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Venture Capital Finance as an Antidote to Diminuting SMEs

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Abstract

Theaimof the research was to determine venture capital finance's capacity to promote the growth of Small to Medium Enterprises (SMEs) in Zimbabwe. In thestudy, three policy makers, five venture capitalists and fourteen SMEs that have used venture capital finance were used as research subjects. In the study, explanatory research design was usedas methodology in order to investigate the subjects. Descriptive statistics have been used to analyse the data. The findings of the study revealed that venture capital has the capacity to promote the growth of SMEs in Zimbabwe. Sales, profits, net assets and the employee's number were found to be on the increase after using venture capital by SMEs. In a bid to promote the use of venture capital in Zimbabwe, the study recommended that the government enacts venture capital investment friendly laws and policies, offers incentives for venture capital investors and comes up with regulations that encourage pension and insurance funds to invest in start-up businesses and SMEs.

Keywords: Business Incubation, Capital Accumulation, Sustainable Development Finance

JEL Classification: D92, M5, M21, G24, O2

Paper Classification: Research Paper

Introduction

The Venture Capital sector is quite intriguing both in its own right and as a proxy for entrepreneurial finance more broadly (Henrekson & Sanandaji, 2018). Wright (2005) pronounced venture capital as a medium-term equity investment or direct equity that has a clear exit strategy, in young privately held companies. The study took a focus on the capacity of Venture Capital (VC) financing as an alternative source of capital for the Small to Medium Enterprises (SMEs) to promote the growth of the sector in Zimbabwe, and relies on option based contracts to mitigate incentive problems (Henrekson and Sanandaji, 2018). Venture Capital falls within the private equity scope. Innovation, which is the centre for any SME, whilst being a catalyst for economic growth, is a source of many risks, ranging from its financing to its operation (Trabelsi, Shiri & Ozaygen, 2019). According to a Finscope survey (2012) in Zimbabwe, Small to Medium Enterprises used to contribute over 60% to Gross Domestic Product (GDP) of the economy. However, venture capital, angels and crowd funding tend to be significantly linked although

noticeable differences are exhibited between each investment level and stage for a particular organization (Wallmeroth, Wirtz & Groh, 2018).

Problem Statement

The small and medium enterprises have been said to be one of the answers to Zimbabwe's economic problems given the proper funding support.Business financing has remained one of the key managerial problem decisions that keep confronting SMEs in Zimbabwe today. Currently, the SMEs have almost $7.4 billion with a complement of 2.8 million owners and employing 2.9 million people.The SMEs in Zimbabwe have difficulties in accessing business financing that they hardly grow beyond start-up stage. Some SMEs go out of business at a very early stage. It is in view of the challenge faced by SMEs in accessing finance due to several reasons that venture capital financing has become a major source of finance in the developed world economies. Thus, proper shaping of venture capital financing is essential for the development of SMEs. In Zimbabwe, the venture capital market appears to be biased towards large corporates and paying little attention to SMEs. Can the venture capital financing be the answer to the financing and growth challenges of SMEs in Zimbabwe? Do the SMEs have what it takes to attract venture capital finance? Thus, this study pursues to explore the ability of venture capital financing as a financing option, to promote the growth of small to medium enterprises in Zimbabwe. The venture capital financing usage in SMEs is an important area to study to help SMEs regain their competitive strength in a tough fight against domestic and foreign competitors. The study looks to examine the ability of venture capital as a financing option to promote the declining growth of SMEs in Zimbabwe.

Literature Review

In recent years, attempts have been made to classify the newly emerged actors in entrepreneurial finance (Moritz, Block and Heinz, 2016; Block, Colombo, Cumming and Vismara, 2018; Kuebart, 2019). Thestudy supports the notion that venture capital finance are a backbone within the heterogeneous network of economic actors and it improves the wide spread of knowledge and accumulation as that can be found in Silicon Valley (Ferrary & Granovetter, 2009; Kuebart, 2019). Giuliodori, Matthews andMishkin, (2013) described venture capital as the equity used to finance start-up businesses or providing seed capital as in some cases. This description goes along with assertions of Bender and Ward (2009) and Metrick and Yasuda (2010) who argued that 'venture capitalists specialize in investing in new, untested, high-risk but high-potential start-up businesses by acquiring a controlling stake in the businesses they invest in and exit after they have realized significant returns, and, in most cases, they exit when the company goes public'. This literature has lacked enough conceptualisation of venture capital finance (Kuebart, 2019). Venture Capital finance, angel funding and crowd funding have evolved and matured in the field of entrepreneurial finance (Wallmeroth, Wirtz & Groh, 2019). These developments have been accompanied by a lot of finance research throughout the world markets(Wallmeroth et al, 2019).

Botazzi and Da Rin (2002) argue that, as professional investors, venture capitalists devote significant time and effort into understanding technological and market developments, and this enables them to perceive promising investments. Much literature body has looked like the various causes of the issues (Henrekson & Sanandaji, 2018). Venture Capital is a more sophisticated concept that works effectively with favourable economic climates and requires enough development financial planning, investor considerate security and enforcement of contracts (Henrekson & Sanandaji, 2018).

Jaaskelainen, (2012), and Metrickand Yasuda (2010) do agree that after investing venture capitalists will be actively involved in managing their investments by way of getting board representation as well as being actively involved in the day-to-day management of the businesses. Kaplan and Strömberg (2004) pointed out that venture capital investors apparently perform a key coaching function to the benefit of portfolio firms. They provide advice to the portfolio companies in such areas as strategic planning, finance and accounting, marketing and human resource management. It is in these fields that most of the SMEs usually lack core competencies. Hellmann and Puri (2002) assert 'that venture capital investors prefer to recruit external managers, adopt stock option plans, and the revision of human resource policies by the benefiting portfolio company'. This, they say, will contribute to professionalization of management.

In addition, Lindsey (2002) asserts that the portfolio companies stand to benefit from the network of social contacts of venture capital financiers with prospective suppliers, customers, alliance partners, and specialized service providers such as accounting, legal, head hunting, as well as public relation services. Many authors have supported the view that the use of traditional tools utilized in financial markets (loans, debt instruments for example) do not bring in much funding for them to invest in long term projects, these include Kiriazidis (2003), Pfirrmann et al (2012), Kormishkin et al (2016), Vovchenko et al (2017), Theriou (2015) and Thalassinos et al (2015). 'This is due to the fact that under present conditions of financial economic instability credit risk, as well the risk of an SME business failing to meet other financial obligations, is quite high' (Lyansnikov, 2017).

Usually the drive for the need of venture capital in SMEs is risk and uncertainty within their operations (Herciu, 2017). Investors look at the well administered firms for them to carry out business and to make them more sustainable (WEF, 2016). The authors believe that in comparison to any other financing source, venture capital is one model that is highly accepted by these firms especially in developing countries, and many other SMEs dotted around the world. Venture Capital is more visibly practiced in major industrialized and developing countries; however, substantial cross-country differences in its magnitude continue to exist (Henrekson & Sanandaji, 2018). These risks as well as the entrepreneur's specialization, thus particular interest and experience on certain technologies and sectors and the nature of the firm's assets, lessen the possibility of accessing traditional financing resources via bank loans (Ferrary & Granovetter, 2009; Gomper & Lerner, 2000; Giudici & Paleari, 2000; Trabelsi, Shiri & Ozaygen, 2019). Alternatively, innovative SMEs may search for alternative funds and maybe inclined to seek the helpof financial experts willing to invest, often to a significant extent, in uncertain projects (Gompers & Lerner, 2001; Trabelsi, Shiri & Ozaygen, 2019).

Theoretical Framework: The Pecking Order Theory

For the purpose of this study, the Pecking Order Theory (POT), works as the hinging framework for the concept under scrutiny of Venture Capital finance. There are many theories and models which try to explain about the capital structure, including the trade-off theory and the Pecking Order Theory (POT) itself. Shymn-Sunder and Myers (1999) provide empirical evidence that supports the applicability of the theory in the study of SMEs' Venture Capital finance. Frank and Goyal (2003) referenced by Gunarsih and Hartadi (2011), in their research discovered empirical evidence that is inconsistent with the Pecking Order Theory (POT), especially in companies with small size such as SMEs. A study by Fama and French (2002) shows the evidence contrary to this. Numerous studies empirically, in the arena of finance have tested many theories for SMEs' financial structure and the Pecking Order Theory (POT) is one of the

most frequently applied and very influential (Gunarsih & Hartadi, 2011). Pecking Order Theory (POT) was originally developed by Myers (1984) and Myers and Majluf (1984), mainly based on informational asymmetries, state that firms do not typically aim at a target debt ratio, but their financing decisions follow a hierarchy, with a preference for internal over external finance and debt over equity (Balios, Daskalakis, Eriotis & Vasilliou, 2016). Further, Balios et al (2016), propounded that asymmetric information has generated various other approaches or dimensions such as the signaling theory by Ross (1977), and the market timing approach developed by Lucas and McDonald (1990) and Korajczyk, Lucas, and McDonald (1992). Precisely, the interpretation of the Pecking Order Theory (POT) by Lemmon, Roberts & Zender (2008) led to the concept of debt capacity, which suggests that SMEs should consider equity (Zafar, Wongsurawat & Camino, 2019). Less than 20% of the firms such as the SMEs follow the Pecking Order Theory (POT) prediction for debt and equity choices (Leary and Roberts, 2010; Zafar et al, 2019).

Methodology

Explanatory research design became the most appropriate design for the study due to the nature of the research objectives. The researchers engaged thirty five respondents, that is, three officials (one from each of these organizations) from, the Ministry of Industry Commerce and Enterprise Development (MICED) - SMEs sector (01), Zimbabwe Investment Authority (ZIA) (01) and the Reserve Bank of Zimbabwe (RBZ) (01); eight officials from Venture Capital investors as established by this research (08); and twenty four SMEs (24) who were involved with Venture Capital financing between the period 2013-2017 as was established through the Venture capitalists. This population is endowed with experts who were chosen from the related groups because they are acquainted with the subject of the research study. On the condition that the research design was explanatory and following mono choice, the researchers used cross sectional time horizon, since this works well in positive cahoots with the latter. The motivation for this was because the research is limited to a specific time frame. Thus, the target population was thirty-five (35). The target population was divided into three groups that are, the policy makers/regulators – MICED, ZIA and the RBZ, venture capital investors and SMEs. From a target population of thirty-five (35) a sample size of twenty-eight (28) was significant enough to conduct the study. Inasmuch as research techniques are concerned, the researchers used primary data, collecting it using a structured questionnaire (So, Parson and Yin, 2013). Based on probability sampling, respondents for the study were selected. The stratified probability sampling was applied in choosing SMEs. Two sources of data that were used in the study, namely primary (interviews) and secondary sources of data (SMEs and MICED records). The researchers used a self-administered questionnaire in which drop and pick system together with electronic mailing system were applied to ensure a higher response rate. Structured interviews were conducted face to face with the experts from the venture capital investors as well as officials from MICED, ZIA and the RBZ. After getting appointments with the relevant official, interviews were conducted according to the prior arrangements that would have been agreed, that is, either face to face or sending the interview questions by emails.In order to ensure validity and reliability of data collection tools the researchers used the triangulation concept (Cresswell, 2013; Cooper and Schindler, 2016).

Results and Discussions

The study focused on firms that have accessed venture capital and data was collected based on before using venture capital and after using venture capital finance. Thus, the results are presented in the capacity of venture capital financing to declining SMEs growth in Zimbabwe.

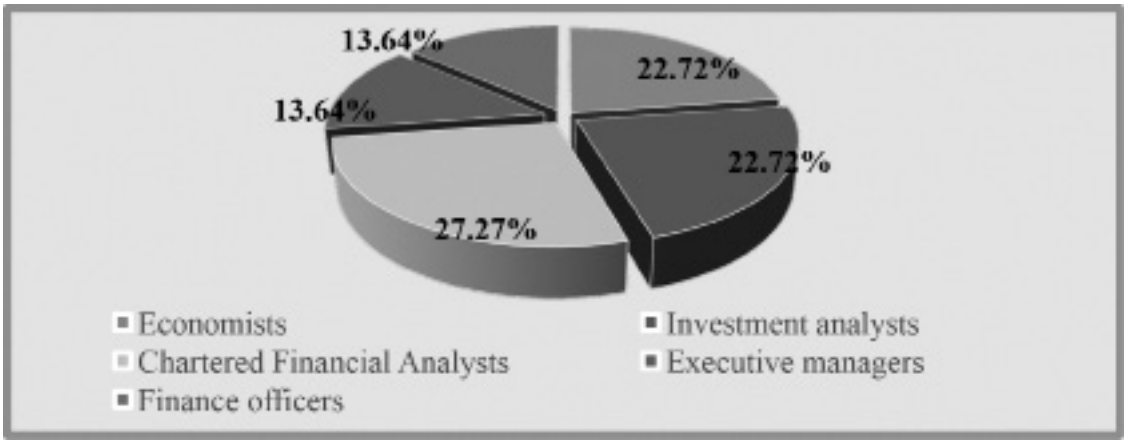
Table I: Response Analysis

Respondent(s)	Target Sample	Response	Total	Response rate as percentage (%)
MICED – (SMEs Sector)	1	1	1	100
ZIA	1	1	1	100
RBZ	1	1	1	100
Venture capitalists	5	5	5	100
SMEs	20	14	14	70
TOTAL	28	22	22	78.6

Source: Researchers' own (2019)

For the study a total of twenty-eight (28) research instruments were issued to the various respondents. Of the twenty-eight, three (3) respondents did not respond whilst three (3) of the instruments were discarded because they were incomplete thereby making them ineligible for the study. This showed a response rate of 78.6% and was statistically sufficient for further analysis.

Fig I: Demographic Analysis (Designations of Respondents)



Source: Researchers' own (2019)

Most of the participants were chartered financial analysts who constituted 27.27% whilst the economists and investment analysts were 22.72% each and the executive managers and finance officers formed 13.64% each in this survey.

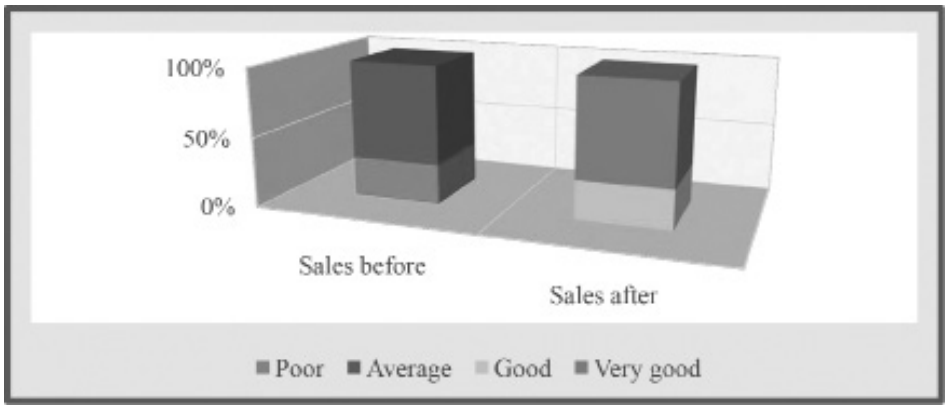
The Impact of Venture Capital on the Performance of SMEs.

The researchers used several variables to decide whether the use of venture capital by the SMEs has any impact on their performance either financially or non-financially. These include variables to measure performance: annual sales, annual profits, net assets as well as the number of workers employed. The basis for the analysis of these variables was before and after use of venture capital financing. This agrees with the view that, usually the drive for the need of venture capital in SMEs is risk and uncertainty within their operations (Herciu, 2017). Investors look at the well administered firms for them to carry out business and making them more sustainable (WEF, 2016).

Annual Sales Before and After Use of Venture Capital

Annuals sales were used as a measure to assess the impact of venture capital on growth of SMEs. The respondents were asked to indicate how their firms performed in terms of poor, average, good and very good based on before and after use of venture capital. The responses given were presented in Figure II:

Fig II: Annual Sales Before and After Use of Venture Capital



Source: Researchers' own (2019)

Figure II shows that 28.57% of the respondents reported that their companies were performing poorly in sales whilst 71.43% indicated that their sales performance was just average before using venture capital. None of the respondents reported that before using venture capital their sales were either good or very good. On the other hand, after using venture capital, 28.57% of the respondents reported that their sales were good and 71.43% said that their sales were very good. None of the respondents indicated that after using venture capital their sales remained either poor or average. In line with this, Gompers and Lerner (1998), cited inHenreksonandSanandaji (2018), that lower taxes are likely to increase commitments to venture capital sales returns and increases demands for funding from the founders or early employees of start-ups.

Table II: Sales Before and After Use of Venture Capital

	N	Total	Mean	Std. Deviation	Coe-Variance
Sales Before (US$)	14	6 664 966	476 069	592 894	1.25
Sales after (US$)	14	27 150 511	1 939 325	2 131 896	1.1
Percentage increase (%)	307.36%				

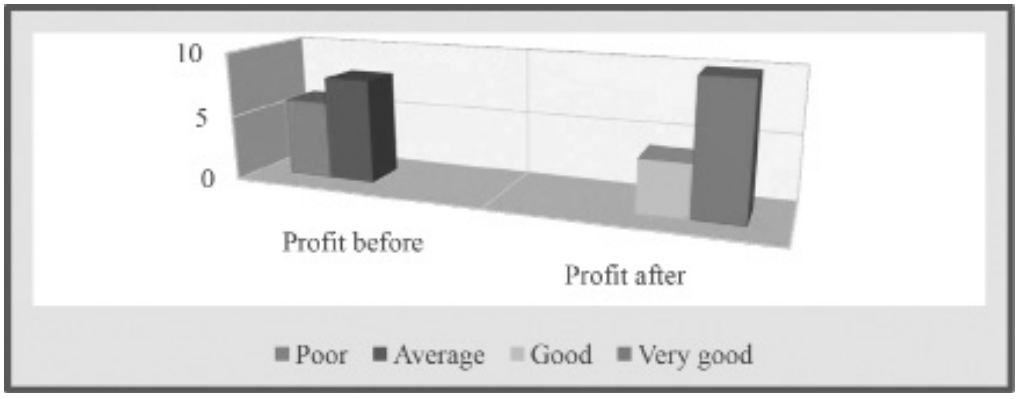
Source: Researchers' own (2019)

Table II indicates that the total amount of sales increased from US$ 6 664 966 before use of venture capital to US$ 27 150 511 after the use of venture capital. From mean sales value of US$ 476 069 per each firm before using venture capital, this rose to a mean sales value of US$ 1 939 325 after using venture capital. This presents an incredible percentage increase in sales of 307.36%.

Profit Before and After Use of Venture Capital

The respondents were asked to provide information about the profitability of their companies before and after using venture capital. They were asked to rate the performance in terms of poor, average, good or very good. The responses given are presented in Figure III:

Fig III: Profit Before and After Use of Venture Capital



Source: Researchers' own (2019)

In Figure III, it is exhibited that 42.86% reported that their companies realized poor profits whilst 57.14% realized average profits before using venture capital. On the other hand, upon use of venture capital, 28.57% reported that their firms realized good profits while 71.43% indicated that they realized very good profits.

Table III: Profit Before and After Use of Venture Capital

	N	Total	Mean	Std. Deviation	Co-Variance
Profit Before (US$)	14	407 393	29 100	22 495	0.77
Profit After (US$)	14	9 488 738	677 767	754 835	1.11
Percentage increase (%)	2 229%				

Source: Researchers' own (2019)

As shown in Table III, the total profit realized by the firms before using venture capital rose from US$ 407 393 to US$ 9 488 738, with the mean profit for each firm rising to US$ 677 767 up from US$ 29 100. This represented a massive 2 229% increase in combined profits. Furthermore, venture capital finance backed firms during any investment period require enough knowledge and resources to maintain this level of operation standard (Metrick & Yasuda, 2010; Metrick & Yasuda, 2011; Trabelsi, Shiri & Ozaygen, 2019).

Net Assets Before and After Use of Venture Capital

According to Barmes (1990), assets are particularly a useful indicator of the growth of an enterprise because their level does not fluctuate at a higher rate. As such, the researcher used assets as a measure of growth and presented the results in Table IV.

Table IV: Net Assets before and after use of Venture Capital

	N	Total	Mean	Std. Deviation	Coe-Variance
Net assets Before (US$)	14	547 219	39 087	14 312	0.37
Net assets After (US$)	14	1 371 339	97 953	36 696	0.38
Percentage increase (%)	1 520%				

Source: Researchers' own (2019)

Table IV reveals that the total value of net assets reported rose to US$ 1 371 339 after use of venture capital up from US$ 547 219. Before using venture capital, the mean asset value stood at US$ 39 087, a value that rose to US$ 97 953 after use of venture capital by the SMEs. This exhibits a 1 520 percent increase in net asset value. This increase after use of venture capital is enough evidence to conclude that there is significant growth. This is consistent with the assertion of Brigham and Houston (2001), who confirm that availability of funds can directly influence growth in assets for a firm as the business expands.

Number of Employees before use of Venture Capital

In the study, the researcher used employees as an indicator of growth for SMEs. This was in in line with the study by Gompers and Lerner (2001) on the influence of Venture Capitalon SMEs' performance where they considered employees as a variable to measure growth. The findingsare presented in Table V:

Table V: Number of Employees before and after use of Venture Capital

	N	Total	Mean	Std. Deviation	Coe-Variance
Number of Employees Before	14	345	24.6	9.24	0.39
Number of Employees After	14	872	62.3	14.56	0.23
Percentage increase (%)	152.8%				

Source: Researchers' own (2019)

The data collected revealed that before using venture capital the SMEs were employing a total number of three hundred and forty-five (345) a figure that rose to eight hundred and seventy-two (872) employees after using venture capital. The mean before using venture capital was 24.6 and it increased to 62.3 after using venture capital. This represents a 152.8% increase in the number of workers employed by the SMEs. Because there was an increase in the number of workers employed, it implies that the use of venture capital led to the growth of the SMEs. In line with literature review findings, a compensation contract must meet several requirements (Henrekson & Sanandaji, 2018).

The Constraints Faced by SMEs as a Result of Using Venture Capital

With an open-ended question, the respondents were asked to provide information about the constraints that they meet with the use of venture capital. The following challenges were noted as the major constraints faced by SMEs in Zimbabwe because of using venture capital finance:

Loss of Ownership

All the respondents reported that the major challenge they face with using venture capital is dilution of ownership as the venture capitalists demand a controlling stake in the business and bring in new management. They showed that venture capital may even expose them to mergers and take-overs which may not be in the best interest of the founders of the companies. This is consistent with the assertion of Jääskeläinen (2012) and Metrick & Yasuda (2010) who do agree that after investing venture capitalists will be actively involved in managing their investments by way of getting board representation as well as being actively involved in the day-to-day management of the businesses.

Change of Business Strategy and Direction

Most of the SMEs feel that the coming in of venture capital finance is usually accompanied with change of business strategy and direction. The coming in of new management and the erosion of the power to make unilateral decisions by the founder results in the company taking a new direction that may be different from the vision of the founders. Given such a scenario most of the SMEs are uneasy with venture capital financing. Venture investors typically exit the firm (SMEs in this context of current research) after several years. Their strategy is not the same during the different phase of investment (from investment to exit). Schwienbacher (2008) referenced by Trabelsi et al, (2019), argues that the strategy of exit of venture capitalists motivates them to increase the innovation activity of the backed SME or firm. The innovation activities increase a firm's or the SME's value and helps a venture capital investor to make a higher profit when the investor exits the firm, and their focus should be in line with the specialization of venture capitalist's activity (Lerner et al, 2011; Ughetto, 2010; Trabelsi et al, 2019).

Expectations of Venture Capitalists from SMEs before Committing Funds

The study sought to find out what the venture capital financiers expect to be in place in an SME before they make the decision to fund one. Interviews conducted with the various venture capital investors reflected expectations that were noted, and these are:

Viability of the business

The business of the SME is economically viable and worth of investing if the basic cost benefit analysis is done to see if the returns from the investment can outweigh the costs of investing. The business proves that it can generate sufficient cash-flow for self-sustenance and have the capability to be profitable enough. This goes along with what was said by Bender and Ward (2009) and supported by Li and Zahra (2012) who asserted that because venture capital investors are private companies, their accessibility is, therefore, limited to a few people with projects that demonstrate the potential of generating returns. Where the business may not be making profit yet, the respondents concurred that the business should be able to prove strong turn-around potential.

Potential to Attract International Investors

The respondents indicated that they also consider the capacity of the business venture to attract international investors. Whilst venture capitalists consider the returns that they get from their investment, the other issue that was stressed to be important to consider was the exit strategy. It was revealed that a business which cannot attract international investors is considered less tempting and given an option, it is less likely to attract venture capital. This concedes with the notion that reducing participation in the capital of the venture capital firm the venture capital fund does not take on any obligations levels down (Dudin, et al, 2013; Vanacker, et al, 2014; Novokreshchenova, et al, 2016; Vanacker, et al, 2016; Akopova & Przhedetskaya, 2016).

Growth Potential

The business must have enormous potential to grow both locally and into the international market. The venture capital investor considers the existing customer base of the business and then looks at its potential to grow its customers. The customers are a good sign of whether the business will grow, remain stagnant or even fail. This strengthens the corporate brand image (Nyagadza, Vingirai & Chodeva, 2018). Thus, venture capitalists expressed that they do not put their money into a business that has no potential to grow and generate more returns for them.

Commitment of the Owners of the SMEs

Most of the respondents voiced that the commitment of the business owners to their business is one such important aspect when assessing whether to invest in a business or not. The quality of skills and expertise that the firm invest in is the major indicator of the level of commitment to the business by its owners. "If an owner of a business believes in his vision, he demonstrates that by committing himself both financially and even non-financially," said one of the respondents. As such, companies that show a higher degree of commitment stand a higher chance of accessing venture capital.

Conclusion

The research established that venture capital financing contributes to the growth of the SMEs in Zimbabwe in terms of revenue, profitability, net assets as well as the number of workers employed. This is, largely, due to the active involvement of venture capitalists in the management of the portfolio of SMEs by bringing in competent management team and reskilling of the existing staff. The study found that by employing venture capital, SME owners are prone to losing ownership and power over their businesses. The coming in of venture capital also exposes them to the changes in the scope of their businesses. This is so because the venture capitalists demand a controlling stake in the affairs of the business.

It was also established that, before venture capitalists commit themselves to funding a SME, they do due diligence to ascertain viability of the business and the potential of the business to grow into a scalable entity. They are interested in the seriousness of the incumbent management to drive the business forward. They look at its potential to give them a good return for their investment. They also consider their exit from the business by assessing its potential to attract international investors. This is because they are into business and would be concerned about their return on investment.

Venture capital finance comes into the SMEs as a package which, apart from the funds invested brings with it, experienced expertise, technical training and reskilling of the staff for capacity building as well as exposing the firm to greater opportunities through networking and marketing. Quality supervision is another contribution that the SMEs stand to benefit through venture capital finance. Venture capitalists do face some barriers in their efforts to finance SMEs in Zimbabwe. These do range from poor corporate governance, to lack of systems, incompetent management and ignorance about how venture capital works. This could be because venture capital has not yet developed much in Zimbabwe.

Recommendations and Implications

In the light of the findings of the study, the following recommendations are made to the relevant organizations:

Government of Zimbabwe (GoZ)

Considering the contribution that the SMEs make to the country's GDP, it is recommended that targeted government intervention be implemented to promote the venture capital market in Zimbabwe. The government should consider the following:

Enactment of venture capital investment friendly laws and policies.It is recommended that the government should put in place laws that encourage venture capital investment in Zimbabwe. Legislation that allows for limited partnerships should be enacted to enhance investment. It is also

expedient that laws that guarantee protection of private investments be put in place. This will also go a long way in attracting international investors.

Offer incentives for venture capital investor.To promote investment into SMEs, it is suggested that the Government of Zimbabwe should consider offering incentives to venture capitalists. Such incentives may be in the form of tax breaks and concessions as well as capital allowances for investors who invest in high risk business start-ups and SMEs. This will boost the supply side of venture capital finance.

Creation of a fund of funds.A recommendation is hereby given that the government should come up with a fund of funds in which corporations are to pour in money that will be used as venture capital for SMEs in Zimbabwe. Thus, it is further recommended that the government should consider resuscitating the Venture Capital Company of Zimbabwe to take care of the fund of funds through which the government should sponsor funds to invest in new start-ups and SMEs.Crowd funding is newest development and influencer in entrepreneurial finance for SMEs (Everett, 2014; Wallmeroth, 2018).

Regulations concerning pension and insurance funds.Pension funds are large potential providers of funds to the venture capital industry because of their higher liquidity. In order to promote the supply side of venture capital financing, it is recommended that the government should come up with regulations to encourage them to invest in start-up businesses and SMEs. For example, by putting in place regulations that would allow them to invest up to certain percentage of their assets in venture funds.

Ministry of Industry Commerce and Enterprise Development (MICED)

The SMEs need to be capacitated and align them with the expectations of venture capital investors. As such, it is recommended that the MICED should be involved in creating SMEs with the capacity to attract venture capital. This may be done through trainings on business systems and management. A special department that deals with venture capital finance for the SMEs must be established to take care of this industry. This will improve the venture capital market in Zimbabwe. The relationship between the venture capital investment and innovation is influenced by several factors. The characteristics of the industry (Lerner, 2002; Dessi & Yin, 2012), the patent effectiveness (Dushnitsky & Shaver, 2009; Safari, 2016), the absorptive capacity of SMEs (Dushnitsky & Shaver, 2009), the presence of other external investments (Bertoni & Tykvova, 2015; Dutta & Folta, 2016), the characteristics of countries, particularly concerning the venture capital market (Popov & Rooseboom, 2012), the stage of investment (Faria & Barbosa, 2014) and the characteristics of venture capital investors, particularly their tolerance of failure (Tian & Wang, 2014) and some other moderating factors as proposed by Trabelsi, Shiri and Ozaygen (2019).

Zimbabwe Stock Exchange (ZSE)

Establish a developmental financial market. Availability of a strong and efficient stock market activity as well as the availability of trade sales are vital foundations to promote venture capital activity in the country. Therefore, it is recommended that the ZSE should set up visible exits by putting in place a second-tier stock market to cater for SMEs to raise funds. Stock market introductions are important for venture capital financiers as a way of raising their funds back.

SMEs Owners and Management

Growth Oriented Entrepreneurial activity. High growth potential is a key factor to venture capital finance. Therefore, it is recommended that SMEs in Zimbabwe be involved in more high

growth focused entrepreneurial activity to attract venture funds.This is supported by the literature in Manigart and Wright (2013).

Implementation of proper business systems. The development of standard business systems is pertinent to stand better chances of attracting venture capital. Hence, it is recommended that SMEs managers and owners prioritize the establishment of professional business systems within their firms. This can be achieved by employing competent personnel within the SMEs. Venture capital gives them the impetus to realize full potential, that is, if they meet the expectations by financiers.

Venture Capital Investors

It is recommended that venture capitalists come up together to form an industry body in the form of an association. The body is to promote the venture capital industry to the entrepreneurs, government and the international investors; to provide guidelines and standards for the industry for self-regulation; and offering relevant training to member organizations. This will help the industry to secure enough recognition from the public, government and other policymakers.

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