings highlight the significant role of venture capital funding in complementing other sources of finance for SMEs in Lusaka, Zambia, which ultimately enhances SME performance. Respondents strongly agreed that venture capital financing allows SMEs to mitigate risks and access a variety of financial resources, including strategic partnerships and investments from corporate entities. Furthermore, venture capital funding often goes hand-in-hand with debt financing and government grants, creating a diversified funding approach that optimizes SMEs' financial structure and directly influences their performance.

Moreover, the study identified several mechanisms through which venture capital funding positively impacts SMEs' ability to attract other sources of finance:

Validation and credibility: Venture capital funding serves as a strong validation of an SME's business model and management team, enhancing its credibility in the eyes of other investors.

Access to networks: Venture capital firms leverage their extensive networks to introduce SMEs to other potential investors, facilitating connections that lead to additional funding opportunities.

Operational support and guidance: Venture capitalists provide strategic guidance and operational support to their portfolio companies, helping SMEs achieve key milestones and demonstrate their potential to other investors.

Due diligence assistance: The due diligence conducted by venture capital firms benefits other investors by providing valuable information and analysis on the SME, expediting the due diligence process for subsequent investors.

Positive signaling: Venture capital funding serves as a positive signal to other investors, instilling confidence in the SME and increasing interest from other sources of finance.

Liquidity events: Venture capital funding often contributes to an SME's eventual exit through an IPO or acquisition, attracting interest from other investors seeking to participate in a successful exit.

These findings are consistent with existing literature, as highlighted by Mead and Liedholm (2018), Memba et al. (2012), Katenga (2021), Kayuki (2019), and Murithi (2020). These studies also observed similar positive relationships between venture capital funding and SMEs' ability to attract other sources of finance in various contexts, including African countries like Egypt, Uganda, Tanzania, and Nigeria.

To enhance this section, direct comparisons to the literature review findings could be provided to strengthen the analysis further. Specifically, discussing how the study's findings build upon and contribute to the existing body of literature on the relationship between venture capital funding and other sources of finance for SMEs would provide a more comprehensive understanding of the topic. Additionally, highlighting any unique insights or contributions of the current study to the literature could add depth to the analysis.

5.3 The impact of financial management skills, including challenges faced, on the performance of start-up SMEs

The study also found that, financial management skills play a crucial role in enhancing the performance of start-up SMEs in Lusaka, Zambia, as they do in businesses worldwide.

According to R6 indicated resource allocation, effective financial management skills enable start-up SMEs to allocate resources efficiently. This includes managing cash flow, optimizing working capital, and allocating funds to areas that drive growth, such as product development, marketing, and talent acquisition. Budgeting, creating and adhering to budgets is essential for managing expenses and ensuring that financial resources are used strategically. Budgets help start-ups set financial goals, track performance, and make informed financial decisions. Cash flow management, proper cash flow management is vital for start-ups, as it ensures that there is enough liquidity to cover daily operational expenses and invest in growth opportunities. Financial management skills help in forecasting cash flow, managing accounts receivable and payable, and avoiding cash flow crises.

According to R12 indicated capital raising, financial management skills are crucial for attracting external funding, including venture capital, loans, or investment from angel investors. Start-up SMEs that can effectively communicate their financial needs, projections, and strategies are more likely to secure capital for growth. Profitability and sustainability, sound financial management contributes to profitability and long-term sustainability. Start-ups need to balance growth objectives with the goal of achieving and maintaining profitability to sustain operations. Financial reporting, accurate and timely financial reporting is essential for transparency and accountability. This practice builds trust with investors, stakeholders, and potential partners, which can lead to further financial support and business opportunities.

According to R25 indicated investor confidence, effective financial management instills confidence in investors and stakeholders. Start-ups with well-managed finances are more likely to attract investors and partners who are willing to contribute to the company's growth and expansion. Risk mitigation, financial management skills help in identifying and managing financial risks.

Start-ups can develop risk mitigation strategies to address potential challenges and minimize the impact of financial setbacks.

According to R49 indicated strategic decision-making, financial data and analysis are valuable tools for strategic decision-making. Start-ups with strong financial management skills can make data-driven decisions that guide the company's growth strategy. Access to Credit and Financing, financial management skills improve creditworthiness and access to financing options. Start-ups with well-maintained financial records are more likely to secure loans and lines of credit to support expansion. Tax Compliance, complying with tax regulations and optimizing tax strategies are essential for managing financial resources. Start-ups that effectively navigate tax laws can reduce tax liabilities and reinvest savings into business growth.

These results were in line with the results of Soderblom (2018), who did a study in Rwanda on his qualitative study on the role of financial management skills, it was found that effective financial management skills enable efficient resource allocation, cash flow management, budgeting, and financial reporting in the country.

The results were also in line with the results of Baldwin and Rafiquzzaman (2020) who did a study on the role of financial management skills on the growth and performance of SMEs in Malawi, it was found that, financial management skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance. Financial management contributes to long-term sustainability, balancing growth objectives with profitability.

Furthermore, the results were supported by the results of Phalippou and Gottschalg (2019) who did a study in Zambia on the role of venture capital and financial management skills on the growth and performance of SMEs, this research applied qualitative research to find out more about the role of venture capital and financial management skills as a driver of growth and performance of SMEs in Zambia, it was found that, hence VC investor needs to have the ability to select funds with the potential to deliver attractive returns and that, financial management skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance.

The study also found that, it was found that, 71 respondents indicated that, they have hired financial experts after receiving the venture capital. However, the respondents indicated that, they face challenges by start-up SMEs in Lusaka, Zambia in accessing venture capital funding. Start-up SMEs in Lusaka, Zambia, face several challenges when trying to access venture capital funding. These challenges can vary, but some common issues include.

According to R2 indicated limited access to venture capital firms, Lusaka, Zambia, have a limited number of venture capital firms, making it challenging for start-ups to find suitable investors. The lack of local venture capital firms can mean limited opportunities for funding.

According to R25 indicated lack of awareness, many start-ups are not aware of the existence or benefits of venture capital funding. They do not know how to access these opportunities or how to navigate the venture capital landscape. He added that, the start-up ecosystem in Lusaka may be underdeveloped compared to more established hubs. A lack of supporting infrastructure, mentorship networks, and startup incubators can hinder access to venture capital.

According to R49 indicated scalability concerns, venture capitalists typically seek businesses with high growth potential and the ability to scale quickly. Some start-ups struggle to demonstrate this potential, which is a barrier to securing funding. Many start-ups lack a significant track record, making it difficult to build trust with investors. Venture capitalists often seek businesses with a proven history of performance or clear indicators of future success.

According to R13 indicated regulatory and legal hurdles, regulatory and legal challenges, such as complex business registration processes or investment regulations, can make it more difficult for start-ups to attract venture capital. Venture capital investors are often willing to take on higher risk, but they also seek returns commensurate with that risk. Start-ups may face difficulties in convincing investors that the potential rewards outweigh the risk. Some start-ups are not adequately prepared to pitch their business to investors. This includes having a well-developed business plan, financial projections, and a clear value proposition.

According to R36 indicated market size, the size of the market in Lusaka and Zambia may be a limiting factor for certain types of start-ups. Investors may be concerned about the scalability and potential market reach of businesses in this context. Networking plays a crucial role in securing venture capital. Start-ups with limited connections to the investor community may find it challenging to access funding.

According to R18 indicated valuation issues, start-ups and venture capitalists have differing valuations of the business. Negotiating a fair valuation are hurdles in securing funding. Venture capitalists typically expect an exit event, such as an IPO or acquisition, as a part of their investment. Start-ups may struggle to provide a clear exit strategy that aligns with investor expectations.

According to R94 indicated on how to overcome these challenges, however, to overcome these challenges, start-up SMEs in Lusaka, Zambia, should work on building a strong business case, improving their pitch, expanding their networks, and seeking support from local entrepreneurship and innovation ecosystems. Government initiatives, educational programs, and mentorship opportunities can also play a role in supporting start-ups in their quest for venture capital funding. Additionally, R20 indicated demonstrating a clear understanding of the local and regional market opportunities and how the business can address them is essential for attracting investors' interest.

These results were in line with the results of Megginso (2021) who did a study in India on the challenges faced by start-up SMEs in Accessing Venture Capital funding it was found that, start-up SMEs faces challenges in accessing this form of funding. Common hurdles include limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges.

These results were in line with the results of Megginso (2021) who did a study in Zambia and Zimbabwe, on the challenges faced by start-up SMEs in Accessing Venture Capital funding, it was found that, between 70% and 90% start-ups fail within five years because limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges. However, the presence of venture capital in the capital structure of SMEs has greatly contributed to the reduced failure. It is not only the viability of business that determines whether the venture capitalist will fund a venture.

The results were also supported by the results of Kiungu (2020), who did a study on the challenges faced by start-up SMEs in Accessing Venture Capital funding in Zambia, it was found that, limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges were among the challenges. The study further, indicated on how to address these challenges, it indicated that, start-up SMEs should focus on building a strong business case, improving their pitch, expanding networks, seeking support from local entrepreneurship ecosystems, and enhancing their understanding of the local market. Government initiatives, educational programs, and mentorship can provide valuable support.

The study's findings underscore the critical importance of financial management skills in enhancing the performance of start-up SMEs in Lusaka, Zambia, aligning with observations from various contexts worldwide. The results highlight several key aspects where effective financial management skills positively impact start-up performance:

Resource allocation: Efficient resource allocation facilitated by sound financial management skills enables start-up SMEs to manage cash flow, optimize working capital, and allocate funds strategically to areas crucial for growth, such as product development, marketing, and talent acquisition.

Capital raising: Effective communication of financial needs, projections, and strategies enhances start-up SMEs' ability to attract external funding, including venture capital, loans, or investments from angel investors.

Profitability and sustainability: Balancing growth objectives with profitability contributes to long-term sustainability, and sound financial management plays a pivotal role in achieving this balance.

Investor confidence: Well-managed finances instil confidence in investors and stakeholders, increasing the likelihood of attracting financial support for the company's growth and expansion.

Risk mitigation: Financial management skills aid in identifying and managing financial risks, allowing start-ups to develop strategies to address potential challenges and minimize the impact of setbacks.

Strategic decision-making: Data-driven decision-making guided by financial data and analysis empowers start-ups to make strategic decisions that drive growth and enhance performance.

Access to credit and financing: Strong financial management skills improve creditworthiness and access to financing options, enabling start-ups to secure loans and lines of credit to support expansion.

Tax compliance: Effective navigation of tax regulations and optimization of tax strategies are essential for managing financial resources efficiently and reinvesting savings into business growth.

These findings align with similar observations from existing literature, as evidenced by studies conducted in Rwanda, Malawi, and Zambia. For example, Soderblom (2018) found that effective financial management skills enable efficient resource allocation, cash flow management, budgeting, and financial reporting in Rwanda. Similarly, Baldwin and Rafiquzzaman (2020) observed that financial management skills support various aspects of start-up growth and performance in Malawi, including capital raising, profitability, investor confidence, and risk mitigation.

Furthermore, the study identified several challenges faced by start-up SMEs in accessing venture capital funding in Lusaka, Zambia, including limited access to venture capital firms, lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, valuation issues, and market size limitations. These challenges are consistent with findings from studies conducted in other regions, such as India, Zimbabwe, and Tanzania, highlighting the universal nature of barriers encountered by start-ups seeking venture capital funding.

To strengthen the analysis, direct comparisons to the literature review findings could be provided, demonstrating how the study's results build upon and contribute to the existing body of knowledge on financial management skills and venture capital funding for start-up SMEs. Additionally, discussing specific strategies and recommendations outlined in the literature for overcoming these challenges could offer practical insights for addressing similar issues in Lusaka, Zambia, and other regions.

5.4 Publication

This research was published on June 28, 2024, in the American Journal of Industrial and Business Management, volume 14, pages 919 - 930, under the title " The Role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia: A Case

Study." The publication can be accessed via DOI: https://doi.org/10.4236/ajibm.2024.146047. The first page of the manuscript is available in **Appendix 4**.

CHAPTER 6

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

The purpose of the study was to investigate the Role of Venture Capital Funding on the Performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia. In conclusion, this study explored the role of venture capital funding in promoting the performance of Small and Medium-Sized Enterprises (SMEs) in Lusaka, Zambia. The findings revealed several key insights.

The influence of Venture Capital Financing

The study established that venture capital funding has a significant and positive impact on the performance of SMEs in Lusaka, Zambia. Venture capital accelerates growth by providing the financial resources necessary for expanding operations, increasing market reach, developing new products, and improving marketing efforts. Market expansion and product development are key areas where venture capital plays a pivotal role. Additionally, it enhances efficiency, automation, and cost reduction strategies, which lead to higher profit margins. Moreover, venture capital investments in marketing and sales efforts result in acquiring more customers and increasing revenue.

This positive effect on profits is, however, contingent on strategic deployment and the company's ability to execute its growth plans. While venture capital can fuel growth and profitability, it may involve dilution of ownership and a focus on long-term growth. The economic impact includes job creation, contributing to the overall development of Lusaka and Zambia as a whole.

The Relationship between venture capital and other sources of finance

The study showed that venture capital funding positively influences SMEs' ability to attract other sources of finance. It acts as a strong validation of the business model, management team, and growth potential. Venture capitalists bring valuable networks to the table, introducing SMEs to other potential investors. Operational support, due diligence assistance, and positive signalling make SMEs more attractive to other sources of finance. Moreover, venture capital investments often lead to liquidity events, further attracting interest from other investors. This validates the role of venture capital in promoting SME growth and access to diverse sources of finance.

Financial management skills, including challenges faced, on the performance of start-up SMEs

The research highlighted the critical role of financial management skills in enhancing the growth and performance of start-up SMEs in Lusaka, Zambia. Effective financial management skills enable efficient resource allocation, cash flow management, budgeting, and financial reporting. These skills support capital raising, profitability, investor confidence, risk mitigation, strategic decision-making, access to credit and financing, and tax compliance. Financial management contributes to long-term sustainability, balancing growth objectives with profitability.

While venture capital offers significant opportunities, start-up SMEs in Lusaka, Zambia face challenges in accessing this form of funding. Common hurdles include limited access to venture capital firms, a lack of awareness about venture capital, scalability concerns, regulatory and legal hurdles, limited track records, valuation issues, and market size limitations. Networking and negotiation skills are essential in overcoming these challenges.

To address these issues, start-up SMEs should focus on building a strong business case, improving their pitch, expanding networks, seeking support from local entrepreneurship ecosystems, and enhancing their understanding of the local market. Government initiatives, educational programs, and mentorship can provide valuable support.

In conclusion, this study underscores the significant role that venture capital plays in promoting SME growth in Lusaka, Zambia. While challenges exist, a proactive approach and strong financial management skills can help SMEs leverage venture capital opportunities and ultimately contribute to economic development in the region. The findings of this study provide valuable insights for policymakers, investors, and entrepreneurs looking to support and engage with SMEs in Lusaka, Zambia.

6.2 Recommendations

Objective 1 - The Potential of Venture Capital Financing.

The study recommended to develop growth-centric business plans, start-up SMEs in Lusaka, Zambia should focus on creating business plans that emphasize rapid growth strategies.

For Objective 2 - The Relationship between Venture Capital Funding and Other Sources of Finance.

The study recommended to enhance investor confidence, SMEs should leverage venture capital funding as a validation of their business model and growth potential.

Objective 3 – The financial management skills, including challenges faced, on the performance of start-up SMEs

The study recommended to invest in financial management training, start-up SMEs should invest in financial management skills training for their teams.

6.3 Suggestions for future Research

Objective 1 - The Potential of Venture Capital Financing

The study recommended that a further research should investigate the long-term impact, conduct a longitudinal study to assess the long-term impact of venture capital funding on SMEs in Lusaka, Zambia. This research could explore how venture capital-backed SMEs perform several years after receiving funding, including aspects such as sustained growth, profitability, and market leadership.

Objective 2 - The Relationship between Venture Capital Funding and Other Sources of Finance

The study recommended that a further research should explore industry-specific dynamics, further research could delve into industry-specific dynamics and how venture capital funding interacts with other financing sources across various sectors in Lusaka, Zambia.

Objective 3 - The financial management skills, including challenges faced, on the performance of start-up SMEs

The study recommended that a further research should analyze the effect of various financial management training programs, investigate the effectiveness of different financial management training programs and courses in enhancing the financial skills of start-up SMEs in Lusaka. This research could provide insights into the most beneficial types of training for these businesses.

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