

Developing a framework for the early exit of venture capital investment in South Africa

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Thesis accepted in fulfilment of the requirements for the degree
*Doctor of Philosophy in Economic and Management Sciences
with Business Administration* at the North-West University

Promoter: Prof WS Musvoto

Graduation: October 2025

Acknowledgements

It is indeed the will of God and His grace upon my life that I put through this piece of work to mark the end of this remarkable journey.

This research would not have been a success without the guidance and mentorship of my promoter, Professor Wedzerai Saratiel Musvoto, whose motivation kept me through this journey from the start. I am sincerely grateful that you agreed to supervise me throughout the period of the writing of this work.

Many thanks to the venture capital industry participants in South Africa who took time off from their extremely busy schedules to provide invaluable input that immensely contributed to this final document. Much appreciation goes to my employer, Eduvos, and colleagues for the support received during this journey.

To the North-West University (NWU) School of Business and Governance staff members, I say “thank you” for all the support received during the period of my PhD study.

A very special appreciation goes to my family for their endurance during this long journey.

Many thanks to my mother, Ma Frida Ojong nee Obasi, for her patience, care and love.

Sincere thanks to my second mother, sister, and aunty, Mme Obasi Prisca Bekecheng, and our master-planner and father, the late Ete (Pa) James Ojong-Tanko for the foundation of this journey. A special word of thanks to my lovely wife, Martha Besong, and children, Neria Obasi, Liora Obasi, and Adriel Obasi, for all that you have been to me during this time.

Sincere gratitude to all that constantly gave me the push to accomplish my long-awaited PhD dreams. God bless the Obasi Egbe’s family.

Declaration

I **Bernard Ayuk Obasi** student number 24376957 registered with the North-West University (NWU) School of Business and Governance hereby declare that this thesis titled **“Developing a framework for the early exit of venture capital investment in South Africa”** being submitted for the award of **Doctor of Philosophy (PhD) in Economic and Management Sciences with Business Administration** at the North-West University (NWU) School of Business and Governance is my original work, for which I am the sole author, except for guidance provided by my promoter, Professor Wedzerai S. Musvoto during the course of the study. I further state that I have acknowledged and referenced the work of previous scholars and practitioners cited in this study and that this thesis or any part thereof has never been submitted elsewhere for the award of an academic qualification.

Signature:

Date: 18th March 2025

Abstract

This study sought to develop a framework that facilitates the early exit for Venture Capital (VC) investment in South Africa (SA), and to outline feasible strategies in the framework that would yield optimum results, drawing examples from the USA and the BRICS+ bloc founding members, where Venture Capital activities are yielding significant returns. Despite the increase of activities in the sector, exit performance in SA remains an issue stifling the industry's progress, due to an unfriendly regulatory environment hamstringing the flow of funds into the industry. To analyse this problem, an explanatory sequential mixed methods research was adopted with the aid of surveys completed by 203 VC industry participants. Survey responses were analysed using exploratory factor analysis and descriptive statistics to identify the factors impacting VC performance and exit in SA. This was followed by in-depth interviews with 11 industry experts, who provided valuable insights, and contextualised the quantitative results. The findings indicate that economic and financing environment, deal-sourcing, business performance, and regulatory environment are critical factors impacting VC performance and exit rate in SA, in addition to the acute lack of institutional funding vehicles, lack of incentives, unfriendly regulatory practices such as exchange control, IP controls, and labour regulations, which deter investment into the industry. Further findings revealed that VCs are positioning their investees outside SA so that they are not affected by the unfavourable SA economic and political environments. Funding is conservative and often allocated to expansion rather than early-stages, as VCs are risk-averse and hesitant to finance early-stages in dire need of funds. Nevertheless, the study observes an average exit duration of approximately 8 years, with an average exit return of 15.12% (IRR), despite the challenges. Superior innovative technology drives investment into SA. Exits are mostly opportunistic and predominantly mergers and acquisitions (M&As) and trade sales, as large corporates are acquiring technology that is disruptive to their operations. To facilitate early exits and improve VC performance, the study proposes a Public Private Partnership Arrangement (PPPA) between the VC practitioners, the government, and other industry facilitators (e.g. SAVCA, SiMODiSA and AVCA) to co-create an enabling regulatory environment that ensures policy reforms that attract investors; put in place institutional funding vehicles, a structured capital market, early-stage funding drives in innovative technology, and foster alliances with trade blocs such as SADC, AU, and BRICS+ to position SA as a competitive global player in the VC market. Recommendations for further study include an examination of the effectiveness of Startup Acts in building resilient VC ecosystems, and an assessment of the challenges of the private equity market in South Africa.

Key concepts: Venture Capital, exit, entrepreneurship, Initial Public Offering (IPO), Public Private Partnership Arrangement (PPPA), collaboration.

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List of acronyms

ABDI	Agência Brasileira de Desenvolvimento Industrial
ABVCAP	Brazilian Venture Capital Association
ADR	American Depositary Receipt
ANOVA	Statistical Analysis for Variance
ARDC	American Research and Development Corporation
AVCA	Africa Private Equity and Venture Capital Association
BNDES	Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Development Bank)
BOVESPA	Bolsa de Valores de Sao Paulo
BRICS	Brazil, Russia, India, China and South Africa
BSFI	Business and Financial Services Industry
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
ChiNext	NASDAQ-like secondary board in China
CVCA	China Venture Capital Association
CSRC	China Security Regulatory Commission
CVM	Comissão de Valores Mobiliários
EFA	Exploratory Factor Analysis
ERISA	Employee Retirement Insurance Act
FMIEE	Fundo Mútuo de Investimento Em Empresas Emergentes (Mutual Fund for Investment in Emerging Companies)
FIP	Fundo Investimento em Participações (Share Investment Fund/Trust)
GDP	Gross Domestic Product
GP	General Partners
HNW	High Net Worth
ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communication Technology
IDB	International Development Bank
IDC	Industrial Development Corporation
IFCI	Industrial Finance Corporation of India
IMOI	Input-Mediator-Output-Input
IPO	Initial Public Offering
IT	Information Technology
ITE	Information Technology Equipment

IVCA	Indian Venture Capital Association
KMO	Kaiser Mayer Olkim
LP	Limited Partners
M & A	Merger and Acquisition
MIF	Multilateral Investment Fund
MMR	Mixed Research Method
NASDAQ	National Association of Security Dealers Automated Quotation
NEEQ	National Equity Exchange and Quotation
NWU	North West University
PCA	Principal Component Analysis
PE	Private Equity
RCTFC	Risk Capital and Technology Finance Corporation
R & D	Research and Development
RSA	Republic of South Africa
RVC	Russian Venture Capital Company
RVCA	Russian Venture Capital Association
SAVCA	Southern African Private Equity and Venture Capital Association
SBI	State Bank of India
SBIC	Small Business Investment Companies
SciTS	Science-of-Team-Science
SME	Small and Medium Sized Enterprises
SIDBI	Small Industries Development Bank of India
SPSS	Statistical Package for the Social Sciences
STJ	Superior Tribunal de Justica (Brazilian Supreme Court)
SVC	Stakeholders Value Creation
TDICI	Technology Development and Information Company of India
USA	United States of America
USAID	United States Agency for International Development
VC	Venture Capital
VCF	Venture Capital Fund

CHAPTER ONE: GENERAL OVERVIEW AND INTRODUCTION OF STUDY

1.1 Introduction

Venture Capitalists can be considered as enablers of entrepreneurial development, as they provide not only finances required for running the business, but also the critical skills needed to keep the business afloat (Fan, 2019; Huang, Wang, Sheng and Zhao, 2025). Venture Capitalists provide funding for business ventures that do not have access to finance from the conventional lending markets, and thus act as a safe haven for new and innovative ventures with high profitability potential, which could have died at incubation due to lack of access to finance (Gornall, 2015). Venture Capitalists provide finance at various phases of the business venture, starting from the seed stage through to the start-up stage, where conventional investors are less interested due to the risks involved (Snyman, Kennon, Schutte, and Von Leipzig, 2014). In the context of South Africa (SA), reasonable efforts have been made to ensure that Small and Medium Sized Enterprises (SMEs), which find it difficult to get funding from banks, are financed through venture capitalists through the introduction of Section 12J of the Income Tax Act of 2009 (Jones and Mlambo, 2013). Although this concept seems to be yielding the required results, there is a general problem around exiting ventures after contracting investment deals with entrepreneurs (Jones and Mlambo, 2013; SAVCA, 2019).

Economic progress and development around the globe are invariably linked to constructive and successful entrepreneurial ventures (Barnett, Jackson, O'Flynn, Ismaila and Agyeyomah, 2018). This implies that economies cannot grow without entrepreneurial ventures (Aidis, 2017). However, most promising ventures often fail because of the lack of funding and skills (Kaplan, 2012) to sustain these ventures to the point of maturity (Barnett et al., 2018). Venture capitalists therefore bridge the gap between aspiring entrepreneurs and the funders who are not willing to invest in them in the early stages. With the opportunities in SA, the venture capital industry is making some investment footprints. However, the industry faces the challenge of exiting investment, especially through Initial Public Offering (IPOs), when compared with similar industries within its founding BRICS+ counterparts. This challenge is a concern that requires measures to be put in place in order to ensure a better performance of the industry, and to improve on the investment exit rate. The current study examines the concept of venture capital investment, taking the United States of America, and founding BRICS+ members as practical examples, where social cohesion has created an enabling environment for entrepreneurial activities to flourish. This leaves a positive impact in the lives of people through job creation

(Barnett et al., 2018). This study therefore hopes to provide a guiding framework on how venture capitalists can exit their investments earlier. To simplify understanding of the concept, the study focuses on the first five member states of the BRICS+ bloc, which are Brazil, Russia, India, China, and South Africa, referred to as BRICS. Hence, the acronym BRICS includes South Africa as a founding member of BRICS+, although South Africa only joined Brazil, Russia, India and China (BRIC) after the formation of BRIC in 2010.

1.2 Background of the study

Venture capital is an entrepreneurial investment in substantially risky projects, typically new or expanding businesses with high growth prospects, for which conventional sources of funding are not readily available (Santhi and Nanda, 2017). Venture capitalists are financial intermediaries (Clayton, Feldman, and Lowe, 2018) raising funds for investment in potentially risky ventures (Panda and Dash, 2013) for the acquisition of shares in young and privately held companies with the intention of making capital gains (Cressy, 2006). It is an equity investment (equity financing) intended for the firm's growth with the intention of exiting the investment through an Initial Public Offering (IPO) or other alternative exit routes on maturity of the investment (Allahar, 2014). Exit is normally attained by selling the investment (shareholdings) upon a successful listing (IPO) of the company, or other alternative exit routes such as buyouts, mergers and acquisitions, trade sales, and liquidations (Botazzi and Da Rin, 2002; Gutterman, 2022). The concept emerged in 1946 in the USA in an effort to help curb the devastating effects of the 1929 Great Depression and World War Two (Etzkowitz and Zhou, 2012; Tlemsani and Suwaidi, 2016) when wealthy families sought alternative ways for their economic survival (Tlemsani and Suwaidi, 2016). The notion gained ground, and people began investing in young but highly risky businesses with high profit potentials in the USA, with the intention of exiting the business upon maturity, through the sales of shares in the stock market. The concept sprang up across Europe, Australia, Asia, and Africa, with a high rate of success in the United States and Britain. According to Snyman et al. (2014), venture capital success is linked to the ability of the industry participants to leverage operations leading to gainful returns on investment, that attract further investments that are capable of generating further returns on their own. Timely and early exit of an investment is crucial in building the firm's reputation (Zhao, 2023) just like setting up the business. Early exit minimises operating and investment cost (Guoy, Luo and Perez-Castrillo, 2011), and provides investors the opportunity to realise their return on investment in order to utilise investment proceeds for further investments (Dominic and Gopalaswamy, 2019).

A long stay in the investment without an initial public offering raises concerns (Chaplinsky and Gupta-Mukherjeeb, 2016), as entrepreneurs may view the late exit as a deterrent to their ability to perform at optimum levels in the presence of the venture capitalists, even though they assisted them with seed capital to grow (Jones and Mlambo, 2013). Long times to exit equally frustrate the emergence of many more industries or new ventures, as foreign investors may consider the industry unproductive (Tuomi and Neto, 2013). Although venture capital research in Latin America (Carvalho, Netto and Sampaio, 2014), Asia (Lin, 2019; Moreva, 2018; Wang and Sheela, 2020) and South Africa (Jones and Mlambo, 2013; Tuomi and Neto, 2013) is limited, venture capital activities within the first five BRICS+ member states has been growing in the past three decades. China is among the top 10 venture capital destinations in the world, with many successful and profitable exits through IPOs (Xu and Xia, 2015; Zhao, 2016). India's venture capital industry has maintained a steady growth, characterised by successful yearly exits through various routes, including IPOs, with investment durations of between 7 and 10 years (Dossani, 2002). Brazil, on the other hand, has an average investment duration of 4 to 8 years, with an investors' internal rate of return of above 20% (Minardi, Kanitz, and Bassani, 2020). Russia, with numerous international sanctions, has been battling to grow the venture capital industry and is unlikely to measure up to counterparts such as the United States of America (USA) and the United Kingdom, due to strong government and political influences within the sector. Nevertheless, Moreva (2018) and Batalov Piper (2016) assert that Russia's average investment duration is between 7 and 10 years, with good exit potentials. 71% of the investments in Russia that were exited in 2016, and 44% in 2015, were government investments (RVCA, 2016), with a huge government contribution to the early stage funding (Hardy, Adams, and Moore, 2020).

Generally, venture capital has received attention across the globe. In Singapore and Israel, both government and venture capital industry participants contributed to restructuring the legal and financial systems to attract investment (Wonglimpiyarat, 2016). In the United Kingdom and other developed nations, the industry is fully developed, with well-structured capital markets and planned exit mechanisms (Frimpong, Akwaa-Sekyi, Sackey, and Saladrigues, 2022; Nguyen and Vo, 2021).

In South Africa, SMEs are seen as vehicles for economic growth (Fatoki, 2014, p.922) and therefore require a push by industry experts and the government to provide the required

expertise, regulatory framework, and the money to run successful business ventures (Fan, 2019). With the introduction of section 12J of the Income Tax Act of 2009 (withdrawn in 2021), which allowed taxpayers to invest their income in qualifying small businesses or junior mining companies (Jones and Mlambo, 2013), the venture capital industry has been making remarkable growth since 2013 (Sovereign, 2020). SAVCA (2019) confirms that venture capital-backed SMEs in South Africa have been growing in numbers. Biney, Gan and Nguyen (2017) also support the observation that the performance of venture capital-backed businesses, in terms of turnover, number of employees, and profitability, is high compared to non-venture capital-backed SMEs. Venture capitalists not only provide funds for new ventures, but also provide the guidance required in managing and controlling the business, with the primary intention of exiting the business upon maturity (Etkowitz and Zhou, 2012). They are considered the salvation for new businesses (Gornall, 2015) as they provide the essential ingredients (finance and expertise) for running a business, which the SMEs or young entrepreneurs may not have access to at the initial stage.

While venture capital activities in South Africa are encouraging, their low exit rate is a concern, as its founding BRICS+ counterparts are making successful and profitable exits through IPOs within the shortest period. Compared to its counterparts (founding members of the BRICS+) and the USA (the pioneer of the venture capital industry) which have an average exit duration of 8 years, the South African exit performance is extremely low, and the average exit duration is yet to be ascertained. Factors such as high labour costs (Goldberg et al., 2011), and worsening skills shortages caused by poor regulations (Faku, 2022; Sutherland, 2020), as well as social unrest, make skills transfer in South Africa difficult, and deter the progress of the venture capital industry (Tuomi and Neto, 2013). Also, the acute difficulty in accessing export finance, caused by strict exchange control mechanisms and regulations impeding the transfer of intellectual property offshore, makes the industry less attractive to external investors. These factors make it difficult for local venture capitalists to source international investors willing to invest in South Africa through the stock market (Tuomi and Neto, 2013). Hence, they rely mostly on trade sales and buyout within the internal private equity market (Jones and Mlambo, 2013).

1.3 Problem statement

The venture capital industry in South Africa, as in most parts of the world, appears to be a very lucrative market and has attracted investment from private individuals as well as organisations.

This has especially increased with the introduction of section 12J of the Income Tax Act of 2009, which provided a tax incentive for investors to invest in venture capital funded businesses up to June 2021. However, the progress of the industry is hampered by high labour costs (Kaplan, 2012; Tuomi and Neto, 2013), acute skills shortages (Mateko, 2024), and poor regulatory frameworks (Sutherland, 2020), with inadequate incentives to both attract investment and motivate disinvestment (exit) in the industry. This is further compounded by acute skills shortages (Bamata, Govender, and Field, 2019; Gqoboka, Anakpo, and Mishi, 2022), alongside strict exchange control, which render the industry less productive and unattractive for foreign investment (Tuomi and Neto, 2013). Although Kato and Chiloane-Phetla (2021) point out that the regulatory framework in South Africa is better compared to those of other African countries, Faku (2022) indicated that the lack of transparency in South Africa's regulations creates a problem of investment security, and deters foreign investors from investing in shares listed on the Johannesburg Stock Exchange. When compared to the regulatory environment of China, Lin, Edvinsson, and Beding (2014) state that the regulatory environment of South Africa is less complex than that of China, but Sutherland (2022) maintains that the regulatory environment in South Africa remains unfriendly, with a small market that is difficult to access. Mateko (2024) highlights the problem of skills shortages, and that government efforts to address the skills shortages remain unaddressed, due to lack of funds.

These factors deter local venture capitalists from sourcing international partners with the available resources to create a meaningful impact in the South African venture capital industry through the stock market (Tuomi and Neto, 2013). This limits IPO exits, and makes the industry less attractive to foreign investors (Jones and Mlambo, 2013; SAVCA, 2019; Tuomi and Neto, 2013).

Research indicates that the time taken to exit an investment changes over time (De Carvalho, Netto and Sampaio, 2012). Fan (2016) indicates that the average period to exit an investment lies between 3 and 7 years. Looking at the average number of exits of 9.2 per year (193 investments exited in 21 years) from 2000 to 2020 for South Africa, to the average of 57.24 deals for a total of 1202 deals concluded from 2000 to 2020 in South Africa (SAVCA surveys, 2010 - 2020), it is evident that South Africa's average exit period is relatively longer compared to that of the USA (pioneer country) – whose average exit duration is 8.3 years – and those of other founding BRICS+ member states. For example, China's exit period stands at 4.13 years

(Fan 2019), the Brazilian exit period is approximately 8 years (Igarashi, Pereira, Júnior and Porto, 2019) and Russia's exit period is estimated to be 10 years (Moreva, 2018). Meanwhile, India has made significant progress in exiting through various routes, with many exits concluded through initial public offerings (Nuthalapati and Singh, 2019).

Apparently, the growth of venture capital activities in South Africa has not been matched by reasonable exits in order to build the reputation that attracts foreign investment (Zhao, 2023), and this has been due to reasons highlighted above. SAVCA statistics estimate that there were 26 exits between 2000 and 2009, 16 exits in 2010, 7 exits in 2011, 3 exits in 2012, 3 exits in 2013, 10 exits in 2014, 8 exits in 2015, 15 exits in 2016, 15 exits in 2017 and 9 exits in 2018, 38 exits in 2019 and 43 exits in 2020, giving an average exit of 9.2 compared to an average of 57 investments made from 2000 to 2020 (SAVCA surveys 2000 – 2020).

Moreva (2018) indicates that the average exit for Russia between 2012 to 2017 was 24.16, while Brazil's average exit stood at 35.1 between 2000 to 2009 (De Carvalho, Netto and Sampaio, 2012), China reports an overall exit performance through IPO of 631.38% on average between 2006 and 2016 (Fan, 2019). This is of concern, as huge sums injected are tied up in non-marketable securities (qualifying small businesses and junior mining companies) and do not attract trading from the security market (Faku, 2022), despite the availability of Alt-X (a parallel route to get SMEs listed in the Johannesburg Stock Exchange).

Besides, government venture capital firms seem to be competing with the private venture capitalists rather than complementing each other (Jones and Mlambo, 2013). There seems to be no incentive for venture capitalists to exit investment portfolios on maturity, compared to the United States, where capital gains tax on venture capital investments was reduced from 35% to 27% in 1979. The introduction of the Small Business Incentive Act later in 1980 by the US government was another good initiative, which paved the way for Silicon Valley (Robyn, 2018).

Despite the fact that SAVCA was established in 1998, the concept of venture capital seems new in South Africa. While most entrepreneurs in South Africa are unaware of the concept of venture capital, some would not want to lose control of their investments, and some still approach venture capital firms for debt financing instead of equity financing. This further stifles the performance of the venture capital industry in South Africa (Jones and Mlambo, 2013).

The inability of venture capitalists to successfully exit investment leads to the poor growth of the industry, which can be interpreted as poor performance of the industry (Dominic and Gopalaswamy, 2019). This demotivates entrepreneurs from engaging with venture capitalists for funding (Jones and Mlambo, 2013). Furthermore, entrepreneurs view investors as trying to gain control over their businesses, thereby creating an agency problem (Xu, Liu, and Jiang, 2021). The specific issue here is that of formulating viable strategies and a due process that ensures efficiency in the venture capital industry and facilitates early exit of venture capital investment in South Africa, thereby adding value to the country's economic growth.

1.4 Research Questions

In attempting to address the above problem, this research is guided by the research questions below.

Primary question:

- What strategies can be used to develop a guiding framework that facilitates the early exit of venture capital investments in South Africa?

Secondary questions:

- What factors impact venture capital early exit in South Africa?
- What are the key challenges faced by the venture capital industry in South Africa?
- What can be done to improve on the venture capital exit rate in South Africa in order to ensure early exit from venture capital investment and guarantee returns for subsequent reinvestments for economic growth?

1.5 Research aim and objectives

In order to answer the research questions above, the following objectives are considered for the purpose of this research.

Aim:

- To develop a framework for the early exit of venture capital investment in South Africa.

Objectives:

- To explore factors impacting venture capital early exit in South Africa.
- To ascertain the key challenges faced by the venture capital industry in South Africa.

- To provide guiding principles on how to improve the venture capital exit rate and ensure the early exit for reinvestment of funds in the industry for economic growth in South Africa.

1.6 Significance of the study

The South African venture capital industry has recently been experiencing meaningful growth in terms of operations and investment financing. Despite this growth (SAVCA, 2020), the investment exit rate remains a challenge when compared to the exit rates experienced by its BRICS counterparts such as China, India, Brazil, and even Russia (which is despite facing numerous economic sanctions). Cognisant of the venture capital exit problem (SAVCA, 2018), this study hopes to assist the venture capital industry and policy makers, as well as the business community, through developing a framework that facilitates venture capital investment exit within the shortest possible time after investment. Such a framework ensures and allows for an efficient performance of the venture capital industry with a valuable contribution of mobilising resources necessary for venture capital optimum performance and growth. Furthermore, the current study explores the factors that contribute to or deter investment exits, with the intention of providing recommendations on how venture capital activities can operate at optimum with a higher investment exit rate in South Africa, drawing from the examples of founding BRICS+ member states. The research contributions are vital in academia, as they contribute to the existing body of knowledge in the area of venture capital management.

1.7 Scope of the study

The study aimed to develop an early exit framework for venture capital investment in South Africa. Participants in this study were drawn from the venture capital industry in South Africa, using a sample of 203 participants that included venture capital professionals, employees of venture capital firms, and venture capital investees (beneficiaries of venture capital funds). Data collection was limited to venture capital practitioners and the employees working in their firms, and beneficiaries of venture capital investments in South Africa.

1.8 Justification of the study

Cognisant of the need to grow the economy of South Africa, it is imperative to ensure that sustainable and profitable investment models are put in place to attract both foreign and local investors. The venture capital industry is one of those investment possibilities that has been

attracting investors, resulting from the promulgations of section 12J of the Income Tax Act in South Africa. Over the years, the venture capital industry has shown significant growth, especially observed from 2013 to date, but investment exit remains a challenge to the South African venture capital investors. Compared to the United States of America, where venture capital began, and other countries around the world, including the BRICS+ nations of which South Africa is a member, the average time to exit an investment has been estimated at a maximum 10 years, with an extension of 3 years (Moreva, 2018). Depending on the industry, the exit timing can be lower than seven years (Minardi et al., 2020), as is the case with China, where the technology sector has an exit timing of 4 years. Besides China and other founding BRICS+ nations who are making profitable exits through IPOs, South Africa's exits are limited to trade sales, liquidations, and buyouts, with no evidence of the exit timing (Jones and Mlambo, 2013). This therefore necessitates the need for an inquiry into why investment exit in South Africa is relatively low and slow, compared to the general experiences of other nations around the world. By drawing lessons from the experiences of the founding members of BRICS+, it can be helpful for South Africa as a nation to tap into the experience of the BRICS bloc, as well as other nations such as the USA, to build its capacity to attract venture capital investment, as well as to build a strong investment strategy that is not only self-sustainable, but also meets the industry's expectations. Such knowledge is also vital in establishing a framework that guides and facilitates venture capital investment exit in South Africa. A framework of this kind, however, requires a methodical process of understanding the issues pertaining to the venture capital industry in South Africa, and that guarantees not only trustworthiness and validity of the results, but also the application of the established framework and recommendations thereof. Ultimately, all this justifies the critical the need for an empirical investigation of the factors influencing venture capital exit.

1.9 Conceptual definitions

In this study, the following concepts or terms are critical:

1.9.1 Venture capital

Venture capital describes entrepreneurial investments in substantially risky projects, typically new or expanding businesses, with high growth prospects, for which conventional sources of funding are not readily available (Santhi and Nanda, 2017, p.123). According to Cressy (2006), venture capital investment is the acquisition of shares of young, privately-held companies by outsiders, with the primary objective of making capital gains. According to Panda and Dash (2013, p. 65), venture capitalists are financial intermediaries raising funds from an institution for investment in potentially profitable ventures which are risky (Grilli, Latifi and Mrkaic, 2019).

1.9.2 Venture capitalist

A venture capitalist is an investor who provides funding to start-up ventures, or small but expanding companies, which find it difficult to access equity finance markets, with the intention of earning high returns on investment if the venture succeeds (Panda and Dash, 2015), or who liquidates the venture to recover the initial investment if the business fails. In other words, venture capitalists are financial intermediaries (Clayton, Feldman, and Lowe, 2018) capable of combining technological competences with financial skills to provide financial and management support to start-up firms (Chikop, Johan and Tarsalewska, 2020).

1.9.3 Exit

An exit signifies the end point of the venture capitalists' formal relationships with the investees. According to Laine and Torstila (2005) and Espenlaup, Krhursched and Mohamed (2009), investment performance of venture capital funds is influenced by successful exits and the length of time taken to exit an investment. An exit provides an opportunity for venture capitalists to dispose of their investment deals to new shareholders. At this point, the investors would have realised their return on investment (Snyman et al., 2014). An exit may equally attract losses, especially in cases of liquidation of unprofitable investments, as investors terminate the relationship with little or no return (Cumming et al., 2006). Venture capitalists typically exit their investees' companies through many routes such as IPO, trade sale, and writing-off (liquidating) a non-performing company (Botazzi and Da Rin, 2002).

1.9.4 Exit rate

Laine and Torstila (2005) state that venture capital exit rate represents the ratio of the number of successfully exited investments to the number of investment portfolios. Mathematically, this is represented as follows:

$$\text{Exit rate} = \frac{\text{Number of successful exits}}{\text{Total number of portfolio companies}}$$

The exit rate is a simple measure that provides the possibility of assessing the performance and benchmarking of venture capital investments. Venture capital exit rates may be affected by the composition of the investment portfolios and size, including the preference of the industry and whether the investment focus is in an early or late stage. A higher ratio signifies a better performance in the industry, and a lower ratio signifies low performance and that investors take long to exit their portfolio of companies. The proportion of the exits through various exits routes to the total exits may depict some interesting facts (Laine and Torstila, (2005). Higher exit rates are common with large funds and fund management firms.

IPO exits are mostly preferred due to the higher returns (Weniger, Jarchow and Nenadic, 2023), followed by mergers and acquisition, and other alternative routes. Also, preference for IPOs is dependent on the fact that they provide the fastest time to exit the investment compared to other routes, especially where young investment firms are concerned. They provide a higher return on investment than any other routes (Espenlaup et al., 2009).

1.9.5 Partial exit

A partial exit may be financial or management. A management partial exit occurs when founders leave the management of the company but still maintain ownership of the business, whereas a financial partial exit occurs when founders sell their shareholdings but remain in management of the company (Souitaris, Zerbinati, Peng and Shepherd, 2020).

1.9.6 Exit time

Venture capital exit time is a measure of the difference between the date of the investment and the date at which the venture capital exits from the investment. IPOs can be exited partially, which counts as an IPO exit (Espenlaup et al., 2009).

1.9.7 Union investment

This is a situation whereby two or more venture capital investors invest in the same venture (Zhang, 2018). The institutions are usually from different sectors of industry, with different

resource capacities and structures. They are capable of providing a variety of complementary resources and capabilities when providing value-added services to start-ups. Their investment alliances help start-ups gain access to critical resources and capabilities to grow new markets faster and reduce deviant strategy. With such alliances, stable performance is achievable with ease (Zhang, 2018). From the alliance perspective, the union ensures better supervision and management in the different domains of their expertise. They function well and avoid extreme decision-making (Zhang, 2018).

1.9.8 Matured investment

Maturity is a demonstration of an evolutionary progress of specific abilities in accomplishing a target from an initial point to a desired end stage (Mettler, Rohner and Winter, 2010). A matured investment is an investment that has attained a stable growth with improved earnings, and in which reinvestments need to drop. The investment demonstrates a competitive advantage with stable margins. At this level, there is improved operational efficiency, with steady growth in revenue, which may be difficult to alter. Venture capitalists will sell their investment for a return, to allow them allocate funds for other projects (Smith, 2005).

1.9.9 Lock-up

A period during which existing shareholders must lock up their shareholdings after the initial public offering. This could be 12 months or 6 months, depending on the regulation in place (Botazzi and Da Rin, 2002).

1.9.10 Entrepreneurship

Entrepreneurship is the act of starting a new business or reigniting an existing or mature business in response to identified opportunities, identified through the processes of creativity, innovation, developmental growth, and job creation (Fan, 2019). It is an individual's abilities to turn ideas into action through creativity, innovation, calculated risk-taking, and careful planning and management of new and/or existing businesses, in an effort to sustain oneself and the business venture (Ezedike, Oberiko, Gbarayorks and Iroh, 2019).

1.9.11 Angel capital

Angel capital is provided by business angels. According to Cressy (2006), a business angel is a successful high net worth individual entrepreneur willing to plough back his wealth into the community, in order to develop the managerial skills of young and potentially fast-growing

entrepreneurs. They are less bureaucratic, faster in their investment decisions, less involved in the day-to-day management and strategy implementation of the business, and do not require due diligence to invest in a venture.

1.9.12 Social capital

Chang (2009) views social capital from individual and aggregate levels. Individually, social capital encompasses characteristics such as social skills, personal relationships with others, popularity, and other values beneficial for generating market and non-market returns from interaction with others. At the aggregate level, social capital connotes features of social organisations such as trust, basic norms, and networking abilities capable of improving societal efficiency through coordinated actions.

1.9.13 Staging

This is a process through which the venture capital firm divides its total financial commitment to a portfolio company into several financing rounds (Zhang, 2018). It is a valuable approach in addressing or controlling risk, as the venture capital firm retains the right of abandoning the investment or pursuing further investment stages (Chikop, Johan and Tarsalewska, 2020).

1.9.14 Syndication

Within the context of venture capital management, syndication refers to the cooperation of two or more venture capital firms to finance an investment deal (Xiong and Fan, 2021). It allows for shared investment risk by the participating venture capital firms in the investment being financed (Chikop, Johan and Tarsalewska, 2020, p. 4).

1.9.15 Initial Public Offering

An Initial Public Offering (IPO) entails the first-time listing of the shares of an entrepreneurial venture on a securities market such as the Johannesburg Stock Exchange (JSE).

1.9.16 Acquisition trade sale

This is the purchase of a company by a typically strategic acquirer (larger firm) in which both the venture capitalist(s) and the entrepreneur sell their interest in the investment deal. A corporate merger and acquisition integrates the investee company into a major project, which is then sold to a strategic investor(s) for the purpose of achieving capital exit (Fan, 2019).

1.9.17 Secondary sale

A situation whereby the venture capitalists sell their interest to another company or venture capitalist(s), but the entrepreneurs retain their interest in the investment deal.

1.9.18 Buybacks (corporate repurchase)

A situation in which the investees or entrepreneurs repurchase their interest from the venture capital firm. Compared to an Initial Public Offering, the situation leaves the owners with no problems of information asymmetry. This can take the form of a Management Buyout (MBO) or employee stock ownership. According to Fan (2019), it is a “double-edged sword” approach that is used to acquire the company’s own shares, and investors’ risks are transferred to owners and employees as investors withdraw their capital.

1.9.19 Liquidation (write-off)

According to Cumming et al. (2006), liquidation is a situation in which the investors walk away from an investment deal with little or no return from the investment. It is a disaster scenario, whereby the funded investment or company fails, and the venture capitalist writes-off the investment. Fan (2019) asserts that this occurs when it becomes evidently impossible to realise the expected return on investment, and investors choose to immediately withdraw from the business.

1.9.20 Market capitalisation

This refers to a country’s specific stock market capitalisation expressed in monetary value (Cumming, Fleming, and Schwienbacher, 2006, p. 223). It is the market value of all publicly traded outstanding shares, calculated as share price multiplied by the number of outstanding shares.

1.9.21 Limited Partners

These are typical venture capitalists who only provide funding without assuming any liabilities in the investment deals beyond their capital contributed (Abdou and Gupta, 2024). These are institutional investors such as banks, pension funds, sovereign wealth funds, insurance companies, family offices, corporations, and private individuals, as well as governments (Grilli, Latifi and Mrkaic, 2019). They do not take part in the active management of the venture capital funds.

1.9.22 General Partners

These are venture capitalists who manage the venture capital firms (Grilli, Latifi and Mrkaiic, 2019) and assume full liability for the investment deals (Abdou and Gupta, 2024). They have the responsibility of understanding the business risks, and to mitigate those risks in order to ensure the expected returns.

1.9.23 Living dead investments

This represents venture capitalists' middle ground investment outcomes, lying between "winners" and "losers", and which remain as active investments, but which have been in the active venture capital portfolio for at least five years (Ruhnka, Feldman and Dean, 2022). A high volume or accumulation of this investment may create an incentive for later stage or early-stage investment by the venture capitalists, irrespective of the market conditions of exit (Chaplinsky and Gupta, 2016). "Winners" signifies that the investment produced adequate multiple returns on investment, while "losers" indicates that the investment has resulted in a loss of funds. As such, these are investments, typically of mid-later stage ventures, which are economically self-sustainable, but failing to achieve growth in sales and/or profitability, in order to attract final returns and exit opportunities for investors (Ruhnka, Feldman and Dean, 1992).

1.9.24 Start-up

A new company created and financed by an entrepreneur in a high-tech industry, and with high profit expectation (Botazzi and Da Rin, 2002).

1.9.25 Captive

This represents a venture capital firm owned by an industrial company or a financial intermediary. The captives are more common in Europe, whereas in the USA, independent firms are the norm (Botazzi and Da Rin, 2002).

1.9.26 Convertible securities

An equity-like financial instrument that offers investors' protection in the event of liquidation. It also ensures participation in the upside, in cases where the project succeeds (Botazzi and Da Rin, 2002).

1.9.27 Vesting

A legal term granting corporate stock to an individual. This is mostly applicable to entrepreneurs and/or employees whose stocks ownership are contractually deferred up to a certain date, or when certain targets are met (Botazzi and Da Rin, 2002).

1.9.28 Seed finance

Small investment amounts, usually a few hundred thousand euros, dollars etc. They allow entrepreneurs to determine whether their projects are feasible, economically attractive, and viable. At this stage, venture capitalists help to explore the viability of investment projects or deals.

1.9.29 Start-up finance

This symbolises investment to operationalise a firm (Hellman, 2002). This stage involves executives developing a prototype and/or implementing marketing tests, etc., and attracting employees and executives to launch operations. At this stage, venture capitalists may help with the company's organisation and corporate strategy.

1.9.30 Expansion finance

This represents investment to ensure or reach industrial-scale production, as well as upgrade the production facilities, and attract further manpower. Here, venture capitalists may help in finding additional financing, clients, and suppliers, as evidenced in Europe (Vanacker and Manigart, 2013). As the company grows and requires revenue, it is necessary to help recruit marketing and other non-technical executive staff.

1.9.31 Later stage finance

This refers to investment that is intended to help firms become market leaders and realise their earning potential, and prepares the firms for trade sale or IPO.

1.10 Research methodology and paradigm

A research design refers to a planned structure and strategy on how to investigate and address a research problem, and answer the research questions (Kumar, 2011). A paradigm is a physiological or an ideological perspective of how individuals generally view and respond to situations around them (Park, Konge and Artino, 2020). Proper research must follow due process and be guided by a paradigm.

Research can be quantitative, qualitative, or mixed, from which a chosen model is used for data analysis. Research can be referred to as mixed when it combines quantitative and qualitative research (Dawadi, Shrestha, and Giri, 2021; Maxwell, 2013). The choice of any particular research approach is dependent upon the nature of the research, and such a choice must be carefully made and justified.

The concept of venture capital investment follows a guiding framework which allows for the identification of viable and potentially profitable ventures. These ventures are funded from start-up (or even seed and pre-seed stages) through to later stages, and the investors finally exit the investments (Salomon, 2016). The framework thus provides guiding principles on how venture capital investments are generally viewed (high-performing ventures). This allows for an objective comparison of venture capital-backed businesses with non-venture capital-backed business, using a scientific approach.

The focus here is to develop a framework for the early exit of venture capitalists from investments in South Africa. This requires an in-depth understanding of why such a framework is needed for South Africa (Allahar, 2014). Navigating through ideas and opinions regarding the reasons why such a framework is needed, and how it should be done, reflects the paucity of a scientific approach. Furthermore, businesses are managed by different individuals with various backgrounds and experiences. Managers use different approaches to manage the various ventures under various circumstances which cannot all be quantified easily. Therefore, both quantitative and qualitative factors contribute to the understanding of what kind of framework can be established, and the extent to which the exit of venture capital investment in South Africa is influenced by such. Hence, it is imperative to explore ideas and acquire sufficient information to back scientific thinking, and develop an early exit framework for venture capital investments in South Africa.

Considering the nature of this research, as explained above, the use of a mixed method approach was therefore considered the most apt to conduct the current research. From a quantitative perspective, the research used exploratory factor analysis to ascertain the factors responsible for the late exit of venture capital investments in South Africa, as well as exploring possible factors that could ensure the feasibility of early exit from venture capital investments in South Africa. According to Gary (2014), there is no sense in using two identical models on the same set of data, as this does not ensure validity of the study. You either add or subtract

some variables on the data to apply a similar or an identical model. Hence, there was no need to apply confirmatory factor analysis after exploratory factor analysis. The research explores the factors responsible for the early exit of venture capital investment using the exploratory factor analysis, as there has not been an understanding of these factors before. Since quantitative data is not sufficient to substantiate facts and opinions surrounding the exit of venture capital investment, the research then makes use of the qualitative approach through interviewing venture capital practitioners, and investees in venture capital-backed businesses. The mixed approach combined factor analysis, and interview which facilitated the process of gathering more facts and knowledge-based evidence required to assist in coming up with an exit framework of venture capital in South Africa.

1.10.1 Positivist

The focus for positivist research is on strictly empirically designed methods that seek to gather facts for interpretation (Saunders, 2015, p. 135) and largely adopts a quantitative approach to research. This is a more objective approach (Park, Konge and Artino, 2020) for collecting and analysing data. Positivists make use of tools such as questionnaires to collect and analyse data. The positivist approach is easily applied in instances when the population is large. In this regard, it saves time, when compared to the qualitative method (Kumar, 2011). In the context of this study, reaching out to more than 200 venture capital practitioners for their opinions on the industry performance is a daunting task, considering their schedules and conservative attitudes, besides confidentiality concerns. Adopting a positivist perspective provides an opportunity for independent thinking of participants during the data collection process. This research employs the exploratory factor analysis, which provides for the possibility of exploring the various factors which account for the early, as well as late, exit of venture capital investments in South Africa. According to Gary (2014), exploratory factor analysis is a data driven approach, mostly used as a tool to investigate and identify relationships among observed and unobserved variables. It is often used to determine the number of factors or constructs underpinning a set of test scores, and the extent to which these factors are related to one another.

1.10.2 Interpretivism

Interpretivism is a paradigm associated with qualitative research, as it seeks an understanding of the phenomenon under study from the perspectives of individuals. Although it may be biased, it provides the insights into individuals' opinions and personal perceptions about an

issue under investigation (Alharahsheh and Pius, 2020). The present research adopted an exploratory approach to gain insight of the underlying problem (Olawale, Chinagozi, and Joe, 2023; Umesh, 2021) as limited studies exist on venture capital exits in South Africa. The study made use of interviews with selected sampled individuals within the subgroups of venture capital practitioners, and investees of venture capital-backed businesses. Interviews normally provide an overview of personal feelings and experiences of participants, as opposed to questionnaires, and are highly effective when collecting information that cannot be easily quantified (Alamri, 2019). An in-depth understanding of why South African venture capitalists are not exiting their investments early, and what is required in order to ensure and guarantee potential for an early exit, is necessary. One cannot solely rely on quantitative data (Alamri, 2019) to establish a framework for exiting investments which were managed by people with different management approaches, and under different circumstances, such as regulatory frameworks, legal environments, socio-political and cultural environments, as well as economic and technical constraints. Based on the above considerations, it made sense to explore the views of fund managers, investees, venture capital providers, and entrepreneurs operating in South Africa, in order to ascertain clearly what accounts for the late exit of venture capital investments in South Africa. This method of exploring the views of various stakeholders provides a reasonable base to propose a feasible solution to the problem of late exit of venture capital investment in South Africa.

1.10.3 Study Instrument and sampling technique

The study instruments used in this research are mainly questionnaires for the quantitative part of the research, and an interview guide for the qualitative part. According to Lambert (2019), questionnaires are vital research instruments that allow researchers to collect large amounts of data from a relatively large group of respondents in a short amount of time. They provide the possibility of formulating standardised questions for large and diverse samples, which can be analysed statistically, and inferences made from any group of interest in the sample. Although they may not provide an in-depth analysis of facts, they are mostly used to capture surface impression and views on certain topics, to ascertain whether people agree or disagree with certain issues (Lambert, 2019). Interviews, on the other hand, provide an opportunity for the researcher to gather enough facts for the research (Naz, Gulab and Aslam, 2022), as they give the interviewee the opportunity to express his or her viewpoint about the subject matter clearly with some degree of freedom (Newcomer, Hatry and Wholley, 2015). The researcher

therefore believes that a combination of the two instruments will provide valuable inputs to understanding the factors that account for the exit of venture capital investment in South Africa.

1.10.3.1 Quantitative instrument and sampling technique

This study made use of two well-structured surveys (one for investees and one for venture capital practitioners), consisting of mostly closed-ended questions and one open-ended question. The surveys were self-developed after reviewing relevant literature, to understand factors impacting venture capital performance. Hence, addressing specific area of interest for participants in venture capital space was important (Younas, 2018). Although specific questions allowed for the extraction of knowledge about specific data, the use of specific information is minimised. This allowed the respondents to clearly state their views as freely as possible. In most cases rating scales are used and the questionnaire is designed to contain as much information as possible, but in a very concise manner and format, in order to ease the extraction of relevant information necessary for the study. The questionnaires (surveys) were structured in a manner that allowed for the extraction of the latent variable, as defined by their constructs and applicable factor analysis model of data extraction and analysis.

For the purpose of this study, purposive sampling was used for sampling respondents. According to Campbell, Greenwood, Prior, Wakem, Young, Bywater and Walker (2019), purposive sampling helps in matching the sample to the aims and objectives, which enhances trustworthiness of data results. It also improves the rigour of the study. As the study focused specifically on the early exit of venture capital in South Africa, this implied that only a sample relevant to South Africa should be considered (Campbell et al., 2019). This meant that the facts should come from a selected group of people with knowledge about the venture capital industry, specifically in South Africa, and not by random participants of SMEs in South Africa or venture capital practitioners in the SAVCA database, as the database contains members outside South Africa. Purposive sampling was adopted to solicit information from respondents who have expertise in this area of study.

1.10.3.2 Qualitative instruments and sampling technique

On the qualitative component, an interview guide was carefully prepared to follow a semi-structured interview approach (Naz, Gulab and Aslam, 2022). Semi-structured interviews are conventionally conducted with one respondent at a time (Newcomer, Hatry and Wholley, 2015, p. 492). They employ a blend of open-ended and closed-ended questions, mostly

accompanied by follow-up questions (Newcomer et al., 2015, p. 492-493). These follow up questions can be the 'why' and 'how' types of questions, which linger around the topic agenda rather than adhering to strictly verbatim questions on the questionnaire. Semi-structured interviews give respondents the ability to relax and engage in the interview (Kallio, Pietila, Johnson and Kangasniemi, 2016), and may often delve into unforeseen conversations. They are known to provide reliable and comparable qualitative data (Dicicco-Bloom and Crabtree, 2006).

Interviews were necessary to seek in-depth knowledge about relevant facts from key industry participants (Naz, Gulab and Aslam, 2022). A purposive sampling method was used to select key participants for the interviews. For the purpose of conducting the interview, letters were sent in advance to participants, notifying them about the date and time of the interviews. Each interview slot lasted for approximately 30 minutes.

1.11 Data Analysis

According to Kothra (2004, p.122), data analysis is the computation of certain measures and search for patterns of relationships that exist between data groups. During this process, relationships and/or differences that support or conflict with original or new hypothesis are subjected to statistical tests of significance in order to ascertain the extent of validity that data can be considered in order to make any conclusion.

1.11.1 Dependent and independent variable

A variable symbolises anything that may take on different values. It is anything that varies and is usually denoted by letters such as x, n, t, or y (Kumar, 2011). This study distinguishes between an independent variable and a dependent variable. The independent (explanatory) variable is represented by the supposed cause that is responsible for bringing about change(s) in a given situation, whereas the dependent variable refers to the outcome (change) to be brought about by the introduction of the explanatory variable (Kumar, 2011).

In this study, the intention is to examine the factors that impact venture capital exit in South Africa. Exploratory factor analysis makes use of latent constructs to examine the causal effects, whether relationships exist between underlying phenomena (El-Den, Schneider, Mirzael, and Cater, 2020). Using the observed and unobserved variables, the constructs are then established which can be used to validate relationships between the dependent variables

and the explanatory variables. This research considered the venture capital exit rate as the dependent variable, and the factors extracted from the factor loading of the exploratory factor analysis as the explanatory variables.

The study therefore assumed that the extracted factors from the exploratory factor analysis are the explanatory variables that can influence change in the dependent variable (which is the rate at which venture capital exit their investment in South Africa). In other words, the extracted factors from the factor loading of the exploratory factor analysis determine how fast a venture capital investment can be exited.

1.11.2 Quantitative data analysis

The research employs factor analysis in order to establish the factors responsible for the exit from venture capital investments in South Africa, and the extent to which these factors influence venture capital exit (Hox, 2021). According to Frazier et al. (2013), factor analysis represents a statistical method that seeks to represent a set of correlated observed variables in terms of a number of smaller observed and unobserved variables, commonly referred to as latent variables or dimensions. The underlying aim of factor analysis is to determine the number of factors and composition of dimensions that parsimoniously represent a larger set of variables (Watkins, 2021).

Factor analysis is commonly used to evaluate items of a questionnaire that may be grouped into clusters which represent the different dimensions of constructs for a study (Vet, Adèr, Terwee and Pouwer, 2005). Ader et al. (2005) indicate that there are two types of factor analyses, which are exploratory factor analysis and confirmatory factor analysis (Hox, 2021). Exploratory factor analysis is used when there are no clear-cut ideas about the factors' structure and mutual existence of factors' association (Watkins, 2021), while confirmatory factor analysis is applicable when a priori knowledge exists about the behaviour of the latent construct based on previous analysis or study (Lopata et al., 2020). Exploratory factor analysis is applied in this study as it seeks to identify the factors responsible for late exit of venture capital investment, as well as possible factors that facilitate the early exit of venture capitalists from their investment deals.

1.11.2.1 Empirical study

The study comprises different phases, beginning with defining the problem, reviewing related concepts through a literature review, and developing the methodology and survey that assisted to confirm whether the factors identified in this research impact the exit of venture capital investment in South Africa. The study goes on to ascertain the relevance of the factors in the formulation of a venture capital exit framework in South Africa. In order to get the direction of the determinants of venture capital exit, the researcher first explored a variety of theoretical approaches or models of venture capital exit, in order to determine the variables associated with venture capital exit. With all the dependent variables proven as relevant, the research used factor analysis to identify the critical factors that impact early exit of venture capital investment in South Africa. Lastly, the validity of the evidence at factor level was checked with the aid of Eigen values of the extracted factors. This assists in verifying whether the factors obtained from the exploratory factor analysis are significant, and indeed have a significant impact on venture capital exit in South Africa. In the process, this helps in facilitating the development of a framework for the early exit from venture capital investments.

1.11.2.1.1 Factor Analysis

Factor Analysis is commonly used to evaluate whether questionnaire items can be grouped into clusters representing different dimensions of constructs under study (El-Den et al., 2020; Vet, Adèr, Terwee and Pouwer, 2005). It is a statistical technique designed to establish whether or not patterns of responses on a number of items are explainable by a smaller number of underlying factors (Vet et al., 2005). Factor analysis could be considered a data reduction technique that tries to establish the structure of the factors (Shrestha, 2021) being measured by a questionnaire or an investigation of whether the questionnaire evinces the same dimension across different groups (Frazier et al., 2013).

There are two types of factor analysis; exploratory factor analysis and confirmatory factor analysis (Shrestha, 2021). When there exists no prior hypothesis and no clear-cut idea about the factor structure or dimension and their mutual association, exploratory factor analysis is the best measure to explore the factor structure (Zeynivandnezhad, Rashed, and Kaooni, 2019). However, if there is a prior hypothesis based on theory or previous study and analysis, it is more appropriate to use confirmatory factor analysis (Vet et al., 2005). Confirmatory factor analysis is most appropriate to test the data fit of premeditated factor structure, as opposed to exploratory factor analysis where there is no premeditated structure.

This research adopts the exploratory factor analysis, since the underlining structure or dimension of factors influencing venture capital exit in South Africa is not yet established (Shrestha, 2021). Exploratory factor analysis can be conducted using either principal component factor analysis or common factor analysis (Watkins, 2021). Principal component factor analysis focuses on explaining all the variances in a given data set, while common factor analysis explains common variances of all items, and not the unique variance of the items in the data set (Frazier et al., 2013). Principal component analysis is considered the most appropriate approach for data reduction, as it presents the data through a minimal number of factors. It is useful when the objective is to group data set into a few meaningful clusters, from which summary indices can be calculated (Floyd and Widaman, 1995). On other hand, common factor analysis provides valuable insights for understanding the multivariate structure of covariance and correlation structures among the measured items. Common factor analysis aims at identifying sets of general factors known as latent variables, which explain the covariance amongst measured variables. Factors loading in common factor analysis may be interpreted as regression weights for predicting items amongst the latent variables, which produce correlation amongst the variables. However, both methods may be applicable in similar situations (Vet et al., 2005). This study adopts the principal component factor approach, as it seeks to establish the critical factors responsible for venture capital exit in South Africa. Understanding the structure, and perhaps behaviour of factors, is important, but grouping these factors into main components helps one understand the key components responsible for a particular situation, in order to address concerns highlighted by one or more specific components. Ultimately, knowing the principal factors influencing the exit of venture capital assists one in making the appropriate decisions in order to deal with the management of the effects of each factor identified.

1.11.3 Qualitative data analysis

The nature of this research requires an in-depth understanding of the factors that account for the exit of venture capital investment in South Africa. Against this background, it is imperative that a critical analysis of the data be conducted in order to come up with guiding constructs that provide a guide to understanding the issues in order to resolve the identified problem. The data analysis process therefore involves the process of looking for constructs and concepts that are relevant to the study (Taylor, Bogdan and DeVault, 2015). Development of such constructs and concepts involves mind-mapping and the identification of themes. As such, this

research used a thematic analysis approach, as it is most appropriate in constructing the underlining themes. Thematic analysis is a systemic process which involves six phases that use coding in narratives in order to produce basic themes for synthesis into global themes (Braun and Clarke, 2006).

1.12 Organisation of the thesis chapters

This study is organised into seven chapters. Chapter One provides an overview to the study, Chapter Two reviews the related literature that shares affinities with the topic under study. Chapter Three examines the conceptual frameworks for venture capital investment, and adapts the framework to reflect the objective of this study in order to address the research problem, as well as relevant research objectives and research questions. Chapter Four presents the methodology and statistical design used to analyse the data collected in the study. Chapter Five presents the quantitative data analysis, discussion and presentation of results. Chapter Six presents the qualitative data analysis, discussion and presentation of results. The final chapter (Chapter Seven) summarises the research findings, conducts the framework presentation, suggests recommendations on how to facilitate early exit of venture capital investments in South Africa, in order to attract more investors that will add value to venture capital industry and the South African economy. Chapter Seven also suggests recommendations for further studies. The following subsections briefly outline the fundamental contents of each chapter.

1.12.1 Chapter One: Introduction

The first chapter dealt with the introductory aspects which included the background of the problem, problem statement, aims of the study, research questions and research objectives, as well as the significance of the study.

1.12.2 Chapter Two: Review of related literature

In Chapter Two, the study reviews related literature on the development of venture capital investments and the value to new venture creation, with particular focus on gaining an insight into contexts in which venture capital investors have successfully created and maintained sustainable businesses capable of creating more jobs on a continuous basis. Emphasis was on venture capital exit methods, with the goal of assisting in the building of an early exit framework for venture capital investment in South Africa.

1.12.3 Chapter Three: Conceptual framework

Chapter Three presents the conceptual framework of venture capital management, which provides reasonable insights into how venture capital management operates. Here the concept of venture capital and its operational model are explained. The development of venture capital exit framework requires a proper understanding of the concept of 'venture capital', and this chapter provides the guiding principles on how the framework for early exit of venture capital investment that complies with or aligns with the *modus operandi* of venture capital management will be developed for South Africa.

1.12.4 Chapter Four: Research methodology

In Chapter Four, the research presents the adopted methodology. The quantitative methodology is first presented followed by the qualitative methodology. The quantitative methodology applies the exploratory factor analysis to explore the factors that are impacting venture capital exit in South Africa. In this chapter, the research presents and explains the methodology adopted to explore and understand the factors impacting venture capital exit, providing a clear understanding of how the early exit framework for venture capital investment will be developed for the South African context.

1.12.5 Chapter Five: Quantitative analysis of results, discussion and interpretation of findings

This chapter presents a detailed analysis and interpretation of research findings from facts gathered through the participants' responses to the questionnaires as per the model specification set out in Chapter Four. Here, the research quantified the factors influencing venture capital exit in South Africa.

1.12.6 Chapter Six: Qualitative analysis of results, discussion and findings

In Chapter Six, the research presents the discussion and analysis of facts based on the qualitative data gathered. The results from the interviews are presented to provide an overview of the venture capital practice in South Africa, and to establish facts that support the evidence, based on the quantitative model presented in Chapter Four (Methodology). This chapter presents corroborative and substantive evidence which the empirical (quantitative) model presented in Chapter Four could not capture. In the process, it provides an analysis of the informed opinions of venture capital practitioners in South Africa regarding the factors that influence venture capital investment exit in South Africa.

1.12.7 Chapter Seven: Conclusions and recommendations

Chapter Seven concludes the research by presenting a summary of the findings, and the proposed framework for early exit of venture capital investment in South Africa, taking into consideration South Africa's specific needs as highlighted by the industry participants. It also provides guidelines and recommendations on how the venture capital industry in South Africa can be better managed in an efficient and effective manner for optimum productivity. Further to that, the chapter suggests recommendations for further studies.

1.13 Chapter conclusion

The venture capital industry in South Africa is a growing one that promotes economic growth and attracts more investment from investors within and outside of South Africa. However, the growth and success of this industry in South Africa seems to be stifled by the fact that investors find it difficult to exit investment deals. Exiting investments seems to be a challenge to the industry participants, as the number of deals completed are quite disproportionate to the number of exits.

The aim of this chapter was to explain the main objective of the study, which, broadly speaking, is to ascertain the factors that contribute to the early exit of venture capital investment in South Africa. The chapter provided a background of venture capital management to facilitate the readers' understanding on the subject matter. It also provided a clear description of how the study is structured. The methodology and variables are vividly presented. The scope of the study, limitation of the study, significance of the study, problem statement, and background to the study, as well as research questions and research objectives, are presented.

In the following chapter, the research provides a comprehensive engagement with extant scholarship (literature review) on venture capital, in order to assemble empirical facts that support the study and provide a reasonable base to support evidence gathered for empirical analysis.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In Chapter One, the research presented the objectives of the study, problem statement, research purpose, and background of the study. In this chapter, the research reviews related literature on venture capital management activities within the pioneer economy (USA), where venture capital operations first emanated. It also engages with extant venture capital-related literature in the founding BRICS+ member countries, in order to gain significant insights into venture capital management processes, and the mechanisms to exit venture capital investment. This provides knowledge on how venture capitalists operate, which operational models work, and what strategies or factors facilitate venture capital activities (from the initial process of selecting investees, to the point of exiting the investment). The chapter introduces the notion of venture capital, with the goal of establishing the factors that influence successful venture capital management practices. The chapter also examines the factors that deter venture capital success and early exit, as these provide insight into the success and exit of venture capital investments. The chapter explores venture capital operations with a specific focus on exit strategies, in order to get an appreciation of what should be in place when developing an effective early exit framework for venture capital investments in South Africa. The study, as explained earlier, made use of the first five BRICS+ bloc member states as reference to gauge the performance and exit of venture capital investments in South Africa.

2.2 Theoretical literature

In this section, the research reviews the theoretical concepts of venture capital, to ensure that the readers understand the background of the subject matter. This section begins with an overview of critical theories underpinning the study, followed by a historical account of venture capital activities, forms of venture capital investment, and the factors impacting venture capital activities and venture capital exit strategies.

2.2.1 Study theories of venture capital

The concept of venture capital is based on clearly-defined guidelines which venture capital organisations use to source funds for investment in selected start-ups, with the intention of exiting the investment at a later date (Grilli, Latifi and Mrkaic, 2019). In this subsection, the study presents the most relevant theories related to the venture capital framework, with principal emphasis on the theories associated with the South African venture capital

ecosystem, notably the agency theory, the resource-based view theory, and the institutional theory.

2.2.1.1 Agency theory

The agency theory is based on the premise that there is no certainty that a corporation's activities can be primarily executed in the interest of shareholders (Berley and Means, 1932). The theory aims at providing a solution when the objectives of the agent and the principal do not converge (Vargas-Hernández, and Teodoro Cruz, 2018), and there exists evidence of information asymmetry, which requires that the loyalty of the agent to the principal be established to ensure fairness (Xu, Liu, and Jiang, 2021) in the compensation system (Vargas-Hernández, and Teodoro Cruz, 2018). The theory is a foundational pillar for corporate finance and investment, as it provides context in analysing conflicts emanating from the principal-agent relationship (Meckling and Jensen, 1976). In the venture capital ecosystem, three principal actors exist, namely the investors who provide funds to the venture capitalists, the venture capitalists who receive funds from the investors and manage the investment funds, and the entrepreneurs who are expected to run the businesses. Against this background, venture capital activities are based on cooperation between venture capital practitioners and the entrepreneurs (Hawkins and Andrew, 2010; Xu, Liu, and Jiang, 2021). Hence the development of cooperating mechanisms helps to facilitate the successful operations and advancement of the industry ecosystem. For such cooperative mechanisms to be put in place, it is imperative to understand the context and nature of the relationship between the parties involved (Pennec and Raufflet, 2018). Firstly, venture capital investment is a high risk investment with expected high returns, where the venture capitalist puts in more funds than the entrepreneurs in expectation of future high returns (Jalalabadi et al., 2018; Santhi and Nanda, 2017). The venture capitalists therefore expect to maximise their income utility in the absence of moral hazards, and make joint efforts for the success of the venture. However, entrepreneurs are much more privy to information than the venture capitalists. Hence, the reputation of the entrepreneur is crucial in the venture capital arrangements, as the information asymmetry problems are more serious in the venture capital industry than in other industries, creating an agency problem. Investors are looking for a trustworthy business environment, as explained by Paavilainen, Heikkinen, and Johanna (2020), in their study of Inter-organisational Collaboration in Circular Economy Ecosystems. Information asymmetry may lead to an adverse selection problem, which leads to a "lemon market" scenario, where inferior goods drive out superior goods (Xu, Liu, and Jiang, 2021). In the context of venture capital,

information asymmetry generally leads to two critical problems (Nugroho, Firdaus, Andati, and Irawan, 2018); adverse selection and moral hazards. Adverse selection is a situation where the investors may select the wrong entrepreneurs or find it difficult to identify ventures with the right potentials, as entrepreneurs conceal factual and relevant information (Alam, 2022), causing the venture capitalist to make the wrong choice of investees. Hence bad investment choices may be made and the good investees left out, resulting in poor industry performance. Alam (2022) describes moral hazard as a situation when desirability concedes to undesirability, when the bad behaviour of individuals or groups of individuals hurts the interest of another individual or groups of individuals as a result of exposure to risk. Moral hazards is linked to the problems associated with risky decisions taken by certain individuals at the expense of some other individuals' interest. After receiving funds, entrepreneurs may take actions that compromise the long-term value of the business in favour of their personal gain. As investment in early-stage businesses is highly risky and uncertain (Jalalabadi et al. 2018), regulatory processes to ensure full disclosure may not be visible (Pezeshkan et al., 2019). Hence, there is the need for venture capital practitioners to adopt strategies to help mitigate the agency problem.

In an effort to address the agency problem, venture capitalists apply measures such as staged financing, contractual arrangements, and active monitoring and participation in the investees' board of directors to mitigate agency risk. Rather than providing full upfront funding for the entire lifespan of the investment, venture capitalist stagger their investment funds across stages to minimise losses. This provides the investors with the opportunity to exit an investment earlier if they foresee that the investment would not be profitable in the near future. This approach provides an option for the venture capitalist to abandon failing projects. In this regard, periodic re-evaluation of the projects are made, which provides an incentive or an opportunity for the entrepreneur to meet performance targets of the business venture. Staged investment plays a critical role in aligning business strategies with required incentives, to limit the risk of early-stage venture capital investments (Cumming and Johan, 2013). The use of detailed contracts mitigates agency costs. Generally, venture capital contracts are complex in nature and require a detailed content. Typically, the provisions to mitigate the principal-agent problems would include conversion rights, performance-based equity vesting and anti-dilution clauses. These clauses are generally intended to reduce information asymmetry (Horáková, 2022; Pezeshkan et al., 2019). In terms of monitoring and board participation it requires that venture capital investors play strategic governance roles in the affairs of the investees. They

sit on the board of directors of the investee companies, are accorded veto rights to overturn some key decisions, and can influence the hiring of key executives. They monitor the operations of the investees, which helps in limiting the latitude of agency-related problems.

Contemporary knowledge looks at the emerging approaches of the agency theory such as the Behavioural Agency Theory (BAT), which identifies aspects such as cognitive bias, bounded rationality, and socio-emotional wealth. According to Massa, Partyka, and Lana (2020), behavioural agency theory attempts to verify relationships between companies' executives and their decision-making within the companies. It seeks to address institutional pressures and corporate responses from a governance point of view, in order to reinforce resilience and substantial institutional compliance. Also, technological advancements are also transforming venture capital monitoring practices. Artificial Intelligence (AI) is currently used to track performance, perform market analytics, and other behavioural-related tasks that assist in providing real time monitoring of early-stage investments to reduce information asymmetry (Agrawal et al., 2023). From an institutional theory perspective, agency relationships are also guided by legal environments. Economies with strong investors' protection laws and efficient legal systems as in Europe and the United States of America provide opportunities for venture capital activities to thrive. Industry experts therefore rely on formal contractual arrangements and enforcement mechanisms to leverage their operations, whereas in developing economies characterised by inefficient legal systems, poor corporate culture and lack of trust (Hawkins and Andrew, 2010) constrain venture capital activities, leading to poor performance of the industry (AVCA, 2019). Such an untrustworthy environment caused by poor institutional structures leaves industry participants with no viable options to trade, other than reliance on mechanisms and relational contracting (Li and Zahra, 2012).

2.2.1.2 Resource-Based View theory

The Resource-Based View (RBV) theory has emerged as one of the prominent academic theories that provides an explanation on companies attempt to gain and maintain a competitive advantage (Barney, 1991). According to You, Lou, Zhang, Chen, and Zeng (2023), many studies have been conducted on the RBV theory from different perspectives (Barney, 1986; Dierickx and Cool, 1989). From an internal organisation's perspective, RBV conceptualises an institution as a bundle of resources. Academic scholars define resources as assets, processes, firm's attributes, capabilities, and information, controlled by an entity which facilitates the leveraging of entity's strategies to ensure competitive advantage. These can be tangible (physical assets) or intangible (non-physical assets) resources.

These resources can either be valuable, rare, inimitable, and non-substitutable (VRIN) resources, which are difficult to acquire, or non-VRIN resources (You et al., 2023). For an institution to gain and maintain its competitiveness in the long-term, institutions that possess VRIN resources generally develop value-creation tactics which are difficult for competing institutions to imitate. This implies that these valuable, rare, inimitable, and non-substitutable resources should be exploitable by the institution to provide a lasting competitive advantage to the institution (Zvarimwa, and Zimuto, 2022). This leads to the notion that VRIN resources need not only be valuable, rare, inimitable and non-substitutable but also exploitable (VRINE) by the very institutions in possession of the resources (Zvarimwa, and Zimuto, 2022). To ensure organisational resilience, institutions that possess critical resources that are valuable, rare, inimitable, and non-substitutable enjoy long-term competitive advantage if only they demonstrate the ability to continuously exploit their VRIN resources for the benefit of the institution. Dynamic capabilities become a necessity for organisational resilience to ensure long-term sustainability and competitive advantage (Ozanne, Chowdhury, Prayag, and Mollenkopf, 2022). An institution demonstrates dynamic capabilities if it is able to adapt, respond, and thrive according to the changing trends of the business environment (Corvello, Cimino, and Felicetti, 2023). Dynamic capabilities embody a firm's distinctive core competencies that assist the firm in using its available resources to leverage its strategic objectives to stay competitive (You et al., 2023).

In the context of venture capital, start-ups often fall short of resources required to steer their innovation to full scale in the dynamic business environment. Venture capitalists not only provide the financial resources required for the acquisition of tangible assets, they also provide critical but non-financial resources to enhance the entrepreneur's abilities to stay competitive in the changing business environment (Colombo and Grilli, 2010). While the industry specific experience and work of the entrepreneur is vital, dynamism in sensing and identifying opportunities to grow the business, appropriately scale the business, configure and re-configure the business in a continuous manner, provide a unique opportunity for the investee company to maintain a competitive advantage in the long-term (Corvello et al., 2023).

The venture capitalists therefore act as a vital contributor in providing significant dynamic capabilities such as human capital, networking, and relational capital (Cao, and Li, 2023), knowledge, and industry-wide expertise to crystallise the innovativeness of entrepreneurs in meaningful viable and competitive products (Chemmanur, Gupta, Simonyan, and Tehranian,

2021; Colombo and Grilli, 2010). Hence, the dynamism of the top management and backing for investees ensure greater performance even after initial public offering (Chemmanur, Gupta, Simonyan, and Tehranian, 2021).

Although the connection between organisational resilience and Resource-Based View theory is evident, it has been argued that the Resource-Based View is static in nature, due to lack of attention to external dynamics such as market turbulence, competition, and institutional pressures (Priem and Butler, 2001; Zvarimwa, and Zimuto, 2022). Evidence from China suggests that venture capitalists can integrate their dynamic capabilities and the ecosystem perspective to enhance theory for strategic benefits. In this light, the co-evolution of the institutional settings and the environment are important (Teece, 2016). China used the concept of creative destruction to innovate its economy; they have made several strides to restructure their stock markets. The USA, although a capitalist nation, still needed to institute venture capital industry specific reforms such as the Small Business Incentive Act in 1980 (Robyn, 2018) to facilitate the flow of funds into the venture capital industry, which ignited innovation in Silicon Valley. The VRIN, non-VRIN, and VRINE resources, if matched by dynamic capabilities can result in optimum performance, leading to organisational resilience and long-term competitive advantage. The global environment today requires transformational leaders who not only transform processes, but integrate global value systems for proper governance and future sustainability. Collaboration and cooperative alliances are essential factors in synergising and advancing efforts to maintain resilience. Apparently, policy-makers in South Africa have a role to play (Autio, Nambisan, Thomas and Wright, 2018), as in the case of China, USA, Brazil, and Russia, to ensure a striving venture capital ecosystem. China's approach is a glaring example for developing countries such as South Africa to emulate, as it provides valuable guidance on how to upgrade industries to improve the performance of the venture capital sector. Lin et al. (2014) assert that the legal system in South Africa is less complex compared to that of China, and requires reforms that ignite investment (Faku, 2022). Compared to other African countries, the regulatory framework is more friendly (Kato and Chiloane-Phetla, 2021). In contrast, Faku (2022) asserts that the lack of regulatory transparency deters foreign investment in South Africa. In terms of resource possession, South Africa exhibits technological leadership in Southern Africa, with an internet penetration rate of 78.8%, though with a high cost of ICT infrastructures (Mateko, 2024) made up of low quality components (Sutherland, 2020). Mobile software, online banking, security software, and other tech-related services put South Africa at the top position in Southern Africa, with several government initiatives to develop skills (one million youths) in these areas by 2030 (Mateko,

2024). However, financial constraints continue to deter the advancement of South Africa's ability to develop the skills needed to realise the digital economy and develop the technological infrastructures required to ensure a resilient economy (Bamata, Govender, and Field, 2019; Gqoboka, Anakpo, and Mishi, 2022). Venture capital funding is especially useful to advance innovation technology in economies like South Africa, which provides networking relationships to attract further investment (Cao, and Li, 2023), and strategic advice to expand the market which is currently considered small (Sutherland, 2020). To realise its objective of supporting and growing new ventures, the venture capital ecosystem requires good institutional frameworks that support an investment-friendly ecosystem. Hence the role of the government in policy formulation (Mateko, 2024), venture capital practitioners in providing funding and industry advice (Gornall, 2015), and business owners as concept developers are crucial in developing institutional and regulatory frameworks that attract investment into the venture capital ecosystem in South Africa (Gqoboka, Anakpo, and Mishi, 2022).

2.2.1.3 Institutional theory

The Institutional theory is based on the understanding how formal and informal institutions influence the behaviour of stakeholders in the venture capital ecosystem (Grilli, Latifi and Mrkajic, 2016; Hawkins and Andrew, 2010; Kangas, Kujala, Heikkinen and Laihonon, 2019). Institutional theory is premised on the broader cultural, social and regulatory environments that shape venture capital investment practices around the world (Grilli, Latifi and Mrkajic, 2019). The institutional theory is aimed at providing insights into how entrepreneurs and venture capitalists may adapt, resist, or conform to institutional pressures or regulatory requirements to minimise risk and uncertainty in an effort to gain legitimacy and access the resources needed to operate optimally. In this perspective, institutions have both normative and regulative roles (Graebner, Ghorbani, 2019) to play in the way venture capital operates, as institutional actions determine whether activities are optimal, or industry participants conform to or resist institutional rules in an attempt to operate optimally (Grilli, Latifi and Mrkajic, 2019). Institutions therefore define the rules in which games or activities such as venture capital are carried out. In the case of the USA, changes in regulations such as "The prudent man rule" in 1978 brought about tax reforms that allowed pension funds to invest in the venture capital industry. The Tax Reform Act, which lowered capital gain tax, resulted in the exponential growth of venture capital activities in the 1980s, which saw an increase in funding and emergence of tech giants like Microsoft, Apple, Amazon, Cisco and Sun Microsystem. The success story in America, engineered by the regulatory reform, saw a plethora of policies

across the globe replicating the venture capital financing model in the USA (Grilli, Latifi and Mrkajic, 2019). With exception of the United Kingdom, Sweden, and Israel, replicating the USA model was highly unsatisfactory, as the European economic environment is highly heterogeneous (Axelson and Martinovic, 2013; Grilli, Latifi and Mrkajic, 2019). Nevertheless, some areas in Asia, such as China and India, due to increasing internationalisation (Florida and King, 2016; Grilli, Latifi and Mrkajic, 2019; Guler and Guillen, 2010), used trends in the industry, and general commitment of stakeholders, to advance their economies using innovative technology through venture capital funding. Hence, the institutional theory is equally premised on a cultural-cognitive (mental models and shared views) stance that gives legitimacy to an underlying concept. Legitimising venture capital requires that investors, entrepreneurs, industry facilitators, and every stakeholder (including the government) in the venture capital ecosystem conforms to the institutional framework logics in a manner that secures the required resources for optimal performance.

The strength and rigour of the national regulatory framework and institutions in a country invariably influences how venture capital activities are structured and investment appetite behaves. According to Cumming et al. (2010) and Lerner and Schoar (2005), economies with efficient judicial systems, and strong legal protections accompanied by transparent financial regulations exhibit vibrant venture capital sectors, as is the case in the United States of America (Grilli, Latifi and Mrkajic, 2019). According to Guler and Guillen (2010), formal institutions help reduce operational costs, and enhance investor's confidence as they provide clear guidance on protecting investors' rights. In their study, Guler and Guillen (2010) pointed out that the liberalisation of financial reforms in the emerging markets and the enforcement of intellectual property rights positively correlates with foreign inflows of venture capital funds. In a similar reasoning, Depperu, Galavotti, and Baraldi, (2024) found that increasing institutional distance in regulatory efficiency and financial market development reduces investors' ability to enter emerging markets; whereas informal institutional distances have positive associations with acquisitions. Depperu, Galavotti, and Baraldi (2024) submit that experience in the venture capital industry mitigates the negative effects of formal institutional distances, and enhances the positive effects of informal institutional distances. This suggest that if the industry stakeholders are experienced enough, as in the case of China (Lin et al., 2014), USA (Grilli, Latifi and Mrkajic, 2019), UK, and India, interesting regulatory frameworks can be established for optimal venture capital performance.

Outside formal regulations, cultural attributes such as perceptions and behavioural attitudes towards risks and entrepreneurial thinking are vital aspects of the informal institutional dimensions of the institutional theory (Gantenbein, Kind, and Volonté, 2019; Li and Zahra, 2012). Hofstede (1980) states that cultural aspects of uncertainty (Li and Zahra, 2012), and individualism (Gantenbein, Kind, and Volonté, 2019) demonstrate the country-level of venture capital funding availability. Evidence suggests that in economies with high uncertainty avoidance cultures, venture capital activities are constrained by cultural risk adversity, which result in conservative investment strategies. On the other hand, countries with cultural values in strong support of entrepreneurial success, accompanied by an intense appetite to take risk and tolerate failure like the USA, see aggressive deployment of venture capital funding (Bruton, Ahlstrom and Li, 2010).

A further look at the institutional theory portrays how institutions attempt to homogenise their practices through institutional isomorphism (DiMaggio and Powell, 1983). Venture capitalists therefore attempt to gain legitimacy by engaging in practices that allow them to conform to isomorphic practices evident in the regulatory environments in the countries where they operate (Röhm and Kuckertz, 2019). Institutional isomorphism can either be coercive isomorphism, normative isomorphism, or mimetic isomorphism. Coercive isomorphism occurs when regulatory pressures warrant venture capitalists to depend on state actions and forces firms to conform to certain norms or specific investment behaviours. China, for example, used the concept of creative destruction to innovate the Chinese economy thereby directing investment into innovative technology. Normative isomorphism relates to professional norms propagated by the specific industry, such as accounting standards and legal practices, and are intended to create appropriate practice standards. In the venture capital space, normative isomorphism relates to the aspects such as the venture capital valuation processes (Morawczyński, 2020) followed by investors, to selection criteria as described by Seitz and Wry (2025), adherence to due diligence (Jalalabadi et al., 2018), investment financing stages, and staged financing. The venture capital framework as a whole provides guidance on how the venture capital ecosystem operates, from resources mobilisation, to the venture capital selection process, through the various investment stages, to exiting investments (Barnard and Chicktay, 2018). Mimetic isomorphism arises under conditions of uncertainty, as organisations imitate viable strategies adopted by their successful peers (Röhm and Kuckertz, 2019). Such behaviours steer industry practices for similar institutions facing organisational challenges.

While emphasising conformity, institutional theory also considers the role of institutional entrepreneurs as actors seeking to change institutional structures for strategic gains. In the context of venture capital, policymakers, industry facilitators, and pioneer investors may suggest and promote institutional structural changes to enhance the ecosystem's performance. This could result in creating platforms for the selection and financing of investment, venture capital networks, and establishing specialised courts to deal with investment issues, as the case in Brazil, where arbitration panels were set up to settle conflicts, which helped in ensuring credibility in the venture capital ecosystem (ABDI, 2011; De Carvalho et al., 2006). In Singapore and Israel, both the government and venture capital industry participants helped in restructuring the legal and financial systems to attract investment (Wonglimpiyarat, 2016).

Finally, institutional voids signify the absence of specialised intermediaries and regulatory frameworks or safeguards within a particular industry. The absence of regulatory frameworks in the venture capital ecosystem in an economy poses significant problems for the industry, as venture capitalists are left with no choice but to rely on staged financing, local partnership and relational contracts, which constrains the industry performance (Khanna and Palepu, 2010). Agrawal, Catalini and Goldfarb (2023) posit that digital technology and blockchain platforms may reduce the reliance on traditional institutions through the provision of trust and transparent practices. It is therefore imperative for the state to understand the dynamics of the venture capital industry (Kangas et al., 2019), to partner with industry participants to set up institutional and regulatory frameworks that enhance the performance of the industry. Also, syndication and alliances of government and independent venture capital firms improve the performance of the industry and the exits (Muhammad and Serve, 2025).

2.2.2 History and origin of venture capital activities in the United States of America

Following the 1929 stock market crash, the Great Depression, and World War II, the economic atmosphere became very entrepreneurially unfriendly, giving rise to entrepreneurial apathy within many economies. As a result, innovative technologies were limited to big companies and wealthy families (Etzkowitz and Zhou, 2012). Nevertheless, the enlightened and educated post-World War II generation embraced innovation, and generation of new ideas, leading to a prolonged post-war economic boom in the USA, as potential entrepreneurs began to engage in gainful ventures (Tlemsani and Suwaidi, 2016). The zeal for gainful investments gave birth to the notion of Venture Capital at the end of the nineteenth century, when private banks

invested in prominent industries such as iron, oil, and railway companies for a high rate of return. According to Reiner (1989), cited by Etzkowitz and Zhou (2012), the term was first used by Jean Witter in 1939, during his presidential speech to the Investment Bankers Association of America Convention. In spite of the historical affiliations of wealthy families to venture capital practices, the present-day venture capital industry traces back to 1946, when George Doriot established the venture capital or private equity firm called the American Research and Development Corporation (ARDC) (Etzkowitz and Zhou, 2012, p. 189-190). The formation of ARDC was motivated by the desire to explore approaches to developing regional economies using universities. With its formation, ARDC raised 3.5 million US dollars, of which 1.8 million US dollars came from institutional investors such as MIT, Penn, and the Rice Institute.

The industry was strengthened in 1958, when the National Venture Capital Association came into play, and the Small Business Investment Act was passed, paving the way for private investment companies and professionally-managed venture capital firms to emerge, and be able to licence private, small business investment companies to finance and manage star-ups. To facilitate the process, tax breaks were introduced for both private investment and professionally-registered venture capitalists. The period from 1960 to 1962 saw the licensing of 585 SBICs, accounting for 205 million US dollars in private money. With the use of venture capital money, computers, electronics and data processing ventures boomed, and venture capital firms made funds available to companies such as Macintosh (Apple), Xerox, Intel, and American Microsystems (Etzkowitz and Zhou, 2012, p. 189-190).

2.2.3 Types of venture capital investments

The venture capital market has evolved over time, and this evolution has led to the classification of venture capital business into various categories (Etzkowitz and Zhou, 2012, p. 190). Generally, there are two broad classifications of venture capital; public venture capital and private venture capital. Public venture capitalists concentrate on the creation of new industries and sustainable job creation to seek long term economic growth. They focus on early-stage investments, particularly in areas where government is restrained from being a close participant in the market. On the other hand, private venture capitalists then play the role of market participants after the government lays the ground for new industries. Specific to the venture capital classification are government venture capital, corporate venture capital, university venture capital, foundation venture capital, angel venture capital, and community venture capital, as explained in the following subsections (Etzkowitz and Zhou, 2012, p. 190).

2.2.3.1 Government venture capital

These are state government programmes which operate in a manner almost similar to those of private initiatives. They provide funding for new industry and creation of firms for the private sector to flourish (Etzkowitz and Zhou, 2012, p. 191). In the United States, the federal government facilitates the distribution of public funds to early stage and small firms with commercial potential, in the form of research grants, and plays a role in guaranteeing that private venture capital funds are secured. Government venture capital helps to expand new industries in their early years of operations (Gompers and Lerner, 2002). In some countries, state-funded programmes normally operate in a similar manner to private venture capital models – making investments in exchange for share ownership, with little or no difference between public and private venture capital in terms of stage and formation process of venture capital investment. This happens especially, when the role of state industries is generally accepted. Similarly, in countries where the government's role is significant, but less extensive and acceptable, public funding is merely transitional, and disappears when the private venture capital industry is established (Gompers and Lerner, 2002), as government-owned risk capital tends to have much less impact on technological and innovation compared to that of the private sector (Huang, Wang, Sheng, and Zhao, 2025). Within countries that view the role of the state in industries as insignificant and not very acceptable, public venture capital is a veiled process, and the role of the state is just to influence the nature of venture capital, irrespective of whether the funding comes from public or private initiatives. In statist societies, where the government's role is legitimised, especially in industry, public venture capital firms operate openly and may dominate or preclude separate industrial private venture initiatives. On the other hand, low-state societies often have public venture capital initiatives hidden behind other formats of government support, such as research grants, and may not be seen as venture capital, as government ownership of firms is not allowed, and as such, seed capital is initiated in other guises (Etzkowitz and Zhou, 2012).

2.2.3.2 University venture capital

This is used to fund innovative and knowledge firms created by universities for the purpose of transferring technological innovations produced within the universities to existing firms, and the spinning them out. University venture capital firms are often led by faculty and students, who may become full time members of the firm (Etzkowitz and Zhou, 2012). With this form of venture capital management, technology transfer is becoming an internal academic function, as the value of knowledge created is most likely to return to the original technology source and

engineer more research for further knowledge transfer, compared to technology transfer through intermediaries. University venture capital models were pioneered by ARDC, which took the lead in organising start-up companies. Generally, university venture capital firms are an extension of the university function, and not seen as an independent organisation, no matter its legal status. They follow similar formats of hatching new ideas and companies within the universities, and are capable of providing long-term support for innovative research at the early stages, while developing into relatively independent venture capital identities. They require much follow-up on investment, and may be carried out in partnership with other private or public venture capital firms (Etzkowitz and Zhou, 2012).

2.2.3.3 Corporate venture capital

These are venture capital firms which are largely interested in the maintenance of core competencies in order to ensure sustainability. They seek to facilitate the transformation of firms' competencies through the creation of business units, and function best when working in areas where the corporations have existing competencies. The concept of new technology development requires specialised skills and competencies that need to be embodied in units with protected autonomy, and the continued proliferation and/or re-entry of large corporations into the venture field indicates a potentially significant element of corporate renewal. According to Gompers and Lerner (2002), cited by Etzkowitz and Zhou (2012), corporate venture firms should strike a balance between their existing businesses and the desire to create new business ventures (Allahar, 2014), otherwise a failure to do that would lead to their closure despite financial success. Corporate venturing waves were identified in the US in the 1960s, which culture significantly influenced the success or failure of venturing projects.

2.2.3.4 Foundation venture capital

These are venture capital firms that take an interest in investing in the early stages of firm formation as their capital increase (Etzkowitz and Zhou, 2012). There has been a growing tendency for venture capital firms becoming less involved in funding these early staged ventures. Foundation venture capital firms thus activate private venture capital by providing a balance in the downturn, as well as benchmarking in the upturn.

Foundation venture capital firms are still largely quite active in the incubation stages. However, they are currently visible in only a very few countries. Typical examples of foundation venture capital firms are the Markle Foundation in the USA, which has invested in educational software

firms that could not meet the assessment criteria of the private venture industry for market share and return, and the Swedish Knowledge Competency Foundation, which has taken similar steps in terms of investment. Foundation Venture Capital firms serve as benchmarks, and represent a source of valuable resources for the private venture capital industry in the Swedish economy, which grew greatly in the 1990s, but is currently in a period of re-structuring (Etzkowitz and Zhou, 2012).

2.2.3.5 Community venture capital

Most private venture capital focus on high growth fields with extraordinary profits. They largely associate themselves with areas within which they have significant knowledge or financial strength rather than the rural areas. With the increasing need for support for firm formation in low growth and slow industrial areas in poor rural and less privileged urban areas (Kovener and Lerner, 2015) such as the native American communities who lack the pre-requisites for capitalisation of knowledge, as is the case with entrepreneurial universities or public research institutes, the United States of America community development venture capital firms were then formed to cater for community venture funding, and have been providing funding to the rural and poor urban areas in this regard (Kovener and Lerner, 2015). Like all other venture capitalists, they pursue exit strategies but are not under pressure to produce high returns. They exist to balance the financial and social goals, and making investment decisions with the objective of developing regional infrastructure that creates jobs and a variety of business opportunities at the technological level (Etzkowitz and Zhou, 2012).

2.2.3.6 Angel venture capital

Business angels are wealthy entrepreneurs with extensive professional expertise who have made significant success in life, and are willing to invest their funds independently, in innovative enterprises with high profit potentials (Graham, 2022). While formal venture capital represents huge sums of funds provided by specialised professional firms, which are also a bit more advanced but still risky, angel venture capitalists are more available to provide their expertise and technical skills to support the business venture at the initial stage of the innovation process (Etzkowitz and Zhou, 2012; Graham, 2022.). The expected rate of return for venture capitalists ranges between 10% and 30% and this is common in the market of new technologies and innovative industries (Etzkowitz and Zhou, 2012).

Angel venture capitalists consider being active as very important, as they can see the prospects of financial return and are most often willing to invest at the earliest stages. Angels are willing to assume greater risks. Whereas classical venture capital firms are downstream, driven by their increasing resources, angels are upstream and driven by the desire to ensure that the smaller amount of funds available to them can make a difference (Etzkowitz and Zhou, 2012). Angels are most often retired professionals with a lot of time available to assist in the creation of new ventures, and may become paid or unpaid consultants to firms utilising their expertise (Allahar, 2014).

The practice of angel venture capital has not been overwhelmingly in practice, as businesses still go after venture capital firms, even though their chances of getting funding are small, and sometimes non-existent. Many entrepreneurs are yet to be aware of the existence of independent angels and their potential for taking their businesses to higher levels that are beyond the support of family and friends (Etzkowitz and Zhou, 2012).

2.2.4 Factors influencing/attracting venture capital investment

Investigations of the determinants of the sizes of private equity and venture capital industry by Gompers and Lerner (1998), Jeng and Wells (2000), and Romain and Van Pottelsberghe (2004) observe that the key drivers of venture capital investment are both on the demand and supply sides. The demand side includes factors such as reduction in the capital gains tax over time, which attracts investment in the venture capital industries (Gompers et al., 2020; Lin, 2019). The level of entrepreneurial activity and entrepreneurial skills within an economy can also determine the viability and attractiveness of an economy, and attract investors to invest within it (Amit, Glosten, and Muller, 2022). Venture capitalists are moved by the speed of innovation, and how fast the investment can pay off. As such, the level of technological advancement and innovation (Seong and Kim, 2021) are critical to the success of venture capital projects. In simple terms, research and development expenditure, stock of knowledge, and patent filings – especially when the workforce is mobile, and the entrepreneurial activity exceeds a certain level backed by great ingenuity, are factors that attract venture capitalists. The growth of the Gross Domestic Product (GDP) in countries with low market rigidity will also potentially attract venture capital investment. Similarly labour rigidity, with very high skilled workers (capable of creating a multiplier effect on early-stage investment), and business development, also have the potential to attract venture capital investment (Bellavitis, Fisch and Vismara, 2023). Further to that, Bellavitis, Fisch and Vismara (2023) found that attractive

interest rates, with positive effects on investment, will equally boost venture capital investment activities. On the supply side, allowing for pension funds' investments in the asset class, such as the case of ERISA in the United States, creates the possibility of further investment in the venture capital industry. Similarly, the growth of private pension markets is a plus for venture capital investment practices in most countries with stable economies.

The reputation of already-established venture capital firms (Zhao, 2023), as well as the quality of accounting standards, could determine whether new investors also come in or not. The impact of long-term versus short-term interest rates on investors is critical, as high long-term rates on government securities discourages investment, whilst low interest rates encourage investment. The volume of Initial Public Offerings (IPOs) in the market can also trigger more investors to come in, as this demonstrates the lucrative nature of industry (Zhao, 2023), with huge effects on later stage investment. The strength of the stock market (Von Rosen, 2021) and government programmes focusing on setting the regulatory framework, and also galvanising investment during downturns, are important (Ribeiro, De Carvalho and Furtado, 2006).

2.2.5 Challenges of venture capital investment

Theoretical evidence believes that venture capital can be a safe haven for new entrepreneurial ventures, as it provides funding for projects that would not normally qualify for financing by the classical financing sources, such as banks. Although they bridge the gap of information asymmetry between the entrepreneurs and stock holders who are not ready for highly risky ventures, Fan (2019) asserts that bridging the information asymmetry gap is a daunting task, as venture capitalists are faced with the challenges of motivating entrepreneurs to reveal factual and reliable information about the exact state of affairs, information asymmetry (Xiong and Fan, 2021), control issues, lack of funds, uncertainty, regulatory issues, and many more challenges (Pezeshkan et al., 2019). In the subsections that follow, the research attempts to highlight the major challenges that venture capitalists face.

2.2.5.1 The agency and control-related challenge

Although the intentions of venture capitalists are not to gain control, they seek to ensure the long-term development of enterprises, and to reduce efficiency loss in order to ensure a successful exit. Against the background of enterprise development and future sustainability, those entrepreneurs who do not clearly understand the arrangements may conceal relevant

information which may lead to bad decision-making with regards to the selection of investments, especially in a situation where the venture capitalist is not adequately skilled to conduct due diligence (Jalalabadi, Grome, Shahrestani, Izaddoost and Reece, 2018). This ultimately results in the principal-agent problem, within which the venture capitalists try to maximise their short-term objectives in order to exit the business in the shortest possible time, and at the expense of the entrepreneurs. Fan (2019) states that the agency problem can be resolved through transaction structure designs, such as the betting agreement, as well as participation in post-investment management.

2.2.5.2 The exit challenge

The imperfect exit method, or lack of clear-cut exit mechanisms for venture, poses a challenge to the venture capital industry, as most investors are highly dependent on public listing. IPOs are first exit options that ensure reputation building (Kuckreja and Meha, 2017). With highly-developed economies, such as the USA and those in Europe, the Initial Public Offering (IPO) is highly effective, as the regulations in place ensure that stock markets operate at an optimum level. This is not the case in developing economies such as Africa, where the over-the-counter market is highly underdeveloped, and companies open and close at random. For venture capital to effectively depend on IPO, standardised policies and regulations are required for the effective and efficient functioning of stock markets in countries that desire venture capital as an alternative method of financing. Besides exiting through IPOs, venture capitalists may decide to exit through mergers and acquisitions, corporate repurchase, or management buyouts and liquidations (Yao and O'Neill, 2022). While successful mergers and acquisitions require that merging companies and/or the acquiring and acquired companies come to terms, it is often also not an easy decision to settle issues of control between the companies, even when they are performing well. Corporate repurchase supposes that, upon successful financing, employees buy equity shares from the business (Weniger, Jarchow, and Nenadic, 2023) and gain control of the venture, or managers buy the shares of the business in the form of management buyouts. This often requires skills and funds on the part of employees and management, for the team to successfully leverage the operations of the business in the absence of the venture capitalists who provided expertise and finance to the business up to the exit point. Within developing economies such as South Africa, characterised by poverty and lack of skills, the investor exit challenges are seriously compounded. Finally, if all other options highlighted above do not work, venture capitalists have no choice but to liquidate the business (Nguyen and Vo, 2021), which may lead to huge losses from the investment (Fan,

2019). Overcoming the challenge may require that venture capitalists finance clusters of start-ups to enhance IPOs and M&A exits (Aluwalia and Kassicieh, 2024). Also, specialised sustainable boards play crucial roles in recommending viable exit options; greater standardisation regarding sustainability and information disclosure is required. Regulatory supports are vital for trustworthiness (Lin, 2022).

2.2.5.3 Lack of syndication

According to Pezeshkan, Smith, Fainshmidt and Zhan (2019), the lack of the ability of venture capital firms to syndicate with local partners may increase their failure rate. Given that the venture capital market in America is becoming saturated, venture capital firms are turning to developing countries; most often they do not understand the mechanisms of the local organisations or entrepreneurs, their legal systems or culture, and as such, lack experience with the management of partnerships in these countries. They are unable to appeal to the local partners, despite the promising potential for impressive returns (Pezeshkan, Smith, Fainshmidt and Zhan, 2019). Ultimately, the lack of a contextual understanding of the environment and the inability to network with local partners creates a liability for foreign venture capital investors, or new venture capitalists entering developing countries. Pezeshkan et al. (2019) posit that venture capitalists are equally susceptible to their life cycle risk (stemming from their earlier stage of financing), operational risk (stemming from their reliance on high-tech assets), and political risk (emanating from sector vulnerability as a result of government meddling with their operations). Ahluwalia and Kassicieh (2024) assert that agglomeration of firms connected within a specific sector help provide specialized skills, suppliers, and collaborative support to investees. The presence of startups in clusters equally enhances exit performance as there are both tangible and intangible benefits of financing industrial clusters, such as suppliers' network, access to industry expertise, and complementary industry services (Ahluwalia and Kassicieh, 2024; Bubna, Das and Prabhala, 2020).

2.2.5.4 Risk and uncertainty

Venture specific and market risks are normally higher when investing internationally, due to differences in legislation, language, distance, and culture. These factors can be critical when investing abroad. While life cycle risk relates to risk inherent in the early stages of development due to inadequate management in the initial stage of the venture capital business, it leads to the inability of the venture capitalists to obtain an effective and efficient research and

development team capable of leveraging the operations of the venture capital investment during this formation stage (Park and Tzabbar, 2016).

Lee (2019) also asserts that, in the early stage of the entrepreneurial venture, there is a general lack of tangible records; as such, venture capitalists find it difficult to assess the claims made by entrepreneurs about their businesses. While the entrepreneurs' knowledge and hard work may be of great value, and can be good predictors of venture success, they may overstate the potential success and attractiveness of the business to lure the venture capitalists into financing deals.

Generally, business leaders find great discomfort in uncertainties. Besides the global debt and economic struggles, the emergence of the coronavirus disease (COVID-19) in the past few years drove the entire business world into great panic. Uncertainty is more pronounced today than in the past, thereby causing general fear and an unpredictable market environment, that often lead to a focus on the short-term. Mitigating the effects of uncertainties require collaborative efforts from all stakeholders. Hence government syndication with independent venture capitalists helps to reduce uncertainties, and improve venture capital performance and exit, as the case in the Asian continent, whereas lack of syndication reduces venture capital performance (Muhammad and Serve, 2025; Sabitha and Shrivani, 2019).

2.2.5.5 Information asymmetry

This general tendency of information asymmetry between entrepreneurs and venture capitalists in the early stage of investment is higher with foreign venture capital firms (Dai, Jo and Kassicieh, 2012), where there exist significant cultural differences – compounded by a lack of market institutional safeguards against the misrepresentation of information and ways of verifying and validating or authenticating entrepreneurial claims (Pezeshkan et al., 2019).

2.2.5.6 The resource challenge

Setting up a venture capital firm requires enormous effort in terms of human capital, finance, and investment requirements. Sabitha and Shrivani (2019) assert that venture capitalists who are inexperienced often run out of working capital before bringing in sufficient funds to cover expenses. Business owners often underestimate expenses such as material costs, labour, and utility costs. The unavailability of business angels in developing economies constrains the budgets of venture capitalists and their financing capacities.

2.2.5.7 The regulatory challenge

The regulatory environment of economies around the world are rapidly changing, and always of great concern in certain industries. The uncertain energy, environmental as well as financial policies is wreaking havoc on many companies around the world today. It is therefore imperative to understand the problems within that industry, understand what the regulations within the specific industry require, as well as their implications for that business, and in the process, develop the necessary skills to deal with them (Sabitha and Shravani, 2019). For fundraising to be effective, an active participatory role by government is important in expanding the source of venture capital funding. Hence a detailed legislative framework promulgated to ensure the flow of funds and sustain the venture capital ecosystem is important (Dalal, 2022; Lin, 2022).

2.2.6 Factors influencing venture capital exit

According to Subhash (2007, p. 2) economic activities will cluster and prosper in a specific place only if environmental factors (both external and internal) around the activities favour the development of those activities (Godarzi, Mashhadizadeh and Sayyed Davoodi, 2023; Yeo, Gim, Yang and Kim, 2023), and venture capital activities are no exception to this general rule. Giot and Schwienbacher (2007) noted that the assessment of possible exit options is paramount to venture capitalists prior to their investment in any venture (Dominic, 2021). In fact, venture capitalists are not only interested in how much cash they can acquire when they cash out, but also the timing of the exit, or the length of time they invest in their portfolios of companies before they cash out (Gompers, 1995; Bergemann and Hege, 1998; Cornelli and Yosha, 2003). Besides the exit route and timing of exit (Nguyen and Vo, 2021), other factors such as the geographical location, proximity to the investees, syndicate size and effectiveness, venture capital firm's experience, technological improvement or achieved milestone, entrepreneurial skills of the investees, industry type, stage financing, government policies, including the liquidity level of the economy (Frimpong, Akwaa-Sekyi, Sackey and Saladrigues, 2022) also affect the exit decisions of venture capitalists (Dominic and Joseph, 2023). In the subsections that follow, the study highlights and explains the factors influencing venture capital exit decisions.

2.2.6.1 Geographical location

Venture capital operations have a high propensity to succeed if the investee is suitably located around a developed cluster of entrepreneurial activities (Lin, 2023). The cluster of activities

thus attracts start-up financing from venture capitalists, whose goals are to facilitate the success of the venture. Like Silicon Valley in the United States, entrepreneurial activities around Route 128, (an early-days technology hub for innovative companies in Boston), are highly innovative, game changers and investors can choose ventures with high prospects of early returns, which shortens the venture capital exit time period. The early exits resulting from investment in high-tech concentrated areas such as Silicon Valley (Ahluwalia and Kassicieh, 2024) further accelerate business developments, as more resources are freed up by exited ventures for reinvestment into other growing or developing ventures (Giot and Schwienbacher, 2007). The clustering of entrepreneurial activities may serve as a pool of entrepreneurial prospects within which research innovation can be carried out, thereby providing the venture capitalist with the opportunity to select high performing ventures with minimum expected failure rate.

Location makes it easier to find the required resources for developing companies from scratch, as is the case with Silicon Valley (Lin, 2023). It gives credence to networking and vital business connections, which leads to better performance of the venture capital industry. Location and the clustering of prospective investees bring together firms with similar objectives, and encourages entrepreneurial spirit within the region of operation, which reduces information asymmetry and other costs for venture capital investors. Hellman (2002) points out that the circulation of novel ideas is beneficial for start-ups, and the overall effect is that the shared knowledge builds capacity, creates a fertile ground for venture capital inventors at minimum rate of failure, and an exit at maximum expected return through IPO. Here the negative effects of liquidation are minimised, and firms can be easily be merged, sold to another firm with similar operations or bought in a buy-back by the investees themselves. It is important that the regulatory environment favours and facilitates the coexistence of industry clusters and venture capital financing to replicate the successes of entrepreneurial hubs like Silicon Valley in the USA (Ahluwalia and Kassicieh, 2024; Lin, 2023).

2.2.6.2 Venture capital firm experience

The venture capital industry is most likely to operate at optimum, and push through with an early exit by means of IPO, if the financing venture capital firms are well established investors, with the requisite skills and experience in the areas in which they provide financing (Yeo, Gim, Yang, and Kim, 2023). More experienced venture capital firms are able to add value to the investees' companies and build up strong syndicates, as well as providing a roadmap for the

companies' continuity, even after exit. Experienced venture capital firms are less susceptible to investment selection problems at the due diligence stage (Wang, Wareewanich, and Chankoson, 2023). They are tactical and sensitive enough to identify and abandon bad investment opportunities quickly. Experienced venture capitalists can identify and control project-specific characteristics that would have been ignored, or given less attention by inexperienced investors (Giot and Schwienbacher, 2007). They know and are able to identify deals and the critical processes that should be prioritised for effective and efficient performance.

2.2.6.3 Proximity of the venture capital firm to the investee

Venture capitalists are most likely to assist their investees with the technical knowledge required to see the business succeed (Guttermann, 2022), and exit early enough, if they are located within the same regions in which their investees are located. The proximity of the venture to the investor reduces operational costs, as well as information asymmetry costs, and easily improves the monitoring and evaluation processes for the entrepreneurial firm (Lin, 2023). It gives the firm an overall understanding of the investee, and enhances the decision-making processes, with respect to either stepping up funding, or stopping the investment (Cumming and Johan, 2005). Giot and Schwienbacher (2007) assert that proximity affects the type of investment decisions that venture capitalists are most likely to take, when they have adequate information about the prospective investees. Ahluwalia and Kassicieh (2024) assert that venture capital clusters and geographic hubs or regions exhibiting intense venture capital funding activities are important determinants of venture capital exit performance. Linking proximity to exit is important, especially with mergers and acquisitions, and initial public offerings. Affiliation of venture capitalists to venture capital financing clusters enhances mergers and acquisitions, and initial public offering success, with a strong influence on merger and acquisition success (Ahluwalia and Kassicieh, 2024).

2.2.6.4 Entrepreneurial skills and experience of the investee

Although venture capitalists control the investments during the contractual periods, they need a wealth of capable and purpose-driven entrepreneurs with the required skills (Guttermann, 2022), knowledge, and vision, that are aligned to the intended mission and vision of the venture capitalists, who will be responsible for running the investment. With the advancement in technology, most investors believe that the most important factor in venture capital financing is the entrepreneurial experience (Ananadapadmanabhan and Klave, 2024) and the ability to

run and scale up the business satisfactorily to yield return for the investors. However, investors' prior experience to business is equally vital. If the investor perceives that the management team is incomplete, it is generally imperative that they convince the founders to bring in managers who are willing to bring in the required experience and skillsets. Key attributes that are required for managing the venture include the ability and willingness to communicate honestly, and willingness to be coached by the venture capitalists, as well as openness to frequent evaluation against clearly stated goals (Gutterman, 2022). While cultivating and growing top-tier innovative talent in an economy is vital for the venture capital ecosystem (Jalaja, 2022), managerial experience is equally necessary to scaleup the business and make it attractive for an exit opportunity (Ananadapadmanabhan and Klave, 2024).

2.2.6.5 Technological improvement or achieved milestone

Venture capital investees are mostly characterised by information asymmetry (Pezeshkan et al., 2019), which makes it difficult for the venture capitalists to make informed decisions about the status quo of the investee. The state of technological advancement of the investee is critical, as Wang, Wareewanich and Chankoson (2023) point out that contemporary economic growth is not a result of increase in factors of production but the result of advancement in technology. If a company's technology is good, it is a signal that the company would progress and would most likely succeed. A company that progressively moves from one investment round or development stage to another signals a milestone in its operations, which may in turn accelerate successful exit (Bergermann and Hege, 2002). Evidence from China shows how the government used technology to achieve milestones in economic growth after the release of emerging technologies in 2015 in key areas (Wang, Wareewanich, and Chankoson, 2023) such as biology and medical technology, aerospace technology, new material technology, high-tech service industry, electronic information technology, energy-saving technology, high-tech transformation of traditional industries and resource and environmental technology. The concept of a milestone goes beyond technological advancement, and may include progress made in team building, market research and market analysis, and other critical factors such as human resources (Dedehayir and Steinert, 2016; Litvinski, 2018, Zhang and Zhang, 2016) in a firm's development and building an innovative economy, as is the case in China (Zhang and Zhang, 2016). A clear achievement of a milestone can give sufficient information about the product itself, and goes beyond the technological dimension. According to Bergemann and Hege (2002), a project of several stages is characterized by benchmarks. Successful completion of this project requires that each benchmark is met, as time and money needed to

meet each benchmark are subject to uncertainty. At each point, the project can either make progress or fail (achieve or fail to achieve a milestone). If venture capitalists continue injecting funds at each stage of the project without observing the achievements of the next benchmark, their wish to abandon the entire project intensifies. Alternatively, when each benchmark is achieved, the probability of success grows. In either case, the possibility of an exit, be it IPO or liquidation, is imminent, depending on whether each of the milestones is achieved or not (Bergemann and Hege, 2002). Technological innovation gradually paved the development model in China with Chinese characteristics, with venture capitalists playing a big role in technological development and its efficiency (Yu and Lu, 2017).

2.2.6.6 Industry type

Generally, venture capital investment targets entrepreneurial ventures with very high returns. Innovative technology and information communication technology are generally the most preferred and attractive sectors. Silicon Valley in the United States, where most technology sprang up, is a typical example. In Russia, over 86% of investment was made in the ICT industry in 2016 (RVCA, 2016). The same applies to China and India, with very high exit rates through IPOs in ICT industries. This explains why economies characterised by high technological advancements are more likely to attract venture capital investments compared to less innovative economies (Dalal, 2022).

2.2.6.7 Funding stage

According to Tian and Huang (2023), venture capital stage funding has been around for decades. Related literature on venture capital indicates that venture capitalists time their exit using stage financing (Giot and Schwienbacher, 2007; Pezeshkan et al., 2019). Using staged financing, venture capitalists decide whether to make an investment, or delay the investment decision, at each round (Panda and Gopalaswamy, 2023). They split the funding into several funding rounds, as earlier highlighted by Giot and Schwienbacher (2007), Gompers (1995) and Hege (1998), which gives them the option to exit an investment whenever they realise that a chosen exit route is not attainable. If the focus was optimum performance through an IPO exit (Weniger, Jarchow and Nenadic, 2023), and this is no longer viable in the shortest possible time, an alternative exit route such as trade sales, buyback, or merger and acquisition, may be considered, and funding for listing at the mezzanine stage is saved (Giot and Schwienbacher, 2007).

2.2.6.8 Timing of exit

Generally, the offer price plays a critical role in the exit decision of the venture capitalists, as it helps in ascertaining the market value of the investment. Besides offer price, two important dimensions influence the exit decision. Firstly, the type of exit route, and secondly the actual timing of the exit (Weniger, Jarchow and Nenadic, 2023). Academic literature on venture capital exits indicates that venture capitalists time their exits using stage financing split into several rounds (Bergemann and Hege, 1998; Gompers, 1995; Cornelli and Yosha, 2003). Stage financing ensures that venture capitalists stagger their risk according to the investment stages (Firmansyah and Al Ayyubi, 2024), and offers them the opportunity to exit an investment that is not profitable at an early stage, and therefore save the huge investment cost that would have arisen at a later stage if the investment was not profitable. If an exit route such as IPO is no longer viable, stage financing acts as a disciplinary measure that venture capitalists exert on venture capital-backed firms, as this provides exit options for venture capitalists at all financing stages. Besides staged finance, numerous studies document the wide use of contractual arrangements aimed at guaranteeing the venture capitalist explicit intervention rights (Cayon and Vinageras, 2020) regarding exit issues at each stage of the investment deal, (Cumming, 2002; Gompers, 1997; Kaplan and Stromberg, 2003). Generally, these rights guarantee that the venture capitalist can force an exit at any point in time (Cayon and Vinageras, 2020).

2.2.6.9 Syndication

As the venture capital market develops, syndicates become more and more vital for the effective functioning of the industry (Xiong and Fan, 2021). The stronger and larger syndicates can provide a greater amount of capital investment through their coordinated efforts of networking (Firmansyah and Al Ayyubi, 2024). Studies suggest that larger syndicates make exit much easier for start-ups, as this increases the pool of contacts necessary to make a trade sale possible (Admati and Pfleiderer, 1994; Giot and Schwienbacher, 2007; Hellman, 2002; Lerner, 1994; Megginson and Weiss, 1991). Well-established and structured venture capitalists' syndicates can further facilitate the IPO process through enhanced certification, leading to less underpricing (Giot and Schwienbacher, 2007). Syndication further provides increased performance through complementary skills, and bridges the knowledge gap between syndicate members. In China, venture capitalists that are unable to obtain institutional advantages in the formal system reduce their risks by way of forming networks (Firmansyah and Al Ayyubi, 2024). As such, larger syndicates are more likely to exit from successful

ventures through either IPOs, trade sales, or mergers and acquisitions (Giot and Schwienbacher, 2007). Co-investment also helps in reducing information asymmetry (Firmansyah and Al Ayyubi, 2024; Xiong and Fan, 2021).

2.2.6.10 The legal environment

Meggison (2004) asserts that differences in the design and the extent to which the private equity and venture capital industry is developed result from institutional factors. Further to that, a country's legal system is paramount in influencing the degree of venture capital activities (Dalal, 2022). Cumming and MacIntosh (2002) found that venture capital and private equity managers in countries with good regulatory environments, like the USA (Kato and Chiloane-Phetla, 2021), have a greater tendency to invest in high-tech SMEs that spur innovation, and mostly exit through IPOs rather than buybacks or trade sales, and obtain higher returns (Weniger, Jarchow and Nenadic, 2023). A further examination of legal and regulatory effects on governance structure posits that, with better legal systems, syndication is higher, as evidenced in Indonesia, where farmers, FinTech and lending institutions partnered to facilitate the innovative progress of Tanihub (Firmansyah and Al Ayyubi, 2024), and the origination and screening of deals are made faster and simplified (Cumming et al., 2004). A good legal environment ensures the efficient use of organisational resources in the investees, with easier representation of the investors on boards. This lowers the probability that investors would require periodic cash flows prior to exit, leading to a higher probability of investment in high-tech companies. The legal environment is therefore primary in shaping the venture capital industry, as the regulatory framework facilitates the functioning of venture capital activities and exit decisions (Kato and Chiloane-Phetla, 2021).

2.2.6.11 Liquidity level of stock markets

According to Frimpong, Akwaa-Sekyi, Anyars, Peprah-Yeboah and Saladrigues (2024), in well-developed capital markets, the venture capital market complements the stock market, as it provides equity finance. Michelacci and Saurez (2004) found that more liquid stock markets are able to facilitate the recycling of venture capital funds, as they allow venture capitalists to redirect their human capital to new projects more quickly (Giot and Schwienbacher, 2007). While other macroeconomic factors such as interest rates have a significant inverse relationship with venture capital liquidity, the size of the economy and monetary supply increases venture capital liquidity (Frimpong et al., 2024). Market liquidity allows venture capitalists to cash out part of, or their entire equity stake, and put it into further investments

(Frimpong, Akwaa-Sekyi, Sackey, and Saladrighes, 2022). Venture capitalists adjust their investment decisions in accordance with the level of liquidity of the IPO markets (Shuwaikh, Brinette, Khemiri, and De Castro, 2024). During highly illiquid periods, venture capitalists invest more in early-stage and high-tech companies to defer exit requirements, but invest more in later stages when the markets appear to be more liquid (Espenlaub, Khurshed, and Mohamed, 2015).

2.2.7 Venture capital exit strategies

Although research interest on venture capital management has been on the rise across the globe, very limited literature exists on venture capital exit (Felix, Pires and Gulamhussen, 2008). Gompers and Lerner (1999) assert that exit mechanisms are key to the entrepreneurial process needed for the success of the venture capital industry, as the entrepreneurs and venture capitalists would realise their share of wealth from the investment deal only after exit (Covin, Daily and Dalton, 2001; Cumming and Johan, 2008). An assessment of the various exit options by venture capitalists prior to their investment is therefore necessary (Giot and Schwienbacher, 2007). A successful timely exit ensures a recycling of funds for further or new investment opportunities (Frimpong et al., 2022), which builds a reputation for the venture capital firm (Chaplinsky and Gupta, 2016), giving the limited partners (LPs) confidence in the venture capital market; furthermore, it makes fundraising easier for the venture capital firm (Gemson and Annamalai, 2015; Gompers, 1996; Hibara, 2004). The primary activities of venture capital firms consist of investment, management support, exit, and reinvestment. This cycle is the brains behind the venture capital market (Espenlaub et al., 2015; Puri and Zarutskie, 2012; Raghupathy and Rajan, 2010). In the following subsections the study examines the possible exit routes for venture capital investment deals.

2.2.7.1 Initial Public Offering

According to Guo, Lou and Perez-Castrillo (2015), the investee company obtains a stock market listing. This allows the company to receive additional funding for its projects, and enables the insiders to eventually sell their shares to the public. The insider gets immediate cash for their shares if the start-up is acquired. Initial Public Offering (IPO) represents a typically successful exit option for venture capital investors (Guterman, 2022). While it is a less frequent option in countries with less developed stock markets and poor regulatory legal environments, it is a more likely option in countries with a higher legality index and efficient stock markets (Cumming et al., 2006). Academic scholars posit that, on average, IPOs provide

the highest return on investment to venture capitalists, although trade sales may be successful exits. IPOs are most common in continental Europe, the USA (La Porta et al., 1999), and recently in China, after the IPOs reforms in China.

Giot and Schwienbacher (2007) submit that after having reached a plateau, investments that have not yet been exited are susceptible to lower possibilities of an IPO exit as time goes by. The evidence is that investees with high possibilities of an IPO exit get selected relatively fast. On the contrary, if they fail to achieve public listing early enough, the chances of doing so decrease. Subsequently an increasing hazard rate, and then a decreasing hazard rate, is observed.

2.2.7.2 Mergers and Acquisitions

To consolidate the efforts of mergers and acquisitions, forward thinking governments, such as China, provide conducive environments for venture capital investment through this route, by simplifying the approval procedures for overseas acquisition of domestic operations. Major reasons for acquisitions are potential return on investment, synergising with core business in your areas of operations, low-cost manufacturing, and improvement in market positioning, in the case of China.

According to Cumming and Johan (2008), contractual arrangements and behaviours of venture capitalists may influence the exit options they are most likely to pursue. If venture capitalists planned to exit through acquisitions, they normally obtain stronger control rights (Guttermann, 2022) and are most likely to use convertible preferred stock. Venture capitalists' identities may further define or influence the exit options for their portfolio investments. A pre-IPO ownership agreement by foreign venture capitalists is positively related to post-IPOs on foreign exchanges (Hursti and Maula, 2007).

2.2.7.3 Trade Sales

Trade sales are more universal exit channels (Giot and Schwienbacher, 2007). Unlike IPOs, trade sales are concluded when the investor decides, at a certain point, to dispose of the investment by selling their shares to another company (Guttermann, 2022). While venture capital-backed companies will first exhibit the likelihood of exiting through IPOs, they may sometimes reach a plateau, and non-exited investments become less likely to be exited through an IPO. As the time of a possible exit through IPO increases, the venture capitalist

begins strategising on alternative routes for exiting the investment. In this case, a trade sale becomes increasingly possible (Giot and Schwienbacher, 2007).

A sale can either be strategic or secondary. In a strategic sale, a typically strategic large acquirer purchases the shares of both the venture capitalist(s) and the entrepreneur. In other words, all shareholders sell their interest to the acquirer (Guttermann, 2022). A secondary sale arises in a situation where existing shareholders sell their shares for cash to third parties, or back to the company, before the company exits (Qimatshoeva, 2020). This implies that some parties still maintain interest in the venture after a secondary sale. In the case of a strategic sale, all shares are sold to the strategic acquirer, and neither the venture capitalist(s) nor founders maintain an interest in the venture.

2.2.7.4 Management Buyout and corporate repurchase

Corporate repurchase assumes that upon successful financing, employees buy equity shares from the business to gain control of the venture (Guttermann, 2022), or managers buy the shares of the business in the case of a management buyout. This often requires skills and funds on the part of employees and management in order to successfully leverage the operations in the absence of the venture capitalists, who would have provided expertise and finance to the business from its inception up to the exit point.

The dependence on IPOs requires standardised policies and regulations for the effective and efficient functioning of stock markets in countries which desire venture capital as an alternative method of financing. This happens mostly in countries such as the United States, the United Kingdom, and other countries in the developed world where the financial markets are well structured and function properly (Guttermann, 2022).

2.2.7.5 Liquidation

As explained by Puri and Zarutskie (2012) failures to exit investments are unfortunately inevitable in venture capital endeavours, and sometimes often lead to the selection of liquidation as a form of exit from the investment. This is an important exit route, as it becomes the only option to end the investment deal. Puri and Zarutskie (2012) suggest that venture capital investors usually invest heavily in all their portfolio companies for an initial period, until they have a good sense of judgement about which investment would be successful. There is

a window period during which venture capital investors allow their portfolio companies to grow, but once this period is over, venture capital investors are just as likely to shut their firms down. Giot and Schwienbacher (2006) note that the hazard function for internet firms reaches a plateau quickly (1200 days), and strongly decreases thereafter. On the contrary, biotech firms are slow to reach a plateau and therefore slowest to liquidate, as they mature slowly and do not incur large up-front costs to build manufacturing facilities. Venture capitalists are therefore aware that some investment deals may not yield returns, and these are then subjected to liquidation.

2.2.7.6 Contractual clauses

The use of contractual clauses allows investors to guard against information asymmetry (Pezeshkan et al., 2019), and obliges investees to act professionally in the interest of the investment (Horáková, 2022), which gives investors the protection and the right to exit if business is not moving as intended (Alperovych and Hubner, 2013). Conversely, investees should understand the contents of the agreement – that a fund is fully protected when it invests in start-ups (Cayon and Vinageras, 2020). In the context of venture capital investment, a fund represents an investment vehicle that pools resources for investment in startups (Harris, Jenkinson, Kaplan and Stucke, 2023). On this matter, Cayon and Vinageras (2020) highlight five clauses worthy of consideration as subsequently outlined.

2.2.7.6.1 Governance and management body of the start-up

The agreement that investors are entitled to appoint certain members of the board of directors ensures that the fund exercises its rights to information access easily, and adequately monitor, inter alia, the operational metrics and results of the deal. Regulating the activities of the investment is critical here, and this normally leads to the principles of reinforced majorities and reserved matters. (Cayon and Vinageras, 2020). The provision of reinforced majorities requires the adoption of certain matters in shareholders' meetings, whereas reserved matters suggest that certain matters gain favourable votes of directors appointed by the fund for approval, and give the fund directors the right to veto those decisions. Such clauses should be well-crafted to avoid deadlock, and should therefore only deal with critical issues such as structural modification and changes in shareholdings (increase and reduction in capital), dissolutions and liquidations, distributions to shareholders, and investment decisions for reinforced majorities and unbudgeted expenses or liabilities above certain amounts, and granting of

securities and loans other than in the normal course of business for reserved matters (Cayon and Vinageras, 2020).

2.2.7.6.2 Restrictions on share transfers

Generally, founders constitute an important component in the life of startups. It is therefore important that the shareholder agreement provides for a period of time, between two to five years, in which founders are not allowed to transfer their shareholding to third parties and so cease being part of the company's shareholdings. This is commonly referred to as a "lock-up" clause (Tutuncu, 2020). Shareholders are usually allowed to transfer their shares within the same group on an exceptional basis in the event of an IPO, or where there exists written consent of all shareholders (Cayon and Vinageras, 2020).

The agreement should further detail the regulation of cases of "good leaver" and "bad leaver" scenarios for indemnity purposes, in cases of non-compliance to the "lock-up" period by the founders. Non-compliance cases are linked to a call option (Pintér, 2020) of the rest of the shareholders (Cayon and Vinageras, 2020). Additionally, founders of funds also engage in the business, dedicate time to comply with milestones as diligent and reasonable businesspersons in a prudent manner that ensures the adoption of measures for the proper functioning of the business.

2.2.7.6.3 'Drag-along' right and 'tag-along' right

The 'Drag-along' clause requires that if the fund receives an offer from a bona fide third party to purchase a 100% share of a start-up, the remaining shareholders are automatically obliged by the fund to transfer their shares to the third party (Horáková, 2022; Pintér, 2020). Cayon and Vinageras (2020) assert that the usual approach to negotiate this clause is by including a minimum value at which funders may sell the shares, and equally force shareholders to sell as well. For instance, the fund may exercise the drag-along right, provided that the total offer made by the purchaser (third-party) entails an evaluation of the start-up's enterprise value equal to or greater than the reasonable amount considered by the parties.

The 'Tag-along' counterbalances the drag-along right for the benefit of minority shareholders (Qimatshoeva, 2020). It provides that, if any shareholders receive an offer from a bona fide third party to transfer shares, be it part or all of the shares in the start-up, the rest of the shareholders, including the fund, will be entitled to transfer to the same third party in exchange

for the price offered by the third party to the transferring shareholder (Cayon and Vinageras, 2020). The clause ensures that if a shareholder receives an offer from a third party, such a shareholder will not be entitled to transfer the shares without extending the offer to other shareholders and the fund (Horáková 2022).

2.2.7.6.4 Preferential liquidation scenarios

This clause provides certain liquidation scenarios as would be in the case of a change of management and control of the start-up, and its dissolution and liquidation. In this regard, the fund has the preferential position when the proceeds are being paid out (Cayon and Vinageras, 2020). As per shareholders' agreement, the clause provides that when faced with liquidation scenarios, before distributing any amounts, the fund receives a full refund of amount invested in the start-up before any amounts are made proportionally to other shareholders and any dividends payable may be distributed (Bartlett, 2023). The clause protects the fund. It ensures that in case of dissolution, liquidation, or sale to third parties, the fund receives at least the initial amount of its investment made, with preference over the other shareholders (Li, 2023).

2.2.7.6.5 Anti-dilution clause

The anti-dilution clause seeks to safeguard against the consequences of capital increase resulting from future investment rounds, which might put the fund's percentage at stake in the share capital of the start-up. Such investment may reduce the overall share capital of the investment (Guterman, 2022). To address this issue, there are generally two ways to regulate and protect shareholders and the fund. The most usual way involves the use of a preferential right of acquisition of new shares clause, which grants the existing shareholders that form part of the share capital of the start-up at the time of issuance of new shares, the right of increasing their capital in the future investment rounds. The clause outlines the procedure to be followed by each shareholder to exercise the preferential right acquisition in the shareholders' agreement, and avoid a reduction of their capital (Cayon and Vinageras, 2020).

Besides the preferential acquisition clause, shareholders' agreements generally include an anti-dilution clause in which parties agree that future capital increase may not be made in a manner that lowers the value of a share below the share value of the investment rounds in which the fund invested (Guterman, 2022). This protects the fund's shares, which are being issued for a value lower than that which the fund paid (Cayon and Vinageras, 2020). The fund may request the creation or issuance of new shares to offset the loss value, and be awarded

the number of shares in order to place it in the position in which it should have been placed in the initial investment, thereby avoiding the dilution of the fund's stake in the share capital (Cayon and Vinageras, 2020).

2.2.7.7 Stage financing

Venture capitalists commit themselves to further invest only if they realise predefined milestones. Such milestones may be financial or non-financial. Staging therefore gives the investors an option to abandon an investment that does not perform as expected. Staging is considered as one of the strongest push-mechanisms used by venture capitalists. It provides incentives for investees to perform well (Sahlman, 1990). The realisation of a technical milestone such as the successful completion of an innovation could incentivise the investors to continue funding the next stage of the investment deal. A study of 2143 equity financed rounds in 794 venture capital backed-companies by Gompers (1995), for the period from 1961 to 1992, observes a decrease in industry ratios of tangible assets to total assets, and higher market-to-book value ratios. Greater research and development are associated with shorter funding durations. This accounts for the reasons for tighter controls and stage funding.

Staging is a key characteristic of venture capital financing. Instead of availing all the necessary funds upfront, investors invest in stages, which allows them to keep the project under control and monitor the firm before incremental financing decisions are made. Viability information about the projects ensures that venture capitalists avoid dumping money on bad projects, and this reduces losses from the continued funding of unproductive investments. As such, staging provides an exit option for venture capitalists. Monitoring the viability and credibility, as well as threatening termination, reduces the effects of moral hazards and limits potential financial losses (Wang and Zhou, 2004).

2.3 Country-based literature

The concept of venture capital has been accepted by many countries since its inception in 1946. This research is intended to enhance the exit of venture capital investment within South Africa. To address the issue of exit and establish an exit framework, the research reviewed literature from the BRICS+ founding member states. However, the review begins with the United States, where venture capital began (Etzkowitz and Zhou, 2012). This is then followed by Ghana (an African example), in order to gain an insight into how to improve venture capital exit in South Africa. Considering that South Africa is a member of the BRICS+ bloc, there is

much to draw from the venture capital experience of China and India, as they are well-known giants in venture capital activities, after the USA (Lin, 2019; Salter, 2009). The overall role played by venture capital in developing economies is also discussed.

2.3.1 The role of venture capitalists in economies

Venture capital can be considered as the salvation for new business ventures, as it plays a huge part in the financing journey of entrepreneurial ventures, as many entrepreneurs would hardly attract the required resources needed to quickly propel their business ideas into forming successful businesses. Venture capital financing is the key to infrastructural innovation (Gornall, 2015). Venture capital firms are providers of three critical resources to entrepreneurs who are pursuing transformative ideas of commercial success. Firstly, they are the suppliers of money that finances the new ventures created by individuals (Barney et al., 1996). Secondly, venture capital firms bridge the information asymmetry gap (Firmansyah and Al Ayyubi, 2024; Xiong and Fan, 2021), between entrepreneurs and investors, as they help assess new ventures for investment and provide guidance to entrepreneurs in their roles as managers (Sapienza, 1992; Sahlman 1990). They do not only provide funds but are invaluable resources to entrepreneurs, who lack the ability, knowledge, and foresight of risk that entrepreneurs require to grasp opportunities and face challenges. Gornall (2015) observes that the finances and knowledge they provide has been critical in financing high-tech enterprises such MacAfee, Apple, Cisco, Intel, Amazon, and Genentech in the USA. Thirdly, venture capitalists provide a network of relationships which include, but are not limited to, financial, technological and business-based contacts. The three features identified above help to facilitate and speed up the process of propelling the business ventures, and create value for both the entrepreneurs and investors' groups (Gompers and Lerner, 2001).

2.3.2 The role of venture capital in the United States of America

The emergence of corporate vitality through venture capital has been on the rise, and by the end of 2001, businesses financed by venture capital funds since 1970 accounted for 5.9% of the jobs in the USA, with 13.1% of the Gross Domestic Product in the year 2000 (Mantell, 2009). According to Vanacker and Manigart (2013), the rapid rise was driven by technological developments in ICT, the internet, biotechnology, and venture capital industry, which provided a huge push to this extraordinary growth over the last decades (Zhao, 2023). The venture capital industry is now broadly accepted in the USA, with an established asset class base within many institutional portfolios worldwide, and has gained much attention. By 1990 funds

committed to venture capital amounted to 2.3 billion US dollars, and increased to 104.8 billion US dollars in 2000. Although the burst of the internet bubble halted the development of venture capital, funds already committed to this industry still stood at 12.3 billion US dollars in 2010 (Vanacker and Manigart, 2013).

The venture capital industry in the USA has been a fast-growing industry, although little attention has been paid to the formal theory of entrepreneurial behaviour in its solicitation process, despite the abundant literature clearly describing the attitudes and investment behaviours of venture capitalists. To realise their return rates, venture capitalists in the US employ different exit strategies (Guttermann, 2022), and there is abundant literature consisting of how-to-do-it books, disseminating practical guidance to entrepreneurs who seek financing for their business ventures (Mantell, 2009). As stockholders are often very disinterested in high-risk investments, venture capitalists act as intermediaries (Clayton, Feldman, and Lowe, 2018) and manage funds for these downstream investors who are buyers of stock when the business goes public. They bridge the gap between the poorly-informed investors who would not provide financing to failing investments and the entrepreneurs looking for funds to move the business to success (An, Rowley and Mitchell, 2025). As such, venture capitalists assume the problems of risk and uncertainty in managing business ventures, by providing guidance and technical expertise to manage the business as well as providing funding for the business (Chikop, Johan and Tarsalewska, 2020). They can cope with information asymmetry to resolve the problem of adverse selection problem (Pezeshkan et al., 2019).

Venture capital firms in the USA often finance projects at a time when there are no income streams or growth prospects for those that are in existence, and entrepreneurs approach venture capitalists for funding at the different stages of promising ventures (Tian and Huang, 2023). They provide financing for start-up projects whose resources are intended to be used for product development and initial marketing (Snyman, Kennon, Schutte, and Von Leipzig, 2014). Their first stage financing provides financing resources to companies that have exhausted their initial capital and are in need of finances to initiate their manufacturing and sales processes.

At the second-stage financing, they provide the working capital for initial expansion. These funds are meant for operations in companies such as producing and shipping products, and with growing accounts receivables and inventories. At the third-stage, they provide financing

for the expansion of ventures with increasing sales volumes, to ensure break-even points or when these ventures start making profits. Finally, they provide financing at fourth-stage level, normally referred to as mezzanine or bridge financing, where funds are invested, and the companies are expected to go public within a period of six months to a year. At this last stage, they bridge the information asymmetry gap (Pezeshkan et al., 2019) through their downstream intermediary function between the entrepreneurs and ordinary stockholders. Although venture capitalists in the United States may not provide 100% of the entrepreneurs needs, they make significant contributions at the various stages of the financing process. In 1999, an estimated 30% of support went to the first and second rounds or stages of financing, while the third and later rounds received 40% support, with almost zero financing allotted to the seed stage (Mantell, 2009).

Venture capitalists have generated billions of dollars for investment, and many companies backed by venture capitalists have experienced a boom, gone public, have distinguished brand names, or have created high-skilled jobs, as well as trillions of dollars for the US economy. By the end of 2013, venture capital-backed businesses in the USA capitalised 115 billion US dollars in Research and Development (R&D), compared to zero capitalised in 1979. Venture capitalists now account for 42% of the R&D spending of US public companies. This has not only added value to the companies concerned, but has had a positive spill-over effect globally, which has helped most companies in America and around the globe to grow sustainably (Gornall, 2015).

As noted earlier, the emergence of the venture capital industry in the United States of America brought about the licensing of 585 Small Business Investment Companies (SBICs), which held approximately 205 million US dollars of private money. With this money provided by venture capital firms, computers, electronics and data processing ventures were boosted, and venture capital firms made funds available to many tech-driven companies such as Apple, Xerox, Intel and American Microsystems (Etzkowitz and Zhou, 2012).

2.3.3 The role of venture capital investment in Ghana

According to Biney, Gan and Nguyen (2016), venture capital funding is not a new concept in Ghana, although limited research exists in this area. They state that the US Agency for International Development (USAID) and the Commonwealth Development Corporation supported the development of working capital in Ghana in 1991, and the initiative was

reintroduced in 2006 to help promote SMEs as well as develop the venture capital industry. Brew-Sam (2011) asserts that SMEs in Tema Metropolis prefer self-financing. However, they occasionally receive financial support from finance institutions. SMEs that access venture capital finance receive technical support in terms of managerial expertise, skills development, and access to marketing product distribution.

Like most developing economies, the venture capital industry in Ghana faces numerous challenges. The outlet prospects are inadequate, as there is an unstable IPO environment, a general lack of industry policies, a lack of rules and regulations, inadequate R&D support, as well as poor record-keeping by SMEs, which renders the activities of the venture capitalists ineffective, despite having a high growth potential and prospects. SMEs in Ghana see venture capital as a solution to their problems, but are not willing to go into business deals with them for fear of losing control of their businesses; they would prefer a \$1 total ownership than a \$100 - 10% ownership. Generally, venture capital prospects in Ghana are high, and the industry can flourish if the government puts in place a mechanism through which the industry can grow (Biney et al., 2016).

Biney et al. (2016) investigated the impact of venture capital financing on SMEs growth in Ghana in 2016, using propensity scores matching and difference-in-difference estimation, and found that venture capital-backed SMEs performed better in terms of sales and employment growth compared to non-venture capital-backed SMEs. Due to their access to financing, venture capital-backed SMEs in Ghana increased sales and employment growth by 1.5 % and 3.7% respectively. Generally, venture capital-backed SMEs in Ghana experience a high growth rate and are very sustainable, compared to non-venture capital-backed SMEs. According to Biney et al. (2016), venture capital investment in Ghana can produce tremendous results if the desired attention is given to it. They observed that most venture capitalists have adopted a 'fly in fly out' attitude. They only fly into the country when they discover an investment opportunity, and fly out of the country shortly after. This approach is disturbing, and SMEs are not comfortable with this approach to business. Furthermore, government policies and regulatory frameworks are required to ensure that venture capital financing are accessible sources of finance. Policymakers should therefore, create an enabling environment such as macroeconomic stability, investors' rights protection, and the provision of incentives such as tax breaks and low tax rates for venture capital providers. These could go a long way in aiding the development of the venture capital industry and the entire Ghanaian economy.

2.3.4 Historical overview of venture capital operations within the first five members of the BRICS+ bloc

In this section, this study presents a historical account of venture capital activities within the first five member states of the BRICS+ nations. This is to provide an insight into the performance of these five member states in venture capital activities from the time they adopted the concept of venture capital. The member states accounts are presented in the following subheadings.

2.3.4.1 Venture capital operations in Brazil

Academic research in private equity and venture capital activities in Brazil, indeed in the entire Latin American region is very limited, mainly because of the lack of data (Carvalho, Netto and Sampaio, 2014). Venture capital activities are more often than not differentiated from private equity funding. Castilho, Resende, Montoro and Shokoto (2019) noted that venture capital and private equity funds in Brazil are regulated under Normative Instructions numbers 209/94 of 1994 and 391/03 of 2003 respectively. The first Brazilian venture capital fundraising was in 1981 (Minardi, Kanitz and Bassani, 2020), but active participation in venture capital and the private equity funds market only began in the 1990s as a result of the country's Real Plan, which led to economic stability (Minardi et al., 2020). According to Carvalho et al. (2014, systematic data on Brazil private equity and venture capital industry was first made available by Ribeiro, De Carvalho, and Furtado (2006) through a survey of 65 private equity and venture capital organisations in 2004, which was further updated by ABDI (2011).

During the 1980s and part of the 1990s, the Brazilian economy witnessed double-digit monthly inflation rates, and had been stagnant for decades (Carvalho et al. 2014; Gonzalo, Alves, Federico, Szapiro and Kantis, 2024). This stagnation did not attract business investments (Minardi et al., 2020), either from within or from outside of Brazil, as the political atmosphere was unstable and corrupt, and the financial market was underdeveloped, which made venture capital exit through IPO a critical problem (Carvalho et al., 2014; Miranda, 2012). Besides, there were no legal structures at the time to govern private equity and venture capital activities compared to the United States (Gonzalo et al., 2022), where the legal structures existed and limited partners (LP) could manage the funds under regulations.

The main advantage of LP was that profits were not taxed, unlike in Brazil where LPs were held offshore with holding companies, without tax incentives. Pension funds in the USA also played a huge role and were not taxed on their private equity and venture capital investments. The commitment to ensure economic stability as a result of the 1994 Real Plan brought down inflation from 50% to 1% monthly (about 5% yearly), and this was an important milestone achieved, especially during President Lula da Silva (2003 and 2004). This commitment led to the stabilisation of the economy, resumption of economic growth and of stock markets; emergence of a pension funds industry, improved income distribution, and an increase in the per capita income despite the crises in Mexico (1995), Asia (1997 and 1998), Russia (1998), Brazil (1999), Argentina (2001) and the dot-com bubble in the early 2000s.

According to Carvalho et al. (2015), private equity and venture capital increased sharply by 9%, from US\$ 3.7 to US\$ 5.6 billion between 1999 and 2004, then jumped to 45% between 2004 and 2009 as commitments reached US\$36.1 billion. This translated to a movement of 0.63% to 2.23% in relation to GDP. However, the size of the portfolios did not mimic the industry growth, as the portfolio companies only increased from 306 to 502 between 2004 and 2009. To overcome the Brazilian limitations, the Securities Exchange Commission (Comissão de Valores Mobiliários (CVM)) established investment funds – the FIPs (Fundos de Investimento em Participações – share investment fund) and FMIEEs (Fundo Mútuo de Investimento Em Empresas Emergentes). These funds appropriated complete tax shields, and investors were allowed to collect income tax at their own tax rates (Antonio, Humberto and Joelson, 2014). These FIPs and FMIEEs added value to the private equity and venture capital market, as the funds proportion of investment increased from 33% to 42% from 2004 to 2009, and funds structured as holding companies dropped from 20% to 13%, while offshore funds remained relatively stable. An intriguing requirement of the FIP and FMIEE funds was the use of arbitration panels to settle conflicts. With the arbitration panel in practice, the proportion of funds using arbitration increased from 19% to 76%, portraying credibility in such funds (ABDI, 2011; De Carvalho et al., 2006). ABVCAP (2018) records indicates that there are 157 private equity and venture capital funds in Brazil, with a good reputation of controlling a company's activities (Castilho et al., 2019).

Venture capital was developed to operate within the US institutional environment, which is highly organised, with a sound legal system, stable economy and good regulatory frameworks (Gonzalo et al, 2022). The Brazilian environment was different, and investors' opportunities

were dimmed by corruption, a poor judiciary, and an inefficient legal system that could not enforce the rights of creditors or investors (Silva, Paula and Silva, 2024), as well as the fact that there was no strong syndication (Minardi et al., 2020). This made capital expensive, and most companies could not raise funds, since financial institutions could only provide short-term financing (Silva, Paula and Silva, 2024). Although a huge feature of the Brazilian economy was entrepreneurship, very few individuals engaged in entrepreneurial activities, with 40% of the economy in the informal sector. The tax rates were high, with very high indirect business cost. Early fund investors struggled to make their way out through the arbitration panels of the FIPs and FMIEEs, while the government struggled with regulatory reforms.

The period between 1999 and 2004 saw the Brazilian venture capital industry stabilizing, with an approximately 0.08% contribution to the economy's GDP. This put Brazil in the first position in Latin America's fundraising efforts by 2004 (Gonzalo et al., 2024), compared to Chile that raised 0.07% of GDP, with Argentina and Mexico ending 2004 at 0.05% each (Carvalho et al., 2006). Evidently, the pioneering firms' performance experiences were disappointing, as funds were raised in US dollars through holding companies between 1998 and 2002 due to the depreciation of the Brazilian Real, as well as the shortage of indigenous fund managers at that time, and the dot.com effects in the global industry in 2001 (Minardi et al., 2020). Notably, the private equity and venture capital market has been too cyclical, seeing investors exiting and entering the market from time to time. The 1999 - 2005 era saw most international firms exiting the Brazilian market, and practitioners named this period the Private Equity 'nuclear winter' (Minardi et al., 2020).

The 'nuclear winter' era saw the Brazilian government and the Brazilian private sector launching so many initiatives and policies aimed at improving the institutional environment, and this formed the basis for the rebirth of private equity and the venture capital industry (Silva, Paula and Silva, 2024). The Brazilian Venture Capital Association (ABVCAP) was launched in 2000 to consolidate private equity and venture capital institutional representation (Minardi et al., 2020). Through the ABVCAP, fund managers were able to negotiate meaningful regulations and policies to improve the private equity and venture capital institutional environment. In a like manner, FINEP, the Funding Authority for Studies and Projects within the Ministry of Science and Technology, with the assistance of the Multilateral Investment Fund (MIF) of IDB, launched the INOVAR programme (Gonzalo et al., 2024) which sought to foster private equity and the venture capital industry in Brazil. Fund managers, investors, and

entrepreneurs were trained through INOVAR programmes on best venture capital practices (Gonzalo et al., 2024). Differentiated government securities (stock listings) – New Market Level 2 and Level 1 – were launched in 2000 by B3, the Brazilian Stock Exchange (BOVESPA), for companies that complied with high level corporate governance to provide more transparent ownership protection to Brazilian public equity investors.

Many companies migrated to New Market Level 2, as IPOs were issued in these categories. The Brazilian Supreme Court (STJ) also recognised conflict resolution through the arbitration chamber, which resolved disputes amongst shareholders and debt holders in corporations in 2005. In 2004, a new bankruptcy law was approved, to give more protection to lenders, and this opened up opportunities for a market in distressed companies' securities. These reforms caused a boom in the stock market and opened IPO windows, between 2004 and 2008. Investments exited with high returns, and fundraising in Latin America and Brazil increased again from 2004. Foreign firms such as Carlyle, Actis, Sigular, General Atlantic, and Warburg Pincus opened offices in Brazil. New fund managers, including Gavea, Vinci, and Kinea were founded. The Global Crisis of 2008 did not affect Brazil much (Gonzalo et al., 2022; Minardi et al., 2020), except for in 2009. Fundraising was on the rise until 2012, when there was an economic downturn, compounded by the political crisis, resulting in the impeachment of President Dilma Rousseff in 2016 (Minardi et al., 2020). The election of President Bolsonaro and his economic reforms in 2018 saw another commitment to economic recovery, and for the cautious revival of Brazilians' investors' faith; private equity and venture capital funds raised US\$6billion, representing 73% of total capital committed in Latin America in 2018.

Brazilian early-stage venture capital only started booming in 2010, just three years after iPhone technology, as Apple mobile devices were introduced. Before then, early-stage venture capital activities were financed by MIF-IDB and BNDES (Gonzalo et al., 2022), alongside federal and state agencies, with the exception of Monashees, and High Net Worth (HNW) families, and individuals who adopted the Silicon Valley approach and raised funds in US dollars. Since then, the Silicon Valley style emerged with international independent corporate venture capitalists, and firms including Rocket, Intel Capital, and Qutum Venture opened offices in Brazil. The emergence of the Silicon Valley approach saw the joint launch of e-RedPoint e-Venture offices in Sao Paulo by RedPoint and e-Ventures (Gonzalo et al., 2022).

With this upsurge, the entrepreneurial ecosystem developed tremendously, leading to an increase in the number of angel investors (Silva, Paula and Silva, 2024), and business angels-related association rose, disseminating best investment practices among its members. Accelerators, incubators, co-working spaces, seed funds such as Canary, Maya Capital and others emerged, and corporate venturing became an agenda point for mature companies, such as Wayra and Oxiegio, to invest in corporate ventures and sponsor independent players. In 2018, the Brazilian Congress approved a tax law that allowed technology companies to utilise funds from R&D mandatory provisions (tax deductible) to finance corporate venture investments (Silva, Paula and Silva, 2024). Brazil's first unicorn was achieved in 2018. A unicorn represents an unlisted start-up company with a valuation of \$1 billion or more (Fujita, Okudo, Nishino and Ngane, 2022). A decacorn, on the other hand, is a start-up company with a valuation of \$10 billion or more (Ezangina and Malovichko, 2021). By July 2019, the Brazilian entrepreneurial ecosystem had produced at least 7 unicorns, namely Gympass, Stone, iFood, Movile, Nubank, Loggi, and Arco Educacao, with a good number of ventures. Nubank, Brazil's first decacorn, is a tech company valued at over US\$10 billion. There is a virtuous cycle in the Brazilian entrepreneurial tech ecosystem, which breeds start-ups founded by experienced entrepreneurs. According to Minardi et al. (2020), venture capital in Brazil does not experience many exit problems, despite its volatility, and the average investment period is 4 years. By March 2018, 61% of deals invested in 2009 were exited, followed by 56% in 2010 and 53% in 2011. The rates are above global industry percentage deals (ABVAP, 2018; Minardi et al., 2020). Exits are mostly through strategic buyers, followed by IPOs, and sales to owner (Minardi et al., 2020). Because of the development of the industry and the segmentation of private equity and venture capital firms by company size, increases in secondary sales are expected.

Brazil is a large economy, with over 208 million people. The private equity and venture capital industry in Brazil has been able to deliver high returns for investors, with an IRR of above 20%. The private and venture capital market represents an interesting option for investors to diversify investment portfolios and exploit available opportunities (Gonzalo et al., 2022). Unlike the global market, Brazil has not experienced negative trends in private equity and venture capital performance. Several unicorns have emerged since 2018, including the decacorn Nubank, and many more are still emerging. Family-owned companies dominate the economy, making it relatively cheap for low entry companies to enter into the market, compared to other countries (Minardi et al, 2020).

The Brazilian economy, being one of the largest consumer markets in the world, also offers opportunities for growing tech start-ups (Gonzalo et al., 2022), especially if they are low capital intensive and scalable. The most popular of these in 2018 were FinTech and Mobility. AgriTech is also very promising. International investors are regaining faith in the Brazilian economy (Minardi et al., 2020). Home-based investors, such as family offices, private pension funds, and wealth managers resumed investments in alternative assets in Brazil and these have become relevant for the fundraising of private equity and venture capital funds dedicated to Brazil. With new reforms (Silva, Paula and Silva, 2024), the basic interest rate is below double digits and continues to drop, so, in the process, paving the way for more investment and growth of private equity and the venture capital industry in Brazil (Minardi et al., 2020).

2.3.4.2 Venture capital operations in Russia

Venture capital activities in Russia are mostly reported by the Russia Venture Capital Association (RVCA), with the support of the Russian Venture Capital Company (RVC) and the Venture Innovation Fund. According to Moreva (2018), Russian venture capital literature is only partially reported, despite opportunities to venture in this area, and one is tempted to ask the question of whether there is enough reason to judge Russia's fundamental tendencies towards venture capital against its global evolution. The reported data by the National Russia Venture Capital Association focuses on venture investment and exit (Moreva, 2018). The reported data shows quite a modest growth of the sector. However, compared to the USA and Europe, Russia is yet to match the dynamics of its foreign competitors. Despite the slow progress, the Russian venture capital statistics do not contradict the dynamics of the industry in its foreign counterparts, although there are variations from private participants. Related literature reveals that the ICT sector is the most preferred area for investment, due to its innovative nature (Topilskaya, Semenov and Neyland, 2019), and is characterised by over 86% of venture capital activities, with over 75% investments (RVCA, 2016) followed by the Real sector (sector focused on production of goods and services). According to the Russian Association of Venture Capital, half of venture capital exits are from the ICT sector, and the sector accounts for 62% of venture capital exits in 2015. According to Hardy, Adams, and Moore (2020), venture capital investment in Russia varies in terms of investors. There is a growing trend for angel investors, corporate investors, and state funds involvement (Moreva, 2018) in the Russian venture capital ecosystem (Hardy, Adams, and Moore, 2020). In 2019, the highest number of deals came from private funds, angel investors, and accelerators

(Hardy, Adams, and Moore, 2020). Accelerators play a key role in the Russian venture capital ecosystem, as they prepare startups to gain traction in the local market.

Russian venture capital information correlates with that of other developed nations. Despite the increasing number of international sanctions on Russia, its investment in venture capital has been on the increase, averaging from 22 to 28 per year between 2013 and 2017, and surpassing the average decreasing number of liquidated funds, from 17 in 2013 to 5 in 2017 (Sukharevskaya, 2017). Statistics from the Russian Venture Capital Association (RVCA, 2016) indicates a slight growth of the venture capital industry in Russia, with a significant number of investments and exits compared to South Africa. Seeds and start-ups account for the highest number of investments in the venture capital and private equity industry, followed by early growth and expansion stages (RVCA, 2016). Although exits in venture capital and private equity funds declined from 50 to 46 in 2015 and 2016 respectively, investment in these funds increased in the same period, from 203 to 217. Venture capital investment exits in 2016 accounted for 91% (68% in 2015) of which 71% (44% in 2015) were funds with state capital.

The development and growth of the industry in Russia has been positively influenced by the government's ability to invest constructively in the sector (Hardy, Adams, and Moore, 2020; Moreva, 2018). The state has played a catalytic role with mass venture capital investments made during 2006 to 2010, which were administered by venture capital funds established with the support of the Ministry of Economic Development, alongside the Russian Venture Capital (RVC) Company. The government continues to encourage foreign venture capital investment in Russia (Topilskaya, Semenov, and Neyland, 2019) as the domestic venture capital firms seem insignificant amidst the huge opportunities and growing potentials. In 2016, NUMA Moscow was launched as an international hub, to implement the acceleration programme for investing money from its own seed funds for local start-ups (Hardy, Adams, and Moore, 2020). Russia's funds continue to look for investment abroad. However, the acquisition of start-ups is relatively slow due to changing Russian foreign policy, as investors estimate the risk on start-ups to be excessively high. To further improve the situation, stock exchange operations were improved, funds were created to invest in mature companies, and measures introduced to increase strategic investors (RVCA, 2016). Before the international sanctions in 2014, US companies invested in the Russian venture capital industry, and state-owned companies invested in startups. In 2018, Russia's grant money, provided to startups in proportion to funds

raised, was one of the highest in developed and developing countries (Ivan, Alexander and Aleksey, 2020).

2.3.4.3 Venture capital operations in India

The concept and development of modern venture capital industry in India can be traced back to the mid-eighties (Dossani and Kenney, 2002, p. 227; Pandey, 1998, p. 253). After 1985, the emergence of the software industry created the mechanisms and an enabling working environment from which business ventures could flourish through venture capital financing (Dossani and Kenney, 2002, p. 227). Compared to the USA, the Indian venture capital industry's progress was slow, although promising. This was due the fact that India has a history of being a state-directed economy, as opposed to some economies that are run through capitalism. The bureaucratically tightly controlled economic system, marked by corruption, was hostile to the development of independent institutions, whose survival is dependent on a stable economic environment (Dossani and Kenney, 2002). Nevertheless, India's strength was promising, since the country had a growing number of small businesses and a public equity market during the 1980s. However, the wages were not only low for labour, but equally so for trained engineers and scientists. The country also had a home-grown software industry (Baiju, 2023) that emerged in the 1980s, and developed visibly in the mid-1990s, especially on the international scene. Indian software firms were success stories, and some were listed on the USA NASDAQ. Furthermore, Indian entrepreneurs who migrated to the USA had started their own high-tech companies and were very successful; most of them became venture capitalists or business angels. These successful entrepreneurs constituted a group of transfer agents for the Indian venture capital industry (Dossani and Kenney, 2002, p. 228).

The venture capital philosophy in India was conceived to provide equity and quasi-equity funding, and/or conditional loans, to new unlisted high-risk or high-tech ventures started by highly skilled professionally qualified entrepreneurs (Pandey, 1998, p. 253). Pandey (2002) asserts that, in practice venture capitalists in India provided funding to new high-risk, but not only to high-tech industries. They followed a flexible approach to funding businesses, and extended management, marketing, technical, and financial skills to the assisted firms. According to Pandey and Jang, cited by Pandey (1998), venture capitalists' assistance was not covered by collateral but was extended to businesses with high growth expectation, and with medium-term gains. The institution of a venture capital market was a difficult task, as it required the joint efforts of policy makers, as the government was opposed to capitalism, as

well as the participation of the industry practitioners (Dossani and Kenney, 2002, p. 227). However, through collaborative efforts, the industry was able to move from the resistance stage, to an infancy stage in the early 2000s, and to the growth stage in late 2010 (Raghupathy and Rajan, 2010); it is presently nearing maturity (Dominic and Gopalaswamy, 2019, p. 147).

The venture capital industry in India is highly affected by information asymmetry, and the choice of exit route is deeply affected by information asymmetry and uncertainties (Jo, Dai and Kassicieh, 2012). Venture capital-financed businesses operating in highly regulated and monitored sectors, such as the Business and Financial Services Industry (BSFI), exit much earlier, as the information asymmetry is reduced by way of the rigorous monitoring and evaluation process imposed by the monitoring authorities, such as the Reserve Bank of India (Dominic and Gopalaswamy, 2019). Dominic and Gopalaswamy (2019) noted that the BSFI-financed businesses have a high probability of exit due their highly liquid nature, and take between two to six years to exit deals, while the IT and ITE venture capital-backed businesses account for the greatest number of exits, followed by the non-financial services sector. The retail sector accounts for the least number of exits, as evinced by a study conducted using data from the venture intelligence database. The study indicates that no venture capital-backed deals have an investment duration of more than ten years, and that 90% of the businesses exit during the sixth year (Dominic and Gopalaswamy, 2019).

To structure the venture capital industry in India, the role players categorised and promoted the industry into four different facets (Pandey, 1996). Firstly, venture capital activities are promoted by central or federal government-controlled financial institutions (Pandey, 1998) such as the TDICI controlled by ICICI; the Risk Capital and Technology Finance Corporation Limited (RCTFC) by the Industrial Finance Corporation of India (IFCI), and the Risk Capital Fund controlled by the Industrial Development Corporation. Secondly, venture capital activities are promoted by state-controlled developmental finance institutions, such as the Gujarat Venture Capital Limited which is controlled by Gujarat Investments Corporation. Thirdly, venture capital activities are promoted by public sector finance banks such as Canfina promoted by Canara Bank, and the SBI-caps, promoted by the State Bank of India. Fourthly venture capital activities in India are promoted by private sector companies, foreign banks, and finance institutions such as the Indus Venture Fund, Credit Capital Venture Fund, and Grindlay's Indian Development Fund (Pandey, 1998, p. 254).

The Indian venture capital operations are further solidified by the formation of the Indian Venture Capital Association, which reports rigorously about the successes and challenges of the activities of the industry, as the industry moves from strength to strength. The average investment of Venture Capital Funds (VCFs) has been on the increase, and in 1996 the first investment fund TDICI (the largest investment fund in India) had accumulated Rs 2800 million (Pandey, 1998). Venture capital in India has witnessed a steady growth, and in 1996, 60% of VCFs came from federal government-controlled financial institutions. Other investments during this period came from international development agencies such as the World Bank (17%), the private sector (6%), non-resident Indians (4%), and nationalised banks (4%). It should be noted that foreign institutional investors, the private and public sectors, including members of the public, and local institutions such as banks, insurance companies, and mutual funds, all contribute to the pool of venture capital funds (Pandey, 1998). Research reveals that 42% (Rs 2867 million) of Indian venture capital investment in the mid-1990s, was in start-ups, 29% (Rs 1862 million) in later stages and only about 1% (Rs 77 million) in turn-arounds. This information is also reflected in the statistics of the Indian Venture Capital Association, where out of the 14 members of the Association, 10 members invested in start-ups, 13 invested in later stages, 6 in seed stages, and only 4 invested in turn-arounds (Pandey, 1998).

Venture capital was part of the innovation tool used to liberalise the Indian economy in order to support industrial sector growth, which started in the 1980s. About 29% of venture capital investment was in industrial products and machinery (Rs 1956 million), followed by consumer-related products (amounting to about 13%), and 8% in food processing. The software and medical industries were equally preferred areas of investment by Indian venture capitalists.

The Industrial Credit and Investment Corporation of India (ICICI), a multinational banking and financial service provider, which has a mixed bag of shareholding – from the Indian government, the banking sectors, and private sector as well as the international community – did much work in the 1980s to study how venture capital operates, and also sought the setting-up of venture capital funds to facilitate the process of venture capital development in India. With the emergence of the liberalised economy in 1985, a venture capital unit was setup within ICICI to manage the activities of venture capital in 1996 (Pandey, 1998). However, the ICICI was only experienced in the management of medium to large scale businesses, but was lacking expertise in how to manage Small Scale Enterprises (SSE). As such, the ICICI was unable to convince small entrepreneurs to pursue venture capital funding at the initial stage. Despite the challenge, the ICICI took the initiative to experiment on the operations of venture

capital activities in India and found that, for venture capital to succeed in India, there was a need for long-term investment.

Ultimately, the creation of a separate technology investment company was necessary. The creation of the Technology Development and Information Company of India (TDICI) was thus promoted by ICICI, along with the largest mutual fund in India, Unit Trust of India (UTI), in 1988. ICICI created the first venture capital company alongside the first screen-based stock market, and championed many other innovations in India. While UTI uses its savings and fund management products to turn Indian savings into corporate equity, the TDICI predominantly raises funds from domestic and international investors, which are primarily intended for high-risk unlisted companies that are unable to access public sources of debt or equity capital. The focus of TDICI was on technology-oriented small ventures, as it provides them with technology information. TDICI's twin objectives were financing technology and providing technology information to small and medium sized enterprises, while UTI's objective was to obtain tax benefits, as mutual funds enjoyed tax exemption on their incomes.

The core philosophy of TDICI was to create extraordinary value for small ventures. TDICI ensured that its operations management and executive team were qualified enough to identify and vet investment opportunities at their early stages, and support them with the equity and loans required to grow. It provided continuous managerial support with later-stage financing, and ensured equitable risk sharing and reward between TDICI and the venture owner.

The growth of the venture capital market in India only became apparent in the 21st century, where the amounts invested in venture capital-financed ventures moved from 1.4 million US dollars in 2004 to 22 million US dollars in 2007, with an awkward drop to 8.1 million US dollars in 2008 (Raghupathy and Rajan, 2010, p. 188). During this time India recorded the fastest growth rate of 47% in the venture capital industry, compared to 6% in the USA during the same period. The percentage total growth rate in India's venture capital investment moved from 0.4% to 1.5% of GDP in 2008, whereas that of the US moved from .07% to 0.8% (Raghupathy and Rajan, 2010). Over the years, investment in venture capital in India has played a crucial role in driving innovation (Dominic and Joseph, 2023) and India has been amongst the top countries in the world attracting venture capital investment due to favourable regulations, technological advancements, and the existence of pooled skills in technology (Dominic 2021).

2.3.4.4 Venture capital operations in China

China first debated the concept of venture capital in the central government's "Decision to Reform the Scientific and Technology System" in 1985 (Lin, Xu, Zhang and Yang, 2019). This quest to reform the scientific and technology system was reiterated in January 2006 by President Hu Jintao, during the Fourth National Conference on Science and Technology, where he emphasised the need for China to "adhere to a new path of innovation with Chinese characteristics and to try to build an innovation-oriented country" (Lin, 2019; Salter, 2009). Since then, China has adopted a model of "creative destruction," which aims at testing innovative systems and techniques, and fixing and implementing creative ideas to pursue their industrial development agenda (Zhou, He and Zhu, 2017). In China, the concept of venture capital was initially translated as "risk capital (*fengxian touzi*)" (Lin et al., 2019), to denote the high-risk nature of the investment, and was used to encourage and boost entrepreneurial and innovative ventures in China (Lin et al., 2019).

China's activities on venture capital are fast-growing, both in terms of the number of investment deals and exits realised. Investment figures (amounts and deals concluded) on venture capital-backed businesses, and their overall performance, is second to that of the United States of America (Lin et al., 2019; Salter, 2009). Lin et al. (2019) assert that the history of the Chinese venture capital market is short, compared to that of its European and American counterparts, and that venture capital is commonly confused with private equity. Nevertheless, China's venture capital market has seen a sharper increase and more tremendous growth than the matured market of Europe. In 2006, China's market grew by 37%, and capital invested grew by 58%, with 1.9 billion USA dollars invested in 2006 compared to 325 million USA dollars invested in 2002 (Salter, 2009). This increased to 3.2 billion USA dollars in 2007 (Salter, 2009).

Although the rise in the venture capital market in China translates to the globalisation of venture capital activities, in reality, the situation was complex and problematic from the Chinese point of view. Firstly, venture capital has an international characteristic with its origin from the United States of America, which is a capitalist economy, whereas China is a socialist economy similar to that of India's now-liberalised economy (Pandey, 1998; Salter, 2009). As such, the institutional framework of the capitalists (USA) and socialists (China) were different. The normative structures (cultural values and expectations, social networks and cohesion as well as regulatory institutions) had an impact in shaping the emergence and development of the national venture capital industry in China (Lin, 2021). Supporting the growth of venture capital

is dependent on the level of economic development, the existence of ownership regulations, legitimacy accorded to private firms, educational attainment, the legal system, and the business culture on the supply side. The demand side depends on the factors such as the ability of new firms to commercialise new business opportunities tied to high-risk equity investment.

Cutting across this demand and supply side was a challenge, as the role of social networking (*gaunxi*) did only emphasised benefits to the society at large, but equally imposed obligations rather than profit (Salter, 2009). With the above, the success of the venture capital industry would diminish, as risk and profits are central to successful venture capital operations. Venture capital industries showed differing levels of political support, physical infrastructures and cultural learning in India and Israel with different ways of calculating and responding to market opportunities (Salter, 2009). While India seems to be highly rated in venture capital operations, Israel's is still staggering. Going back to China's decision to implement scientific and technological reforms, and creative destruction, the Chinese government understood the need for innovative systems, and that they could no longer depend on their cheap labour to exploit external resources (Salter, 2009). The development of venture capital in China can be divided into four different stages, namely the emergence phase, the experimentation phase, the decline and subsequent growth phase, and the deepening structural reforms phase (Lin, 2019).

During the emerging phase (1985 – 1990), China's government sought to circumvent and replicate America's success of venture capital in the 1980s, and introduced it officially in China in 1985. The first venture capital firm, "China New Technology Venture Capital Company" (*Zhoggou xinjishu chuanggye touzi gongsi*), was set up in 1985 by the government of China (Lin, 2019). The innovation process and development of venture capital was made easier when the Torch Programme was launched by the Ministry of Science and Technology in 1988, and this kick-started a nation-wide focus on high-tech development and innovation. During this period, venture capital developed slowly due to the non-existence of stock markets, and because people were unfamiliar with the concept. The government continued to set up government-backed companies to provide financing to high-tech start-ups (Cheng, 2008). The experimentation phase (1991 – 2001) was the turning point of the Chinese venture capital market because of the "No. 1 Proposal." It was during this phase that the vice chairman of the National People's Congress Standing Committee presented a groundbreaking "No. 1

Proposal,” fostering the development of the venture capital market in China (Pan, Aiwen, and Zhenzhen, 2024). The emergence of the Chinese People's Political Consultative Conference (CPPCC) proposal No. 1 in 1998 triggered two years of venture capital fever that led to an increase in private capital flows. During this period, the Chinese government passed a motion to accelerate China's economic development, which saw the development of the venture capital ecosystem in China. The proposal was followed by a series of policies, including strategies to invigorate China through Science and Education (*Kejiaao xingguo*), as well as laws promoting the transformation of Scientific and Technological Achievements, in 1996. During this phase, a number of government funds were set up to provide funding to high-tech start-ups. Foreign venture capital firms started entering China, as the reforms opened a friendly atmosphere for foreign direct investment. Firms such as IDG Capital Partners and Walden International started penetrating China. Significant milestones here were the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990, which offered exit channels for venture capital investment. These stock markets opened an exit route through Initial Public Offerings, which was unavailable prior to 1990. This also opened up and extended the role of private venture capital firms, something that was previously restricted by the limited choices of business vehicles available.

During the decline and subsequent growth period (2002 – 2005), the venture capital activities had a significant downturn after the “dot.com bubble” in 2001 and the global economic downward trend in 2002. In response to this global economic downturn, the Chinese government sought to provide a friendly regulatory business environment, feasible legal framework to venture capital participants, and clear guidelines and regulations on matters relating to the establishment, management, supervision, taxation, and foreign investment of venture capital (Pan, Aiwen, and Zhenzhen, 2024). The process of venture capital exit was further facilitated by the creation of the Small and Medium-sized Enterprise Board (SME Board) in Shenzhen in 2004 (Lin, 2019). These policy incentives encouraged venture capitalists to raise 4 billion US dollars more in 2005, which was in excess of cumulative amounts raised in the previous three years (Lin, 2019).

The deepening and structural reforms stage (2006 – 2013) saw the adoption of limited partnership in the Chinese venture capital market, which provided a new business vehicle for venture capitalists and investors to raise funds. This was a government strategy for the development of scientific innovation, well-articulated in China's 11th Five Year Plan (2006 –

2010), which identified the need for promotion of venture capital investment as a critical tool for achieving independent innovation and sustainable economic progress. However, the volume of funds raised by venture capitalists dropped in 2009 due to the global financial crisis, but both the number of newly-established venture capital funds and amounts raised doubled by 2011 (Lin, 2019).

2.3.4.4.1 Background to China's venture capital success

Although many scholars posit that there is limited literature on China's venture capital industry (Lin, 2019, Wang and Sheela, 2020), much has been done and is still being done by the Chinese government to ensure that venture capitalists steer innovation in China. The success story of China's venture capital industry can be observed from the steps taken by the Chinese government to emulate the idea of venture capital from the USA, and the implementation of regulatory reforms to support this industry. Venture capital activities in China have spurred entrepreneurship and job creation in China (Lin, 2021) and placed China in second position for venture capital investment in the world (Huang, Wang, Sheng and Zhao, 2025). The critical factors for this boom are numerous and in line with government regulatory reforms.

Firstly, we can observe the launch in 2009 of Chi-Next (*chuangyeban*), a NASDAQ-like secondary board, which acted as a third stock exchange in China. The objective was to attract investment in fast-growing and innovative small and medium-sized enterprises, especially in the high-tech industry (Lin, 2019). Its first day of trading was on the 30th October 2009, and by the end of 2015, 464 firms were listed on Chi-Next. Secondly, in 2010, the government, put measures in place to allow insurance funds, and other social security funds or fundraisers, to make equity investments in the venture capital market, and this provided further access to capital, not only to the venture capitalists, but to the high-tech and innovative companies as well.

Thirdly the launch of several Qualifying Foreign Limited Partners Schemes with technical expertise in venture capital operations, in Shanghai, Beijing, Tianjin and Chongqing, permitted many foreign qualified institutional investors to make equity investments in China's venture capital market in particular, and the equity market in general. The launch of ChiNext provided an alternative exit route for venture capital-backed companies, which greatly accelerated the development of the venture capital industry in China.

The vigorous regulations introduced by China to adapt the system to a suitable venture capital market system lead to an overpricing of IPOs, without taking cognisance of the forces of demand and supply. Realising this shortcoming led to the suspension of the IPO process by the China Security Regulatory Commission, between 2012 and 2014. Although the suspension negatively affected venture capital fundraising, the Chinese venture capital market was greatly assisted through an alternative nationwide expansion of the National Equity Exchange and Quotation (NEEQ) system, which provided investors with the opportunity to trade shares over the counter. NEEQ therefore, become an important exit vehicle for venture capital-backed firms during this time.

The rapid emergence of private firms and investors in China's venture capital market during 2006 not only saw foreign investors coming in, but private individuals and families form the majority of investors in the venture capital market to date (PE Daily, 2015). Presently, the financial market in China operates diversified types of shares namely A-shares and B-shares, H-shares, N-shares and S-shares. A- and B-shares are traded on the Shanghai and SZ stock exchanges. A-shares are traded by domestic investors or foreign investors, if approved by CSRC, and B-shares are traded by foreign investors on the Shanghai and SZ security exchanges, in US dollars and HK dollars respectively. H-shares, S-shares and N-shares are shares of domestic firms listed in Hong Kong, Singapore, and New York respectively. Recently, the American Depositary Receipt (ADR) was created. ADR is a negotiable certificate issued by a US bank and traded on a US stock exchange, representing a specified number of shares where the underlying shares are not listed in the home market (Azevedo, Guney and Leng, 2018).

According to CVCA (2021), NEEQ Co. Ltd. was established to pursue and coordinate the innovative vision, green, and open development that is shared by everyone. By implementing the strategic task of deepening reforms under the supervision of CSRC, as outlined by the 13th Five-Year Plan for National Economic and Social Development, NEEQ activities spur the growth and development of the venture industry in China, especially when IPOs were suspended in 2012, as it provided an alternative way of trading equity shares over the counter (Lin, 2019). In 2009, the China Equity Investment Association (CVCA) launched the China Venture Capital and Private Equity Investment Management course, which offers training on investment management programmes and venture capital operations. Through this management programmes, industry expert are invited to teach young Chinese people and the

public various aspects of venture capital management (CVCA, 2021). China's venture capital market has made significant efforts in syndicating, and each segment of the industry is restructuring, ranging from the seed to the mezzanine levels. This is evidenced through the formation of the China Business Angels Association, China Angel Investment Association, Angel Investment Club, and many more organisations which are set up for investors to interact, as well as the investment in research institutions such as the Zero2IPO research centre (founded in 2001), which fosters research and provides professional advisory information to venture capital and private equity investors, including the government of China and other institutions (Lin, 2019; Zero2IPO, 2020). Besides the advisory and professional services, they also ensure the networking of entrepreneurs, and take an active part in the investment and management of venture capital funds (Zero2IPO, 2020).

2.3.4.5 Venture capital operations in South Africa

Attention towards the management of venture capital activities in South Africa has been ignited by the formation of the Southern Africa Venture Capital and Private Equity Association (SAVCA). SAVCA was established in 1998, with the principal role of managing venture capital and private equity activities in Southern Africa. By 2007, a number of venture capital firms started galvanising funds for investment (SAVCA, 2010). During these early days of SAVCA, little progress was made by the industry until 2012, when the promulgation of Section 12J of the Taxation Act allowed for investment in qualifying assets, with provision for 100% tax free income. Very limited literature exists on venture capital management in South Africa (Jones and Mlambo, 2013). Jones and Mlambo (2013) assessed the challenges and prospects of early-stage venture capital in South Africa, and submit that the absence of entrepreneurial skillsets, lack of viable exit mechanisms, industry specialisation, monitoring problems, regulatory constraints, rigidity in the labour market, political distortion and the paucity of deals flows are critical factors facing the industry (AVCA, 2019). A study conducted on the regulatory and policy variables influencing foreign direct investment in South Africa by Faku (2022) points out that South Africa's regulatory environment is not complex, compared to that of China (Lin et al., 2014). However, the lack of regulatory transparency deters the flow of investment into South Africa (Faku, 2022; Lin et al., 2014). Another study conducted by Makochehanwa (2020) indicates that within the SADC region, South Africa has been the leading destination of investment in Telecommunication (mobile telephone infrastructures) with an average per capita investment of about 38 US dollars per person between 2000 and 2011. Sadly, in recent years, the Johannesburg Stock Exchange revealed that foreign investors are dumping South

African-listed shares (Faku, 2022; JSE, 2019). These challenges negatively impact the listing of emerging companies. Besides, bilateral investment treaties between South Africa and many countries are being cancelled (Faku, 2022), which raises concerns on how the economic and political environment protects investors' interest in South Africa (Faku, 2022; Makochehanwa, 2020; Lin et al., 2014). Nevertheless, according to the African Private Capital Association's (AVCA) analysis in 2020, venture capital activities in South Africa have been attracting the biggest attention of investors, compared to other countries on the continent. Portmann and Mlambo (2013) assert that there has been a shift in the investment activities, away from start-up funding towards later stage, and the risk appetite is diminishing. This implies a low probability for venture capitalists to take risks in South Africa. Despite the challenges, number of deals and amount invested continue to grow year after year (SAVCA, 2021). The Southern African Venture Capital and Private Equity Association (SAVCA) survey of 2021 indicates that the venture capital industry has been very resilient throughout the COVID-19 pandemic.

The announcement on 17th December 2024 of fundraising of US1.5 billion dollars by the Tyme Group puts South Africa in the limelight of the venture capital ecosystem in Africa, with their first unicorn (Giacomelli, 2024). This brings the total number of unicorns in the African continent to nine. It is important to note that South Africa's unicorn (Tyme Bank) started as an MTN project in 2012 (developed by Deloitte Consulting, and bought by the Commonwealth Bank of Australia – CBA) to provide financial services to the underserved population, with no physical banking offices. It is now registered in Singapore (Giacomelli, 2024).

Evident from SAVCA surveys evinces that venture capital activities in South Africa are gaining ground. However, the exit level has been a relative problem for quite some time. As more portfolios are maturing, many fund managers face challenges of exiting on a large scale. Trade sales constitute the primary exit route for venture capital investments in South Africa (SAVCA, 2012).

As in other countries, on average, the tech industry dominates the venture capital industry in South Africa, due to the country's advancement in the tech industry compared to other African nations. Business products and services, as well as manufacturing, closely follow the tech industry. This is an emerging industry, with gradual growth. By the end of 2020, venture capital investment in South Africa stood at R6.87 billion, up from 5.64 billion in 2019, with 841 active deals, up from 679 in 2019. Despite the prospects in the industry, exit trends do not match

those of investment deals concluded, signifying that investments may not be performing to the extent that currently warrant exits. Evidence from SAVCA surveys indicates the exit and investment trends from 2012 to 2020, shown in the table below.

Table 2.1:Trends of investment deals and exits in South Africa (2012 – 2020)

Trends of investment deals concluded, and number of deals exited in South Africa																					
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Investment deals	18	10	12	13	17	28	39	47	56	37	25	11	8	19	67	69	116	147	134	162	167
No. of exits	Estimated at 14% of deals from 2000 to 2010 (26 exits)										16	7	3	3	10	8	15	15	9	38	43
Investment (Millions-SA Rands)							308	468	551	242	194	211	288	183	273	372	933	968	1067	1230	1387

Source: SAVCA Surveys, 2010 – 2021

According to SAVCA (2016), 38 deals were exited between 2012 and 2016. This implies that only 13 deals were exited during 2013 and 2014 financial years. By 2012 only 12% of deals concluded were exited (SAVCA, 2012).

2.3.5 Learning from exit management within the pioneer BRICS+ member states

Minardi et al. (2020) examined the venture capital industry in Brazil and observed that it has a fairly young private equity and venture capital industry; they also confirmed that Brazil has an emerging market for venture capital within the BRICS bloc. Tuomi and Netto (2013) examined the innovation and venture capital policy in South Africa and Brazil, and submitted that technical progress is a key determinant to long-term, sustained economic growth. Venture capital progress is invariably linked to technological progress (AVCA, 2019). Conceptually, technological progress is divided into absorption and innovation. Absorption occurs when technology is diffused from another country and adopted just as it is. Innovation symbolises the development and commercialisation of unproven technologies, and untested processes and products. Economies which are abreast of high-speed innovative technology easily adapt and make progress, and this has a positive effect on the venture capital industry, thereby reducing the investment duration. In the context of Russia's performance, exit performance is influenced by political and economic factors, with much participation from the government. Interestingly, the sector still interests investors and has recorded some IPO exits since it picked up in 2009, despite challenges (Batalov and Piper, 2016).

2.3.5.1 Exit management in Brazil

Carvalho et al. (2015) examined the evolution of venture capital in Brazil, and found that the means of exiting investment change over time. In their analysis, failures were frequent during the period from 1999 to 2004. Buybacks and write-offs represented approximately 50% of total exits (see tables 2.2A and 2.2B below). The high failures were attributed to the failures of the late 1990s dotcom investments. Between 2005 and 2009, failures decreased to 23% of exits. IPO exits began in 2004, with the rise in Novo Mercado (Carvalho and Pennacchi, 2012), representing a milestone for the Brazilian venture capital and private equity industry. At this point, with IPO exits, the Brazilian venture capital industry completed the investment cycle.

However, the IPO is not an exclusive output of the investor from the investee. It is a mechanism of obtaining funds to finance the industry's expansion, as prospective investors will view the market as effective and efficient (Sincerre, Sampaio, Fama and Flores, 2018). Investors therefore have this incentive, and are sure that the governance systems will preserve the value of their investments. They strategically plan their exit to obtain optimum performance. Table 2.2A presents the trends of Brazilian investment exit from 1999 to 2009.

Table 2.2 A: Trends of investment deals and exit in Brazil (1999 - 2009)

Trends of investment deals concluded, and number of deals exited in Brazil (1999 – 2009)											
Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Investment (I) bi US\$	3.7	4.9	5.0	4.7	4.8	5.6	7.2	13.5	22.7	28.1	36.1
% of I on GDP	0.63	0.77	0.91	0.93	0.87	0.97	0.82	1.24	1.66	1.7	2.33
Total No of exits	8	36	43	30	24	38	24	42	48	61	37
IPOs	0	0	0	0	0	5	8	17	19	1	4
Secondary sales	1	18	5	4	5	4	6	12	10	16	10
Buyback/write-off	3	5	30	20	13	14	6	7	7	17	12

Source: Carvalho et al. (2014).

Recent literature gives limited attention to the exact number of annual investments. Minardi et al. (2020) state that between January 1994 and March 2018, the Brazilian industry performed deals (Minardi et al., 2020). Venture capital operations in Brazil do not exhibit any exit problems, and attained a unicorn in 2012 (ABVCAP, 2021). By March 2018, 61% of Brazilian venture capital investments were exited, followed by 56% in 2010 and 53% in 2011. The majority of the exits were trade sales to strategic partners, followed by IPOs, and there has been a growing increase in secondary sales (Minardi et al., 2020). As of 2018, the average investment duration for the private equity and venture capital was 4 years.

There is a growing trend in the contribution of venture capital operations to the GDP of Brazil from 1999 to 2009 (Carvalho et al., 2014), and investors' Internal Rate of Return in US dollars was above 20% (Minardi et al., 2020). More detailed evidence of the Brazilian exit data in value can be seen in table 2.2B below.

Table 2.2 B: Trends of investment deals and exit in Brazil (2011 - 2019)

Trends of deals exited (investment) in Brazil (2011 – 2019)									
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Exit (Bi R\$)	3.6	6	5.7	4.7	5.8	50	10.2	13.7	23.8
% Change in exit	-	67	-5	-18	23	-14	103	34	74
Exits									
IPOs exits (Bi R \$)	1.4	0.1	1.2	0	0.2	0.1	4.3	2.1	0
No of IPO exits	6	1	6	0	1	1	7	1	0
Total % of exits	100	100	100	100	100	100	100	100	100
IPOs (R\$)	39	2	20	0	3	3	42	15	0
Others (R%)	61	98	80	100	97	97	58	85	100

Source: ABVCAP (2019).

According to the Association of Brazilian Venture Capital (ABVCAP), 285 deals were concluded, with a total of 81 exits. In 2018, 80 deals were concluded. The percentage increase in exit was quite impressive between 2016 and 2018. Exits in IPOs have been quite profitable. This has been largely due to the numerous reforms (ABVCAP, 2019; Minardi et al., 2020).

2.3.5.2 Exit management in Russia

Much of the literature that has examined venture capital activities in Russia points to the fact that venture capital investment is one of the key areas that has been embraced and carved out as an innovative policy in Russia to enhance innovation and technology in the Russian economy (Hardy, Adams, and Moore, 2020), and make it competitive at a global level (Topilskaya, Semenov, and Neyland, 2019). Venture capital operations in Russia is quite impressive, as the data evinces sizeable attention to the Russian venture capital sector. Information on venture capital activities correlate with international sources (Moreva, 2018). Venture capital exits during the period of 2010 to 2017 were, however, slow (see Table 2.3 below), when compared to those in developed countries such as the United States and Britain.

Table 2.3: Trends of investment deals and exits in Russia (2010 - 2017)

Trends of investment deals concluded, and number of deals exited in Russia									
Year	2010	2011	2012	2013	2014	2015	2016	2017	
Investment deals	128	155	138	188	229	190	204	178	
Investment (million \$)	19.7	296	376	285	150	150	125	125	
No of exits (official/unofficial)	25	25	27	12	23	35	45	20	
IPOs	2	5	4	2	1	0	0	No data	
SPO	13	9		1	0	0	0	No data	
Stock trading				2	4	0	0	No data	
Sales to financial investors	4	3	33	3	3	3	5	No data	
Write-off	2	3	4	2	4	4	0	No data	
Share buyback	1	0	15	1	0	4	5	No data	
Full/part asset sale		4	0	0	4	12	21	No data	
Unknown	-	-	-	0	3	1	9	No data	
Distressed sales	3	-	-	-	-	-	-	No data	

Source: Moreva (2018) and RVCA 2013-, 2015- and 2016-Year books.

Moreva (2018) states that Russian venture capital exit trends were limited by the then economic conditions, cyclical and political factors, economic depression, ruble depreciation, international sanctions, and other unfavorable macroeconomic conditions. These factors seriously exacerbate the integration of the Russian venture capital activities into the world economy. The government fully participates in Russia's venture capital activities and, to some extent, investment from abroad of significant amounts requires approval by the government (Topilskaya, Semenov, and Neyland, 2019). The average time to exit a venture capital investment is seven to ten years, compared to 4 to 7 years in China. The duration turns to be shorter when invested in the early stage, and in the information technology sector (Batalov and Piper, 2016; Moreva, 2018).

Despite the challenges, the industry has witnessed a significant number of optimal performances in IPO exits. The exits are not only indicators of efficiency in fund management, but serve as eye-openers to potential investors as an indicator of good market potential. 71% of exits in 2016 and 44% in 2015 represent funds with government participation. This is indicative of the catalytic role played by the government (RVCA, 2016). Available statistics

include only readily and publicly available information, which the funds disclose at their discretion. As such, Russia's venture capital data is considered distorted (RVCA, 2016) as funds do not often reveal their setbacks. Besides, on matters of exits, often they do not reveal the majority of exits, only the successful exits, which do not include write-off and distress sales (RVCA, 2016).

2.3.5.3 Exit management in India

Dominic and James (2023) explored the inter-dynamics among investment holding periods, fund types, exit routes and return multiples of different private equity and venture capital investment in India between 2004 and 2021, and found a negative association between holding periods and returns. In their study (Dominic and James, 2021), there is no significant difference between the average holding period of Indian-dedicated funds and foreign funds. Nevertheless, Indian-dedicated venture capital funds outperform foreign funds, and generate significant returns, with all exit routes potentially yielding similar results. Dossani (2002) asserts that an efficient venture capital is triggered by the continuous flow of investment opportunities with the ability to sufficiently grow to the point of yielding sufficient annual returns on investment and then to be sold. The inability of a venture capital investment to yield the required returns on investment early enough will result in venture capital companies taking longer to exit the investment. Dominic and Gopalaswamy (2019) examined 3416 investments and 654 exit transactions during the period from 2000 to 2017, and found that exit probabilities were low in most sectors. They observed that the investment duration was not positively related to valuation, but rather that the impossibility of exiting an investment stems from the illiquidity of the venture capital market. Their findings are in line with Dossani (2002), who submits that the average investment duration in the early days of the venture capital industry was between 7 to 10 years; the SIDBI (2019) also asserts that venture exit in India is a challenge, because of the limited number of mergers and acquisition transactions.

Venture capital exit statistics in India are not harmonized, and therefore hardly reflect the true figure. This is largely due to the existence of many reporting routes, and the unwillingness of practitioners to reveal confidential deals (Dominic and Gopalaswamy, 2019; IVCA, 2019; IVCA, 2020; SIDBI, 2019). Despite these hurdles, India's venture capital investments still make their way to the finish point of venture capital process through various exit routes (buybacks, secondary sales, mergers and acquisitions, and initial public offerings). Table 2.4 below shows

the trends of India's venture capital investment deals and exits activities between 2013 and 2020, from different reporting sources.

Table 2.4: Trends of investment deals and exits in India (2013 – 2020)

Trends of deals concluded and exited in India (2013 – 2020)								
Year	2013	2014	2015	2016	2017	2018	2019	2020
Investment deals	392	470	767	588	596	767	1030	921
Investment (US M\$)	9,116	11,683	19,635	16,234	26,176	37,413	47,297	47,550
Total No of exits	198	191	213	157	260	177	157	151
Value of exit (US B\$)	2.4	3.4	6.5	6.7	13.0	27.1	11.1	6.0
IPOs	67	118	99	71	87	20	8	9
Strategic exits/M&A	39	41	61	50	45	67	55	44
Secondary Sales	33	17	24	21	22	25	34	20
Buyback	59	15	29	15	8	-	11	11
Others							49	67

Sources: IVCA (2020), Indian Institute of Technology (2015) and SIDBI (2019)

Compared to most developed and developing countries, Indian businessmen lack the appetite to invest in start-ups. There is a funding gap, and an observed lack of partners and funds at stages A to C. This lowers the number of mergers and acquisitions and secondary sales exits. High regulatory compliance costs have also increased the time to scale up and provide exit funds. Venture capital investments are considered long-term, with an average exit duration of 4 to 5 years. Returns are at maximum around the average exit duration, and lower when the investment duration is above the average exit duration. Investors do not like staying in an investment for a period longer than 6 years.

High regulatory and compliance costs have also impacted the growth trajectory of start-ups, leading to increased time to achieve scale, and provide exits to venture capital investment funds. One potential solution is to improve exits by providing financial incentives to encourage Indian and foreign companies to invest in start-ups (IVCA, 2020). Setting up a separate listing exchange for start-ups and fund managers can also help in providing cash exits to fund managers, and also in improving the exit landscape in India.

In recent years, India has risen to be a prominent venture capital destination, sought after by global investors for venture capital and private equity investment (Dominic and Joseph, 2021) due to its rapidly expanding start-up ecosystem, matched by successful exits and a friendly regulatory framework. Although holding periods negatively impact fundraising (Hammer, Knauer, Pflücke, and Schwetzler, 2017; Loos and Schwetzler 2017; Dominic and Gopalaswamy 2022), the industry performance has been good, and 2021 was the sixth consecutive year in which the ecosystem raised over five hundred billion US dollars (Dominic and James 2023). Furthermore, the country's favourable demographic trend helped in making India an attractive destination for investment, which yielded many unicorns (Dominic, 2021).

2.3.5.4 Exit management in China

Xuxin and Xiayun (2015) studied factors influencing venture capital exit through IPOs in China between 2009 to 2013, and observed that, after listing, China's venture capital indicated one-time complete exit with less discontinuation. Zhao (2016) points out that the highest return on investment comes through IPO exits, considering the time of investment and market environment. Wang (2016) comparatively examined the advantages and disadvantages of exit mechanisms, and submits that knowledge specialisation and positive exits are positively correlated. The greater the quality of investment, the greater the possibility of the successful exit of cross-border venture capital. Of course, the time required for exit depends on the host country's capital markets and technological development (Fan, 2019). With the continuous improvement of China's capital market, exits have been faring well, as demonstrated in Table 2.5A below, and it is the last and most important part in the venture capital process. Table 2.5A below shows trends of investment deals concluded in China from 2006 to 2017. From table 2.5A, Fan (2019) and Xiaolan, Mckern and Jin (2019) demonstrate that investment in venture capital operations continued to grow, and exits are close to half of the investment made on a year-to-year basis. This indicates a substantially high number of exits made each year.

Generally, China venture capital exits through IPOs generate the highest returns, whereas most mergers and acquisitions show a trend for loss t (Fan. 2019; Xiaolan, Mckern and Jin, 2019). This is due to their long time of exit. According to Fan (2019), an analysis of the return on venture capital exit in China, based on Zero2IPO data per exit mechanism, is presented in the table 2.5 B.

Table 2.5 A: Trends of investment deals and exits in China (2006 – 2017)

Trends of investment deals concluded, and number of deals exited in China												
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No of deals	119	122	167	124	240	617	623	548	745	2970	2438	3574
Investment (Million US\$)	3,973.12	5,484.98	7,310.07	5,855.86	11,169.00	28,201.99	9,311.55	6,919.07	19,021.78	29,982.33	53,795.365	115,362.35
No of exits	100	142	135	123	388	456	246	230	444	1813	2001	1420
IPOs	30	100	43	82	331	312	144	33	172	257	277	470
MEA	13	25	6	6	24	55	31	76	111	280	155	148
Sales	-	12	27	24	20	41	44	58	70	197	223	360
Others	57		59	11	13	48	27	63	91	1079	1346	442

Source: Adapted from Fan (2019) Research on Venture Capital Exit In China, and Lin, Xiaolan, Mckern and Jin (2019) Venture capital, angel capital and other finance, IPOs and acquisitions

Table 2.5 B: Analysis of venture capital exit returns in China (2006 - 2016)

Different exit routes overall rate of return (2006-2016) Unit: percent.					
Year	IPO	M&A	Repurchase	Liquidation	New OTC
2006	491.45	27.35	-30.81	-53.63	-
2007	436.07	-15.37	-26.80	-42.63	-
2008	916.66	28.35	-41.98	-29.13	-
2009	327.75	4.74	-29.47	-42.66	-
2010	736.68	44.71	-21.19	-24.43	48.85
2011	799.38	41.47	-30.51	-65.37	63.19
2012	486.10	198.29	29.18	-15.34	32.48
2013	448.03	15.27	-34.28	-43.47	89.79
2014	601.66	63.55	-34.43	-34.43	27.26
2015	779.27	135.55	19.01	-15.60	16.86
2016	922.12	323.41	3.02	-43.62	193.82
Average	631.38	78.85	-18.02	-37.30	67.46

Source: Adapted from Fan (2019) Research on Venture Capital Exit in China

Comparatively, the return rate of IPO is highest both in terms of overall return rate and average annual return rate (Fan, 2019), and this far exceeds the return rate of other exit routes. The overall rate in 2015 is 779.27%, with a corresponding annual rate of 114.38% (Xiaolan, Mckern and Jin, 2019) There exists a great uncertainty for exit by mergers and acquisitions, with a very high risk, although still profitable.

It generally takes 4 to 7 years on average to exit an investment in China, hence the venture capital industry is not an industry that gets rich overnight. As indicated in the tables above, IPOs are leading with the highest exits, followed by mergers and acquisitions. China copied the idea of creative destruction, which is a driving force behind industrial development. The way to exit creates a stimulus for new firms to enter. The triple process of decentralisation, globalisation, and privatization, resulted in massive spatial and temporal variations in the economic and industrial landscape of China (Zhou et al., 2017).

2.4 Empirical Literature

In the following subsections, the research briefly reviews the empirical literature on venture exits in order to provide more insight into exit management for venture capitalists.

2.4.1 Managing venture capital exit

Despite growing interest in venture capital operations, there is limited research on venture capital exits around the world (Dominic and Gopalaswamy, 2019). The exit mechanism is key to successful venture capital operations (Kuckreja and Meha, 2017; Gompers and Lerner, 1998; Nguyen and Vo, 2021) and venture capitalists only realise their share of wealth when they exit the investment. A successful and timely exit is therefore vital to the recycling of new funds for further investments and in the process, building the firm's reputation (Zhao, 2023). Ultimately, this provides an easy way for limited partners to raise more funds (Dominic and Gopalaswamy, 2019).

Jo, Dai and Kassicieh (2012) investigated investment behaviour and the exit performance of venture capital investors away from their home locations, and found that in the Asian venture capital markets, foreign venture capitalists have a relative fair advantage over local venture capitalists with regards to size and experience, while local venture capitalists have an advantage in terms of information collection due to geographical and cultural distances. Foreign venture capitalists often invest in sectors where there is information transparency, as this helps reduce information asymmetry (Pezeshkan et al., 2019), and ultimately also reduces the investment duration that may be affected by information asymmetry. Partnering with local venture capitalists alleviates information asymmetry and monitoring problems (Firmansyah and AL Ayyubi, 2024; Xiong and Fan, 2021), thereby creating a positive impact for the exit performance of local entrepreneurial firms. Jo, Dai and Kassicieh (2012) observed that, after controlling the endogeneity of selection, firms with both local and foreign venture capital partnership are 5% more likely to realise successful exits.

In the United States and Britain, most venture capital firms are limited partners with fixed terms of existence of several years (Sahlman, 1990). This implies that venture capitalists have a plan to exit their investment (Frimpong, Akwaa-Sekyi, Sackey, and Saladrighes, 2022) before the duration of the partnership ends. They typically plan for two routes of exits, namely the Initial Public Offering, or the strategic acquisition of the funded firm (Bruton, Ahlstrom and Puky, 2009; Nguyen and Vo, 2021). If the possibility of exiting via IPO appears slim, and no strategic

buyers are visible, the firm may consider other possible alternatives, such as secondary sales, mergers, management buyback, and, as a last resort, liquidation, though this rarely occurs. Chaplinsky and Gupta (2016) examined the recovery of venture capital industry using 1215 mergers and acquisitions, and 1401 IPO exits, from US-based backed venture capital companies during the period from 1985 to 2008, and established that the average (mean) and median returns for IPOs are much higher than those for mergers and acquisitions, where the mean and median returns are negative. They observed that IPOs have average returns in excess of 125%, while mergers and acquisitions returns are lower. Although the number of exits through mergers and acquisitions may grow, the dollar value in return does not match the growth in exits.

Venture capital firms with better network experience perform significantly better in fund management (Ahluwalia and Kassicieh, 2024); their proportion of investment that is often successfully exited through IPOs, and trade sales compared to other companies are higher. The portfolio of companies with good networks has the potential to survive subsequent financing (Ahluwalia, and Kassicieh, 2024) and eventual exit (Hochberg, Ljungqvist and Lu, 2007). Giot and Schwienbacher (2007) examined the dynamics of exit options based on the timing to exit options for IPOs, trade sales, and liquidations in the United States, and found that the hazard rates for IPOs are non-monotonic with respect to time.

They observed that, as time went by, venture capitalists first exhibit the likelihood of exiting through IPO, as the expected returns are higher (Weniger, Jarchow and Nenadic, 2023). As more time goes by, investments that have not yet exited are less likely to be exited through IPOs (Giot and Schwienbacher, 2007). Evidently, economic factors such as syndicate sizes and their composition, geographical location and the value-added services provided by experienced venture capitalists, including those in a network, are critical for an early exit (Ahluwalia, and Kassicieh, 2024). Bayar and Chemmanur (2011) analysed the choice of private firm's exit mechanisms between IPO and acquisition in the United States, and submitted that competition in the market is the key driving factor for choice of exit. While stand-alones fend for themselves after going public, acquired firms have received support, and can stay firm in product market competition.

2.5 Overcoming challenges of venture capital

Dai, Jo, and Kassicieh (2012) assert that foreign venture capital firms should invest in more information-transparent ventures when they are investing alone, as this helps reduce information asymmetry. Forming partnerships with local venture capital firms is critical, as foreign venture capitalists often invest more aggressively in early-stage ventures in the technology industries. They observe that the cultural distances between the origin country of the foreign venture capital firm and the local country not only impair the formation of partnership between the two, but also has a negative impact on exiting ventures. Hence, partnerships alleviate frictions between the home and foreign countries in terms of geographical and cultural distances. Joint investments are 5% more likely to exit than those investing alone.

Venture capitalists should invest in human capital so as to build their experience in the selection of deals. This ensures endogenous control of selection, as more experienced venture capitalists attract the better entrepreneurial deals, with a better chance of success, using the propensity score matching methodology. Partnership strengthens syndications, which synergises cross-border venture capital activities, by reducing the friction associated with geographical and cultural distances (Dai, Jo and Kassicieh, 2012).

The imperfect exit methods or lack of clear-cut exit mechanisms for ventures poses a challenge to the venture capital industry, as most investors are highly dependent on public listing. With highly developed economies such as the USA and in Europe, IPO is highly effective, as the regulations in place ensure that the stock markets operate at the optimum level. This is not the case in developing economies, especially in Africa, where over-the-counter markets are highly underdeveloped, and companies open and close at random. For venture capital to effectively depend on IPO, standardised policies and regulations are required (Faku, 2022). For the effective and efficient functioning of stock markets in countries which desire venture capital as an alternative method of financing, such standardised policies and regulations are necessary (Lin et al., 2014). It is therefore imperative that the Southern African Private Equity and Venture Capital Association and related network organisations lobby regulatory authorities to enact laws that incentivise investors, and ensure that stock market operations facilitate the listing of new companies.

Besides exiting through IPOs, venture capitalists may decide to exit through mergers and acquisitions, corporate repurchase, management buyouts (Guttermann, 2022) or liquidation.

While a successful merger and acquisition requires that merging companies and/or the acquiring and acquired companies come to terms, it is often not an easy decision to settle down on issues of control between the companies, even when they are performing well. Corporate repurchase supposes that upon successful financing, employees buy equity shares from the business to gain control of the venture, or managers buy shares of the business in the light of management buyouts (Guttermann, 2022). This often requires skills and funds on the part of employees and management to successfully leverage the operations, in the absence of the venture capitalists that provided expertise and finance to the business up to the exit point. Typical of developing economies such as South Africa, which is hit by poverty and a lack of skills, the challenge for investors to exit is seriously compounded. Finally, if all other options mentioned above do not work, venture capitalists have no choice other than to liquidate the business which may lead to huge losses from the initial investment (Fan, 2019). Nevertheless, liquidation offers the investor an opportunity to exit the investment and prevent further losses.

Further findings revealed that the lack of venture capital firms' abilities to syndicate with local partners may increase their failure rate. Given that the venture capital market in America is becoming saturated, venture capital firms are turning to developing countries, and most often they do not understand the mechanisms of the local organisations' or entrepreneurs' legal systems, or culture, and lack experience with the management of partnership in these countries, and therefore cannot appeal to the local partners with potential promises of impressive returns (Pezeshkan, Smith, Fainshmidt and Zhan, 2019). Hence the lack of contextual understanding of the environment, and the inability to network with local partners, creates a liability for foreign venture capital investors, or new venture capitalists, entering developing countries.

Pezeshkan et al. (2019) posit that venture capitalists are equally susceptible to their life cycle risk stemming from their earlier stage of financing, operational risk stemming from their reliance on high-tech assets, and political risk emanating from sector vulnerability, as a result of government meddling with their operations. Stage financing therefore can play an important role in ensuring that the investor's finances are adequately used. They can gauge the progress and probability of success according to milestones achieved at various financing stages.

Venture specific and market risks are normally higher when investing internationally due to differences in legislation, language and culture, and distance, and can be of concern when investing abroad. While life cycle risk relates to risk inherent in the early stages of development due to an incomplete management team at initial stage of the venture capital business, it leads to inability of the venture capitalists to find an effective and efficient research and development team capable of leveraging the operations of venture capitalists during this formation stage (Park and Tzabbar, 2016).

Lee (2019) also asserts that, at the early stage of the entrepreneurial venture, there is a general lack of tangible track records; hence, venture capitalists find it difficult to assess the claims made by entrepreneurs about their business. While entrepreneurs' knowledge and hard work may be of great value, and good predictors of venture success, they may overstate the potential success and attractiveness of the business to draw in the venture capitalists for financing deals. This general tendency of information asymmetry between entrepreneurs and venture capitalists at the early stage is higher with foreign venture capital firms, where there exist significant cultural differences, with a lack of market institutional safeguards against misrepresentation of information, and avenues to verify and validate or authenticate entrepreneurial claims (Pezeshkan et al., 2019).

2.6 Chapter conclusion

In this chapter, a review of venture capital literature was conducted from a general perspective, in order to gain an understanding of the role of venture capital in various economies, with a focus on venture capital operations within the founding BRICS+ bloc member states. A review of venture capital exit strategies was also conducted, with particular focus on the various routes of exit that have been used by some countries (Brazil, Russia, India, China and South Africa) in the BRICS+ bloc. In the following chapter, the research presents a conceptual framework of venture capital operations. The framework provides a guide on how an early exit framework for South Africa will be developed in Chapter Seven.

CHAPTER THREE: CONCEPTUAL FRAMEWORK

3.1 Introduction

The development of a framework for a study requires an understanding of the variables underpinning the study objectives, research questions, and the problem to be addressed by the framework (Maxwell, 2013). A conceptual framework refers to the combination of concepts, assumptions, expectations, and beliefs, as well as theories informing and supporting a particular study (Lara, Elise, Sabastian and Meredith, 2020). According to Miles and Huberman (1994), a conceptual framework is a written or visual product that explains, either graphically or in narrative form, the main things to be studied. It is developed (constructed) within the context of the study, and not given as ready-made material. It incorporates ideas or pieces of ideas borrowed from elsewhere, and structured with overall coherence. The conceptual framework informs the research design by helping to assess and refine goals. It is intended to develop realistic research and relevant questions, and select appropriate methodology, as well as identifying potential threats to the research conclusions. Although it takes cognisance of reviewed literature, in actual fact it goes beyond a literature review.

Using a literature review may only narrow the focus, and ignore significant conceptual resources of greater importance to the study. Current knowledge under examination may not be included in the literature review (Locke, Spirduso and Silverman, 1993) and may be left out. Knowledge of those who know the territory and field of study, and personal experiences, are important. Literature may lead to covering only the specific field rather than focusing on the studies themselves, as most literature does not have a clear connection to the specific line of interest (Maxwell, 2013). Most productive frameworks incorporate ideas outside the traditional relevant fields. Literature-based conceptual frameworks may lead to a task description only, neglecting constructive ideas (Maxwell, 2013). As such, the current study incorporates literature-based knowledge with other relevant knowledge explored outside the specific field of study, to add value to the study.

3.2 The concept of venture capital

Venture capital originated from the United States of America in 1946, when the American Research and Development Corporation (ARDC) was established by George Doriot (Etzkowitz and Zhou, 2012, p. 189-190). This idea was the result of the devastating effects of the world

stock market crash in 1929, the Great Depression, and World War II, when alternative ways of survival were being sought by some wealthy families (Tlemsani and Suwaidi, 2016).

According to Allahar (2014), venture capital investment represents an equity investment intended for the growth of firms. The funds are invested for the purposes of making an IPO on the maturity of the business. The notion of venture capital investment therefore connotes investments in young businesses, with the potential of making high profits (Seraf, 2024), but which lack the capacity to grow the business in the early stages. Venture capitalists are therefore investors who pull resources together for the purpose of financing start-ups with the intention of making capital gains (Cressy, 2006), through sales of shares of the company in the stock market. In this regard, the investors identify growing businesses with huge potential for making high profits (Seraf, 2024), and invest in these ventures, since the entrepreneurs themselves do not have sufficient capital to invest in the businesses (Santhi and Nanda, 2017). Furthermore, the main financing institutions are not willing to finance such ventures without proven track records. These investors can be wealthy individuals financing start-ups (business angels), organisations established for this purpose, university centres, or government-established fund providers (Etzkowitz and Zhou, 2012).

Venture capitalists provide funding for new ventures starting from the seed phase, where investment is made in the early stages (Gonzalo et al., 2022) to finance development, feasibility studies, and prototypes. At the start-up phase, funding is made to begin production, as the product development and research stages have used up existing funds, with very little income from initial sales (Mantell, 2009). At the first stage, they provide funding to step up production, as sales are increasing. During the second stage, venture capitalists provide funds for businesses which are successfully selling their product (Silva, Jucá, and Vieito, 2024), but which require expansion to venture into new markets, and ensure sustainable growth. In order to secure the exit from the investment, they provide further funding necessary to further expand the business ventures, or bridge the financing needs required to launch an IPO; this is the mezzanine financing stage. Finally, the buyout stage provides an opportunity for the venture capitalists to help companies acquire other companies (Allahar, 2014).

Besides the provision of finance, venture capitalists provide the managerial expertise, and so give the businesses the lift required for survival and growth, and so become sustainable (Silva, Jucá, and Vieito, 2024). They provide guidance and the required network for future growth (Huang, Wang, Sheng and Zhao, 2025). To guard against business failures, they follow a

process of selecting their prospective investees (Snyman et al., 2014). According to Snyman et al. (2014), the selection process for venture capital investment is in four stages namely; desk acceptance or rejection stage, first entrepreneurial presentation, second entrepreneurial presentation, and due diligence.

For any investment portfolio to be successful, sound management is required. As private equity investment managers, venture capitalists rigorously manage their investment portfolios in the investees' companies (Gutterman, 2022), the timing to exit, as well as the exit mechanism for the investment. First they pool their resources, to create a pool of funds required to fund the new ventures (Snyman et al., 2014). This process of pooling capital gives smaller investors the opportunity to invest in those private companies experiencing growth. Second, they delegate the investments to fund managers with the requisite experience and incentive to evaluate and select the potential businesses for investment. After investing in projects, fund managers are responsible for sourcing exit opportunities that will ensure the realisation of gains for the investors or a return on investment (Snyman et al., 2014).

For an investment to be able to exit, a suitable buyer is necessary (Snyman et al., 2014). An exit can be concluded in a number of ways, but the main focus or main strategy for exit is an IPO, or private sale of the investee's company shares. Other exit strategies include mergers and acquisitions, management and employees' buyout, or liquidation (Fan, 2019). Within the context of investing in entrepreneurial ventures, venture capitalists would raise funds, source investment deals, select suitable deals for financing, arrange contracts with the concerned entrepreneurs, invest in the selected ventures, and finally exit the investment (Salomon, 2016).

As such, an exit is crucial for any investment by any venture capitalist. An exit terminates the venture capital deals and yields a return to the investors, which can be used to finance other investments. The timing of the exit is therefore important, as an early exit signifies an attractive and profitable venture capital market (Giot and Schwienbacher, 2007). Salomon (2016) summarises the venture capital concept and process to be fundraising, deal sourcing, selection and evaluation, investment, post-investment activities, and exit. Based on Salomon (2016), the study conceptualised a streamlined venture capital framework, as shown in figure 3.1 below, which comprises six key components, namely resource mobilisation, deal sourcing, selection and evaluation, investment, post-investment activities, and exit. These components are delineated in the subsections following figure 3.1.

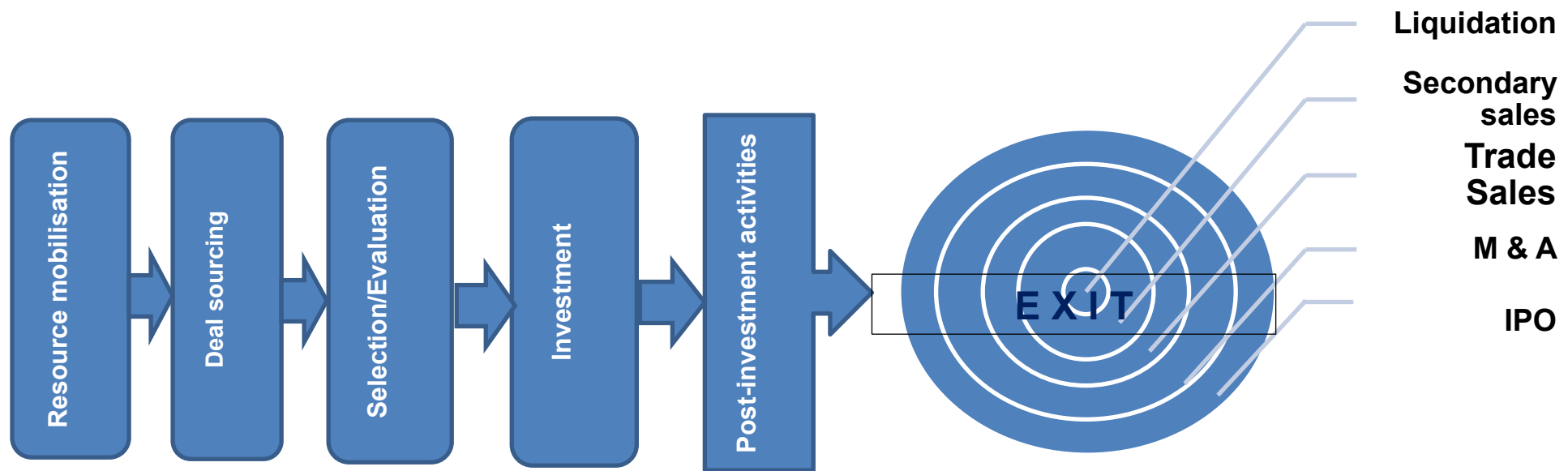


Figure 3.1: Venture capital process

Source: Adapted from Salomon (2016)

3.2.1 Resource mobilisation

Resources refer to both tangible and intangible assets controlled by an entrepreneur, or accessible via social ties, that enable him or her to exploit an entrepreneurial opportunity (Clough, Fang, Vissa and Yu, 2019). Venture capital resource mobilisation is therefore a process through which venture capitalists assemble resources used to execute their investment opportunities. The concept of resource mobilisation goes beyond fundraising activities to financing investment opportunities. Venture capital firms' financing of start-ups and other investment stages begin their investment process with fundraising (Salomon, 2016). Within the context of this study, the concept of 'resource mobilisation' not only focuses on venture capitalists and entrepreneurs – it also includes every stakeholder that would facilitate venture capital investment, such as government and venture capital institutional establishments. Empirical and theoretical literature posit that venture capitalists not only provide finances, but they also assist with other things, such as providing the technical expertise required to run the venture. Mobilising resources for venture capital investment is not an easy process. It requires patience, persistence, the ability to persuade people to come on board, and pragmatism (Kauffman Fellows, 2020). Four types of resources are important for venture capitalists, namely capital, deal flow, social assets, and expertise (Korpela, 2019). The timing of fundraising is crucial for raising the required amount to start a venture capital firm. Social contacts as well as professional relationships are important in deciding the form of a venture capital firm. Joint ventures may help pool enough funds more than independent venture capitalists. Union investments bring about a multiplicity of expertise in various areas, and funds raised can be more substantial, to realising investment returns faster (Zhang, 2018). Management is strengthened with a reduced level of information asymmetry.

Finding credible individuals to work with and add value to entrepreneurial ventures is also critical (Guterman, 2022). Hence networking plays a crucial role in sourcing the necessary skills that boost the status of the venture capital firm. While mobilising resources to fund venture capital endeavours can be daunting, government policies that do not favour the expansion of the venture capital industry can be a stumbling block to resource mobilisation. Excessive tax rates on capital gains may demotivate investment in venture capital. Poor economic policies may hamper prospective investors (Faku, 2022), both foreign and local, from engaging in venture capital activities. Skills transfer restrictions may deter experts from bringing in the required "know how" and funds to invest in, not only the high-tech industry, but also other profitable ventures. Such deterrent policies and a lack of government support leaves

the industry with a low mobilisation drive, which in effect slows the rate of venture capital exit. The factors associated with resource mobilisation are many and sometimes interrelated.

3.2.2 Deal sourcing

The success of venture capital operations depends on the consistency of actions taken that generate value (Gompers, Gornall, Kaplan, and Strebulaev, 2020) and quickly yield returns. Connecting entrepreneurs with good ideas with investors with the required financial capacity and ideas to grow a business is important for a successful venture capital investment. Venture capital deal sourcing is therefore a process followed by venture capitalists to find potential investment opportunities that suit their financing needs. Scaling and maintaining efficient quality deal flows starts with high-quality deal sourcing. The success of a venture capital firm depends greatly on generating significant deal flows (Korpela, 2019). Experienced investors achieve IPO rates almost twice as high than the inexperienced ones. About two-thirds of performance difference was connected to deal sourcing and selection, while one-third was attributed to value addition.

Gompers et al. (2020) looked at how venture capitalists source their potential investments, by exploring where investment comes from, based on 200 sample screens of 200 companies. They found that most deal flows came from both formal and informal venture capital networks. Compared to value addition, deal sourcing and selection contributes about 60% to the success of venture capital, while value addition contributes 40% (Gompers et al., 2020). Over 30% of selection is generated through professional networks, approximately 20% are referrals by other investors, and 8% by existing portfolio companies. In the study of Gompers et al. (2020) almost 30% are proactively self-generated (outbound deals in the form of conferences, scheduled meetings etc.) and just about 10 % are inbound (internally generated by management). This is in line with Korpela (2019), Gompers et al. (2016) and Tyebjee and Bruno (1984), who classified deal sourcing into cold contacts (deals generated through contacts made by entrepreneurs to venture capitalists), referrals, and outbound. In general terms, the venture capitalists' ability to source productive deals, get connected to a highly valued network of individuals and corporates, as well as meeting and selecting the right entrepreneurs with great and productive ideas, reduces the risk of failure, and increases the probability of success and an early exit.

3.2.3 Selection and evaluation

Gompers et al. (2020) examined the selection decisions around venture capital investments, and observed that academics and practitioners uphold screening and selection as the most important factor. In selecting investment portfolios, venture capitalists consider the market attractiveness (Jalalabadi et al., 2018), the business strategy of the entrepreneurs, the state of technological advancement, calibre of products and services, customer adoption policy, competition (Arabshahi, 2017), the terms of the deal, and entrepreneurial experience in managing the venture – the management team.

The “jockey vs. horse” framework (Kaplan, Sensoy and Stromberg, 2009) examines the factors that are more persistent over the life of a successful venture capital investment. Kaplan et al. (2009) assert that the entrepreneurial team is the ‘jockey’, while the business model itself is the ‘horse.’ Their analysis reveals that, while selecting an investment, the focus should be on the business – the horse – and not the management team – the jockey. Gompers et al. (2010) assert that the past successes of an entrepreneurial team or entrepreneur is essential to attract potential investments. Gompers et al. (2020) submit that greater importance should be on the management team (95%) and business model (85%) rated by firms. However, ‘Jockey vs Horse’ (Kaplan et al., 2009) does not neglect management, but simply argues that it is not as important as the business. The business does not change but management may change, and even at the point of an IPO, founders may hold just about 10% or less of the stake, which is insignificant. Nevertheless, in the IT space, investors place relatively more value and weight on the management team while looking at other factors such as products, market, customers, etc. (Gompers et al., 2020).

In the process of evaluating prospective investments, investors use the Internal Rate of Return (IRR) to evaluate investment opportunities. The scarcity or unavailability of historical financial data, and uncertainty of future cash flows, make it difficult to appraise investments. Few venture capitalists use discounted cashflows or the net present value method, while most apply IRR or a multiple of the investment appraisal methods (Gompers et al., 2020). Studies revealed that very few early-stage investors do not apply any quantitative method in evaluating investments, and do not forecast cashflows when making investments (Gompers et al., 2020). Investors look at the contractual arrangements to ensure that entrepreneurs do well, or investors take control in the event that the entrepreneur does not do well. They ensure cashflow rights (incentives to perform), control rights, liquidation rights, and employment rights,

for the entrepreneurs to perform and stay on board. Gompers et al. (2020) observed that investors are inflexible on pro rata investment rights, vesting, board control activities, liquidation preference valuation, and anti-dilution protection, and more flexible in the amount of funds invested, participation rights, pool options, redemption, and dividend rights.

3.2.4 Investment

Besides providing funds for investment, venture capitalists add value to the investment deals. The value addition activities include the active monitoring and improving of the governance structure of the investee (Gompers et al, 2020). This could mean growing entrepreneurial skills (Ahluwalia and Kassicieh, 2024) and, to an extent, replacing entrepreneurs who fail to keep up with the task of growing their companies (Baker and Gompers, 2003). Investors are more prone to contractual deals that give them the right to structure operations in a way that will yield faster returns and facilitate their exits. As noted earlier, investments can be staggered according to stages, and contractual clauses help to safeguard the interests of stakeholders.

As firms backed by venture capitalists have fewer insiders, and managed by influential and instrumental directors, there is a need for closer monitoring and evaluation of the board's performance. Venture capitalists are essential for professionalising the start-ups. They structure the board of directors, and assist in hiring outside managers. Baker and Gompers (2003) found that about only one-third of venture capital-backed companies (out of 1116 companies) still maintain their founders as Chief Executive Officers (CEO) at the time of the IPO. Baker and Gompers (2003) assert that representation, as independent board members, decreases with the power of the executive officer, and increases with the power of venture capital backing and its reputation. Implicitly, venture capitalists have the power to restructure the board in order to ensure efficiency, and are able to influence the firing of non-performing executives and other board members (Baker and Gompers, 2003).

3.2.5 Post-investment activities

Research on post-investment activities relates to value addition and monitoring activities carried out by venture capitalists (De Clerque and Manigart, 2007). While the value addition process seeks to increase the entrepreneurs' investment potentials, the monitoring aspect is aimed at correcting the potential harmful behaviours of entrepreneurs, such as minimising the effect of information asymmetry. Monitoring attempts to reduce agency problems, and it is highly required for companies with high information asymmetry (Firmansyah and Al Ayyubi,

2024), indicating potential agency problems. Monitoring is essential for new companies just entering the portfolio of companies under venture capitalists. It is necessary that the venture capitalists closely monitor these new investments in order to mitigate the risk of failure (De Clerque and Manigart, 2007). Research indicates that agency problems are more common in Anglo-Saxon investments, compared to continental investments made in European countries, and that venture capitalists exercise more monitoring in Anglo-Saxon venture investments than in European venture investments. Furthermore, syndicated investment requires some sort of joint monitoring by the investors.

Post-investment activities may be substituted by more rigid contractual agreements based on prior investment agreements or equity controls. Nevertheless, such agreements may not preview the exact state of affairs in the investment. It is therefore important for the venture capitalists to ensure the effective functioning and performance of the investments. Monitoring increases information production and enhances decision-making, although the entrepreneur may view it as costly (Lin, 2022).

In terms of value addition, this boosts the reputation of the investees, as venture capitalists are reputable investors with wide experience in their field. It leads to the establishment and enhancement of value systems through the enforcement of effective corporate governance rules in portfolio companies. Hand (2005), cited by De Clerque and Manigart (2007), asserts that with the presence of venture capital investors, there are high quality accounting reports. Monitoring is beneficial for a mature portfolio. For external parties such as banks, suppliers, and customers, monitoring leads to more enhanced and improved external reporting.

3.2.6 Exit

Evidently, exit options made by venture capitalists have distributional consequences between the venture capitalists and the entrepreneurs. Nevertheless, before venture capitalists invest in a deal, they first plan their exit (Smith, 2005). Exit planning is most often influenced by several factors, and accomplished through contractual arrangements (Lin, 2022). The arrangements are normally structured in a manner that gives the entrepreneurs some freedom from the threat of exit, especially at the early stages of investment. As such, greater control is accorded to the entrepreneur in the early stage of the investment. As the cost of monitoring and control increases at later stages, the venture capitalist acquires more control to safeguard the investment and limit the liquidity shock (Cayon and Vinageras, 2020). The higher the

probability of liquidity shock, the more the investor thinks of exiting the investment. Different contractual provisions including, but not limited to, negative covenants (protective provisions) redemption rights, conversion rights, and demand registration rights, are necessary to protect both parties. In managing an exit, there should be a trade-off between liquidity and incentives. According to the ABT model, investments take place in three time periods, namely start-up, trading stage, and payback stage. At the start-up stage, contracts are negotiated and investments made, with much control bestowed on the entrepreneur (Snyman, Kennon, Schutte, and Von Leipzig, 2014). Such controls are intended to protect the investee from the threats of exit by the venture capitalists, as there is much uncertainty about the business. At the trading stage, investors decide on an exit through sales to new investors. At payback, the business yields return and pays back the investors.

Exit decisions for those venture capitalists holding minority stakes depend on the decisions of the majority shareholders. As such venture capitalists require registration agreements, with rights to having their shares included in an IPO (“piggyback rights”), they can request beforehand that an IPO takes place (“demand rights”). For venture capitalists, exiting an investment is not an option, and most investment contracts are usually for a fixed term (Gompers et al., 2020). This is usually 10 years, with an extended period of 3 years in the United States and Europe (Smith, 2005).

Against this background, a venture capitalist intending to remain in business must raise funds successfully, invest them in different portfolios of different companies, exit such companies, and return proceeds from the fund to their investors (Gompers et al., 2020), who will then reinvest them in new funds established by the venture capitalists, in order to ensure a continuation of the venture capital framework. In other words, it is mandatory that the venture capitalists exit their investments.

Besides other rights highlighted above, conversion rights are critical to the investors’ exit decision. Most often, venture capitalists invest in an exchange of convertible preferred stock, bearing certain conditions (Guterman, 2022). An optional conversion allows the investor to convert at will, and automatic conversion requires the venture capitalist to convert the stock upon the occurrence of a condition (Pintér, 2020), for example, an IPO to common stock. This is a way of ensuring an exit upon the company going public.

As entrepreneurs are protected at the initial stage, venture capitalists have limited rights to initiate exits. Limited by board control and contractual rights at this stage, they allow entrepreneurs to show their worth and prove their business concepts, but investors possess veto rights to stop forceful exits by entrepreneurs. As time passes and the business moves to trading, venture capitalists acquire more contractual and control rights (board representation), which enable them to push for IPOs (Smith, 2005). Stage financing provides the investor with the option to monitor and evaluate the investment, which reduces information asymmetry and the investment duration (Felix, 2008).

Cumming and MacInctosh (2002) explored the optimal pattern of exit based on the investee, venture capital firm, asset nature, and duration of the venture, and concluded that IPOs are the most important form of exits for high quality firms (Gompers et al., 2020). The determinants of exit forms, be they IPOs, trade sales, or write-offs, are invariably linked to the venture capital firm's reputation, and the composition of the syndicate and its size, as well as the strategic objectives of the venture capital firm. Furthermore, exit successes are also influenced by the stage of the economic development (Gornall, 2015), industry conditions, the presence of other institutional investors such as pension funds, banks, and other investors in venture capital syndicates. Amidst other things, investments in high-tech companies' portfolios have a higher chance of exiting earlier. Late-stage investments also account for higher exit rates with shorter duration.

3.3 The evolution of venture capital

The theoretical literature in Chapter Two posits that venture capital emerged as a result of the stock market crash in 1929, the Great Depression and World War II, giving innovative thinkers the opportunity to think out of the box, thereby creating entrepreneurial opportunities from an unfriendly entrepreneurial environment. The need for gainful activities necessitated great zeal for innovation in the minds of wealthy individuals to engage in gainful ventures. The spark of innovation made way for the post-World War II economic boom in the United States (Tlemsani and Suwaidi, 2016). Against this background, the notion of venture capital cropped up in the twentieth century, when private investment banks started investment in prominent industries such as iron and railways for higher returns. Jean Witter first used the term in 1939 when addressing the Investment Bankers Association of America Convention (Reiner, 1989). In 1946, George Doriot established the American Research and Development Corporation

(ARDC), a venture capital/private equity firm (Etzkowitz and Zhou, 2012) to explore alternative ways of developing regional economies, using universities and similar institutions.

By 1958 the National Venture Capital Association was formed, and the Small Business Investment Act was passed, to open up avenues for private investment companies and venture firms to emerge through private licensing. The intention was to ensure that investment firms financed and managed start-ups. To enhance this process, the United States government introduced tax breaks for investment companies (Guttermann, 2022), and for registered venture capital practitioners. Between 1960 and 1962, 585 Small Business Investment Corporations (SBIC) were licensed in the USA, with over 205 million US dollars as private investment funds. This boosted the funds available for investment in tech companies in Silicon Valley, i.e. Macintosh, Xerox, and Intel (Etzkowitz and Zhou, 2012).

3.4 Venture capital selection process(es)

Venture capitalists spend considerable amounts of time on the screening and selection of potential investment opportunities, in order to safeguard against costly selection (Barnard and Chicktay, 2018). The more professional a venture practitioner is, the more they have reliance on informants, and vice versa (Jungwirth and Moog, 2004). An unprofessional and poor screening process negatively influences the timing of an exit. It could increase the investment duration, or result in deals being called off prematurely at a particular stage of financing.

The selection process may last for months, with due attention given to strategy, market competition, market size, quality, and the experience of the management team (Guttermann, 2022), customer adoption, and the impact and effect of technology on the business venture being assessed. Venture capitalists dedicate substantial amounts of time and resources to researching new technologies, markets, and investment opportunities. They are quite concerned with appraising and laying emphasis on the management capabilities of their investment opportunities (Jalalabad et al., 2018). They follow a due diligence process in order to select their prospective investment opportunities (Snyman et al., 2014). Jungwirth and Moog (2004) assert that venture capitalists differ in the intensity of support, and also in their selection process and strategies, but the study does not explain the reason for such differences. According to Bronzini, Caramellino and Magri (2017), about 50 per cent of applicants for venture capital funding are rejected after the initial and quick review of their applications, and only about 20 per cent enter the deeper evaluation process where venture capitalists begin

inviting and meeting with start-ups for analysis and presentation, as well as short question-and-answer sessions about their prospective business ventures. Only a very few eventually get funded (Morawczyński, 2020).

Snyman et al. (2014) summarise the assessment process of selecting prospective ventures for funding in four stages, namely desk acceptance or rejection phase, first entrepreneurial presentation, second entrepreneurial presentation, and due diligence and valuation negotiation stage, while Miloud, Aspelund and Cabrol (2012) submit that the valuation process is complex, due to the diversity of factors inherent in the evaluation process. Morawczyński (2020) states that the conceptualisation of the process can be summarised into six stages, namely; origination, VC's firm specific screening, generic screening, first phase evaluation, second phase evaluation, and finally closing (Tyebjee and Bruno, 1984). The thinking is in line with Bronzini, Caramellino and Magri (2017), who believe that the selection process is in five stages namely; business plan submission, first screening, further evaluation, due diligence, and investment.

Miloud et al. (2012) and Sudek (2006) assert that the evaluation process goes beyond analysis of financial aspects of the prospective business, and touches on qualitative characteristics such as a firm's development and competitiveness, firm's value creation, networking ability, management strategy, product differentiation, industry growth (Alperovych, and Hubner, 2013), entrepreneurial resources, and trustworthiness (Sudek, 2006), as well as management skills and experience, and many more. The more experienced the entrepreneur, the more likely the venture is selected – based on the professional judgement of the venture firm. In line with the previous conceptual screening framework, figure 3.2 presents a framework for screening investments that has the potential to ensure an early exit of venture capital investment in South Africa.

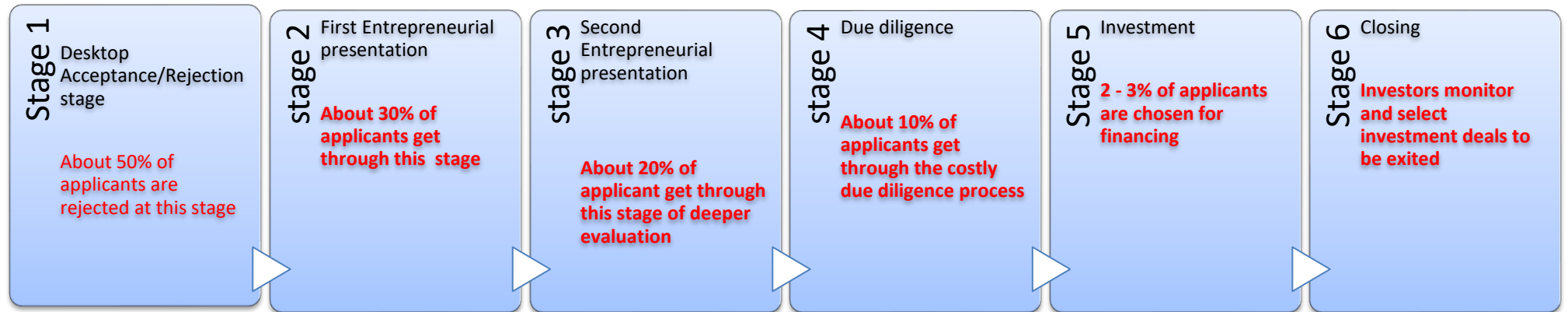


Figure 3.2: Venture capital screening framework

Source: adapted from Bronzini et al. (2017), Morawczyński (2020), Snyman et al. (2014), and Sudek (2006)

3.4.1 Desktop acceptance/rejection phase

According to Seitz and Wry (2025) sourcing and screening of potential investees are crucial activities performed by investors to ensure early-stage investment success. If an investor sees no potential for a high return in an investment, then there is no need to invest. Investors only receive applications from prospective investees for investment consideration (Syman et al., 2014) if they demonstrate the potential to yield multiple returns on the investment in an expected timeframe. During this stage, the prospective entrepreneurs with investment deals to be funded, submit their business plans (Bronzini et al., 2017). At this early stage, over 50 percent of applicants are rejected, as the investors briefly scan through the business plans and comment on the applications. At this stage, many proposals do not receive much attention (Manigart, 2013). The rejection rules varies from one investor to another, depending on their experiences in deal handling, domain of choice by entrepreneurs, state of activities, technological advancement (Bronzini et al., 2017). There is no rule of thumb and sometimes entrepreneurs may be required to re-submit at a later stage (Morawczyński, 2020).

3.4.2 First entrepreneurial presentation

At this stage, investors begin to summon entrepreneurs for a quick review of their submitted business plans (Bronzini et al., 2017), after igniting the fundraising process (Jalalabadi, Grome, Shahrestani, Izaddoost, and Reece, 2018). While the first stage is dedicated to document generation and screening, this stage is indirectly linked to structuring (Morawczyński, 2020). About 30% of applicants go through this stage for an in-depth evaluation of proposals. This first meeting is intended to gather background information about the entrepreneur, such as company history, marketing strategy, basic product mix, potential competition, and business model (Arabshahi, 2017). It provides an opportunity for the entrepreneur to understand the funding interests of the investors, the investee's ownership target, and average expected funding (Jalalabadi et al., 2018). This brief session would last between 10 to 15 minutes and also provides an opportunity for the entrepreneur to showcase his or her talent, and ask the investor to take him through their investment process, with the expectation of having further meetings, or alternative funding referrals (Arabshahi, 2017; Jalalabadi et al., 2018).

3.4.3 Second entrepreneurial presentation

According to Synam (2014), about 20 percent of start-ups reach this stage of deeper evaluation. Here, venture capital investment firms meet the entrepreneurial team and conduct a broad analysis of the data (Bronzini et al., 2017). The start-up teams are invited for short

presentations and questioning on their proposals (Manigart, 2013). The business plans are analysed. The analyses are generally focused on critical areas such as the protection of business ideas, team experience in the market area, funds, and time committed to developing the idea (Jalalabadi et al., 2018), and partnership arrangements (commercial and/or industrial partnerships). If the ideas are very promising, venture capital investors begin looking at the structural operations of the business. They also consider their terms of entrance and exit, and valuation of the firm (Bronzini et al., 2017).

3.4.4 Due diligence

Many prospective projects are often disqualified at the evaluation stage (Morawczyński, 2020) as it is a systematic process. The due diligence encompasses a much larger number of more detailed criteria and procedures (Seitz and Wry, 2025). It may involve external consultations with other entities. It is a costly and time-consuming assessment. Here models may be revised and adjusted to suit particular contexts (Morawczyński, 2020). About 10 percent of proposals advance to this costly due diligence process, during which structural operations are finalised (Bronzini et al., 2017). Investors may still change their minds, even at the due diligence stage of the screening process. Trust is the underlying element, so venture capitalists may view entrepreneurs' profiles on social and professional platforms such as LinkedIn and Facebook (Jalalabadi et al., 2018), and deals can be rejected by venture capital investors for lack of trust, even if the investment may be very promising.

3.4.5 Investment

After the screening and evaluation process, investors then decide on the most promising deals and eventually finance the selected deals. In most instances, only 2 to 3 percent of applicants are financed (Snyman, 2014). Investors try to select the most promising projects. However, the selection process may be subject to bias, as investors may be looking at factors specific to their interests (Manigart, 2013). According to Seong and Kim (2021), venture capitalists use specific internal standards to select the companies they invest in. Jeong, Kim, and Nam (2020) assert that the earlier a start-up attracts venture capital investment, the better its performance. The survival rate of companies receiving venture capital support is higher than those which do not receive venture capital funding (Gompers et al., 2020; Seon and Kim, 2021). However, CBInsights (2020) indicates that the failure of a start-up is a result of lack of funding. Seong and Kim (2020) indicated a survival rate between 65% and 85%, with about 20% of investments being unable to provide returns for investors, resulting in the 'living dead'

investments described by Ruhnka, Feldman and Dean (2022). The entrepreneur is therefore the most critical factor for consideration of an investment, compared to the product and service offering, market potential, and finance (Seong and Kim, 2021). To reduce information asymmetry, the entrepreneur's reliability and business suitability are factors highlighted over and above the entrepreneur's technical expertise. Hence the entrepreneur's reliability and suitability are critical for a venture capital investment decision (Seong and Kim, 2021).

3.4.6 Closing

At this stage, venture capital investors monitor and evaluate deals in preparation for possible exit. It is important that contractual agreements are reviewed, in order to respect the terms of engagement (Cayon and Vinageras, 2020). In Europe and America, venture investors agree to invest for a limited period of time, which permits them to operate with investees for a fixed term (Sahlman, 1990). It becomes imperative for such venture capitalists to exit upon the expiry of the contractual terms. Listing arrangements are critical at this point, as the venture capitalists prepare the necessary funding to finance IPO transactions (Giot and Schwienbacher, 2007).

3.5 Venture capital investment stages

Morawczy, (2020) identifies six stages of venture capital investment within Poland, namely seed, start-up, early stage, expansion, buy-in/out, and turnaround. In Europe, the stages include seed, start-up, expansion, replacement, and buyout. Mantel (2009) describes the stages as first stage, second stage, third stage and fourth stage. In the context of the USA, Matel (2009) aligned venture capital investment processes to four stages, which encompass seed to mezzanine.

Venture capitalists finance projects at different levels, ranging from the seed stage to the mezzanine stage (Matel, 2009). They finance projects with no streams of income, and are willing to go the extra mile to provide entrepreneurial support to the entrepreneur's business venture, and ensure its success before exiting. Nevertheless, they minimise failures by sorting out unprofitable ventures, and liquidate them in order to avoid losses on their part (Puri and Zarutskie, 2012; Giot and Schwienbacher, 2006; Bergemann and Hege, 2002).

Mantel (2009) asserts that, whenever venture capitalists commit to funding an entrepreneur, it more often than not entails staged financing. The venture capitalists make a firm commitment to offer a portion of the funds required. The understanding is that subsequent funding will be contingent on the firm's performance, and the achievement of milestones. This is synonymous to a call option, whereby the venture capitalist will be required to evaluate the project; if a milestone is not reached, the venture capitalist may be obliged to call off, or exit, the deal. Technically, stage financing may facilitate early exit (Pezeshkan et al., 2019). The following subsections present explanations of the various investment stages financed by venture capitalists.

3.5.1 Seed stage

At the seed stage, venture capital investors usually invest smaller amounts (Klingler-Vidra, 2016), usually in the range of a few hundred thousand euros, dollars etc. Investment at this stage is intended to allow an entrepreneur to determine whether his or her project is economically feasible, attractive, and viable. Venture capitalists assist in exploring the viability of the projects at this stage. At this stage, initially, outside investors invest simultaneously with founders on the conditions and terms of valuation and exit prospects. Their intentions are aligned with those investing in later stages (Lang and Wirtz, 2022).

According to Molnár, and Jáki (2020), private venture capitalists usually do not invest in the early-stage life-cycle of the venture capital ecosystem, notably seeds and pre-seeds. This is generally due to their size limitation. The entry of the government presents an opportunity for funds to flow into the seed and pre-seed stages of the venture capital process. The government of Hungary, for example, in addition to China, India and the USA, places emphasis on the development of the venture capital ecosystem by participating in the Joint European Resources for Micro to Medium Enterprises (JEREMIE) programme, which helps finance venture capital activities in Europe through its development agenda (Molnár and Jáki, 2020). Klingler-Vidra (2016) refers to seed funding as 'patient capital' as the seed stage demonstrates considerable patience through long investment horizons, which private venture capitalists may not be interested in. Investors in this stage are exposed to high risk (Jalalabadi, Grome, Shahrestani, Izaddoost, and Reece, 2018) which justifies the need for government participation in the ecosystem (Molnár and Jáki, 2020).

3.5.2 Start-up stage

Investments to operationalise the firm usually come in at this level, after ascertaining the viability of the project or investment at the seed stage (Hellman, 2002). Generally, first stage financing provides financing resources to companies that have exhausted their initial capital (at the seed stage) and are in need of finances to initiate their manufacturing and sales processes. Here, executives develop a prototype and begin the implementation of marketing tests, etc. Attracting prospective employees and executives to launch and lead operations are crucial at this stage. At this stage, venture capitalists may help with the company organisation and corporate strategy. Most South African investors invest in start-ups deals. There has been a growing number of angel investors in this area (SAVCA, 2016). Start-up exits are usually facilitated through syndication, as it provides a solid relationship network to leverage the operations of the members. It also increases the pool of contacts possible for trade sales (Giot and Schwienbacher, 2007).

3.5.3 Expansion stage

Investment made at this stage by venture capitalists has the objective of ensuring that the investment deal reaches industrial-scale production. The upgrading of production facilities is necessary in order to attract further manpower. A good number of corporate venture investors invest at this stage, especially in the USA and Europe (Vanacker and Manigart, 2013). Here, venture capitalists usually assist in finding additional financing, suppliers, and clients. As the company grows and needs revenue, it is necessary to help recruit marketing and other non-technical executive staff. The growth of businesses in Silicon Valley saw an increase in the country's GDP during that era (Mantel 2009).

3.5.4 Later stage finance (Mezzanine)

Funds invested here are intended to grow firms to become market leaders. The idea is to help companies to unleash their earning potentials, and prepare for trade sales or IPO. This stage is commonly referred to as mezzanine or bridge financing. Funds are invested, and companies are expected to go public within a period of six months to a year. The mezzanine stage of financing bridges the information asymmetry gap between the downstream intermediaries, entrepreneurs, and ordinary stockholders (Mantel, 2009).

3.6 Venture capital exit planning

Despite increasing research interest in the venture capital industry, there has been little attention to decisions to disinvest (Félix, Pires and Gulamhussen, 2008; Gompers and Lerner, 1998; Lin, 2019; Wang and Sheela, 2020). Most of the literature on exiting is focused on IPO exits. Venture capitalists are highly specialised investors. They add value to new ventures. Despite this quality of value addition, their investments are ordinarily for a very limited period of time. The time limitation causes venture capitalists to decide when to exit and on the method of exit (Félix, Pires and Gulamhussen, 2008). As demonstrated in Chapter Two, various strategies are available to exit venture capital investments. The investors' choice of an exit route may be dependent on several factors. In addition to the exit strategies (Initial Public Offering, mergers and acquisitions, trade sales, secondary sales, and liquidation) analysed in Chapter Two, an exit plan would involve the timing of the exit.

Espenlaub, Khurshed, and Mohamed (2015) examined the exit behaviour of venture capital firms from a portfolio of companies in the UK using a frailty model, and observed that venture capital firms prefer an IPO exit, followed by mergers and acquisitions, and then other methods of exit. Their preference for an IPO exit over other alternatives is because IPOs are the fastest forms of exit in terms of time frame, compared to other routes. Espenlaub et al. (2015) assert that experienced venture capitalists hold their portfolio of companies much longer than younger venture capitalists, which is in line with the Grandstanding Hypothesis of Gompers (1996). On another note, syndication reduces the exit time systematically. Portfolios of companies in North America are exited much earlier than those in Europe. Similarly, portfolios of companies in China and India are exited much quicker than those in South Africa and Russia. While South African exits are predominantly trade sales, exits in China are mostly IPOs, due to the efficient market regulations, availability of alternative exit routes, and good policies that facilitate the growth of industries.

The Grandstanding Hypothesis (Gompers, 1996) suggests that young venture capital firms take companies to IPO exits earlier than older venture capital firms. This is done in order to establish and successfully raise their reputation, thereby raising funds for investment in new ventures. This ties with Barnes and McCarthy's (2002) study of a sample of 185 IPOs on the London Stock Exchange during the period of 1992 – 1999, where companies backed by younger venture capital firms represent younger companies than those backed by older venture capital firms.

Based on the reviewed literature and the underlying concepts of venture capital, preparing an early investment exit framework requires the venture capitalist to understand the whole process, and the factors that influence the exit of venture capital investments. It is equally important to understand the conditions under which the industry operates (Jalalabadi et al., 2018). The knowledge of the process is important, as what may be applicable in country A may not be applicable in country B, given the differences in economic factors and regulatory environments.

3.7 Conceptualising an early exit framework for venture capital in South Africa

The development of a framework should be based on theoretical and empirical findings (Jungwirth and Moog, 2004), taking cognisance of the industry findings. Research on venture capital investment criteria decisions has been conducted for quite some time now, but with no clear-cut information with regards to what matters the most to venture capital managers when they undertake decision-making processes in order to improve the performance of operations, and an eventual exit. The evaluation process is obscure and, in most instances, conditioned by several factors – besides inconsistencies in the terminology used by researchers. Tyebjee and Bruno (1984) attempted to use the framework of the Capital Asset Pricing Model (Sharpe, 1964) but the model was abandoned in favour of general Factors Categorisation (Morawczyński, 2020).

Based on the premise of Factors Categorisation (Morawczyński, 2020), the current research explores factors influencing venture capital exit, in order to come up with a framework for the early exit of venture capital investment in South Africa. The factors explored are drawn from the literature review, particularly the literature that speaks to the USA (venture capital pioneers), as well as the first five member states of the BRICS+ bloc. The insights gained from South Africa, as well as the other knowledge gleaned from the literature review, added value to the framework. It is considered that these factors which represent the variables influencing the optimum performance of venture capital operations (Maxwell, 2013), play a key role in the exit framework.

In developing the framework, due consideration was given to the operational model, concepts, ideologies, and theories applicable to the dynamics under study. An appropriate framework would require a review of related models and frameworks, in order to extract concepts and constructs similar to the model currently under development. The venture capital process

follows a methodical approach of funding business ventures with high profit potentials, with a view to exiting the venture upon maturity. Implicitly, the process begins with mobilising the required resources necessary for funding the business, identifying multiple investment options, selecting the best options to invest in, and growing the venture to maturity. The process is incomplete without the investor exiting the investment (Raghupathy and Rajan, 2010; Schwienbacher, 2007). Puri and Zarutskie (2012) affirm that proceeds from exits are reinvested into new investment portfolios. This makes the venture capital process a circular process. Good incentives, motivated by government policies, such as reduced capital gain tax on the sales of investments, and tax relief on new venture development, can potentially trigger the re-investment of exit proceeds.

The capital Asset Pricing Model was abandoned in favour of the Factors Categorisation, simply because of the numerous factors involved in the venture capital process (Tyebjee and Bruno, 1984). Leontief (1936), in his Input-Output model, recognises the factors' influence in an economic system and the interconnectivity of various subsystems, sectors, or regions in the economy (Todd, 2010; Vladimir and Pokrovskii, 2012). The Input-Output Model as a process (circular economic process) is similar to the venture capital process which takes an input (the funds and other factors) to grow ventures, and eventually exit (output). The issue with the Leontief Input-Output Model is that production takes place amongst the different sectors, subsystems, or regions. Such production is aggregated to form the Gross National Product. With the venture capital system, the interconnected activities are aimed at producing and exiting the same product. With Leontief's Input-Output Model, sector one may produce machinery used for further production in sector two, which uses the machinery to weave dresses. All these account for the national income (Vladimir and Pokrovskii, 2012). With venture capital, resources are mobilised to invest in company A, monitor and grow company A, and leave company A on maturity. Against this background, the Leontief Model, even though later modified to add human resources, and which uses regression analysis, may not be appropriate for the framework (Vladimir and Pokrovskii, 2012).

A closer look at the Input-Processes-Output model from the Science-of-Team-Science (SciTS), similar to the Leontief Input-Output Model, accounts for variable inputs (factors necessitating change), processes (interconnected activities) and output (outcome of the process). The Inputs-Processes-Outputs model recognises the integration of complex processes, and is grounded by a wide range of literature in philosophical science and

interdisciplinary theories (Bugin, Gaetano, Lotrecchiano, O'Rourke and Butler, 2021). Based on the wide admissibility and application of the Input-Processes-Output model, the research adapts the model and related constructs to develop a framework for venture capital exit in South Africa. Nevertheless, the limitations and criticisms of the chosen model were not ignored. In the following subheadings, this study presents the Input-Process-Output model, and how it has been adapted to produce the framework for the early exit of venture capital investment in South Africa.

3.7.1 Presentation of Inputs-Processes-Outputs Model

Significant research has been conducted on the variables influencing team performance and effectiveness. The research leads to several models related to team functioning. The various research models share some common realities of synergising team performance, grounded on the idea of an Input-Process-Output framework. The Input-Output Framework, drawn from the Classical Systems Theory, is a historically dominant approach to understanding and explaining team performance. The Classical System Theory stipulates that the general structure of a system is vital in assessing how it will function. As the components of the system are interrelated, one cannot dissociate one from another, but rather synergising the structures gives more credence to its overall performance (Bugin et al., 2021). The Input-Process-Output Model connotes a causal structure in which outputs are a function of various group processes influenced by various variables. Figure 3.3 depicts the Input-Process-Output Model.

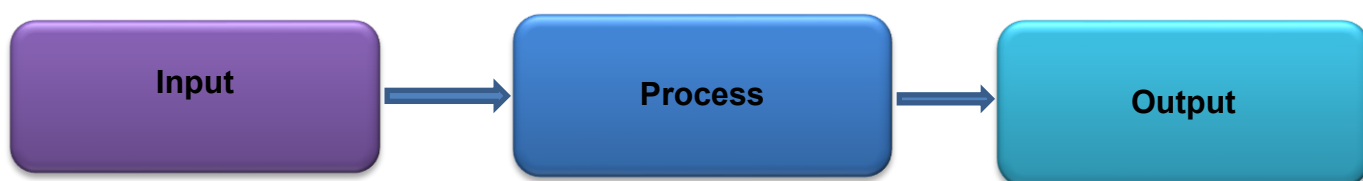


Figure 3.3: Input-Process-Output Model

Source: MacCuspie, Hyman, Yakysmyshyn, and Srinivasan (2014)

As seen in figure 3.3, the Input-Process-Output Model is a three-stage system representing input, process, and output. Inputs are conditions that exist prior to the system's activities. They represent consumables and efforts or activities introduced into the system at the beginning of the system's lifecycle (MacCuspie et al., 2014). In other words, they are the raw materials required for the system to start operations. In the case of venture investments, finance,

entrepreneurial skills, and government policies favouring venture capital investments, are examples of input variables.

Processes are modelled structures that are required for the conversion of inputs to outputs. In this regard, the study draws from the work of Brucker, Wood, Moran, Kuschang, Wieland, Maus and Börner (2019), and explains that ventures receive raw materials during the input stage, transform them into meaningful substances, and eventually create end products (outputs). In this study, venture capital deal sourcing, selection and evaluation, and investment, are quantified and qualified as the processes. Outputs represent the end products of the system. In the case of this research, the outputs are represented by the number of exits made after investment by the venture capitalists. This gives meaning to the proposed framework for this study and simplifies the complex process of the input process output model (Bugin, et al., 2021).

3.7.2 Criticisms and Limitations of the Input-Process-Output Model

- i. The model assumes group functioning to be static, and follows a linear progression from inputs through to outputs. In real-life, teams are dynamic and change over time, and adaptation over time is influenced by feedback. Hence the input process output model fails to account for the iterative process that output plays in the feedback process (Rousseau, Aube and Savoie, 2018).
- ii. Research testing on output links has been predominantly in laboratory settings, thereby restricting the number of variables that could possibly occur within the system, and which may affect the end results of the test. In the real world (real life) venture capital activities involve multi-dynamics (Kozlowski, 2015) which cannot be constrained to laboratory experiments. This limits the ecological application and validity of the model, as it fails to take account of contextual variables thereby limiting the application and generalisation of findings (Mathieu, Gallagher, Domingio and Klock, 2019).
- iii. The model assumes the process fully mediates the links between inputs and outputs. This raises the criticism that fully-mediated models are too limited. Hence, there is a need for alternative models (Ilgen et al. (2005). In real-life scenarios, aspect such as the leadership team, task complexity, and experience have a great influence on output. Hence moderators and contingency measures are necessary to ensure full mediation of the input process output model (Ilgen et al. (2005).

3.7.3 Application and extension of the Input-Process-Output Model

The Input-Process-Output model has been extensively used in the business and social science fields, process modelling, engineering, medicine, education, and data analytics to explain how various systems operate. MacCuspie et al. (2014) used the Input-Process-Output model to develop a framework for identifying performance targets for sustainable nanomaterials. O'Rourke et al. (2012) used the Input-Process-Output model, alongside the socio-linguistic model in order to understand cross interdisciplinary works and how these can be integrated, and concluded that the use of both models helps in explaining things better. Beguin et al. (2021) used the Input-Process-Output model in evaluating integration in the collaborative cross-disciplinary Food and Drug Administration in the United States in new drug reviews, and concluded that the model provides a greater understanding of the integration process. Decius et al. (2021) used the Input-Process-Output model to investigate workers or work characteristics in informal workplace learning of blue-collar workers using structural equation modelling. This clearly demonstrates that the model is widely applicable in both quantitative and qualitative studies. This justifies the use of this model in this study, as the research adopted a mixed approach (both quantitative and qualitative study components).

Ilgen et al. (2005) reviewed the Input-Process-Output Model, and expanded the model beyond the constraints of input-process-output. They formulated the Input-Mediator-Output-Input (IMOI) model. The Mediators replace the processes (processes mediate). The mediators take care of the negative effects which lead to the inefficiency of the system, in order to moderate the system and ensure efficiency, while the last input signifies feedback from the system. This feedback makes the system a continuum. This input relayed back to the system takes care of the feedback loop. The extended model, as explained above, is presented in figure 3.4 below.

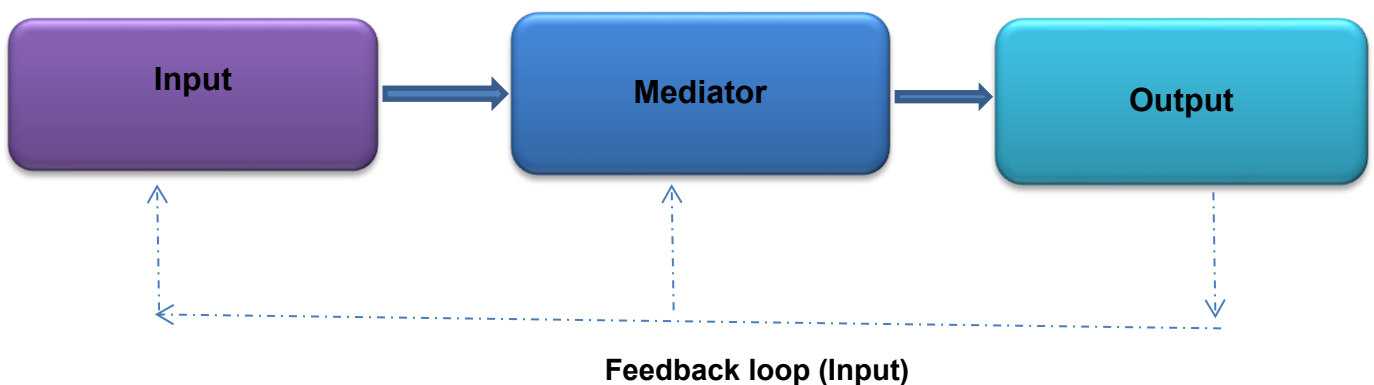


Figure 3.4: Input-Mediator-Output-Input model (Extended model)

Source: Adapted from Ilgen et al. (2005)

3.7.4 Adapting an early exit framework from the Input-Process-Output Model

Borrowing from the Input-Process-Output model of the Science-of-Team-Science (SciTS) (Kozlowski, 2018), an early exit framework for venture capital investment was conceived. Reviewed literature depicts that many variables account for venture capital performance, either directly or indirectly. While investors' experience may reduce the hurdles of investment screening and investment selection, the issue of information asymmetry may stall venture capital performance and increase the exit time. Faku (2022) posits that bad government policies, and political instability, undoubtedly cause investors to reduce investment in ventures, thereby causing the industry to be less attractive to current and prospective investors, resulting in minimal performances and low exits. Dysfunctional or poorly regulated stock markets may have a direct effect on Initial Public Offering exits, thereby limiting the exit routes. Mergers and acquisitions regulations may also limit exit opportunities. The nature of the industry may also influence the exit duration. In China, India, and the United States, the tech industry has the lowest exit duration – three years on average (3 years in China). Furthermore, the interconnectivity of the various activities in the process affects the entire system which requires some sort of mediation and feedback into the venture capital process. The Inputs-Process-Output model has been widely criticised for its lack of mediation and feedback into the process (Kozlowski, 2018; Mathieu, Gallagher, Domingio and Klock, 2019). The critical issue here is to adapt the model to fit the context of venture capital management to ensure optimum performance and early exit.

In the adapted framework, this research considers the feedback limitation of the Input-Process-Output model. To overcome this limitation, the adapted framework considers the proceeds and resources from the exit, and these are redirected back into the process for re-investment into newly-sourced deals as feedback. It presupposes that as long as the venture capital industry remains attractive and paying off, investors would likely not withdraw a great chunk of their funds for uses other than for re-investment into new ventures.

The Input-Process-Output model entails many factors, some of which may not influence some of the operational processes directly. In the conceptual framework, the research takes cognisance of the fact that investment stages require much more funding than other processes, while deal sourcing, and selection and evaluation require much human capacity to man the operational processes. As such, the exit framework creates a linkage between resource mobilisation and these operational processes. To accommodate the mediation of the

extended model (IMOI-model) of Ilgen et al. (2005), the mediation is seen through the connection of the four main processes, and is linked to the resource mobilisation and exit phases. This mediation link takes care of any inefficiencies in the processes resulting from any of the four operational processes, which may impact the output (exit). To provide a concise and reasonable framework, the research first explores the possible variables that are likely to affect venture capital exits in South Africa, and the possible impact on these exits.

3.7.5 Variables affecting venture capital exit

The reviewed literature highlighted the factors affecting venture capital investment and exit. In this section, the research explores further the variables that may affect the exit of venture capital investments. Taking cognisance of factors highlighted in the literature review, and in this chapter, Table 3.1 below tabulates possible factors affecting venture capital exits. These factors are important, as they serve as constructs used for the development of the study’s research instruments.

Table 3.1: Framework factors input

SN	Factors (input)	Possible contribution of input factor in the venture capital process	Impact on exit (output)
1	Entrepreneurial skills	Provides a variety of entrepreneurial ideas and investment opportunities for venture capital investment	Increase performance/reduce info asymmetry
2	Investee experience	Facilitates selection, evaluation, monitoring and capacity building of entrepreneurial ventures	Experienced investees improve venture capital performance and reduce exit time
3	Technological advancement	The level of technical advancement reduces the exit time and vice versa	Reduce investment /exit duration
4	Industry type	The type of industry is an important determinant of exit duration. High-tech companies have shorter investment duration compared to pharmaceuticals, with long research and development periods	Depending on the industry, exit time may reduce or increase.
5	Timing of exit	Contractual arrangements which stipulate the duration of investment conditions to exit the investment on or before expiry of the investment duration	Reduce investment time and increase exit rate
6	Trust	Ensures good relationship between entrepreneurs and venture capitalists as well as all industry stakeholders	Reduce information asymmetry/ increase performance
7	Contractual clauses	Stipulates contractual arrangements (terms of engagement) between entrepreneurs and venture capitalists. For example, duration of investment, management responsibility, exit conditions, and investment sales terms.	Reduce information asymmetry, increase exit rate
8	Funding stage	Determine the amount of investment (commitment) to be made by the investor and duration of investment. Early-stage investment may take too long to exit compared to later stage investment	Mature investment may increase exit rate, and early stage reduces exit rate
9	Legal environment	A good rule of law ensures corruption- and crime-free venture capital market, ensures accountability, and facilitates good business relationships, and vice versa.	Increase/decrease performance of venture capital industry.

10	Political environment	Political instability such as persistent riots, strikes, anti-government demonstrations, political assassinations, and successful as well as attempted coups, discourages investment in venture capital.	Reduce industry performance causing low exit rate if the political environment is unstable.
11	Investment incentives	Motivates venture capitalists to increase investment and mobilise fresh funds	Increase amount invested/performance/exit rate
12	Syndication	Increasing networking and ability for venture capitalists to source and monitor investees.	Ensure efficiency and effective performance
13	Government support	Facilitates venture capital operations policy formulation. E.g. policies setting up investment funds for the general public to contribute to the pool of funds, tax incentives	Increase amount invested/skills development/entrepreneurial activities
14	Proximity of the venture capitalists to the investee	Facilitates monitoring of investees, reduces cost of long-distance travels	Reduces cost and increases return on venture capital investments and exit rate.
15	Geographical location	Strategically positioned investments in highly industrialised regions, such as Johannesburg, have a tendency to grow faster than those in the less industrialised areas (rural areas) as they have the clientele expertise to engineer faster growth.	Increase or reduce investment duration
16	Level of education	Facilitates capacity development of the entrepreneurs and venture capital practitioners	Augments skillsets, improves performance and reduces exit time.
17	Country curriculum	Develops entrepreneurs and venture capital practitioners and improves the skillsets of citizens. It therefore contributes to the pool of entrepreneurs in the economy.	Entrepreneurial activities/reduces exit time
18	Country's entrepreneurial education level	Increases the number of entrepreneurs	Number of entrepreneurs
19	Amount invested	Expands operations of the investee and facilitates investment growth	Performance and reduces exit time.

20	Availability of exit routes	The possibilities of exit through various routes (IPO, M & A, trade sales, secondary sales, management buyout, and liquidation) create multiple exit options.	Increases number of exits
21	Country growth rate	The country's growth rate attracts local and foreign venture capital investment	Venture capital investment/performance
22	Number of venture capitalists	Increases competition, industry size, and amount of funding available for venture capital funding.	Performance
23	Venture capital market regulations	Good regulations facilitate new entrants, whereas bad and ineffective industry regulation dissuades new market entrants	Increases or decreases industry performance
24	Management bias	Management bias influences the selection process. Preference may be given to investors' choice of industry, and based on best project presented. Jockey/horse theory	May increase exit time and affect the level of innovative thinking.
25	Risks and uncertainties	Reduces the venture capital investments	Socio-political factors
26	Limited resources	Reduces investment amounts and skills required to leverage venture capital operations	Entrepreneurial competence/skills
27	Screening process	Ensures productive ventures are selected	Investors experience
28	Country's skills sets	Ensures there are highly productive entrepreneurs and venture capital practitioners	Entrepreneurial level
29	Availability of stock markets	Facilitates exit through IPOs, especially when due consideration is given to young companies to get listed, using alternative markets with less stringent rules.	Increases IPO exit
30	Flexibility of stock market regulations (listing arrangements)	Tough listing procedures without alternative listing route for young companies deters exit through initial public offerings. Listing arrangements should be flexible enough to facilitate listing of young companies.	Increases IPO exits
31	Mergers & acquisitions arrangements (regulations)	Tied merger and acquisitions regulations may deter exits through merger and acquisitions.	Increase/decrease M & A exits

32	Size of venture capital industry	Increases competition and the pool of funds available for investment	Performance
33	Age of the investor firm	Adds to the investors experience and ability manage portfolios of investments under the venture investor's control	Reduces information asymmetry and increases exit rate.
34	Affiliation to financial institutions	Provide great opportunities to utilise expert advice for monitoring, control, and evaluation of the investment deals as well as access to further funding.	Grows the business with proper monitoring and evaluation for eventual exit
35	Pre-planned exit	Provides guidance on when to exit the investment and the exit options available.	Facilitates exit
36	Availability of convertible securities (contractual arrangements)	Reduces conflict of interest and motivates entrepreneurs to work hard	Increases exit through IPOs
37	Entrepreneurs' selection platform	Facilitate the selection process of entrepreneurs using experts in various industries to select qualifying entrepreneurs with viable projects. Reduces selection bias by venture capital investors and gives every entrepreneur an equal chance to be selected	Improves industry performance and exit rate
38	Entrepreneurial exhibition platform	Provides avenues for venture capitalists to shop and select viable entrepreneurial ventures amidst the multiple ventures available.	Facilitates selection and reduces investment duration.
39	Academic institutions contribution	Builds entrepreneurs using the curriculum instituted by the state. Fosters venture capital activities through research and development. Engineer entrepreneurial activities through business schools and business research.	Capacity development
40	Union/joint/network investment	Increase monitoring of investors with a cross-set of skills and funds required to monitor and leverage the operations. It improves selection and monitoring as well as reducing information asymmetry	Improves performance and reduces exit duration
41	Distribution of dividends to fund investors	Remunerates investors during the investment period	Reduces possibility of exit.

42	Extension of investment term	A condition that allows the venture capitalists to stay longer in the investment deal after expiration of original investment duration	Increases exit duration
43	Ability to exercise control through BOD	Venture capitalists with greater abilities to exercise control would normally use their power to push for exit and get their returns	May increase exit duration
44	Venture capital reputation	Builds the image of the investee to attract more outside investors (equity investors) to the portfolio of companies under the highly reputable venture capitalist control.	Attracts investors for early exit
45	Venture capital minority control (BOD representation)	Diminishes venture capital control of the investee, especially at the early stage of investment	Operational efficiency/excellence
46	Effects of provisions restricting venture capitalists to exercise exit rights (negative covenants)	Reduces venture capitalists' ability to exercise control over the investment	Limits Venture capitalists' ability to exit investment
47	Influence of conversion rights on exits	Provides the venture capitalists with the right to equity stock	Facilitates exit

Source: Own source -input variables impacting venture capital performance and exit

3.8 The framework for Early Exit of Venture Capital in South Africa (venture capital operational process)

After due review and consideration of relevant literature, the concept of venture capital and related frameworks. Figure 3.5 presents the conceptual framework for early exit of venture capital investment in South Africa, based on the operational model of venture capital. Chapter seven presents the venture capital ecosystem which incorporates the operational process, the legal environment, and the external environment, which form the overall early exit framework for venture capital investment in South Africa, as informed by the study's findings.

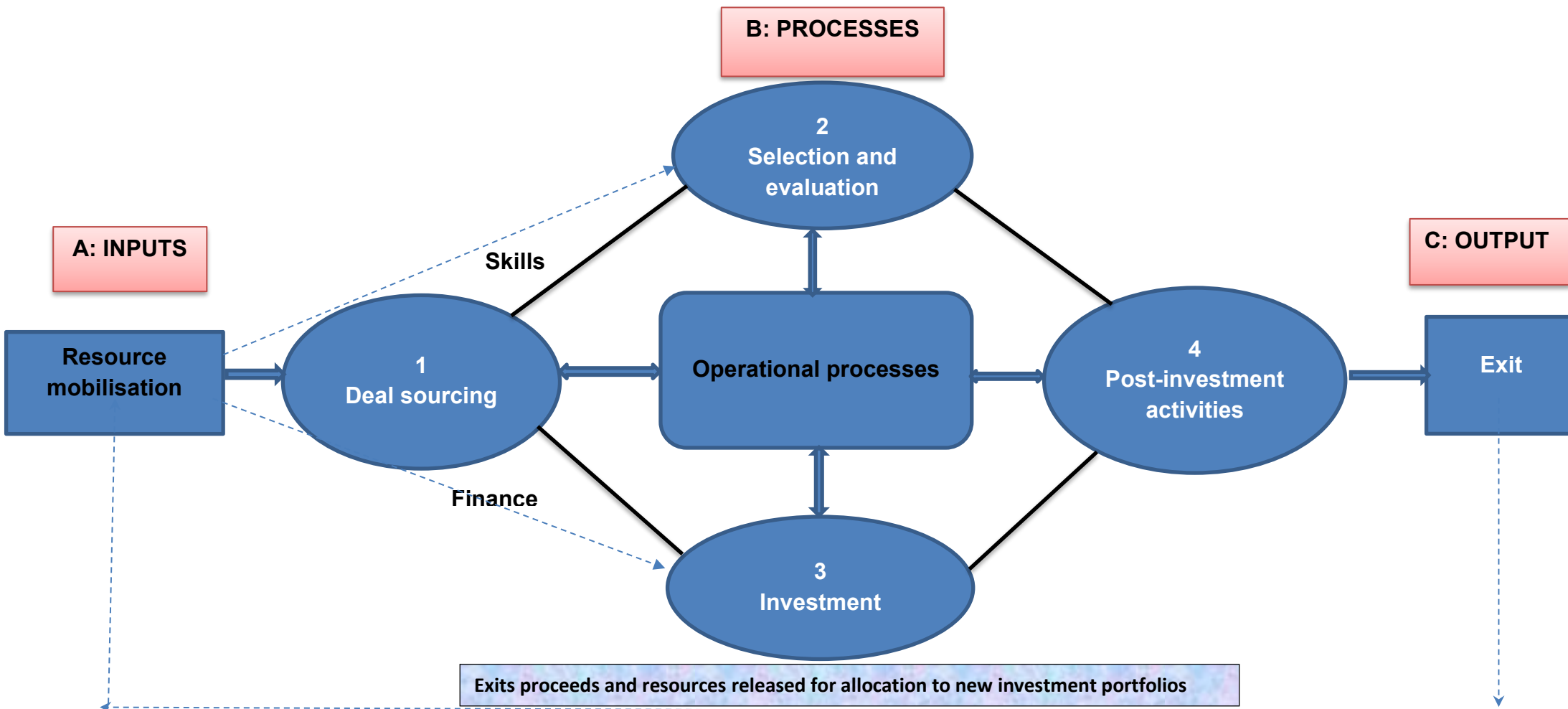


Figure 3.5: Framework for early exit of venture capital investment in South Africa.

Source: Own initiative

3.8.1 Components of Early Exit Framework for Venture Capital Investment in South Africa

The tables below (Table 3.2 A and Table 3.2 B) summarise the activities in the various stages of the venture capital early exit framework in South Africa.

Table 3.2. A: Overview of early exit framework process

A: INPUT (RESOURCE MOBILISATION)	B: PROCESSES (See table 3.2. B)	C: OUTPUT (EXIT)
- Sourcing for investment funds by venture capitalists - Sourcing for funds by entrepreneurs - Government support to build venture capital funding structures (E.g. public and private investment funds). - Incentives to attract venture capital investment (E.g. tax breaks, reduced capital gain tax, subsidies etc.). - Enacting legislations that facilitate venture capital activities and attract investors. - Maintenance of good rule of law and good governance. - Stock exchange regulations - Instituting policies to attract venture capital investment. - Designing and instituting entrepreneurial based curriculums. - Instituting research and development programs to encourage and improve new venture creation. - Building institutional capacity for venture capital investment. - Consolidating venture capital network activities.	1. Deal sourcing. 2. Selection and evaluation. 3. Investment 4. Post-investment activities Table 3.1 B below outlines the activities for the four processes.	- Ascertain the number of exits. - Feedback from investors on investment exit experience. - Feedback on exit routes - Ascertain challenges on exit. - Securing exit proceeds and resources for re-allocation to new investment deals. - Reporting compliance by industry participants, etc.

- Creating an enabling environment for venture capital investment. - Curbing corruption and crimes, etc.		

Source: Own initiative

Table 3.2 B: Overview of early exit framework processes

B: ACTIVITIES OVERVIEW FOR PROCESSES	
1. DEAL SOURCING - Network creation. - Collaborative arrangement with industry stakeholders. - Expanding the industry networks - Expanding the industry market. - Mobilising and sourcing for investees - Liaising with network selection pools and picking viable entrepreneurial ventures for funding. - Attending entrepreneurial exhibition shows. - Checking reference groups for referrals - Engaging with formal and informal networks. - International relations and inter-cooperative agreements with trade blocs (e.g. BRICS+, SADC, AU), etc.	2. SELECTION AND EVALUATION - Identifying personnel for screening and selecting investees. - Networking with other venture capitalists and funding institutions to monitor investees - Screening of investment portfolios. - Calculating expected rate of return on prospective investees. - Assessing contractual terms of prospective investees. - Reviewing and assessing entrepreneurs' experience on the venture. - Pre-assessment of exit possibilities. - Assessment of investment duration, etc.
3. INVESTMENT - Deciding on the amount to invest. - Deciding on the stage of investment. - Anticipating growth. - Upgrading production facilities. - Motivating for additional funding to expand operations. - Testing viability of investment. - Attracting Talent (employees) for the investees. - Developing corporate strategies for investments (investees). - Increasing sales revenues	4. POST-INVESTMENT ACTIVITIES - Review contracts. - Planning and making listing arrangements. - Funding listing costs. - Negotiations for mergers and acquisitions. - Monitoring investment growth and returns. - Correcting harmful behaviours of entrepreneurs to minimise information asymmetry. - Reducing agency problems. - Mitigating failure risks.

- Sourcing for suppliers and customers to grow the business, etc.	- Joint monitoring for syndicated and union investments, etc.

Source: Own initiative – overview of venture capital process activities.

3.8.2 Assumptions of Early Exit Framework for venture capital Investment in South Africa

For this framework to be effective, the following assumptions are made to ensure optimum performance and early exit of venture capital investment.

1. To ensure optimal performance and increase exit rate, there should be an efficient resource mobilisation process as inputs determine outputs

For the framework to gain credence, the resource mobilisation should be appropriately done in a way that favours venture capital growth. There should be an enabling environment for investment. If the environment does not favour venture capital investment, then the output (exit) rate will be low. Hence, the quality of inputs determines the quality of exit outcomes, as highlighted in the work of Galais, Fernández-Martínez, Font, and Smith (2021). The environment should be such that it encourages optimum resource mobilisation in terms of human, material, and financial resources.

2. To ensure an efficient venture capital ecosystem that is investment friendly, industry facilitators and stakeholders with defined roles and responsibilities are required to facilitate the industry process

For the framework to be efficient and effective, there should be an active presence of industry facilitators such as the government, venture capital networks, and academic institutions that facilitate venture capital operations. University venture capital institutions play a critical role in research and development, as well as in innovation. Government policies that create credible institutional structures, such as pension and investment funds to accumulate funds for investment, and stock exchange regulatory frameworks favouring stocks trading, are some of the components of an enabling environment. This also includes the existence of an academic curriculum that facilitates the building of entrepreneurial and innovative mind-sets among the people. As such, entrepreneurial education should begin from kindergarten through basic education, and all the way to university. Fatoki (2014) confirms that education on entrepreneurial finance is key to entrepreneurial success, and that the lack of entrepreneurial finance amongst the youth results in the failures of their new ventures (Bruhn and Zia, 2013;

Dahmen and Rodriguez, 2014). Ultimately, the inclusion of entrepreneurial education ensures the availability of skills development, and the availability of entrepreneurs with multiple business ideas, thereby building a pool of entrepreneurs from which venture capitalists can select the best investment deal. Therefore, government efforts to support entrepreneurial education in order to build financial self-efficacy amongst the youths is vital, as described and outlined by Khuram, Ahmed and Ali (2022) in their analysis of the Theory of Planned Behaviour.

3. To facilitate the selection of process of investees, there should be available pools of entrepreneurial ventures and exhibition platforms for selecting entrepreneurs

Venture capitalists look beyond entrepreneurial skills (Guttermann, 2022). This means that they select the best of investment ideas capable of yielding high returns on their investments. Very few entrepreneurs in the economy means limited choices for the venture capitalists. As such, there is a need to expand the entrepreneurial pool base by ensuring that there are entrepreneurial skills-based programmes that increase the number of entrepreneurs in the economy.

To showcase their entrepreneurial exigencies, there should be a forum(s) or platform(s) where entrepreneurs exhibit their business ideas, venture models for venture capitalists to access and select. Such forums or platforms reduce deal sourcing time as outlined by (Kauffmanfellows, 2020).

4. To reduce selection bias, there should be a venture selection forum

The selection process may be subjected to investors' selection bias. This is a situation in which the investors select a business of their choice, or simply in their area of operations, or particular locality (Fu and Ng, 2020). Inasmuch as their experience counts, union investments and network investments assist in synergising, monitoring, and evaluation of joint investments (Weniger, Jarchow, and Nenadic, 2023). Allocating resources for deal sourcing, screening, and selection of investees to independent venture capital consultants, or independent units in the networks, may facilitate the selection process and reduce selection bias by investors. Also competition, as a result of a perfectly efficient venture capital ecosystem, could help reduce selection bias (Fu and Ng, 2020).

3.9 Chapter conclusion

In this chapter, the framework for venture capital investment was developed following a methodical process. Attention was given to the concept of venture capital operations in order to develop the framework. Factors influencing venture capital exit were reviewed and summarised. Focus was given to related frameworks, leading to the establishment of the conceived framework. The conceptual framework was drawn from the popular “Input-Process-Output” model of Science-of-Teams-Science (SciTS). The research built and summarised the framework in its simplest form, highlighting the cardinal points (assumptions) required for the efficient and optimum performance of the venture capital market. In the following chapter (Chapter Four) the research presents the methodology adopted to conduct the research.

CHAPTER FOUR: METHODOLOGY

4.1 Introduction

While the previous chapters provided an overview, and direction of the research, including a discussion on the factors impacting venture capital exit, this chapter is dedicated to explaining the research methodology and research design used in conducting this research. The chapter also explains the research philosophy adopted to understand and address the research problem. It sets out the methodology adopted to answer the research questions that were established in Chapter One, and in line with the research objectives. Here the empirical models required to validate the findings are explained and clearly presented, including justifications for using the adopted methodology and empirical approach.

4.2 Research Philosophy

A research philosophy, in simple terms, relates to the underlying assumptions and belief system surrounding the development of knowledge (Saunders and Lewis, 2018). This study adopts a pragmatic philosophy, as it combines both quantitative and qualitative approaches in a bid to address the research questions (Dawadi, Shrestha, and Giri, 2021). Empirical evidence suggests that a research design provides explanations of the procedures used to obtain sufficiently reliable and valid data that seeks to solve the established problem under study, by way of analysing the collected data, and interpreting results (Kuthari, 2004). It justifies how the findings are arrived at (Creswell and Plano Clark, 2018; Gorin, 2007, p. 456; Mislevy, 2007, p. 463). Coming up with a venture capital early exit framework for South Africa requires:

- An adequate understanding of the nature and background of the venture capital industry's operation around the world, and South Africa in particular.
- An understanding of the conceptual framework of venture capital operations.
- An appreciation of the conditions influencing venture capital exit in other countries where venture capital activities are yielding great results.
- Understanding why venture capital exits are low in countries such as South Africa.

This implies that drawing up the framework becomes more complex than the simplified process of collecting quantitative data to analyse, and making generalisations (Isaac and Michael, 1997, p. 2; Skager, 1971, p. 4).

The review of related literature would normally provide a list of factors responsible for venture capital exit for countries with high venture capital exit rates, as exemplified in this study by the USA, China, and India. It also requires that the literature provides similar facts from other countries around the world, from which data can be quantified and generalisations made. However, this may not be the same in other countries, with different economic environments as well as skillsets. As such, this necessitates conducting an in-depth inquiry with practitioners in South Africa, in order to understand why the South African situation is different. The scenario therefore necessitates the employment of quantitative tools to collect large amounts of data in order to make generalisations. These are then combined with qualitative or subjective views, as outlined by Creswell and Plano Clark (2018) in order to confirm the generalisations, and give credence to the findings arrived at, leading to the pragmatic choice for this research.

First, it employs exploratory factor analysis to explore the variables influencing venture capital exits with the aid of a survey questionnaire (Watkins, 2021), followed by individual interviews in a bid to gain an in-depth understanding from industry experts why the South African context is different. This provided a guide to establishing an early exit framework for venture capital in South Africa. Because of this, the explanatory sequential approach of mixed research was adopted. Pragmatism views research questions and objectives as key to solving research problems (Dawadi, Shrestha, and Giri, 2021; Wilson, 2010). In this regard, the factors are explored using the quantitative approach, and quantitative results are validated by means of qualitative inquiries, in order to enhance the credibility and reliability of findings. Pragmatism therefore provided a rigorous and broad perspective of understanding the research problem (Lara, Elise, Sabastian, and Meredith, 2020). It also guided the process of articulating and proposing practical and relevant solutions to the challenges of the venture capital industry in South Africa (Holtrop and Glasgow, 2020).

4.3 Research Design

According to Kumar (2011), a research design is a planned structure and strategy to investigate and address the research problem, and provide answers to the research questions (Taherdoost, 2022). This design is largely informed by the conceptual framework (Lara et al., 2020), and nature of the study (Locke, Spirduso and Silverman, 1993).

4.3.1 Research Methods

There are three generally acknowledged types of research, namely quantitative, qualitative, and mixed research methods. According to Creswell (2009) and Creswell and Plano Clark (2010), quantitative research emerged strongly at the end of the 19th century, and remained the most prominent until the 1950s. More scholars began choosing qualitative methods during the second half of the twentieth century, leading to the emergence of the “paradigm wars” in the 1980s, and the eventual development of a mixed method (Williams, 2020). This research adopts a mixed method research approach, as it combines the benefits of both quantitative and qualitative approaches. This is explained in the following subsections.

Quantitative research adopts an objective standpoint and uses numbers to test hypotheses. It is most useful with large populations or samples. Quantitative research makes use of statistical analyses to come up with research findings, which can be generalised to larger populations (Young and Ryan, 2020). Qualitative research, on the other hand, emphasises quality for the subject matter under research (Dawadi, Shrestha, and Giri, 2021). It works perfectly with smaller sample sizes or smaller populations. Qualitative research seeks an in-depth understanding of the participants’ viewpoints in order to present accurate findings (Taherdoost, 2022). Qualitative research allows for the gathering of facts through narrative descriptions, which allows the audience to have a better understanding of the research experience.

While quantitative research addresses the issue of objectivity, and is well suited for large populations (Taherdoost, 2022), the process saves the researcher a considerable amount of time. However, its generalisation may not be true in all circumstances, and therefore inapplicable in certain circumstances. On the other hand, qualitative research addresses the issue of generalisation, but it is subject to bias, is time consuming, and is not suitable for larger populations or samples (Taherdoost, 2022). While the scientific approach (quantitative methods) adopts a nomothetic stance and establishes the general rules or principles of objectivity, it however neglects the aspect of social reality with individual consciousness, which the qualitative approach pays due attention to. Each of the two approaches have their merits, which can be isolated and adequately applied (Creswell and Plano Clark, 2018; Taherdoost, 2022). The quest for supremacy within the approaches gave birth to the paradigm wars. Hence the mixed methods came into play in attempting to resolve the issue of the paradigm wars, as it combines both the quantitative and qualitative aspects of the research.

The focus of this research is to develop a framework for the early exit of venture capital investments in South Africa. For such a framework to be meaningful and generally accepted by the industry, its development requires a thorough understanding of industry activities or operations in South Africa. Navigating through various ideas and opinions in the industry to collect data that informs the researcher on how such a framework can be developed, requires a great deal of time and effort. Such a process has no scientific approach. Besides, businesses are managed by different individuals with various backgrounds and experiences. Managers use different approaches to manage the various ventures under various circumstances, which cannot all be easily quantified.

Approaching the research solely from a qualitative perspective would require more resources than anticipated, in terms of money and time (Taherdoost, 2022). Even when the resources are available, the results may not be representative enough, and objectivists may dispute the validity of such findings. It is therefore important to apply both quantitative and qualitative methods in such a research. Quantitative methods seek to expand on sample size for the general acceptability of the results, while qualitative methods contribute to our understanding of what drives the results from the quantitative analysis (Creswell and Plano Clark, 2018). Hence, it is imperative to explore ideas and obtain sufficient information to back the scientific thinking (Sharma et al., 2023), and develop an early exit framework for venture capital investments in South Africa. Considering the complexity of the study, and the impossibility of making generalisations without confirming the facts from the practitioners of venture capital in South Africa (Dawadi, Shrestha and Giri, 2021), it is therefore prudent that in the process of establishing a framework that is specific to South Africa, the research adopts the mixed methods approach.

4.3.2 Mixed methods

According to Cameron (2011) mixed methods research (MMR) is most often referred to as the third methodological research movement, that has been on the increase in popularity in recent times. Proponents of mixed methods research have seen it develop its own philosophical, methodological, analytical, and practical foundations, as well as constructs. Greene, Caracelli and Graham (1989) define mixed methods research as one that consists of, at a minimum, a quantitative and qualitative method. It is a broad logical inquiry which guides the selection of specific methods (Sharma, Bidari, Bidari, Neupane and Sapkota, 2023), informed by the

conceptual position common to the practitioners of the mixed methods approach (Teddle and Tashakkori, 2010).

In a mixed methods research, the combination of qualitative and quantitative aspects are crucial (Dawadi, Shrestha and Giri, 2021). Mixed methods either combine methods from different paradigms (Sharma et al., 2023), or make use of multiple methods involving the same paradigms, or multiple strategies within a single method (Cameron and Molina-Azorin, 2011). It is defined as multi-methods research (Teddle and Tashakkori, 2009), which combines qualitative and quantitative methods to enhance the potential of the study (Sharma et al., 2023). Mixed methods research has gained acceptance in current research works, as it applies to almost every situation in which more than one methodological approach is used in a singular research. According to Bazeley (2008, p. 133) cited by Ngulube (2013), the combination may not necessarily involve a combination of elements drawn from qualitative or quantitative approaches.

In a mixed methods research, quantitative and qualitative data are collected in accordance with the outlined procedure of the methodology. Mixed methods research integrates quantitative and qualitative research in a single study (Sharma et al., 2023), or in a multi-phased study. The integration follows five specific designs, namely sequential studies, equivalent status studies, parallel or simultaneous studies, dominant-less dominant studies designs, and multi-level designs utilising different techniques at different levels in data aggregation (Ngulube, 2013). This study is not dedicated to the analysis and explanation of the five designs but rather to justify the use of the mixed methods approach, as well as explaining the choice of the selected design, and how it assists understanding and addressing the research problem. The underlying essence of integrating, blending, and combining, as seen in the above definitions, aims to resolve or minimise the challenges emanating from the quantitative and qualitative approaches, as well as settling the paradox of the paradigm wars. Consequently, mixed research methods recognises (Bryman, 2007; Creswell and Garrett, 2008):

- The complexity of current research issues that warrant multi-faceted designs and methods
- The rise of a new generation of scholars challenging conventional thoughts about the research process.

- That some existing practical examples of the successful application of research methods and strategies do not follow the quantitative and qualitative divide.
- Constructivists may refute the reality of the phenomenon from which objectivists develop their general rules
- The value of combining quantitative and qualitative research to utilise the strengths of both approaches leads to a better understanding and appreciation of the research when compared to a singular approach
- Common knowledge in existing literature is in increasing demand for the use of mixed methods research, as evidenced in the *Journal of Multiple Research Approaches*, and the *Journal of Counselling and Psychology*, etc.

According to Cameron (2009), various typologies of mixed methods research designs have been developed, with each design having overlaps. Some of these typologies include Caracelli and Greene's typology, with a three component design, namely triangulation, complementarity, and expansion (Taherdoost, 2022). Teddlie and Tashakkori's (2006) typology has four types of multi-strand mixed methods model procedures, which are concurrent, sequential, conversion, and fully integrated. Creswell and Clark's (2007) typology includes four types of designs, namely triangulation, embedded, explanatory, and exploratory (Taherdoost, 2022). Again, the aim of this section was not to discuss research typologies, but select an appropriate methodological approach that addresses the research problem, and to justify such a choice. In this regard, the research adopts an explanatory sequential design of the mixed methods research typology, presented in the following subheading.

4.3.3 Typologies of mixed methods

According to Cameron (2009), typologies refers to the systematic classification of the types of mixed methods research (Taherdoost, 2022) that have common characteristics or are threads forming parts of a model or theory. They are the means for classifying theoretical concepts, which are created by cross-classifying or a combination of two or more simple concepts, with the intention of forming a set of interrelated subtypes. Theorists use typologies to assist in the process of organising their abstract and complex concepts (Cameron, 2009).

Creswell (2011) identifies six methods of research design, namely convergent parallel design, embedded design, transformative design, exploratory sequential design, explanatory sequential design, and multi-phase design. In the convergent parallel design, a researcher gathers both quantitative and qualitative data and analyses both separately (Dawadi, Shrestha,

and Giri, 2021), interprets the results, compares or relates them, and ascertains whether the results support each other (Creswell and Plano Clark, 2018). The comparison seeks to provide convergence of the two data sources.

In the embedded design, one set of data embeds within a larger design, or another type of data set (Cameron, 2009; Dawadi, Shrestha and Giri, 2021), which can happen concurrently or sequentially in a qualitative or quantitative study. With the exploratory sequential method, according to Creswell and Plano Clark (2011), the researchers first collect qualitative data, and then collect quantitative data. The exploratory sequential mixed methods design involves the processes or procedures of gathering and analysing qualitative data first (Dawadi, Shrestha, and Giri, 2021), in order to explore a given phenomenon, followed by the collection and analysis of quantitative data in a bid to explain the relationships evinced by the qualitative data (Subedi, 2016).

According to Plano Clark (2011), the explanatory sequential design requires that the researcher first collects and analyses quantitative data, then collects qualitative data to help explain or elaborate on the results from the quantitative data (Creswell and Plano Clark, 2018). The reasoning is that quantitative data and their results provide a general overview or picture of the research problem, which requires more analysis, specifically through qualitative data collection. The qualitative aspect is needed to explain, refine, or extend the general picture or principle. It is applicable when trends show surprising or shocking evidence that is contrary to known concepts or theories (Cameron, 2009).

Transformational or transformative mixed method design gives primacy to the value-based action-orientated dimensions of various traditional dimensions of inquiry. It combines or mixes the value commitments of the different traditions for a better representation of the multiple interests or views (Cameron, 2009). Its intent is to utilise the four other designs (convergent, embedded, explanatory, or exploratory) and come up with a design for a transformative framework, which provides an oriented lens for a mixed method study design (Taherdoost, 2022). Such a framework is used to address social issues for an unrepresented population group, or the marginalised, with the aim of bringing about change.

Just like the transformative design, the multi-phase design is more complex, and is based on the basics of the convergent, explanatory, exploratory, and embedded designs (Subedi, 2016).

It occurs when researchers, or a team of researchers, decide to examine a topic of interest or problem using a series of phases or separate studies (Creswell, 2011). In another sense, it combines both sequential and concurrent strands over a period of time, in order to address an overall study objective (Creswell, 2003). It is often used in evaluations, where qualitative and quantitative approaches are adapted to develop (Creswell and Plano Clark, 2018), adapt and evaluate specific programmes. Given that the venture capital management process follows a predefined structure of operations that leads to successful exits, as seen in other countries, the results of the South African empirical data from the field, based on reviewed literature, are surprisingly low, with no clear association to the standard model of the framework. It becomes imperative for a follow-up using qualitative inquiry in order to establish and understand the reasons for such dissociation of facts, to get informed opinions, and develop an exit framework that best suits the South African context. As such, the current study adopts the sequential explanatory design.

4.3.4 Explanatory sequential mixed method

Creswell (2011) asserts that the explanatory sequential design begins with the collection and analysis of quantitative data (Dawadi, Shrestha, and Giri, 2021), with quantitative data having priority for addressing the research questions. It is commonly referred to as explanatory design with two distinct study phases. The first phase (quantitative) is subsequently followed by the collection and analysis of qualitative data. The qualitative phase is the follow up from the results of the quantitative phase (Creswell and Plano Clark, 2018). Here the researcher interprets or explains how the results of the qualitative study add meaning to the initial quantitative results (Ivankova, Creswell and Stick, 2006). Practically, within the first phase, the researcher collects and analyses quantifiable data to point out or identify important predictors of venture capital performance (Creswell and Plano Clark, 2018). The basis of quantitative data and constructs are extracted from the reviewed literature, from which quantitative questionnaires are developed. From the theoretical constructs extracted from literature and quantitatively analysed, surprising facts crop up (Sharma, et al., 2023). In the current contexts, these surprising facts include the observation that, although the general view holds in other economies, the situation in South Africa is different, and requires a deeper understanding with regard to the reasons why exits or performances are low. This led the researcher to purposefully conduct qualitative interview with active participants in the industry, in order to better appreciate the situation in South Africa, and provide a better framework for South Africa. It presupposes that at each phase, the research instruments are developed before data is

collected (Creswell and Plano Clark, 2018). The data is integrated at the end of the process to consolidate the findings for both phases, which provides an in-depth understanding of the problem (Dawadi, Shrestha, and Giri, 2021). Figure 4.1 depicts an overview of the sequential explanatory mixed method design process.

Phase	Procedure	Outcome
Phase I		
Quantitative data collection	Cross sectional survey	Quantitative data (numeric)
Quantitative data analysis	Use of descriptive and inferential statistics	Meaningful measures
Connecting data	Participants selection Purposive and interviews questionnaire development	Interview protocol
Phase II		
Qualitative data collection	In-depth interview	Textual data
Qualitative data analysis	Coding and thematic analysis Theme development Cross theme analysis	Codes and themes similar and different themes in categories Cross-thematic matrix
Integration of quantitative & qualitative data results	Interpretation and explanation of both quantitative and qualitative results	Discussions and implications/recommendations for further research

Figure 4.1: Explanatory sequential mixed procedure

Source: Adapted from Ivankova, Creswell and Stick (2006), and Dawadi, Shrestha, and Giri, 2021).

4.3.4.1 Purpose of explanatory mixed method design

The explanatory mixed methods approach is a straightforward method, whose purpose is using the qualitative strand to explain quantitative results (Creswell and Plano Clark, 2018). It is most suited for situations where researchers use qualitative results to explain the significance or

non-significance of the quantitative results (Dawadi, Shrestha, and Giri, 2021), positive-performing results or non-performing results, or outliers or surprising results (Creswell, 2011; Morse, 1991). It is equally useful when following up on results from the quantitative data, by purposefully forming sampling groups for qualitative data collection phase (Creswell, 2011; Tashakkori and Teddlie, 1998; Sharma et al., 2023).

Within the context of this study, the explanatory sequential mixed methods design is the most suitable, as the factors extracted from the quantitative study (conditions) influencing venture capital performance and exit depicted both positive and negative results, since the economic conditions in South Africa are different from those of other economies. Explanatory designs are also useful for the purpose of assessing trends and relationships between variables in quantitative data, and help in explaining the reasons behind the trends (Cameron, 2009; Sharma, et al., 2023). In the case of this study, the performance of the venture capital industry is measured in terms of input factors, and knowing such contributing factors and the underlying contributions helped in designing a proper early exit framework.

It is equally important to note that the type of data in the study requires a design that takes less time to collect and analyse the data (Dawadi, Shrestha, and Giri, 2021). The venture capital industry requires much attention due to its characteristics of value addition to the economy. As such, much information is required for a meaningful study, and it would take a considerable amount of time if alternative methods were used. Furthermore, even if the exploratory sequential mixed methods was considered, it would not be representative enough for making meaningful decisions, or drawing meaningful conclusions that are acceptable. Besides, the qualitative questions in the study cannot be addressed using quantitative data.

4.3.4.2 Challenges of the explanatory sequential mixed design

Despite its straightforwardness, the explanatory sequential mixed methods design requires a great deal of time for implementing the two stages (Sharma et al., 2023; Taherdoost, 2022). Nevertheless, through the use of purposive sampling, only a few venture capital participants were selected for the qualitative part of the study, which normally requires a significant amount of time to complete. Securing board approval for participants to the qualitative aspect is often a daunting task, and adequate time must be budgeted for this process. In this regard, while developing the quantitative survey, a preview of the qualitative instrument was developed side-by-side, in order to facilitate the approval process of the qualitative phase.

Another challenge was that of deciding how quantitative results would be explained further, and this was cumbersome, since the quantitative phase needed to be completed before proceeding with explanations (Creswell and Plano Clark, 2018). Besides, the researcher must decide the sample and population in the second phase, and the criteria used for selecting participants (Wilkinson and Staley, 2019). To overcome these challenges, the researcher made use of strong predictors or factors evidenced in the economy, such as political instability, skills shortages, and poor regulations, to plan the qualitative part while carefully targeting key participants in the industry.

4.4 Population

Popoola (2011) defines a population as “the totality of the items or objects under the universe of study (Avwokeni, 2006). Polit and Hungler (1999) view a population as an aggregation or totality of all subjects, objects, or members conforming to a set of specific characteristics. A population therefore represents all members of a well-defined category of people, objects, or events (Kerlinger, 1997), from which a sample can be extracted. On the other hand, a sample connotes the idea of a smaller but manageable portion or part of the target population, displaying the features of a target population (Singh and Kumar, 2020).

The target population of this study was venture capital professionals (including employees working in the venture capital firms) in South Africa, and the investees. According to SAVCA (2022), there were 170 SAVCA members, with 841 active deals, as at the end of 2020. Sorting the database gives 53 venture capital practising firms. The venture capital firms have an average of 5 employees for small firms, and 6 to 20 employees for big firms. The study targeted 4 participants per venture capital firm, resulting in 212 (53×4) participants, including senior employees and professionals in the venture capital firms. Sorting the investees list from the start-up-list Africa database yielded 189 investees based in South Africa. The research targeted founders of these investee firms as respondents. This in total gave an estimated population of 401 ($212 + 189$). To collect reliable and credible data, the research targeted the venture capital professionals and their employees, as well as senior executives of investees' companies. The information about the study population is available on SAVCA's website, on the membership directory (database) and start-up-list Africa database. Details regarding the targeted venture capital companies (including physical addresses, email addresses and telephone numbers) are available on the membership directory (publicly available) on the

SAVCA website. Details of investees were obtained through a Google search, using the company names of investees from the start-up-list Africa database. Emails were sent to the venture capital firms and investees, soliciting their participation in the research. Making follow-up telephone calls was necessary in order to increase the acceptance rate, and where possible, appointments were made telephonically for the researcher to visit the firms and collect data.

4.5 Sampling

Joseph and Eleojo (2019) define sampling techniques as the methods of taking or drawing samples from a total population. It is a process of selecting a representative set of events or people having similar characteristics from a total population (Burns and Grove, 2010). Based on Leedy and Ormrod (2016) and Plano Clark and Ivankova (2016), the study applied 50% random sampling, giving a quantitative sample of 201 ($401 \times 50\%$) participants, as the population is in the neighbourhood of 500 participants. Kuzel (2004) asserts that the population should be representative and reliable enough to avoid sampling bias. To ensure that the sample meets the needs of the research and that each participating group was represented in the sample, stratified random sampling was applicable. The strata included venture capital practitioners, exited investees, and current investees. Preliminary knowledge about the industry points out that investees (company founders) are less knowledgeable about venture capital practices and exit management, unless they are second or third time founders. Attention was therefore geared towards collecting detailed and relevant information from the venture capital practitioners. This resulted in the choice of only 50 investees being included in the quantitative sample, and 151 venture capital practitioners. The sampling strata were pre-coded, and the sample distributed following the data presented in table 4.1 below, for ease of analysis and reconciliation of respective respondents.

Table 4.1: Distribution of sample size according to strata.

Category	Code	Sample size (n)	Coding sequence
Venture capital practitioners	VCP	151	VCP P01 - VCP0151
Venture capital investees	VCI	50	VCI P01 - VCI050
Total		201	

Source: Own initiative

To validate the findings of the quantitative study, the research proceeded by interviewing selected officials within the venture capital industry, drawn from the population, using purposive sampling. Purposive sampling is most often used when generalisation is not recommended, especially with large data (Etikan, Musa and Alkassim, 2016, p. 1). Interviewed participants were drawn from current investees, exited investees, independent venture capital practitioners, and other venture capital fund providers. The qualitative sample size for the study was 15 participants. These qualitative participants were drawn from the sample population of 201 used in the quantitative phase. Interviews were necessary to validate the findings of the qualitative phase (Creswell and Plano Clark, 2018; Dawadi, Shrestha, and Giri, 2021). Eleven interviews were conducted and the discussions provided sufficient evidence of the underlying research problem to conclude the qualitative data collection process. The use of purposive sampling allowed for the sourcing and selection of experienced venture capital professionals and company founders, to provide the insight needed to give credence to the study, and validate the findings needed to address the research problem.

4.6 Instrument design

Collecting data for research is a process through which desirable information is carefully gathered, with the least possible distortion using a well-designed instrument. The decision on which data collection strategy to use is dependent on the type of data to be collected. Cognisant of the fact that first-hand information was needed to solve a practical problem (the exit problem) confronting the venture capital industry in South Africa, it was important to collect data directly from the field (primary data) through surveys and interviews, in order to ensure reliability (Kumar, 2011). The surveys were designed to facilitate quantitative data collection, while individual interviews were used for qualitative data collection (Jupp and Sapsford, 2006; Kumar, 2021), with the aid of an interview guide to gain a proper understanding of the quantitative findings and validate the results. Details regarding the development of the quantitative and qualitative instruments are outlined in the following subsections.

4.6.1 Quantitative instrument

The research instruments applicable during the first phase of the study (quantitative phase) are mainly self-developed questionnaires (surveys). The development of the surveys followed the step-by-step approach outlined by Younas (2018), taking into consideration the constructs from literature reviewed for this study. Two well-structured research questionnaires (surveys) were developed, in line with the study objectives and the research problem to be addressed. The first questionnaire (survey) was completed by the venture capital industry practitioners,

while the second was completed by investees (both exited and current). Questionnaires are structured research instruments which are capable of eliciting desired and reliable responses from the target participants (Taherdoost, 2016). The surveys comprised three sections each, designed to collect data relevant to the study (Lambert, 2019). The questions are similar, but adapted to the respondents' needs. Section one was structured to capture the factors impacting venture capital exits using constructs from the reviewed literature. In this section, the research captured the supposed variables (independent variables) impacting venture capital exits, such as political factors, economic factors, industry related factors, and regulatory factors. This section applied a five-point symmetric Likert scale rating (Joshi, Kale, Chandel and Pal, 2015) to gather relevant data from respondents. Section two focused on the exit timing and the exit rate by various industries. It captured factors that provided the possibility of estimating the average exit time in years, in order to assess whether venture capital investments in South Africa can be exited earlier. Section three captured the general overview of the factors impacting venture capital performance and exit in South Africa, and this was done through the use of closed-ended questions.

4.6.2 Qualitative instruments

Interviews provide an opportunity for researchers to gather qualitative data for the research (Naz, Gulab, and Aslam, 2022), as they give the interviewee the opportunity to express their views on the subject matter clearly, and with some degree of freedom (Newcomer, Hatry and Wholley, 2015). The combination of the two instruments (surveys and interviews), was necessary to understanding the factors that account for the exit of venture capital investments in South Africa. Self-developed interview guides were designed to collect data that provided a deeper understanding of the results obtained during the quantitative phase. The questions were mostly open-ended questions, following a semi-structured interview format. The study followed the semi-structured interview guide development process explained by Naz, Gulab and Aslam (2022). A preliminary guide was first developed and pilot tested with one participant. Two interview guides were necessary, to collect in-depth knowledge from both practitioners and investees. The interview guide for practitioners comprised five sections. Section one covered business investment areas, and captured areas relating to variables affecting venture capital exit, areas financed by venture capitalists, and exit strategies. Section two assessed the venture capitalists' knowledge and experience in targeted investments, and tried to frame the key factors that attracted the venture capital firm to investees. Section three dwelled on the selection process of investment regarding the decision to finance a particular stage of

investment. Section four dwelled on the form of financing support given to investees, while section five dealt with general exit challenges, and suggestions for improving venture capital performance and exit rate.

The interview guide generated for investees comprised five sections similar to those on the one for the practitioners, as explained above. However, it addressed concerns peculiar to investees. Section one covered the business investment areas, and dealt with issues such as possibilities of early exit, experience before venture capital funding, agreed terms of engagements, and expectations from venture capitalists. Section two covered the knowledge and experience of the investees, and sought to understand issues related to investees' experience in their areas of operation and the venture capital industry. Section three dealt with issues around the investment selection process. Section four dealt with issues around the effectiveness of the methods and financing mechanisms applied by venture capitalists in the investees' businesses. This section was intended to provide an understanding of the mechanisms that are most preferred, and that are effective in leveraging venture capital operations for an early exit of investment portfolios. Finally, section five was intended to solicit an understanding of the venture capital industry performance and exit challenges, as well as proposed solutions from the investees' perspective.

4.7 Data Collection

According to Jupp and Sapsford (2006), data collection is a process where desirable information is carefully gathered with the least possible distortion. In this process, the analysis helps to provide credible answers that are also logical. The decision on a data collection strategy is dependent on the type of data to be collected for the study. Primary data is collected to address practical primary research questions, while secondary data is mostly collected for learning and teaching, replicating the original study's findings and advancement in methodological designs (Park and Choi, 2021). While primary data is collected directly from the field by the researcher, secondary data is ready-made data collected from other sources, such as libraries and books. Data can be quantitative or qualitative. Quantitative data is quantifiable and can be expressed in terms of numbers, while qualitative data is not quantifiable. According to Kumar (2021), Jupp and Sapsford (2006), and Park and Choi (2021), methods of collecting data include interviews, tests, surveys, observations, physiological assessments, and the review of existing records.

This study made use of primary data, as it sought to gather first-hand information in order to suggest possible solutions for solving practical economic problems in the venture capital industry in South Africa. Although the primary data collection process is time consuming and costly compared to secondary data collection process, it is a necessary process, as it provides invaluable insights into phenomena. It provides reliable and up-to-date data, which is relevant to the study (Kumar, 2011). Both quantitative and qualitative data are relevant, as the research employed the mixed methods research. The following subsections elaborate the use of quantitative and qualitative data collection methods in this research.

4.7.1 Quantitative data collection

Quantitative data refers to data that can be numerically presented. It is made up of numerical counts or measurements. Structured and standardised approaches are generally employed to collect quantitative data, such as structured questionnaires and surveys, which are also generally used for collecting primary data. Quantitative datasets are easily represented using ordinal and ratio scales, making it easier to statistically analyse and evaluate results when using large samples (Lambert, 2019). This study employed structured surveys (online surveys) and manual questionnaires (where physical contact is possible), to collect primary data from venture capital investees, and venture capital professionals around South Africa. The respondents were drawn from venture capital professionals and venture capital investees. The use of an online survey was to facilitate the collection of data, without incurring the travelling costs of delivering printed questionnaires by hand. The surveys were developed using Microsoft Office forms, and linked to the researcher's Microsoft Office email for easy management.

4.7.2 Qualitative data collection

Unlike quantitative data, qualitative data are best expressed in word form and not numbers. The use of nominal scales such as religion, and gender, is common to qualitative data. It is most often used in describing situations, people's interactions, events, and behavioural observations. Examples of qualitative data may include direct quotations from people, case studies, written documentation, and situation analysis. Qualitative data for this study was collected through interviews with selected venture capital practitioners (with an activity base in South Africa) who are listed on the Southern Africa Venture Capital and Private Equity Association (SAVCA) database, and investees of the venture capital firms listed on Startuplist Africa database.

The purpose of collecting qualitative data was to further analyse the facts and results established earlier during the quantitative analysis stage, in order to gain a deeper understanding of what drives venture capital exit in South Africa. This is conducted primarily because the quantitative data are based on generalised inferences, and therefore, not self-explanatory. As such, it was necessary get the opinions of the industry participants in order to understand the direction of the industry from within the South African context.

4.7.2.1 Individual interviews

Individual interviews are necessary to gather relevant data from participants. The individual interviews followed the semi-structured approach (Naz, Gulab and Aslam, 2022) as per the pre-designed interview guide described before. This allowed the participants the flexibility of expressing their views. The interviews were conducted online with participants, using Zoom Meetings, Microsoft Teams, and Google Hangouts, after obtaining their consent.

4.7.3 Data collection procedure

The process of collecting research data is dependent on the research strategy, which is influenced by the type of data to be collected, in order to address the research questions (Choi and Park, 2021). This study chiefly made use of primary data to address the research questions, as there is a paucity of secondary data to address the problem. Besides, the secondary data sometimes can be outdated, and not too relevant. Primary data for the study was collected through surveys and individual interviews. Collecting this data required that the researcher identified the respondents, including all issues and opportunities available for collecting the data, making choices to address the issues, and exploiting opportunities for collecting the required data, planning an approach and method of data collection, collecting the data, analysing and acting on the data.

The step taken to ensure that correct and relevant data were collected for this research was the identification of relevant respondents and how to access them, without compromising the integrity of the research. The research targeted venture capital practitioners in venture capital companies and their employees, as well as venture capital investees. The SAVCA directory in the public domain provided a database from which venture capital firms' contact details were extracted. The database thus provided an opportunity to contact the venture capital firms and solicit their participation in the research.

From the database, the researcher selected the venture capital firms operating within South Africa, in order to ensure that the data collected was relevant and contextually related to South Africa. The inclusion of only South African-based venture firms in the pool of respondents was to ensure the validity and application of the findings in subsequent research. Contacts were made through the company email addresses provided either on the company website or SAVCA directory to seek approval from the management of the venture capital firms, in accordance with their organisational policies. Also, a general search on the internet provided the possibility of finding many other venture capital firms, practitioners, and their investees that were contactable, to participate in the research after acquiring their consent. The researcher also exploited the option of targeting venture capital practitioners and their companies via LinkedIn, soliciting for their participation.

Besides sending emails to the offices, it was equally important to visit the businesses and provide detailed explanations of what the research is all about, in order to ensure that participants are well-informed about the nature of the research and type of data to be collected. Next was the dissemination of the surveys/questionnaires to participants to collect the required data. Survey links were sent to the respective organisations in areas that the researcher could not physically reach for participants to complete. Manual questionnaire were distributed as well, to increase the response rate in areas accessible by the researcher.

Considering the number of items in the questionnaire and the sample size (203 participants with more than 150 items), coupled with the conservative nature of industry participants, data collection and analysis took longer. From a quantitative point, the data collection and analysis process was estimated to take least three months from the date of sending out survey links and questionnaires. However, due to the low response rate of the industry, coupled with the conservative nature and work schedule of participants, quantitative data collection took approximately eight months. From a qualitative point, individual interviews were conducted with 11 participants selected from the target population. With the participants' consent, the interviews were recorded, to facilitate concept mapping and data analysis. To conduct an interview, the selected participants were informed two weeks in advance, and interview appointments were made with all participants to be interviewed at the agreed time and date. Each interview lasted 30 minutes, on average. The interview followed a semi-structured approach from a pre-prepared interview guide. The interviewing process took longer than

expected (about four months) to complete, as opposed to the initially estimated two months. This allowed for proper sampling and selection of interviewees, and making allowance for participants to prepare and allocate time in their schedules to take part in the interview. In most instances, the interviews were rescheduled to accommodate the changing schedules of participants.

4.7.4 Pilot study

A pilot study ascertains the validity of the research instruments (Lancaster, 2015). Conducting a pilot study allows a researcher to test the integrity of the study protocol, as required for future trials, and gives valid reasons for randomisation (Lancaster, Dodd and Williamson, 2004). A pilot study is a study conducted prior to the main research. It provides gainful insights for initial estimation of sample size, and it is helpful to note recent works in the research area (Teare, Dimairo, Shephard, Hayman, Whitehead and Walters, 2014). It allows for the testing of the data collection instruments, as well as the randomisation of testing procedures. It is helpful in estimating rates of consent and recruitment relevant to the study. It also helps to ascertain the acceptability of required intervention, and provides a guide to select the most relevant or appropriate primary outcomes. It encompasses all aspects of the design process to provide evidence that future trials will work, besides helping to align the research objectives (Lancaster, 2015).

Cognisant of the nature of this research, it was vital to consider piloting the study, not only for feasibility's sake, but to be certain that the research instruments addressed the problem appropriately, and that the research outcomes would be reliable (Kumar, 2011; Delice, 2010). In this light, a pilot study was conducted on 5 respondents (4 quantitative and 1 qualitative) to test the study protocol (Teresi, Stewart and Hays, 2022), and this assisted in restructuring the questionnaires and interview guide.

4.8 Data analysis

Kuthari (2004, p.122) defines data analysis as the computation of certain measures and a search for patterns of relationships that exist between data groups. Analysing data is a significant part of the research methodology. While quantitative (positivism) research streamlines clearly-agreed guidelines on data analysis (Abulela and Harwell, 2020; Delice, 2010), qualitative research (post-positivism) requires varying approaches to analysing data, in terms of basic epistemological assumptions surrounding the nature and type of qualitative

enquiry, and may differ in terms of focus (Ritchie and Lewis, 2003). The study employs exploratory factor analysis to explore the factors influencing venture capital exits from a quantitative standpoint, and supported by insights from the thematic analysis in order to validate the quantitative results. In the following subsection, the study presents the procedure for analysing quantitative data.

4.8.1 Study variables

The number of exits for any venture capital industry in any economy is directly linked to the state of affairs and institutional framework (factors such as level of technology, political stability, and governance principles) in the economy. This is besides the institutional capacities such as expertise, entrepreneurial ability, and skillset (Goldberg et al., 2011; Tuomi and Neto, 2013). The amounts of funds mobilised, and incentives in the industry, also play key roles in determining the performance of the venture capital industry, and the exit rates. The number of exits (dependent variable) (Kumar, 2021), is therefore a function of factors such as the amount invested, the incentives available for investment, good governance practices, political stability, and entrepreneurial skills available in the country, as well as the state of technological advancement.

The research assumes that factors such as good governance, better regulations, more incentives for investment, good stock market regulations, and alternative listing requirements are the input variables that facilitate investment in the venture capital industry, and increase the exit rates (output) through IPOs and other exit mechanisms (Kuthari, 2004). Using the exploratory factor analysis, the research extracted the factors with the most significant influence on venture capital exits in South Africa.

4.8.2 Factor analysis

Factor analysis represents a statistical process used in simplifying complex variables in order to explore relationships between multiple variables (Zeynivandnezhad, Rashed and Kaooni, 2019). With computers and software packages such as SPSS, SAS, Mplus, SATA and Moreta, the implementation of multivariate factor analysis has been made simpler for researchers (Zeynivandnezhad et al., 2019, p. 59; Rasool, Zhang, Aydin and Halpern, 2021, p. 21). According to Gorsuch (1997) and Kline (2011), factor analysis broadly includes a range of statistical techniques that provide the possibility of making estimates about a population. Such estimates are achieved by a variety of observed variables and the relationship between the

variables. Factor analysis thus enables researchers to summarise relationships between variables, thereby facilitating the conceptualisation of a given phenomenon being studied (Gorsuch, 1997). Factor analysis, in simpler terms, responds to issues of the validity of the research questions (Zeynivandnezhad et al., 2019). Factor analysis is a tool used to evaluate data collected for a study (Zeynivandnezhad et al., 2019).

4.8.2.1 Exploratory Factor Analysis

In chapter one, the research introduced the two types of factor analyses, namely Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA). Exploratory factor analysis and confirmatory factor analysis are applied in different studies and may not be used in the same study without changing the data set. Exploratory factor analysis is often used to establish factor behaviour using constructs or latent variables in order to establish factor pattern or relationships between variables, in instances in which prior research has not been done to establish such pattern or behaviour of factors. Confirmatory factor analysis could then be used to confirm the factor pattern.

This study uses Exploratory Factor Analysis to analyse data from the survey questionnaire that was specifically developed for this study. Although evidence of using Exploratory Factor Analysis in venture capital research may be scant, Rasool et al. (2021) used Exploratory Factor Analysis to extract the factors that impact children's behaviours in academic achievement. Hwang (2019) used Exploratory Factor Analysis to assess the effects of the deregulation and performance on government accountability in Japan, Korea, and the United States. Lopata et al. (2020) used Exploratory Factor Analysis to examine the factor structure on skill streaming for children with autism spectrum disorder.

Exploratory Factor Analysis is commonly employed when researchers have very few ideas about the phenomena under study, and lack of knowledge about variability and relationships between the variables. In this regard, researchers use Exploratory Factor Analysis to discover latent factors or constructs, with the goal of reconstructing the observed complex data in an essential form. Factors extracted from Exploratory Factor Analysis maintain all the valuable information from varied primary data. Consequently, the resulting variability of individual factors and covariance between constructs in the study remain constant. Exploratory Factor Analysis is a vital tool that assists in creating new theory from the latent factors for a variety of variables and their relationships (Zeynivandnezhad et al., 2019). Matsunaga (2010) observes

that both Exploratory Factor Analysis and Confirmatory Factor Analysis attempt to calculate the variance of an observed dataset in smaller sets of latent variables or factors. Exploratory Factor Analysis is useful in providing a scale where there is little theoretical base to specify the number and patterns of common factors.

4.8.2.2 Purpose and procedures for conducting factor analysis

In summary, Zeynivandnezhad et al. (2019) state that Exploratory Factor Analysis is intended to:

- Reduce the total number of variables from the latent constructs
- Test the structure, direction or relationship between variables
- Detect and assess the unidimensionality of theoretical constructs
- Disprove or approve proposed theories
- Evaluate the validity of a scale test or the instrument used for the study
- Address issues of multicollinearity
- Develop theoretical structures from constructs

Researchers normally follow a five-step approach to conduct an Exploratory Factor Analysis, as depicted in figure 4.2 below.

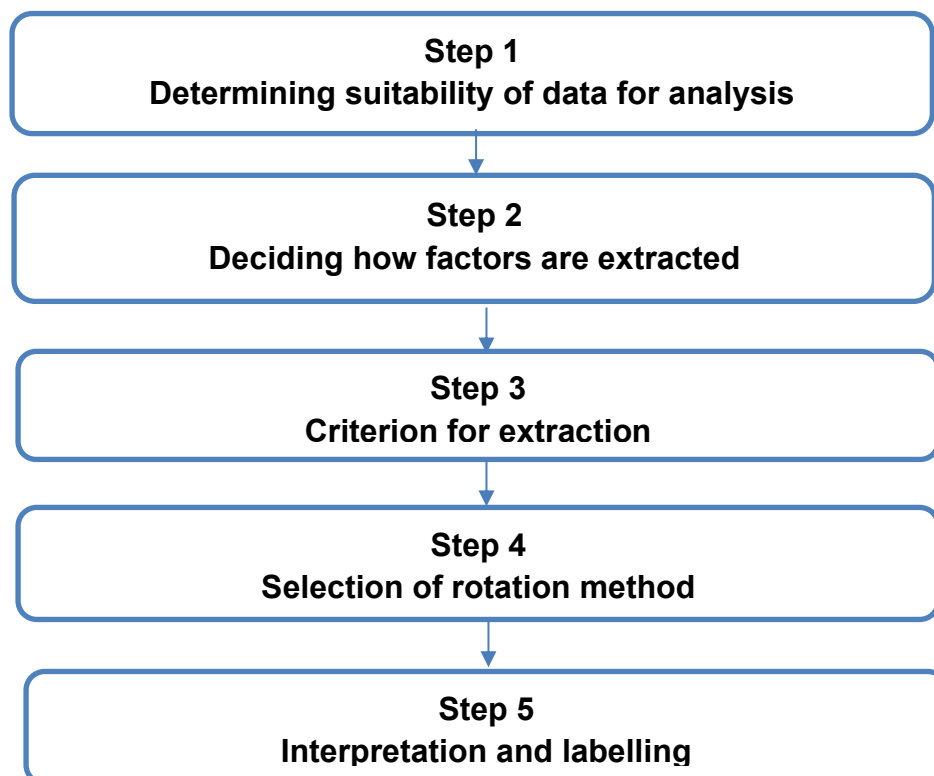


Figure 4.2: Exploratory factor analysis process

Source: Adapted from Zeynivandnezhad et al. (2019:62)

The study applied the Exploratory Factor Analysis in order to develop the various constructs that help in analysing whether the factor loading accurately measured the factors responsible for venture capital exits, as evidenced in the reviewed literature.

Step 1: Determining suitability of data for analysis

Determining the suitability of data is guided by the sample size, data preparation, measurement scale, normality, linearity, outliers, and the correlations amongst the factors under study (Zeynivandnezhad et al., 2019, p. 63). Hair, Black, Babin, Anderson and Tatham (2010) agree that a sample of less than 50 is inappropriate, and proposes a sample of more than 100 participants. Comery and Lee (1992), cited by Zeynivandnezhad et al. (2019), state that a sample of 100 is weak, and proposed 200 as a fair sample. Zeynivandnezhad et al. (2019) submit that a sample should be in proportion to the number of variables (Shrestha, 2021), preferably in the ratio 1:20 (one variable for a sample of 20). In the case of this study the selected variables are ranked on a Likert scale, with a sample size of 201, and with linear relationships. SPSS was used in the data preparation phase, with multivariate outliers assuming normality. To test the sampling adequacy, the research employed the Kaiser Mayer Olkim (KMO) sampling of adequacy, and Bartlett's Test of Sphericity.

Step 2: Factors extraction

The factors were extracted using Principal Component Analysis (Shrestha, 2021), as there was no evidence of a pre-existing model for the study in South Africa (Pett, Lackey and Sullivan, 2003). In this regard, the extraction utilised:

- Principal axis factoring
- Maximum likelihood method
- Ordinary least squares
- Image factoring
- Alpha factoring

Step 3: Factor extraction criteria

To reduce the high number of indicators to factors, multiple approaches (criteria) are applicable (Shrestha, 2021; Watkins, 2021). Hair et al. (2010) cite the Kaiser (1960) criteria of Eigenvalue greater than 1, Scree plot test (Cattell, 1966), the Parallel Analysis (Horn, 1965), and the method of cumulating percentages of extracted variances (Zeynivandnezhad et al., 2019). In

the natural sciences, cumulative percentage of variance and method of eigenvalue greater than 1 explains approximately 95% of variance, while in the human sciences, it explains on average, 50 to 60 percent of variance (Hair et al., 2010). The important aspect here is the communalities that describe the usefulness of extracted components emanating from the degree of variability of measured variables. Such communalities portray the “R square” in the constructs and indicators (Zeynivandnezhad et al., 2019). The “R” is synonymous or equivalent to R^2 in the regression equation. The rule of thumb is that all indicators should have a factor loading of above 0.5, and the initial communalities for the principal component should be 1, as the research seeks to explain every variance within each item in the communality matrix (Zeynivandnezhad et al., 2019).

Step 4: Method of rotation

Zeynivandnezhad et al. (2019) cite two methods of rotation, namely; Orthogonal and Oblique rotation. While the orthogonal varimax produces a factor structure within which constructs do not correlate to each other (Shrestha, 2021), oblique rotation accommodates the correlation of constructs to each other. With oblique rotation, the results are more valuable and accurate for behavioural sciences, especially when there exists no pre-hypothetical relationship in the dataset. The current research adopts the method of oblique rotation to extract the factors, as it minimises the number of factors from the variables. It then applies Promax rotation (a method of oblique rotation) as this indicates the real strength of the correlations between the constructs and variables, which is considered the most appropriate for a study of this nature (Zeynivandnezhad et al., 2019).

Step 5: Labelling and interpretation

At this stage, the research assigns indicators to variables which leads to factor naming. Conventionally, there may be two, three or more variable indicator loads to a factor, in order to make the interpretation of the factor meaningful (Zeynivandnezhad et al., 2019). Factors labelling is an inductive, theoretical, and a posteriori process, which provides meaning to the latent variables in the final analysis (Watkins, 2021). The meaning of the variable and factor naming is defined by the researcher, and the intention is to ensure a theoretical and conceptual frame of reference (Henson and Roberts, 2006). Such naming can come from theoretical concepts adopted from reviewed literature. Based on the background of venture capital and its concepts, the factor naming was guided by facts from the reviewed literature. Evidently, steps 1 to 5 are conducted with the aid of the SPSS software and “R” packages. The ultimate

aim was to identify the factors contributing to venture capital exits, which served as pointers to the performance of the venture capital industry in South Africa. The ultimate goal of all this is to facilitate the process of establishing an early exit framework for venture capital South Africa.

4.9 Data analysis models

Analysing data is a significant part of the research methodology when conducting research, especially quantitative research. However, some of the methodological components may present flaws that impact the validity of results, emanating from the handling of missing data, level of measurement of dependent variables, quality of constructed measures, and model checking. Quantitative research provides empirical guidelines on analysing data (Abulela and Harwell, 2020). While quantitative research streamlines clearly-agreed guidelines on data analysis, qualitative research has varying approaches to analysing data in terms of basic epistemological assumptions surrounding the nature and type of qualitative enquiry, as well as the status of the researcher. This makes qualitative data analysis very challenging (Chenail, 2012). Besides, qualitative research also differs in terms of the focus and aim of the analytical process (Ritchie and Lewis, 2003).

The term “data analytics” connotes the idea or process of analysing raw data collected for a study in order to draw insightful meanings from the dataset. Such insights may be used to make generalisations about the subject matter under study, or to assist in the development of new knowledge. This study’s aim was to establish an early exit framework for venture capital investment in South Africa. Such a framework is unique to South Africa, and calls for a methodical analysis of the South African situation, without the generalisation being based only on venture capital concepts drawn from literature review, or empirical models from quantitative studies. It required inputs from stakeholders in the South African industry, to ensure that the framework fits the South African context.

In chapter one, the research defined the variables (both dependent and independent). The chapter also highlighted the use of the Exploratory Factor Analysis and descriptive statistics to analyse quantitative data and thematic analysis, a process which involves the coding/tagging of constructs, and arranging them into themes in order to analyse qualitative data. In this chapter, the research provided a full presentation of the data analysis model adopted by the study, under the following subheadings.

4.9.1 Research reasoning

Three different approaches to research development exist, namely deduction, induction, and abduction (Barrett and Younas, 2024; Saunders and Lewis, 2018). Differentiating between deduction and induction can be traced back to the theory being used, from the reviewed literature, and seeing how the theory was developed. Saunders and Lewis (2018) assert that the nature of the research influences the application of either deduction, induction or abduction (Young, Varpio, Uijtdehaage, and Paradis, 2020) in situations where researchers go back and forth, especially in business-related research, where evidence is required from management to support a theory. The choice of the research approach for this study was made after a careful consideration of the various approaches to research, and the circumstances warranting the use of a particular approach.

4.9.1.1 Deduction

Deductive reasoning in research involves the testing of theoretical propositions, through a designed strategy dedicated to testing the propositions. It is intended to clarify an existing theory selected at the beginning of a study. Saunders and Lewis (2018) identify five sequential stages in deductive research, which are used for:

- Identifying and defining the research questions based on the general theory in existence, and operationalising the questions, such that what is occurring should be established (Dyar, 2022). Here we set propositions (hypothesis about the relationship) on how the questions should be addressed.
- Collecting relevant data to answer the operationalized questions and/or test the hypothesis (Creswell and Plano Clark, 2018).
- Analysing the collected data in order to determine whether the facts gathered support the existing general theory, or if there is need for modification.
- Confirmation of the existing general theory, or its modification, where findings do not conform to the general existing theory (Dawadi, Shrestha and Giri, 2021). Where modification of existing theory is required, the five steps may be repeated to test the validity of the modified theory.

Central to deductive reasoning is the explanation of a causal relationship between variables (Young, and Ryan, 2020). This research seeks to establish the reason for the low exit of venture capital investments in South Africa. Having studied the venture capital market and its exit behaviours, one would conclude that certain factors directly influence exit behaviours, by performing some statistical testing in order to validate the concept using the five stages.

However, considering that the industry environment varies from country to country, factors may have different influences at different timeframes in different countries, thereby distorting or affecting the results of the deductive approach at any point in time, in the various regions or countries. Hence, the deductive approach is not considered for the current study, as explained by Creswell and Plano Clark (2018) and Sharma et al. (2023).

4.9.1.2 Induction

While deduction entails the testing of the concept (theory), induction involves a “bottom-up” approach to theory development (Barrett and Younas, 2024). Here theories are developed from the explanations arising from the study. Induction begins with observations, moves to generalisation, and finally theories. Based on the observations of repeated occurrences of phenomena, hypotheses can be formulated from the observations, leading to the general theory formulation (Dyar, 2022). Here researchers try to gain an understanding of some meanings that people attach to events. Opinion search is most critical, as it allows researchers to gain more insight through explanations on the subject matter being studied (Sharma et al., 2023).

In the context of venture capital management, it is important to know the nature of variables that influence venture capital exit. Nevertheless, the degree to which these factors influence investment decisions, as well as the investors’ perspectives and perceptions of the economic environment, is important. Quantitatively, the amount of investment and sales revenues may have a causal relationship to exit, but there is more beyond the quantitative factors with regard to their effects on exit. Other critical factors include politics, economic growth, and market regulations, and these may not be quantified. Hence, induction alone may be inappropriate for this study (Creswell and Plano Clark, 2018). However, it has the flexibility of adding several variables that influence venture capital exits.

4.9.1.3 Abduction

As noted earlier, deduction follows a top-bottom approach – as it moves from theory to data – while induction follows a bottom-top approach – by moving from data to theory (Saunders and Lewis, 2018). Abduction moves back and forth. It begins with an observation of the unexpected occurrence. In other words, it starts with identifying and examining the surprising facts or puzzles to which to devote explanations. According to Saunders and Lewis (2012), when conducting research, surprising facts or puzzles may be identified at the beginning of the

process. Such facts or puzzles can be explained by combining both numerical and cognitive reasoning, in a bid to address the facts that cannot be explained by existing theories. Although it is challenging to move back and forth, abduction provides a pragmatic way of addressing the weaknesses of both the deductive and inductive approaches, by combining aspects of both approaches to research (Bryman and Bell, 2015; Saunders and Lewis, 2012). Deduction has been criticised for its lack of clarity with regards to the selection of theory for testing using hypotheses, while induction is criticised on the basis of the amount of empirical data that is required to build theories.

Abduction is in line with what many businesses have faced and still do today, as it combines deduction and induction; some theories may account for observed patents, and not others. Such theories therefore help to uncover more of the unexpected observations. Nevertheless, surprising facts (discoveries) may emerge at various stages of the research process, which may lead to alternative research approaches to validate research evidence (Lara et al., 2020). Given that the number of exited venture capital investments (especially through IPO exits) in South Africa are surprisingly low, compared to those in its BRICS counterparts (China, India, Brazil and even Russia, who has been under numerous international sanctions), one would be prompted to generally agree that venture capitalists in South Africa do not follow the conventional venture capital investment concept of growing high profitable ventures for public listing. To provide reasonable and reliable conclusions and recommendations, the research made use of empirical evidence (facts or data) based on the concept of venture capital in order to ascertain the underlying factors responsible for the venture capital exit trends, as evinced in other countries. These factors and constructs were extracted from the reviewed literature, as a basis for ascertaining whether the factors that impact venture capital investment which exist in South Africa align with the factors impacting venture capital exits in other countries. Using exploratory factor analysis, based on a Likert scale questionnaire (Young, Varpio, Uijtdehaage and Paradis, 2020), the research quantifies the factors impacting investment exits in South Africa. As the trend goes (low exits as experienced in South Africa), it may seem that the investors' perception of the market environment plays a key role in the performance of the industry. This thus prompted the need to combine opinion with numbers (qualitative and quantitative data, respectively). In this light, the pragmatic (abduction) reasoning technique was adopted, as it combines both deduction and induction reasoning in research (Lara et al., 2020).

4.9.2 Quantitative data analysis

Quantitative data deals with numbers and factual accounts of events in an objective manner (Saunders and Lewis, 2018). It adopts the positivist approach to research (Delice, 2010). This is intended to explore the factors responsible for venture capital exits in South Africa, with the primary objective of proposing an early exit framework for venture capital investments in South Africa. To explore these factors, the research applied Exploratory Factor Analysis. Quantitative data is first analysed as per the explanatory sequential approach adopted for this study, following the various sections of the questionnaire. To better understand the data, cross sectional tables, charts and graphs constitute the key components to arrange the basic data alongside the explanations of the datasets. Section one of the questionnaires (surveys) was analysed using the Exploratory Factor Analysis in order to examine the variability of the observed variables (Elden et al., 2020) indicated in the survey using principal axis factoring to extract the factor with the use of oblique rotation in R packages. This is to ascertain which factors have significant influence on the venture capital exit rate in South Africa. Sections Two and Three of the questionnaires were analysed using tables, pie charts and bar graphs, to present an overview of the performance and the general state of the venture capital industry, followed by explanations.

4.9.3 Qualitative data analysis

According to Dexter (1970) and Harvey (2011), unless the interviewer has enough background knowledge, with assurances to make sense out of the interview conversation, or there is reasonable hope of being able to observe, learn and gain insightful knowledge about that subject matter, then there is no need to plan or finance an entire study in advance, with the hope of solely relying on interview data. It has been argued that the process of analysing qualitative data has no specific approach (Chenail, 2012; Gibson and O'Conno, 2003; Maxwell, 2004), and it involves everything that is meaningful during the interview process, including personal observations and experiences. The biggest challenge, then, is to decide on the meaningful units to analyse (Mermir, 2020; Chenail, 2012). Qualitative data analysis is a continuous and iterative two-stage process that involves data management, and bringing out the sense in the data through descriptive or explanatory accounts (Chenail, 2012).

4.9.3.1 Qualitative data analysis process

The first step in the qualitative data analysis process is getting to know your data (Braun, Clarke, Hayfield and Terry, 2019) and understanding what information is contained in the data

through rigorous and systematic analysis (Gibson and O'Connor, 2003). Gibson and O'Connor (2003) and Mezmir (2020) agree with Rubbin and Rubbin (1995), that formal systems for analysing qualitative data include the following:

- coding techniques that help to find and mark the underlying concept of the data to be analysed,
- grouping of similar information or ideas in various categories
- relating or connecting various ideas and themes to each other (Rubins and Rubins, 1995)

In their “step-by-step approach to analysing qualitative interviews”, Braun and Clarke (2024) streamlined the following components for analysing qualitative facts:

- data organisation
- finding or searching for ideas and concepts and organising them
- structuring overarching themes imbedded in the data
- ensuring validity and reliability in the analysed data and in the findings
- searching for observable possible and plausible explanations for the findings
- making an overall final overview the final step

In the current study, the intention is to make sense of the data, in order to provide reliable and valid findings (Taherdoost, 2022), based on evidence gathered throughout the research process. Such reliance would depend partly on the analytical methods or tools used to categorise the data, and, more specifically, it depends on the analyst (Ritchie and Lewis, 2003). The level of creativity, clarity and rigour of the analyst's conceptual thinking plays a vital role in mapping patterns together – patterns that provide meaningful insights (Sharma et al., 2023). Researchers use different approaches to analyse qualitative data, such as grounded theory, narrative enquiry or narrative analysis, interpretative phenomenological analysis, content analysis, and thematic analysis (Creswell and Plano Clark, 2018). Chapter One emphasised the use of the thematic analysis, a process which consist of forming themes using constructs in order to analyse data. This thematic framework is presented below.

4.9.3.2 Overview of thematic framework

A data analysis framework is normally used to explain and demonstrate how data can be analysed (Ritchie and Lewis, 2003; Ritchie and Spencer, 1994). This concept was developed in the 1980s at the National Centre for Social Research, and is currently widely used by qualitative researchers (Ritchie and Spencer, 1994). It facilitates transparent and rigorous data management in such a manner that every step in the analytical hierarchy can be systematically

dealt with. The framework allows data analysts to move back and forth between and within levels of abstraction, without losing sight of the data being analysed.

A thematic framework is commonly used to organise and classify data into themes, concepts and emergent categories (Attride-Stirling, 2001; Braun and Clarke, 2006; Braun and Clarke, 2024; Ritchie and Lewis, 2003). The main themes are then subdivided into related categories or subtopics by succession (Ritchie and Lewis, 2003). The themes identified are refined, as the researchers familiarise themselves with the data and labelling (Miller and Brewer, 2020). As the main theme becomes comprehensive enough, it is charted on a matrix, where the respondent's row has been allotted. Within the thematic framework, each column represents a subtopic, and data is synthesised using the appropriate part of the framework.

The adoption of the thematic framework in this research was guided by the fact that thematic analysis provided an opportunity, and the flexibility, to search for related themes during the interview process (Braun, Clarke Hayfield and Terry, 2019). Moving back and forth is critical to adequately analyse the discussions of the interview participants. It allowed for genuine creativity, compared to narrative enquiry and other data analysis approaches.

4.9.3.3 Thematic analysis process

According to Braun and Clarke (2006), the process of analysing qualitative data follows a six-phase process. In step one, the researchers familiarise themselves with the data; step two involves the generation of initial codes; step three is the searching for, or finding, interesting themes; in step four, the researcher reviews themes; step five allows for the defining and naming of themes; and step six is concerned with the production of the report. In similar reasoning, Attride-Stirling (2001) earlier posits six steps identical to those of Braun and Clark (2006), and called them the “six steps box”. Attride-Stirling (2001) split the entire six steps box into three main stages, namely the breaking down or reduction of text, text exploration, and integration of the explored text. Table 4.2 summarises the thematic data analysis process explained by Braun and Clarke (2006), and adopted by the current research.

Table 4.2: Thematic analysis process

Thematic Phase	Process Description
1. Familiarising with the data	The researcher transcribes the data (if required), reads and re-reads the data, and notes down initial ideas.
2. Generation of initial codes from the data	Interesting facts or features from the data are coded in a systematic way across the entire data set, thereby collating data codes with each other
3. Searching or finding interesting themes	At this stage, the researcher ensures that codes are collated into potential themes. It also entails the gathering of data related to every potential theme.
4. Reviewing of themes	Reviewing themes involves checking to ensure that themes are in accordance with the coded extracts in level 1, as well as the overall data set in level 2.
5. Definition and naming of themes	This involves a continuous process of refining the specifics of every theme, analysis of the entire story, as well as generating clear definitions and names of every theme.
6. Producing the report	This phase presents the final opportunity for analysis of selected extracts, as the researcher selects compelling extracts, and relates back to the research questions and literature, to produce a scholarly report from the analysis.

Source: Adapted from Braun and Clarke (2006:35)

The familiarisation process for this study began with reflections about the interviews' discussions, relating and trying to vividly align the discussions to the research problem and objectives of this study. The process of reviewing the video transcriptions provided an in-depth insight on how interesting facts emerged, which guided the way themes were generated and coded. Facts were then picked from the various transcripts after a thorough review of the transcripts, and classified for coding. The coding allowed for a thorough search for interesting facts aligned to each code to ensure that the facts constitute meaning themes with much relevance to the aim of the study. After reviewing, classifying, and aligning facts according to the procedure described by Braun and Clarke (2006) to identify themes as per assigned codes such as take-overs, shareholders' interest, and funding, the themes were refined and named in a context that provided a clear understanding of the interview outcomes. Hence, relevant

themes such as misalignment of shareholders' interest, lack of funding, and corporate take-over were extracted and used in the final data analysis and report.

4.9.3.4 Relevance of thematic analysis to the research

The choice of thematic analysis as a data analysis method is informed by the fact that thematic analysis provides the benefits of sailing through the research data in the most appropriate manner that collates reasonable evidence to provide reliable findings and recommendations.

Braun and Clarke (2001) submit the following, as the advantages of thematic analysis:

- 1) Flexibility: thematic analysis is quite flexible, and it allows for the digestion of data. It allows for easy movement (back and forth), to gather substantially necessary facts with the goal of building theories (Ritchie and Lewis, 2003). In this study, thematic analysis provided an opportunity to rework themes, and align them according to the study objectives with ease, after familiarisation with the interview themes.
- 2) Simplicity: thematic analysis is a relatively simple and easy method to learn and do, even by novice researchers. Apart from reading the relevant literature and watching a few videos online on the thematic analysis process, the researcher never required training on the thematic analysis process.
- 3) Due to its flexibility, the method can easily generate unanticipated insights from the process of data collection as discussions unfolds. This is essential for mind mapping and the creation of relevant themes with ease. The use of thematic analysis in this study facilitated the process of grouping themes with similar connotations, as well as identifying overlapping themes requiring attention in other areas of the study.
- 4) It provides an opportunity to highlight differences and similarities across datasets. In the case of the current study, thematic analysis facilitated the process of comparing the factors influencing venture capital exits in South Africa, and compared the South African experiences to the other member states of the BRICS (founding BRICS+ members) bloc, as well as other countries, as evidenced in the literature review.
- 5) Thematic analysis allows for both the social and psychological interpretation of dataset. Hence, blending quantitative and qualitative methods allows for the full coverage and understanding of both the objective and subjective views of practitioners in the industry, including their social and psychological stance. The use of thematic analysis in this study facilitated the analysis of the open-ended question in the survey in the quantitative component of the study, as the responses were organized in themes and graphically

represented in a bar graph, just as the qualitative themes were summarised in tables to ease visualization.

- 6) The evidence from thematic analysis is quite reliable, and can be used for policy development. In this study, the findings provided guidance in the development of a venture capital exit framework that is applicable to the venture capital ecosystem in South Africa.
- 7) It is a very useful method when dealing with the participatory research paradigm, which encompasses participants as collaborators. The study used thematic analysis to assemble ideas emanating from highly interactive interviews with participants, who genuinely and honestly provided their views on how the venture capital ecosystem can be made efficient.
- 8) It can facilitate the process of summarising key features in large bodies of data, and provides the possibilities of “thick descriptions” of a dataset. In this study, key or main themes and sub themes were first summarised in a table, giving the reader a preview of the study’s findings.
- 9) It is easily understood and accessible by even novice researchers, with little knowledge of qualitative research. Summarising the main themes and subthemes in a table, before discussion provided insight into the study, which facilitated the understanding of the study’s findings.
- 10) Thematic analysis results are generally available and accessible by the public. The findings of this study are summarised in a way that ensures confidentiality and available for public consumption, without any ethical breach.

4.10 Validity and reliability

The rigour of any research is backed by the integrity and competency to demonstrate integrity, achieved by adhering to details and accuracy, in order to ensure trustworthiness and authenticity of the research process (Miles and Hubberman, 1994). Common suggestions have submitted that terminologies such as conformability, dependability, credibility, trustworthiness, transferability, and verification be used to replace validity. While some researchers note that it is not appropriate to transfer terminologies across paradigms, other alternative approaches of validating validity and reliability away from the linguistic confines in quantitative research have been suggested. The rigour of qualitative research is premised on adequate research planning and implementation (Huberman and Miles, 2002; Tobin and Begley, 2004). In line with relevant

suggestions, the research examines the concepts of validity, dependability, conformability, credibility, and trustworthiness in relation to this study.

Credibility: Relates to the engagement with data in order to demonstrate a clear link between the data and the findings. Through the use of individual interviews, the data was carefully reviewed during discussions, as it allowed for follow-up questions and discussions with the interview participants. Suggestions from the participants were welcomed, and the necessary adjustments made. It was necessary to take notes, record sessions, and transcribe for reference purposes.

Dependability: In qualitative research, dependability is synonymous with reliability in quantitative research. It deals with the testing of indications of stability and consistency in the inquiry process. In the context of this research, due process was followed to clearly provide a logical research process that is traceable, backed by research philosophies, and documented in a way that gave detailed accounts of the entire research process.

Authenticity: The authenticity of this research was based on the development of the survey (questionnaire), items from theoretical evidence gathered from the reviewed literature relevant to venture capital exits, and the pilot study that was conducted. The pilot test provided an opportunity to ensure balanced judgment (unbiased reasoning) and the collection of valid data.

Confirmation: It was imperative to move back and forth during the research process in order to ensure that data interpretations and findings are sound enough, and speak to the research objectives and problem statement, and that the findings can be confirmed and are acceptable.

Reliability: Reliability relates to the repeatability (Altunışık, Coşkun, Bayraktaroğlu and Yıldırım, 2004; Delice, 2010). Miles and Hubberman (1994) assert that the reliability of a research instrument relates to the extent to which such an instrument yields the same results on separate trials repeated by different individuals. Commonly-used techniques in calculating reliability include the Cronbach Alpha and K-20. Nevertheless, the procedure for calculations may yield different results, of approximately 0.98 and 0.55 respectively (Delice, 2010). The study validated the research survey questionnaire with the aid of the Cronbach Alpha. On the whole, trustworthiness of the research was ensured by following the criteria of dependability, credibility, authenticity, and confirming data from the qualitative perspective, while reliability

catered for the quantitative aspect. The pilot study also assisted to ensure the reliability of the data collected.

Transferability: The concept of transferability relates to whether findings (interventions) of a study would gain the same degree of effectiveness if applied in another specific context (Weise, Büchter, Pieper and Mathes, 2020). In other words, could the required intervention in one research be applicable to another situation (Munthe-Kaas, Nøkleby and Nguyen, 2019)? In the context of this study, recommendations to facilitate investment in venture capital, such as friendly regulations, would be equally applied in other sectors.

4.11 Data Management

All data in this research are carefully managed by the researcher, in order to ensure research integrity. The compiled final research document will be stored in the North-West University database for future use by other researchers, in order to allow for the advancement of knowledge in the study of the venture capital industry. Interviews recordings and transcriptions will be kept confidentially by the researcher for at least 2 (two) years after completion of the study.

4.12 Ethical considerations

4.12.1 Ensuring Participants' informed consent

The notion of informed consent is rooted in the idea that participants are protected from harm as result of taking part in the study (Bos and Bos, 2020). For this study, all participants expressly agreed and authorised the researcher to collect the necessary and relevant data for the topic under consideration. Respondents to the questionnaire were duly informed about the research (Bazzano, Durant and Brantley, 2021) and their consent was sought before any questionnaire was administered or interview conducted. Participants were allowed to freely withdraw from the research at any point. Participants were given enough time to carefully go through the consent letters, the interview guides, and other research ethics documents before engaging with the researcher. This is in line with the suggestions of O'Hare, Spark, Flanagan, Heritier, Curtis, Zoungas, and STAREE Investigator Group (2018), that participants need to be given enough information about the study in order to decide whether to take part in the study or not. All interview participants signed the research consent letters. On a similar note, the online surveys provided an opportunity for participants to make an informed decision and

decide whether to take the survey or not (a consent page with details explaining the study was provided on clicking a link).

4.12.2 Ensuring no harm to participants

To conduct this study, the researcher committed himself not to disclose any information about the participants (Bos and Bos, 2020), or any information related to the research that may cause, or is likely to cause any harm to the participant or any related party, either explicitly or implicitly. All data and/or information gathered will be judiciously preserved (Dankar, Gergely and Dankar, 2019) in order to ensure that all stakeholders to the research do not suffer any harm as a result of this research. No sensitive information, such as identity numbers, contact addresses, email addresses, phone numbers, or account numbers was required from participants for the purpose of this research (Tariq and Hacket, 2023).

4.12.3 Ensuring confidentiality and anonymity

According to Bos and Bos (2020), information is confidential if it relates to the private sphere and need not be shared. Any information contained in this study is strictly confidential, and data was gathered on the basis of anonymity. Just as a patient's personal information requires anonymous and confidential treatment (Mirza, 2023), venture capitalists hold a great deal of financial information that requires adherence to strict confidential treatment. The researcher commits himself not to disclose any information that may cause, or is likely to cause, any harm either explicitly or implicitly, to any participant in this research. Ensuring confidentiality implies that research participants stay anonymous (Bos and Bos, 2020). Participants' personal details that could lead to identifying or tracing the participants such as names, telephone numbers, email addresses educational background, and gender were not required for this study (Tariq and Hacket, 2023).

4.12.4 Ensuring that permission is obtained

For this study, an ethical clearance certificate allowing the researcher to conduct the research was necessary, and was obtained in accordance with the requirements of the North-West University (NWU) for the current research, titled ***“Developing a framework for the early exit of venture capital investment in South Africa”***, and this helped facilitate the collection of the relevant data.

4.13 Summary of study design

To conclude the discussions of the study, the researcher presents in figure 4.3 below a summarised pictorial representation of the research design adopted for this study.

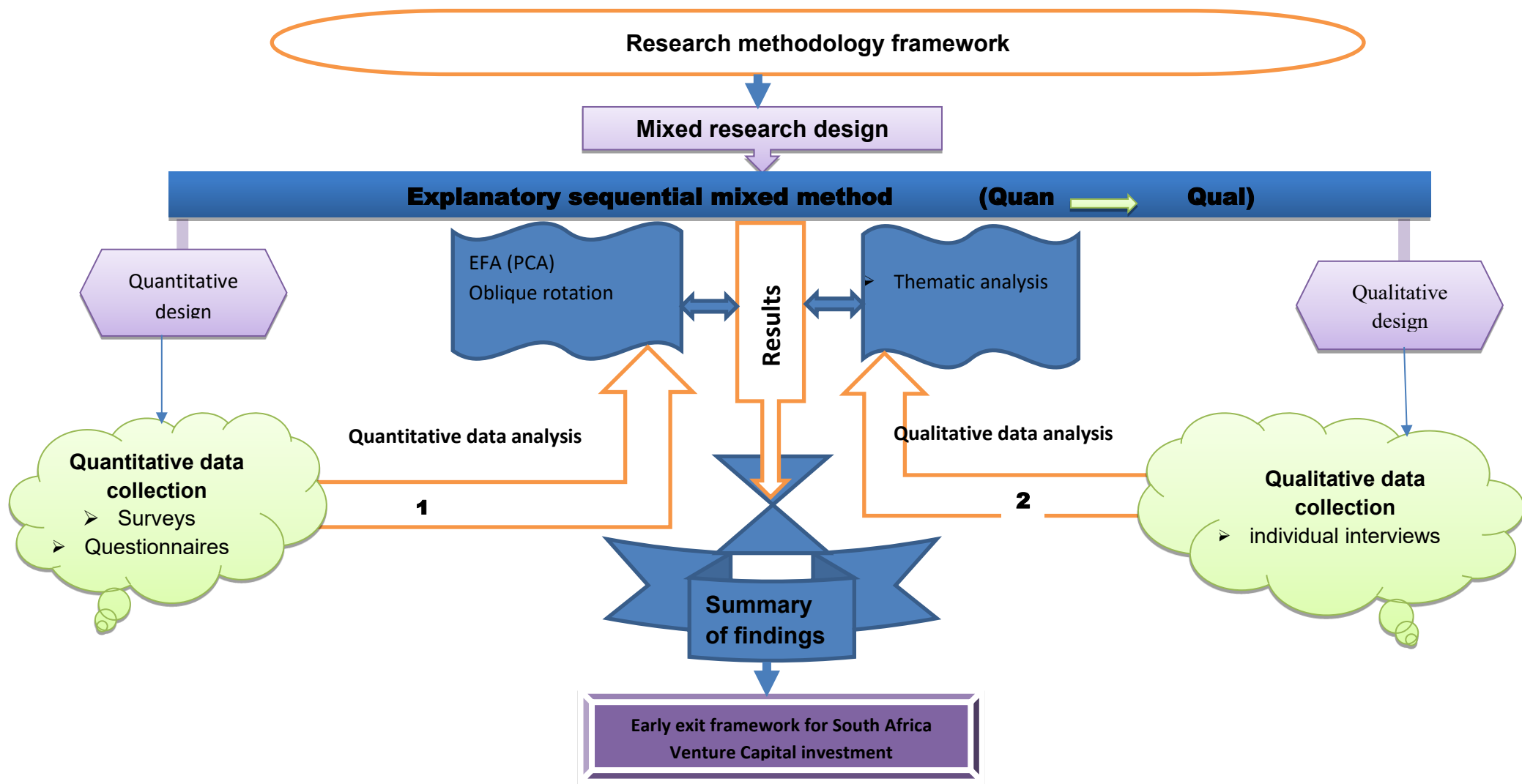


Figure 4.3: Schematic summary of methodology

Source: own initiative

4.14 Chapter conclusion

In this chapter, the researcher presented the methodological approach used in this mixed methods research (explanatory sequential mixed method) that was adopted for this study. The sequence of data analysis, and the models used for data analysis were presented and clearly explained – both the quantitative and the qualitative components. Figure 4.3 above, summarises the approach adopted by this study, and sets out clearly the various phases and activities as explained in previous paragraphs, and in line with the explanatory sequential mixed methods design. Figure 4.3 above highlights the entire process of the methodology adopted to gather facts and evidence, leading to data analysis and findings, which facilitated the development of an early exit framework for venture capital investment in South Africa. In the next chapter (Chapter Five), the research presents the empirical data analysis of the quantitative evidence assembled for this research.

CHAPTER FIVE: QUANTITATIVE DATA ANALYSIS AND RESULTS

5.1 Introduction

In this chapter, the empirical analysis and discussion of the quantitative findings are presented, based on the results of the surveys completed by venture capital practitioners and venture capital investees from companies in South Africa. Due to the conservative nature of the industry, and the need to comply with the POPI Act, demographic information analysis was limited to identifying the participants either as venture capital practitioners or as venture capital investees in the sample. The focus was on gathering the data necessary to understand the factors impacting venture capital activities and exit data in South Africa.

5.2 Respondents

From the quantitative point, the study targeted 201 participants, made up of 151 venture capital practitioners and 50 investee companies. Preliminary study and consultations with industry participants highlighted that investees are less knowledgeable about exit activities, and therefore cannot provide such comprehensive information as the investors would do. Hence, there was the need for 2 surveys – a comprehensive survey with generic and practitioners-based questions to be completed by the venture capital practitioners, and a generic survey (extracted from the comprehensive survey) to be completed by the investees from the South African venture capital industry. According to Wu, Zhao and Fils-Aime (2022), online surveys have a 11% – 12% lower response rate than other types of surveys. Hendra and Hill (2019) assert that there is no evidence of an 80% or higher response rate with online surveys. Fosnacht, Sarraf, Howe and Peck (2017) stated that, data reliability could result in even a 5% to 10 % response rate with a sample size of at least 500. Fosnacht et al. (2017) found that surveys with samples less than 500 required a 20% to 25% response rate. The conservative nature of the industry, besides the busy schedules of participants, made data collection difficult. Consequently, surveys were sent to more than the required sample size. Apart from sending surveys through emails to participants using Microsoft Office Forms, the survey links were shared on startups and venture capital professional online platforms to boost the response rate. A total of 153 responses were received from the venture capital practitioners, and 50 responses were received from the venture capital investees giving an overall response rate of approximately 101%. The shared links helped increase the responses from the online surveys after a prolonged data collection period, and this accounts for the 101% response rate.

Table 5.1: Analysis of respondents

Category	Code	Sample size (n)	Code sequence	Received
Venture capital practitioners	VCP	151	VCP01-VCP0151	153
Venture capital investees	VCI	50	VCI01-VCI050	50
Total		201		203

Source: Study surveys

To mitigate the risk of coverage errors and sampling errors, the results of the two surveys were consolidated (Elliot, Raghunathan, and Schenker, 2018), to provide a comprehensive analysis that yields meaningful results which align with the chosen methodology. Lohr and Raghunathan (2017) assert that combining surveys provides an opportunity to account for missing items that add meaning to the results. It is easy for an investee to provide the exact route used to exit their investment, while venture capital practitioners would provide the possible exit routes available in South Africa. Based on the contextual variables and relatedness of the surveys, Zola et al. (2015) consolidated data from administrative records of graduate recipients of research funding with confidential information from the Census Bureau. Merging of the main survey conducted with a smaller group of participants, with a smaller survey conducted with a larger group of participants or vice versa, adds value in terms of the reliability and validity of findings – if the two surveys measure the same thing, or have the same constructs or similar questions measuring the same constructs. Combining surveys provides an opportunity to achieve larger sample sizes, and obtain greater information and precision from two or more surveys (Elliott, Raghunathan and Schenker, 2018). Kyriazos (2018) asserts that sample size impacts the precision on statistical estimates including estimates in exploratory factor analysis (Thompson 2004). Factor structure replicability is partially dependent on the initial analysis of the sample size. Kline (2016) notes that there is no easy way to calculate sample size as the number of variables analysed and number of subjects should be considered, in addition to the strength of the data. Sample size in factor analysis is considered a top priority (Comrey and Lee, 1992; Costello and Osborne, 2005; Kyriazos, 2018), as it is based on correlation coefficients.

As the sample size increases, the correlation approaches its true value, with a lower confidence interval, and this ensures data validity and reliability (DeVellis, 2017; Finch, French and Immekus, 2016; Kyriazos, 2018; Schumacker and Lomax, 2015). Conversely, a smaller sample produces correlation estimates that are unstable and prone to outliers (Finch et al., 2016). Kyriazos (2018) agrees with Hoe (2008), that the first rule of thumb for minimum sample

size, N , is that $N > 200$ to offer adequate statistical power for data analysis. A factor analysis with a sample of 50 is graded as very poor, 100 as poor, 200 is considered fair, 300 as good, 500 as very good and 1000 as excellent (Castello and Osborne 2005; Comrey and Lee, 1992; DeVellis, 2017; Kyriazos, 2018).

On this note, it was therefore necessary to combine the investees survey ($N = 50$) and the practitioners survey ($N = 153$) to yield a greater sample of 203 for reliability and validity of results from the exploratory factor analysis. Also, Nicolaou and Masoner's (2013) "blue chips" rule of thumb suggests that the ratio of N to the number of variables to be measured be taken into account. Findings by Kyriazos (2018) suggest that a sample of less than 100 could cause convergence failures, leading to improper model solutions, and a sample of more than 200 results in almost zero (0) convergence, with no improper model solutions.

5.3 Reliability test

To ensure the reliability and internal consistency of the data collection instruments (Izah, Sylva and Hait, 2023), Cronbach's Alpha was calculated using three different software packages, namely SPSS, Jamovi and "R" packages, on the combined dataset (practitioners' dataset and the investees dataset). Reliability was tested on the overall questionnaires, and in all instances, Cronbach's Alpha was 0.764 (combined), indicating an acceptable level of internal consistency. The "R" package was used in the data analysis due to its modelling flexibility (Velazco, Rose, De Andrade, Minoli, and Franklin, 2023). Hence, graphic presentations and visualisations were made easy with the use of R package 4.10. Hence, reliability, data suitability (KMO) and sample adequacy (test of sphericity) tests on the various sections of the surveys were performed using the "R" packages.

5.4 Factor analysis

The study made use of Section One of the questionnaire to conduct a factor analysis (Exploratory Factor Analysis), based on the constructs of the questionnaire, and extracted four optimal factors impacting venture capital activities and investment exits in South Africa, namely; economic and financing environment, deal sourcing, business performance, and the regulatory environment.

5.4.1 Exploratory Factor Analysis

Exploratory Factor Analysis is a form of factor analysis. It is a data reduction technique, used for determining the underlying relationships amongst latent constructs (Lopata, Donnelly,

Thomeer, Rodgers, Volker, and Booth, 2020). Exploratory Factor Analysis provides a structure which groups the constructs based on the variables' correlations (Watkins, 2021). Following the conceptual framework of venture capital, the study used constructs from the reviewed literature to collect the quantitative data and then perform a factor analysis (Exploratory Factor Analysis - EFA) to:

1. Ascertain the factors impacting venture capital performance in South Africa.
2. Understand the extent to which these variables or factors from the questionnaires impact venture capital performance and exit in South Africa.
3. Identify and group these factors into a smaller number of factors, with good explanations of how they impact venture capital activities in South Africa.
4. Use the reduced factors for subsequent studies as a means of confirming the factors, or exploring other factors, that impact venture capital performance in South Africa, as a way of improving the South African venture capital industry.

This study adopted the Principal Component Analysis to extract the factors impacting venture capital performance in South Africa, as explained by Greenacre, Groenen, Hastie, d'Enza, Markos, and Tuzhilina (2022), using data from Section One of the questionnaire. The method of oblique rotation was used to extract the factors, as it was presumed that the variables are correlated. Promax was used to rotate the factors. Promax is a method of oblique rotation which approximates the results of the oblimin rotation, and fits them into a simple structure (Egbert, and Staples, 2019). Result approximation was vital due to sample size limitations.

5.4.2 Suitability of data for factor analysis

The Kaiser-Meyer-Olkin (KMO) test statistically measures the suitability of data for factor analysis (Ozfidan and Burlbaw, 2017). The KMO test measures the adequacy of the sample for each variable included in the sample. In performing the factor analysis, the KMO test was used alongside the Bartlett Test of sphericity. The Bartlett test of sphericity checks to see whether there is redundancy or correlation between the variables (Shrestha, 2021). In other words, the null hypothesis assumes that the variables are orthogonal. The KMO value ranges from 0 to 1, and depicts whether the sample is adequate for analysis or not. The value zero (0) indicates factor diffusion, and a value closer to 1 depicts that the factor is adequately reliable and indicates a correlation pattern that predicts reliable factors.

Section One of the survey's "factors rating" produced an overall KMO of 0.77 and a P. value of 1.281408e-153 for the Bartlett Test, which indicated that the sample was adequate and that the items in the sample are correlated (test is significant at 5%). The KMOs for the 23 items

from the sample of 203 depicted in Section One of the surveys are presented in Table 5.2 below:

Table 5.2: Kaiser-Meyer-Olkin values

Kaiser-Meyer-Olkin (KMO) values for sampled items			
SN	ITEM DESCRIPTION	KMO	Sample
	Financing activities		
	High amount of investment	0.73	203
	Stage financing / funding stage	0.79	203
	Investee performance	0.77	203
	Deal sourcing		
	Entrepreneurial exhibition platforms	0.70	203
	Multiple entrepreneurial ventures for selection	0.78	203
	Entrepreneurial selection platforms	0.78	203
	Regulatory activities		
	Investment incentives (e.g. tax & R&D)	0.85	203
	General Stock market regulations	0.77	203
	Merger and acquisition laws	0.76	203
	Management buyout arrangements	0.69	203
	Emerging companies alternative listing arrangements	0.75	203
	Economic activities		
	Growth rate	0.84	203
	Good Corporate governance practices	0.79	203
	State of technology advancement	0.85	203
	Government policies	0.79	203
	Current state of entrepreneurial-based education	0.76	203
	Performance activities		
	Entrepreneurial skill set in SA	0.62	203
	Profitability of investment	0.60	203
	Managerial performance	0.82	203
	Industry related factors		
	Investee experience	0.77	203
	Industry type (e.g. telecom, technology, energy)	0.65	203
	State of technological advancement	0.75	203

	Investment stage	0.82	203
	Bartlett test of sphericity		
	1. Chisq = 1375.875, p. value $\leq 1.281\text{e-}153$		
	2. p. value $\leq 1.281\text{e-}153$	Test is significant	
	3. df 253		

Source: Own initiative- reliability test (extracted from R packages)

The table above depicts a minimum KMO of 0.60 for the variable (construct) profitability of investment under performance activities, and the highest KMOs from 2 variables (constructs) of 0.85, namely; investment incentives under financing activities, and 0.85 from state of technological advancement under economics activities. There is no KMO less than 0.5, which indicates that the dataset is suitable for factor analysis and can reveal adequately reliable factor patterns.

5.4.3 Factor extraction

This study used the Principal Component Analysis to extract the factors impacting venture capital performance and exit in South Africa, by applying the Promax method of rotation to extract the factors. From table 5.2 above, the test of sphericity was significant at 5% with p. value $<1.281\text{e-}153$. Eigenvalues of 1 and above with factor loadings of 0.3 were considered for exploratory factor analysis in this study. The data eigenvalues calculated, and explained variances, are summarised in table 5.3 below, based on the sample of 203.

Table 5.3: Total variance explained

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.283	22.968	22.968	5.283	22.968	22.968
2	2.099	9.127	32.095	2.099	9.127	32.095
3	1.816	7.897	39.993	1.816	7.897	39.993
4	1.684	7.320	47.313	1.684	7.320	47.313
5	1.228	5.341	52.654	1.228	5.341	52.654
6	1.166	5.070	57.724	1.166	5.070	57.724
7	.978	4.253	61.977			

Source: Own initiative – extract from R packages and SPSS

Analysis of the Exploratory Factor Analysis (EFA) results typically begin with a cross-examination of the eigenvalues. The eigenvalues are the variances accounted for by each underlying factor (Gunzler et al., 2021). The variance is calculated by dividing the total eigenvalue of the factor (component) by the total number of factors (23 in this study). From the eigenvalues illustration in table 5.3 above, 6 components have eigenvalues above 1 according to the Kaiser rule (Costell and Osborne, 2005), with a total cumulative explained variance of 57.72% from the six factors. These six factors represent the unique factors (Gunzler et al., 2021). According to Gunzler et al. (2021), exploratory factor analysis provides the possibility of cross-loading of items, as opposed to confirmatory factor analysis (CFA) which is almost restrictive. Hence in performing EFA, one may begin with a one model factor to the point of getting an optimal model with the required factors to retain.

To maintain the optimal factors for this study, the Cattell's Scree Test (see fig 5.1 below) was used, and the elbow method applied to retain the optimum factors. According to Gunzler et al. (2021) a scree plot is an elbow-shaped diagram plotting the eigenvalues, and the components with higher eigenvalues spread farther apart than those with lower eigenvalues, as we move across the x-axis. The optimal number of factors to retain for a model represent the factors above the elbow. According to the EFA performed in this study, using Promax rotation, the factors (components) with eigenvalues are depicted in figures 5.1 (Cattell's Scree Test). The Scree Test suggests that four factors be retained as the optimum model for this study from the

six factors with eigenvalues above 1, as they are above the elbow (Gunzler et al., 2021). Figure 5.2 depicts eigenvalues and Scree plots side by side.

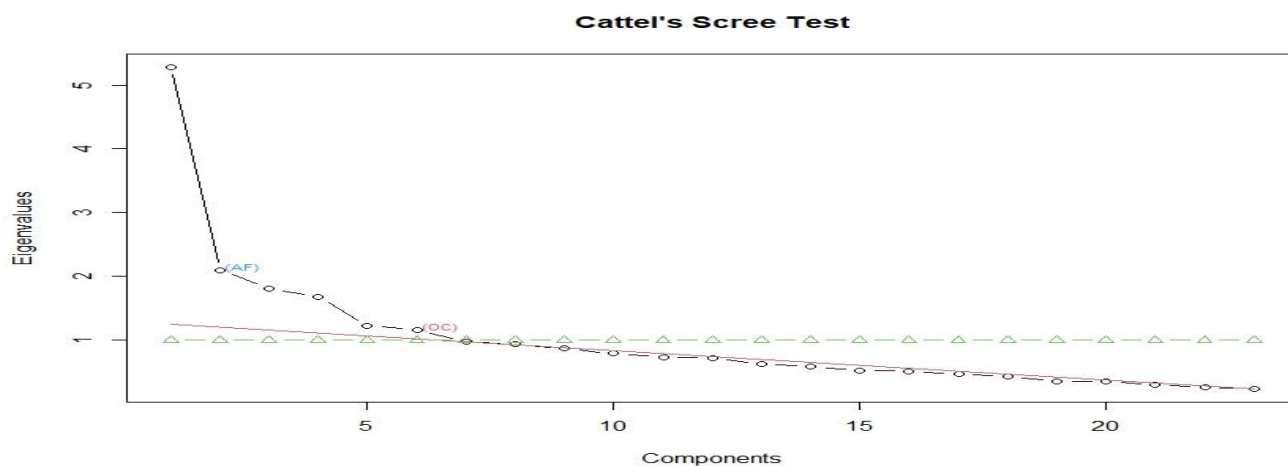


Figure 5.1: Cattel's scree test

Source: Own work – data extraction

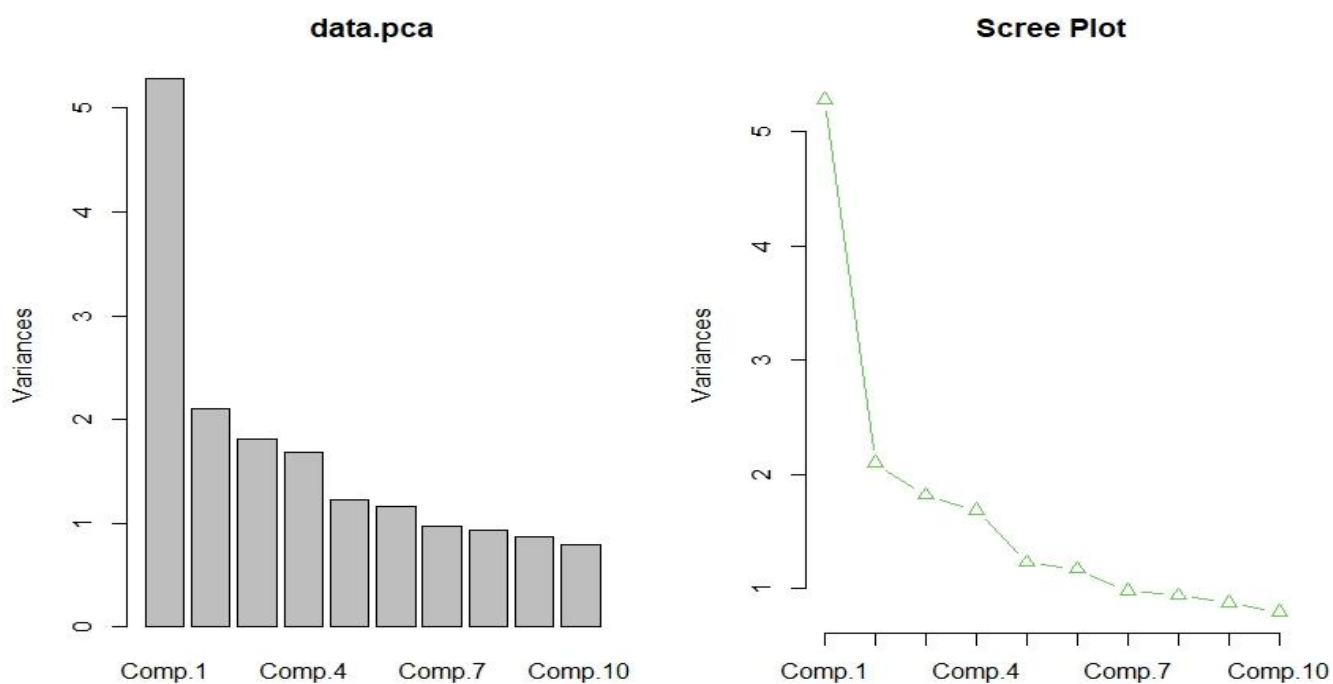


Figure 5.2: Extracted components and scree plot

Source: own source – extract from data analysis

Based on the Scree Test and elbow principle, four factors can be extracted. Using the Principal Component Analysis with Promax rotation, the study performed the factor analysis to extract the four factors. Tables 5.4.1 and 5.4.2 depict the output of the factor analysis for the unrotated factors and their corresponding loads.

Table 5.4.1: Factor extraction using PCA unrotated factors

Factors extraction – unrotated factors							
Factor	PC1	PC2	PC3	PC4	H2	U2	com
High amount of investment	0.29	0.34	-0.36	0.45	0.53	0.47	3.6
Stage financing / funding stage	0.49	-0.06	-0.23	0.43	0.49	0.51	2.1
Investee performance	0.50	-0.17	0.14	0.13	0.32	0.68	1.6
Entrepreneurial exhibition shows	0.37	0.34	0.31	0.10	0.36	0.64	3.1
Multiple entrepreneurial ventures for selection	0.41	0.27	-0.36	0.16	0.40	0.60	3.1
Entrepreneurial selection platforms	0.50	0.54	0.09	0.29	0.63	0.37	2.6
Investment incentives (e.g. tax and R&D)	0.60	0.05	-0.34	-0.21	0.52	0.48	1.9
General Stock market regulations	0.58	0.04	-0.11	-0.46	0.55	0.45	2.0
Merger and acquisition laws	0.54	0.27	-0.22	-0.45	0.62	0.38	2.8
Management buyout arrangements	0.47	0.22	-0.20	-0.35	0.44	0.56	2.7
Emerging companies alternative listing arrangements	0.53	-0.17	-0.20	-0.50	0.61	0.39	2.5
Growth rate	0.65	-0.12	0.15	0.26	0.53	0.47	1.5
Good Corporate governance practices	0.41	-0.10	0.34	0.27	0.37	0.63	2.8
State of technology advancement	0.52	-0.25	-0.17	0.05	0.36	0.64	1.7
Good government policies	0.71	0.02	0.01	0.03	0.51	0.49	1.1
Current state of entrepreneurial based education	0.45	0.50	0.33	0.02	0.57	0.43	2.7
Entrepreneurial skill set in South Africa	0.17	0.55	0.37	-0.07	0.47	0.53	2.0
Profitability of investment	0.29	-0.27	0.66	-0.17	0.62	0.38	1.9
Managerial performance	0.47	-0.12	0.36	-0.12	0.37	0.63	2.2
Investee experience	0.44	-0.35	0.31	-0.08	0.42	0.58	2.8
Industry type (e.g. telecom, technology, energy)	0.37	-0.40	-0.17	0.09	0.34	0.66	2.5
State of technological advancement	0.45	-0.42	-0.03	0.07	0.39	0.61	2.1
Investment stage	0.45	-0.34	-0.16	0.34	0.46	0.54	3.1
SS loadings	5.28	2.10	1.82	1.68			
Proportion Var	0.23	0.09	0.08	0.07			
Cumulative Var	0.23	0.32	0.40	0.47			
Proportion Explained	0.49	0.19	0.17	0.15			
Cumulative Proportion	0.49	0.68	0.85	1.00			
Mean item complexity = 2.4							

Test of the hypothesis that 4 components are sufficient.							
The root mean square of the residuals (RMSR) 0.07							
empirical chi square 553.68 with prob < 5.9e-43							
Fit based upon off diagonal values = 0.89							

Source: own initiative – extracted factors

Table 5.4.2: Extracted factors

Factor	PC1	PC2	PC3	PC4
High amount of investment				0.446
Stage financing / funding stage	0.493			0.435
Investee performance	0.502			
Entrepreneurial exhibition shows				
Multiple entrepreneurial ventures for selection	0.411			
Entrepreneurial selection platforms	0.495	0.541		
Investment incentives (e.g. tax and R&D)	0.605			
General Stock market regulations	0.576			-0.457
Merger and acquisition laws	0.544			-0.452
Management buyout arrangements	0.472			
Emerging companies alternative listing arrangements	0.533			-0.501
Growth rate	0.653			
Good Corporate governance practices	0.412			
State of technology advancement	0.516			
Good government policies	0.714			
Current state of entrepreneurial based education	0.452	0.504		
Entrepreneurial skill set in South Africa		0.550		
Profitability of investment			0.658	
Managerial performance	0.466			
Investee experience	0.442			
Industry type (e.g. telecom, technology, energy)		-0.402		
State of technological advancement	0.450	-0.423		
Investment stage	0.455			
SS loadings	5.283	2.099	1.816	1.684
Proportion Var	0.230	0.091	0.079	0.073
Cumulative Var	0.230	0.321	0.400	0.473

Source: own initiative – extracted factors

Using the cut-off point of 0.4, the loadings below 0.4 were removed and the factors rotated using Promax rotation. Tables 5.5.1 and 5.5.2 depict the rotated factors and their corresponding loads.

Table 5.5.1: Rotated factors

Factor	RC1	RC4	RC2	RC3	H2	U2	Com
High amount of investment	0.25	-0.10	0.25	0.65	0.53	0.47	1.7
Stage financing / funding stage	0.64	-0.12	0.05	0.38	0.49	0.51	1.7
Investee performance	0.51	0.00	0.10	-0.09	0.32	0.68	1.2
Entrepreneurial exhibition shows	0.06	-0.02	0.59	-0.03	0.36	0.64	1.0
Multiple entrepreneurial ventures for selection	0.18	0.21	0.18	0.48	.040	0.60	2.0
Entrepreneurial selection platforms	0.13	0.03	0.70	0.32	0.63	0.37	1.5
Investment incentives (e.g. tax and R & D)	0.19	0.60	-0.02	0.19	0.52	0.48	1.4
General Stock market regulations	0.01	0.72	0.05	-0.12	0.55	0.45	1.1
Merger and acquisition laws	-0.17	0.78	0.17	0.06	0.62	0.38	1.2
Management buyout arrangements	-0.10	0.65	0.14	0.08	0.44	0.56	1.2
Emerging companies alternative listing arrangements	0.10	0.75	-0.20	-0.16	0.61	0.39	1.3
Growth rate	0.66	-0.06	0.22	-0.01	0.53	0.47	1.2
Good Corporate governance practices	0.50	-0.25	0.28	-0.15	0.37	0.63	2.3
State of technology advancement	0.52	0.20	-0.14	0.07	0.36	0.64	1.5
Good government policies	0.44	0.26	0.23	0.04	0.51	0.49	2.2
Current state of entrepreneurial based education	-0.06	0.10	0.74	-0.02	0.57	0.43	1.1
Entrepreneurial skill set in South Africa	-0.32	0.06	0.70	-0.08	0.47	0.53	1.4
Profitability of investment	0.24	-0.05	0.19	-0.69	0.62	0.38	1.4
Managerial performance	0.28	0.13	0.21	-0.37	0.37	0.63	2.8
Investee experience	0.45	0.07	0.01	-0.41	0.42	0.58	2.0
Industry type (e.g. telecom, technology, energy)	0.57	0.08	-0.31	0.02	0.34	0.66	1.6
State of technological advancement	0.61	0.06	-0.22	-0.10	0.39	0.61	1.4
Investment stage	0.74	-0.11	-0.18	0.17	0.46	0.54	1.3
	RC1	RC4	RC2	RC3			
SS loadings	3.68	2.81	2.55	1.84			
Proportion Var	0.16	0.12	0.11	0.08			
Cumulative Var	0.16	0.28	0.39	0.47			
Proportion Explained	0.34	0.26	0.23	0.17			
Cumulative Proportion	0.34	0.60	0.83	1.00			
Mean item complexity = 1.5							

Test of the hypothesis that 4 components are sufficient.							
The root mean square of the residuals (RMSR):0.07							
Empirical chi square 553.68 with prob < 5.9e-43							
Fit based upon off diagonal values = 0.89, print cutoff=0.4							
	Component correlations						
	RC1	RC4	RC2	RC3			
RC1: Economic and Financing Environment	1.00	0.43	0.31	-0.07			
RC4: Regulatory Environment	0.43	1.00	0.26	0.03			
RC2: Deal Sourcing	0.31	0.26	1.00	-0.04			
RC3: Business Performance	-0.07	0.03	-0.04	1.00			

Source: own initiative – rotated factor extraction

Table 5.5.2: Rotated factors

Factor	RC1	RC4	RC2	RC3
High amount of investment				0.651
Stage financing / funding stage	0.641			
Investee performance	0.512			
Entrepreneurial exhibition shows			0.589	
Multiple entrepreneurial ventures for selection				0.484
Entrepreneurial selection platforms			0.703	
Investment incentives (e.g. tax and R&D)		0.595		
General Stock market regulations		0.721		
Merger and acquisition laws		0.784		
Management buyout arrangements		0.646		
Emerging companies alternative listing arrangements		0.752		
Growth rate	0.657			
Good Corporate governance practices	0.497			
State of technology advancement	0.520			
Good government policies	0.442			
Current state of entrepreneurial based education			0.743	
Entrepreneurial skill set in South Africa			0.702	
Profitability of investment				-0.688
Managerial performance				
Investee experience	0.451			-0.410
Industry type (e.g. telecom, technology, energy)	0.566			
State of technological advancement	0.613			
Investment stage	0.738			
	RC1	RC4	RC2	RC3

SS loadings	3.704	2.771	2.540	1.853
Proportion Var	0.161	0.120	0.110	0.081
Cumulative Var	0.161	0.282	0.392	0.473
Test of the hypothesis that 4 components are sufficient.				
The root mean square of the residuals (RMSR):0.07				
Empirical chi square 553.68 with prob < 5.9e-43				
Fit based upon off diagonal values = 0.89, print cutoff=0.4				
	Component correlations			
	RC1	RC4	RC2	RC3
RC1: Economic and Financing Environment	1.00	0.43	0.31	-0.07
RC4: Regulatory Environment	0.43	1.00	0.26	0.03
RC2: Deal Sourcing	0.31	0.26	1.00	-0.04
RC3: Business Performance	-0.07	0.03	-0.04	1.00

Source: own initiative

The results of the factor analysis revealed the following four factors impacting venture capital activities and exit in South Africa:

1. Economic and Financing Environment (EFE- RC1)
2. Deal Sourcing (DS – RC2)
3. Business Performance (BP – RC3)
4. Regulatory Environment (RE – RC4)

The results of the factor analysis were measured for reliability through Cronbach's Alpha as depicted in Table 5.6 below.

Table 5.6: Reliability (Cronbach's Alpha) test on extracted factors

Reliability test (Cronbach alpha) on factors impacting venture capital activities in South Africa.			
Factor	Name	Cronbach's alpha	Reliability level
1	Economic and Financing Environment	0.77	Good and acceptable
2	Deal sourcing	0.68	Acceptable
3	Business performance	0.0075	unreliable
4	Regulatory Environment	0.77	Good and acceptable

Source: own initiative

The values of the Cronbach's Alpha indicate good reliability levels, and that there is an acceptable level of consistency with the five-point Likert scale for the set of questions, except for business performance. This is subject to investigation during the qualitative analysis, in order to understand the underlying reason behind the low Cronbach's alpha. As Dawadi,

Shrestha, and Giri (2021) explained, the explanatory sequential mixed method adopted for this study provides an opportunity to use qualitative results to understand the significance of the quantitative results. Creswell (2011) and Morse (1991) assert that outliers and surprising results, such as the unreliable Cronbach's alpha value from the quantitative study, can be followed up by the qualitative study for clarity, when collecting qualitative data (Creswell, 2011; Tashakkori and Teddlie, 1998; Sharma et al., 2023).

5.4.4 Presentation of correlation matrices

The study used correlation matrices to interpret the correlations between the key variables in the study, based on the respondents' responses from the surveys. In the subheadings that follow, the study presents the correlation matrix for the constructs (variables) used for the factor analysis (Figure 5.3), the component correlation matrix (Figure 5.4), the economic and financing environment correlation matrix (Figure 5.4.1), deal sourcing correlation matrix (Figure 5.4.2), business performance correlation matrix (Figure 5.4.3) and the regulatory environment correlation matrix (Figure 5.4.4), using a 5% confident interval with P-value of $5.9e-43$.

5.4.4.1 Variable correlation matrix

The results of the study revealed that the variables have a positive relationship. This implies that an increase in one variable leads to an increase in the other variable. Most of the variables indicate a weak positive correlation, as the values of the correlation coefficients are between 0.1 and 0.3. A good number of variables depict a correlation between 0.3 and 0.5, indicating a moderate positive relationship. Findings revealed very few variables with a strong positive correlation, indicating variables with a correlation between 0.5 and 1. The constructs do not indicate any negative correlation as per the correlation matrix. Figure 5.3 depicts the results of the variables' correlations.

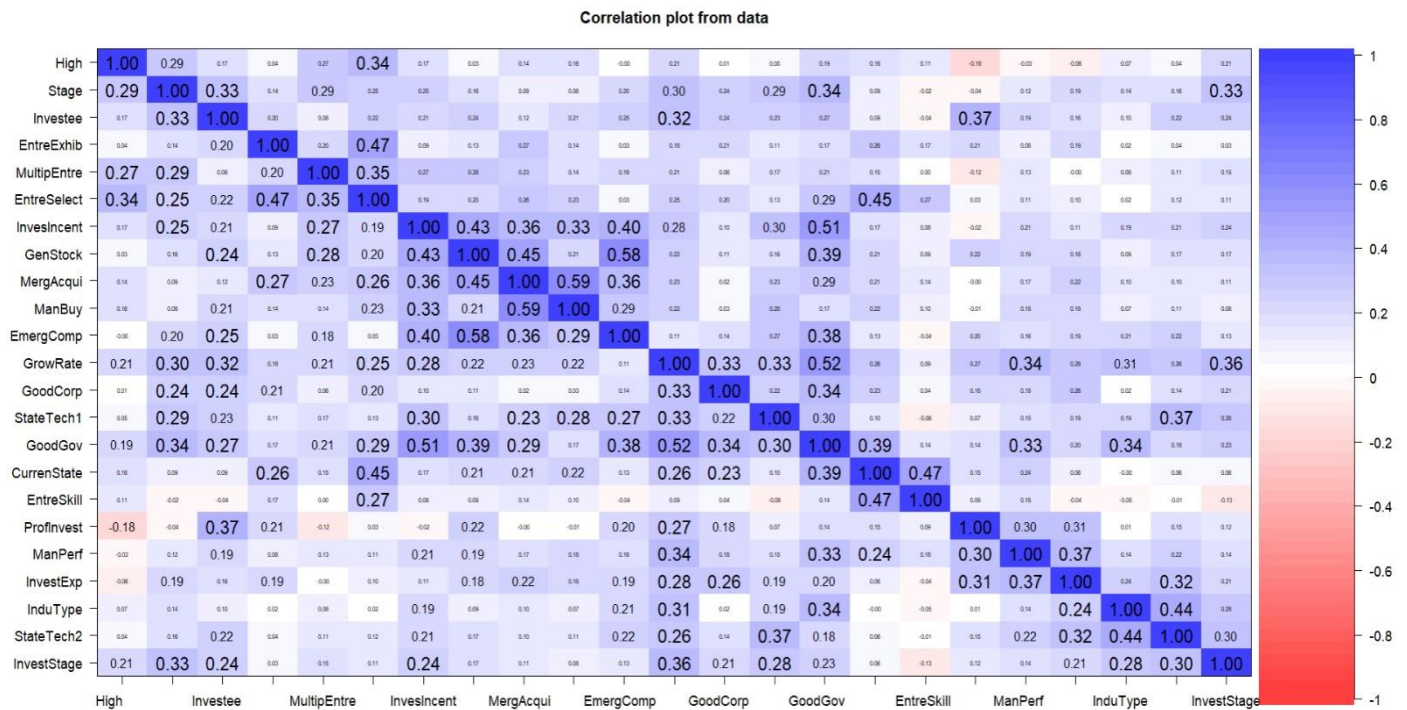


Figure 5.3: Variables correlation matrix

Source: Own work – extract from EFA factor analysis

The general understanding and interpretation of the weak and moderate correlations here is that venture capital performance in South Africa is not strong enough, though growing, as highlighted by Jones and Mlambo (2013), due to the introduction of the Section 12J Income Tax Act in 2009. The withdrawal of the Section 12J in 2021, besides the poor regulatory environment in South Africa (Faku, 2022; Sutherland, 2020) may have a negative impact (negative correlations), as investors may continue to shy away from Africa, which reduces the finance available to grow the industry. Countries like India (Minardi et al. 2020) and China (Lin et al., 2021) provided incentives for the venture capital ecosystem to strive to provide insightful evidence for South Africa to emulate and ensure the industry's resilience.

5.4.4.2 Component correlation matrix

Figure 5.4 depicts the component correlation matrix from the extracted components, extracted using factor analysis. The findings revealed a moderate positive correlation (0.43) between economic and financing environment, and the regulatory environment. The two factors move in the positive direction, which implies that an improvement in the regulatory environment causes a positive change in the economic and financing environment. There also evinces a moderate positive relationship between deal sourcing and regulatory environment. This

implies that venture capital investment deals depend on a good economic and financing environment. The better the economy, the more deals available for financing.

The business performance factor and the economic and financing environment have a negative correlation (-0.07 – weak negative correlation) in measuring venture capital exit performance. This may be an indication of an underperforming economy negatively impacting venture capital performance and exit rate.

The study findings revealed seemingly no relationship (-0.04) between business performance and deal sourcing, and no relationship (0.03 correlation) between the regulatory environment and deal sourcing. Figure 5.4 depicts the results.

Component correlation matrix (extracted)				
RC1: Economic and Financing Environment	1.00	0.43	0.31	-0.07
RC4: Regulatory Environment	0.43	1.00	0.26	0.03
RC2: Deal Sourcing	0.31	0.26	1.00	-0.04
RC3: Business Performance	-0.07	0.03	-0.04	1.00
	RC 1	RC4	RC 2	RC 3

Figure 5.4: Component correlation matrix

Source: Own work – extract from EFA (R packages)

5.4.4.3 Extracted factors correlation matrix

1. Economic and financing environment correlation matrix

The findings of the study revealed that the economic and financing environment variables are positively related. The results show mostly moderate correlations between the variables. This indicates that an improvement in one of the variables improves the corresponding variable in the same direction. Figure 5.4.1 depicts the results.

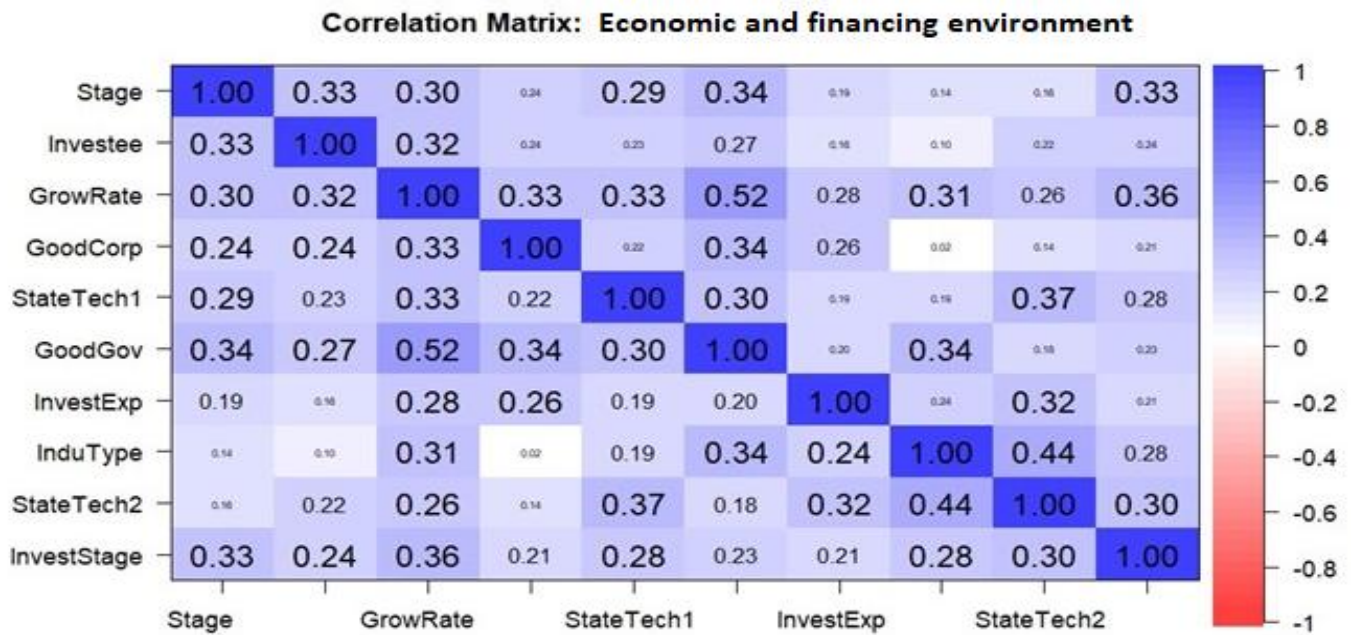


Figure 5.4.1: Economic Financing environment correlation matrix

Source: own initiative - extracted from EFA (R packages)

2. Deal sourcing correlation matrix

The findings indicate that deal sourcing variables are positively correlated. They indicate a moderate positive correlation, as the correlations are between 0.1 and 0.5. This implies that an increase or improvement in one of the variables improves the other corresponding variable in the same direction. Figure 5.4.2 depicts the results.

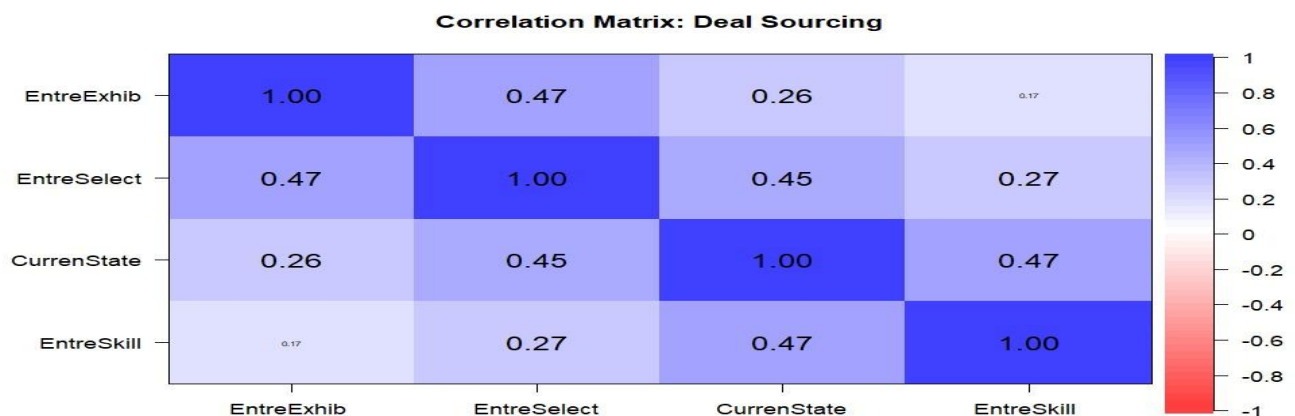


Figure 5.4.2: Deal sourcing correlation matrix

Source: own initiative - extracted from EFA (R packages)

3. Business performance correlation matrix

The study's findings from the business performance factor revealed that multiple entrepreneurial ventures for selection, and high investment amount, are positively related and have a correlation of 0.27 (a weak positive relationship). This could mean that the more ventures available, the more money the venture capitalists would need. Profitability of the investment and a high amount of investment have a negative relationship (-0.18 – weak negative relationship). This may mean that the more profitable the investment becomes, the less the amount invested. In other words, investors would disinvest when the profitability goes up, and vice versa. The variables profitability of investment, and multiple entrepreneurial venture for selection have a negative correlation (-0.12 – weak negative correlation). This may mean that too many entrepreneurial ventures would reduce overall industry profitability, and vice versa. This could mean a maturing industry, for which South Africa is yet to be at that level. Figure 5.4.3 depicts the results of the business performance correlations.

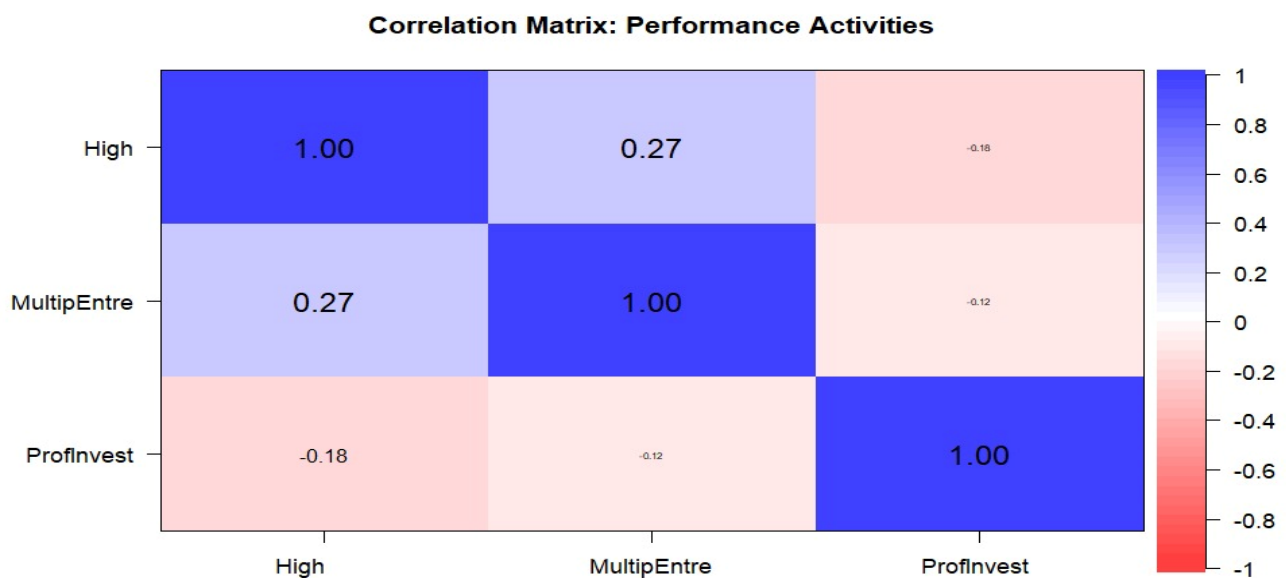


Figure 5.4.3: Business performance correlation matrix

Source: own initiative - extracted from R packages

4. Regulatory environment correlation matrix

The findings from the study revealed that the regulatory factors variables are positively correlated. The results show moderate correlations (correlations between 0.1 and 0.5) in most cases. The variables, general stock market regulations and emerging companies' alternative

listing arrangements, as well as mergers and acquisition bylaws and management buyout arrangements, have strong correlations of 0.58 and 0.59 respectively. This implies that an improvement in any of the variables would improve the corresponding variable. Hence, a positive impact in any of the variables impacts the other variables positively. Figure 5.4.4 depicts the correlation results of the regulatory environment.

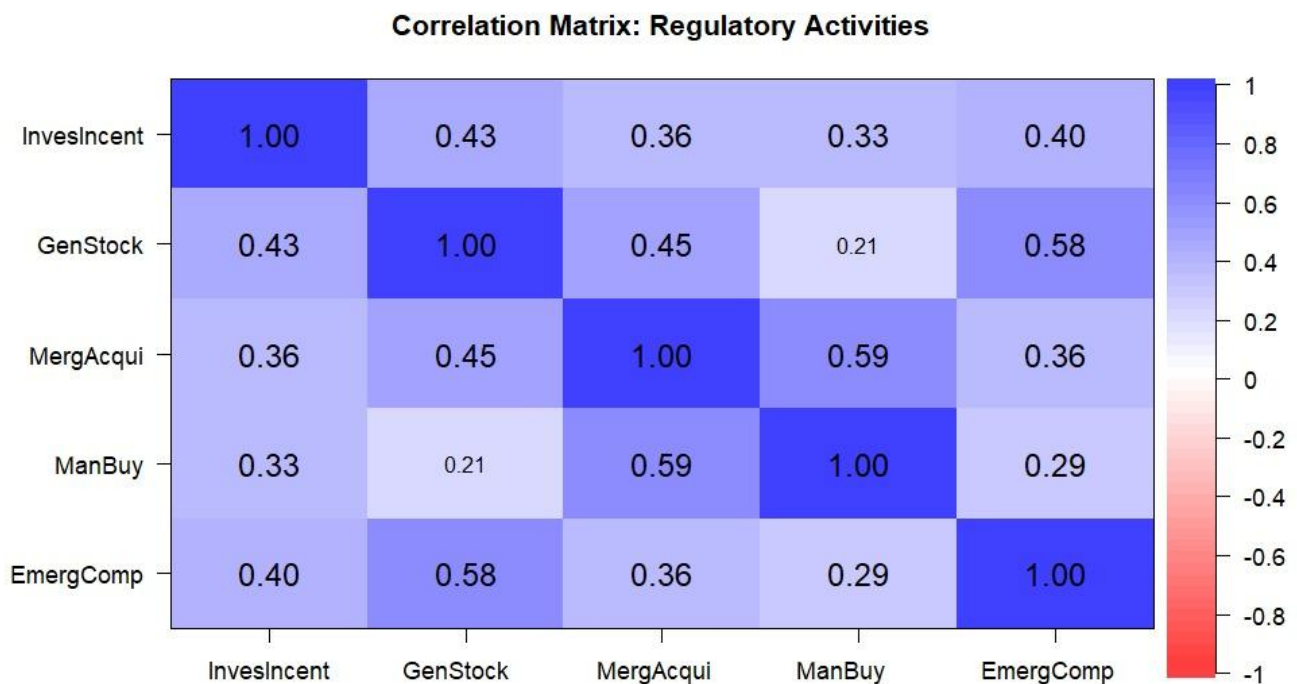


Figure 5.4.4: Regulatory environment correlation matrix

Source: own initiative - extracted from EFA (R packages)

5.5 Descriptive statistics

5.5.1 Extracted factors impact on venture capital performance and exit

The previous sections provided the possibility of extracting the four factors impacting venture capital performance in South Africa. In this section, the research describes how the factors impact venture capital performance in South Africa, based on the responses from the respondents. Here, the direction of the impact (positive or negative) of each factor is considered and explained clearly, looking at the mean and standard deviation of the data presented in table 5.7. This presents an overview to understanding the impact of the extracted factors on the venture capital performance in South Africa.

Table 5.7: Presentation of mean/standard deviation of extracted factors

Variable	mean	Std dev	N
Economic and financing environment			
Growth rate	4.39	0.85	203
Good corporate governance practices	3.95	0.82	203
Good government policies	3.98	0.93	203
Industry type	4.37	0.76	203
Investee performance	4.36	0.72	203
Investment stage	4.10	0.65	203
State of technology1	4.45	0.59	203
State of technology 2	4.32	0.68	203
Stage financing/financing stage	4.02	0.77	203
Overall RC1 mean/standard deviation	4.21	0.45	203
Deal sourcing			
Entrepreneurial Exhibition platform	3.22	0.84	203
Entrepreneurial selection platform	3.01	0.90	203
Current state entrepreneurial education	3.04	0.97	203
Entrepreneurial skillset in SA	3.86	0.81	203
Overall RC2 mean/standard deviation	3.28	0.63	203
Business performance			
High amount of investment	3.52	1.08	203
Multiple entrepreneurial ventures for selection	3.75	0.92	203
Profitability of investment	4.14	0.84	203
Overall mean/standard deviation	3.80	0.55	203
Regulatory environment			
Emerging company alternative arrangements	3.55	1.00	203
General stock market regulations	3.19	0.97	203
Investment incentives	3.98	1.03	203
Management buyout arrangement	3.56	0.89	203
Merger and acquisition bylaws	3.49	0.88	203
Overall mean/standard deviation	3.55	0.69	203

Source: own initiative

5.5.1.1 Economic and financing environment factor explanation

The factor economic and financing environment revealed the highest mean value of 4.21, with the lowest standard deviation value of 0.45. This implies that the participants' responses are

clustered around the mean value of 4.21, with little deviation. In other words, the responses from participants do not differ much. The study used the Likert scale questions on the questionnaire to interpret the results of each construct (variable), based on the individual means and standard deviations. The factor analysis carried out on growth rate, good corporate governance practices, and good government policies was based on the following questions on the survey/questionnaire on economic activities:

To what extent would you agree or disagree that the following economic factors encourage venture capital activities resulting in better performance and increased exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

Growth rate:

The factor analysis carried out on this variable (growth rate) revealed a mean value of 4.39 and a standard deviation of 0.85, using the five-point Likert scale. This indicates a general agreement by participants, that the country's growth has an impact or influence on the performance of the venture capital industry. This is the variable with the highest impact on the economic and financing environment factor. This implies that the growth rate of a country is worthy of consideration for investors in the venture capital industry. Ultimately, a low growth rate in South Africa may deter investment from venture capitalists, and lower exit potentials. The rating is above 4, moving towards a strongly agree rating of 5 on the scale, with a low standard deviation of 0.8 indicating a strong agreement from participants. This is in line with assertions by Gompers (1998) and Jeng and Wells (2000) that macroeconomic expansion contributes to the growth of startups, which necessitates the demand for venture capital activities to increase in the economy. Their findings revealed that the GDP growth rate constitutes an important index to demonstrate macroeconomic fluctuations, as GDP growth rates positively influence the demand and supply of venture capital. As such, a higher economic growth rate in South Africa would positively increase the South African venture capital performance and exit rate.

Good corporate governance practices:

The factor analysis carried out on good corporate governance practices revealed a mean value of 3.95 with a low standard deviation of 0.82. This is indicative of the fact that corporate governance practices in South Africa have an impact on performance of the venture capital industry in South Africa. The general notion here is that participants agree that good corporate

governance practices would encourage venture capital activities, resulting in the better performance of the industry, and possible early exit from investments, as the mean value of 3.95 is approximately 4.0. This aligns with Kuthari's (2004) assertion, that factors such as good governance, better regulations, more incentives for investment, good stock market regulations and alternative listing requirements are the input variables that facilitate investment in the venture capital industry, and increase the exit rate (output) through IPOs (Kuthari, 2004).

Good government policies:

The factor analysis conducted on good government policies factor revealed a mean value of 3.98 and a low standard deviation of 0.93. This indicates an approximate mean value of 4.0, implying a general rating of 4 on the scale. This means that participants agree that good government policies encourage venture capital activities in South Africa. This could lead to better performance of the industry and possible early exits, if the policies instituted by the government are good. According to Murray (2021), the state has the dual responsibility to ensure a hybrid venture capital model that allows for both an innovative policy and social policy. This implies that the state should have goals that are far wider in the long term than institutional investors. The hybrid model attempts to combine the benefits of both private and public actions (Bonini and Capizzi, 2019) by effectively aligning disparate interests.

The hybrid venture capital model tries to meld the benefits of both public and private actions (Bonini and Capizzi 2019) through effective alignment of disparate interests (Organisation for Economic Cooperation and Development, 2004; Wilson, 2015). Attracting private investors requires that the state creates incentives that address the main structural factors in the process, by attracting early-stage investments that are commercially attractive. The idea is to allow LPs to co-invest with the state in new funds, to materially balance the risk and rewards. Murray (2021) points out that the trade-off between public and private goals should be that the fund managers commit substantial proportions of their raised capital to investees' firms, which include high potential start-ups in early growth vulnerable to the equity gap. In the case of India, the institutional framework provided a regulatory structure that set the trajectory for start-up growth. The setting up of a separate listing exchange for start-ups provided a possibility of cash exit to fund many more start-ups and enhance venture capital performance in India (IVCA, 2020).

To what extent would you agree or disagree that the following economic factors encourage venture capital activities resulting in better performance and increased exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

State of technology1- general economic analysis

The factor analysis conducted on the state of technology under economic factors using the five-point Likert scale revealed a high mean value of 4.45, and a low standard deviation of 0.59. The mean value is above 4, which suggests general acceptance, i.e. that participants strongly agree that the state of technology in the country has a greater impact on venture capital activities. In this regard, good technology would attract venture capital-related investments, with high exit potentials. This confirms the assertion that investment in the venture capital industry is mostly in fast-growing innovative high-tech industries. This is evidenced by the fact that over 86% of the investment in the venture capital industry in Russia in 2016 was predominantly in ICT (RVCA, 2016).

Also, the Brazilian Congress' approval of the tax law, allowing companies to utilise funds from Research and Development to finance corporate investments, resulted in the emergence of at least 7 unicorns in the Brazilian entrepreneurial ecosystem by July 2019 (Mirnardi et al., 2020). Generally, Brazilian venture capital investments do not experience exit problems, probably because of their technological oriented view (Mirnardi et al., 2020).

To what extent would you agree or disagree that the following industry factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

Industry type:

The factor analysis results revealed a high mean value of 4.7, with a low standard deviation of 0.76. This implies that the chosen industry for investment has a great impact on the performance and exit potential of the investment. The mean value is above 4, denoting a general movement towards a strongly agree level of 5 points on the scale. Ultimately, the chosen industry has a very strong impact on venture capital activities in South Africa, and potentially influences early exit. Generally, ICTs are the most attractive type of industries when

compared to other industries with long product research and development costs, as well as long incubation periods. As such, venture capitalists prefer investments with shorter gestation periods to maturity (Mirnardi et al., 2020).

Investment stage:

The factor analysis conducted on the 'investment stage' using the five-point Likert scale revealed a high mean of 4.10 with a low standard deviation of 0.59. This suggests that the specific investment stage at which the investor engages to invest in the investee is critical in South Africa. Investors are generally risk averse, and would want to mitigate risk by avoiding investments in areas with very low returns. Similarly, venture capital investors generally consider the various stages of investments before investing in South Africa, to avoid holding up funds for many years before exiting the investment. Generally, investment at the early stage (seeds), for example, takes longer to exit compared to later stage investments, such as expansions and mezzanine. This is because it would take much longer for the investment to start generating revenue and the required returns to pay-off the investment. This necessitates stage financing (Gompers, 1995; Hege, 1998; Giot and Schwenbacher, 2007). Further analysis in this study revealed that venture capitalists mostly prefer investments in the expansion stages, compared to investing in the seeds and startups phases.

State of technology 2- industry analysis:

The factor analysis conducted on the state of technology under the industry-related factors revealed a higher mean value of 4.32 and a low standard deviation value of 0.68. This indicates a rating of above 4 on the Likert scale, an indication of a strong agreement that an industry which is highly tech-enabled will attract more venture capital investment with the potential for early exit compared to industries that are not tech-enabled. These results further confirm that the state of technology is significant in venture capital decisions to finance an investment, as demonstrated by Mirnardi et al. (2020) through the Brazilian experience, where investment in technology resulted in more than 7 unicorns in Brazil by in 2019.

Stage financing:

The factor analysis carried out on stage financing using the five-point Likert scale indicates a high mean value of 4.02, with a low standard deviation of 0.77. This implies a general acceptance that venture capitalists are more likely to exit their investment portfolios early when they stagger their investments according to the stages of the venture capital framework. For example, investing at the expansion stage in a particular investee would depend on whether

investments in the seed and startup stages were good and attractive enough. Otherwise, the venture capitalist would exit an investment before the expansion stage, to minimise further losses. Although venture capitalists finance investments at all stages, spanning from seed stage with no streams of income, to expansion and mezzanine stages (Matel, 2009), they use stage financing as a way of identifying potential investments with a high probability of failure and exit the investments in order to avoid further losses (Bergemann and Hege, 2002; Giot and Schwienbacher, 2006; Puri and Zarutskie 2012). This seems to be true, as South African investors are prudent enough and use stage investment to avoid aggravated losses.

Investee performance:

To what extent would you agree or disagree that the following financing factors facilitate venture capital activities and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

The factor analysis carried out on investee performance revealed a high mean of 4.36 with a low standard deviation of 0.72. The high mean, accompanied by the low standard deviation, implies that exiting an investment may be dependent on how well the investee can scale quickly, generate the required returns to pay-off the investment costs, and yield the required return for the venture capitalist to exit the investment. However, poor performance may equally cause the venture capitalist to liquidate the portfolio of investments in order to recover at least the investment cost (Fan, 2019). Investors naturally prefer ventures with promising businesses and strong management team, and apply the ‘horse and jockey’ metaphor (Kaplan et al., 2009; Kaplan and Strömberg, 2004), but such ventures with promising businesses (horse) and good founders (jockey) are scarce. Amidst this challenge, different venture capitalists weigh management and business factors differently, considering that founders view external funding differently. Founders are typically faced with either maintaining control or raising funds to grow the venture. Control-related founders (Ket de Vries, 1985) would raise less funds and are reluctant to raise external funding, or just forsake external funding. Investors look for founders with the potential to lead their ventures in the long term (Wasserman, 2008). As a business does not change but management changes, it is possible to find founders holding just 10% or less of the stake (Gompers et al., 2020), which ties with Wasserman’s (2008) view, that venture capital investors look for founders with the potential to lead rather than control.

5.5.1.2 Deal-sourcing factor explanation

Applying the factor analysis on the deal-sourcing factor gives an overall average mean value of 3.28 and a low standard deviation of 0.63 using the five-point Likert scale. The mean value of 3.28 suggests that a sizeable number of respondents believed that the prevalence of deal-sourcing activities within the venture capital industry in South Africa impacts exit. The study used the Likert scale question/survey related to each variable loaded in the deal-sourcing factor to interpret the results of each variable or construct loaded in the deal-sourcing factor. The variables entrepreneurial exhibition platform and entrepreneurial selection platform were based on the following five-point Likert scale question:

To what extent would you agree or disagree that the following factors are evidenced in South Africa and assist in South Africa venture capital deal-sourcing process? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

Entrepreneurial Exhibition platform:

A factor analysis conducted on entrepreneurial exhibition platform revealed a mediocre mean value of 3.22, with a low standard deviation of 0.84, indicating some degree of neutrality of evidence for the existence of entrepreneurial exhibition platforms in South Africa. This implies that participants cannot confirm the certainty of any entrepreneurial exhibition avenues, where entrepreneurs seeking for venture capital funding can display their work, technical know-how, concepts, or ideas, in public to attract investors. This means that respondents in the study are almost neutral about the existence of entrepreneurial show forums; they are not sure if show forums exist. According to Kauffman and Fellows (2020), entrepreneurial selection can be more practical and easy if there are platforms where entrepreneurs can exhibit their technology. Unfortunately, the study results prove a situation of indifference. Hence the need for more education and awareness of the concept and creation of exhibition platforms.

Entrepreneurial selection platform:

The factor analysis conducted on entrepreneurial selection platform using the five-point Likert scale revealed a mean value of 3.01 and a low standard deviation of 0.9, indicating that participants are absolutely neutral with regards to the existence of any platform being put in place by practitioners, or the regulatory networks and/or government agencies, to facilitate the selection of venture capital investees in South Africa. The consensus is that participants are doubtful of the existence of any mechanism or structure in the industry that ensures the selection of investees. The selection of an investment requires much experience, to minimise

the effects of moral hazard and information asymmetry (Alam, 2022). Inexperienced venture capital firms may select the wrong investees and reject promising investees, leading to the 'lemon market' scenario described by Xu, Liu and Jiang, (2021). Network investors have experience in synergising, monitoring and evaluation of joint investments (Weniger, Jarchow, and Nenadic, 2023). It therefore helps to allocate funds to independent venture capital consultants in the network to facilitate the selection process, and reduce the agency related problem and selection bias (Fu and Ng, 2020).

Current state entrepreneurial-based education:

The following question in the questionnaire/survey was used to analyse the variable (construct) "current state of entrepreneurial based education"

To what extent would you agree or disagree with the statement that economic factors encourage venture capital activities resulting in better performance and increased exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

The factor analysis carried out on the variable "current state of entrepreneurial based education" revealed a mean value of 3.04 with a low standard deviation of 0.97. This indicated that participants could not confirm whether the current entrepreneurial-based education in South Africa is able to attract venture capital activities in South Africa, based on the five-point Likert scale analysis. Entrepreneurial education equips students with the requisite skills and abilities to deal with issues during their normal course of business (Khuram et al., 2023). Government projects, such as those in Pakistan highlighted by Rehman and Roomi (2012) in Khuram et al. (2023), and monetary support to launch startups using a 10-year development plan to support new venture creation, that bring the Pakistan's public and private sector to work together, encourage entrepreneurship that attracts venture capital investors (Nasir et al., 2019).

Entrepreneurial skill set in South Africa:

The following question from the questionnaire/survey was used to analyse the results of the five-point Likert scale from the variable "entrepreneurial skills set in South Africa" loaded in the deal-sourcing factor.

To what extent would you agree or disagree that the following factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

The factor analysis conducted on the variable “entrepreneurial skill set in South Africa” revealed a high mean value of 3.86 and a low standard deviation of 0.81. This implies that the entrepreneurial skillset in South Africa increases venture capital performance in South Africa, and the exit rate for venture capital investments. There is a general agreement on the availability of entrepreneurial skill set in South Africa that promotes venture capital performance in South Africa, though not in the position of a strongly agree rating. However, empirical literature suggests a scenario of skills shortage in South Africa which is further compounded by the acute lack of funds to develop the skills at a national level, despite government efforts to train and empower one million youths by 2030 (Mateko, 2024). This again calls for a more entrepreneurial-based curriculum that would equip the youths with the required skill set, to start and run successful business ventures that attract venture capital funding (Khuram et al., 2023). This adds value to the pool of resources as it provides an opportunity to accumulate the dynamic capabilities or skills required to ensure industry resilience (Chemmanur, Gupta, Simonyan, and Tehranian, 2021; Colombo and Grilli, 2010). The development and accumulation of dynamic capabilities is imperative in the venture capital ecosystem and the South African economy as whole, as this enables the industry and the economy to attain strategic goals and maintain a competitive advantage (You et al., 2023).

5.5.1.3 Business performance

A factor analysis carried out on the “business performance factor” revealed an overall high mean value of 3.80, with a lower standard deviation of 0.55 using the five-point Likert scale rating. This implies a seeming agreement between participants, that business performance is a contributing factor for an investment to be exited in South Africa. The study used the Likert scale questions from the survey/questionnaire related to each variable loaded in the business performance factor to interpret the impact of each variable.

High amount of investment:

The following question was used to analyse the responses regarding the high amounts of investment loaded in the factor “business performance”:

To what extent would you agree or disagree that the following financing factors facilitate venture capital activities and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

The results from the factor analysis conducted on the variable “high amount of investment” revealed a mean value of 3.52 with standard deviation of 1.08 (high). The high standard deviation indicates a disparity in opinion, that high amounts of investments influence investment exit in South Africa, although the mean value of 3.52 points to the fact that most participants tend to agree that the high amount of investments is a contributing factor to investment exit in South Africa. In other words, the high amount of investment does have a strong influence on business performance. Chen and Lou (2024) assert that the venture capital process is very complicated, as entrepreneurs and investors bargain with each other to determine the optimal amounts and the timing required for investment. The decision on how much should be invested seems heterogeneous, as both the entrepreneurs and the venture capitalists would agree on the amount to invest only where their value maximisation is met (Chen and Lou, 2024). At the first stage (investing stage) of investment, investees are more confident, whereas venture capitalists are not, and at the second stage (exit stage), venture capitalists are more confident while entrepreneurs are not (Chen and Lou, 2024). This may account for the high variance of 1.08 in this study.

Multiple entrepreneurial ventures for selection:

The following research question was used to analyse responses regarding the variable “multiple entrepreneurial ventures for selection” loaded in the factor “business performance”:

To what extent would you agree or disagree that the following factors are evidenced in South Africa and assist in South Africa venture capital deal sourcing process? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

The factor analysis conducted revealed a mean value of 3.75 with a standard deviation of 0.92 (low). This indicates that participants tend to agree on the existence of different entrepreneurial ventures that attract venture capital investment into South Africa. Dossani (2002) states that the continuous flow of investment opportunities, marked by the ability of the investments to

grow and yield returns attracts venture capital financing, Though with a small market, South Africa demonstrates an investment destination in the African continent in the technology sector. Mateko (2024) stated that South Africa is a leader in the ICT and digital technology in Africa, and has a considerable impact in the Global South, though with inadequate infrastructures. This provides a good base for the venture capital ecosystem to thrive if the regulatory challenges are resolved (Faku, 2022; Sutherland, 2020).

Profitability of investment:

The following question was used to analyse the responses of the variable “profitability of investment”

To what extent would you agree or disagree that the following factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

The factor analysis carried out on this variable using the five-point Likert scale revealed a higher mean value of 4.14 and a standard deviation of 0.84 (low). This implies that profitability has a great influence on business performance and early exit of an investee. The more profitable the investment is, the greater the possibility for an early exit. This aligns with Snyman’s (2014) view, that venture capital operations are generally linked to the ability of the investment to generate gainful returns on investment to attract further investment. Innovative ventures like online banking, mobile software, and security software, identified in South Africa and highlighted by Mateko (2024), have the possibility of attracting investors, as they can generate higher and quick returns (Gornall, 2015) for early exit.

5.5.1.4 Regulatory environment

The factor analysis results using a five-point Likert scale questionnaire/survey revealed a mean value of 3.55 and a standard deviation of 0.69 (low). The analysis indicates that emerging company alternative listing arrangements, general stock market regulations, investment incentives, management buyout arrangements, and merger and acquisition bylaws, are the contributing variables to the regulatory environment impacting venture capital activities and early exit in South Africa. The following question was used to analyse the responses of the variables loaded in the regulatory environment factor:

To what extent would you agree or disagree that the following regulatory factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

Emerging companies alternative listing arrangements:

The factor analysis revealed an average mean of 3.55 with a standard deviation of 1 (high). This indicates a wide variation of opinions on whether alternative listing regulations other than the JSE requirements impact venture capital exit in South Africa, especially IPO exits. The mean value of 3.55 shows a movement towards a general agreement by participants, that alternative listing arrangements increase venture capital performance and exit, but the variation indicates disagreement and neutrality from a good number of the participants in the sample. Evidence from China indicates that the launch of Chi-Next (a subsidiary of the Shenzhen Stock Exchange) in 2009 provided an opportunity to attract investment in innovative and fast growing high-tech industries (Lin, 2019). Chi-Next acted as the third stock exchange in China. Also, China's venture capital ecosystem is greatly assisted by the National Equity Exchange and Quotation (NEEQ), as it provides investors with an opportunity to trade shares over the counter, even during periods when IPO exit activities in China were suspended during the period of 2012 to 2014 (Lin, 2019).

General stock market regulations:

The analysis revealed a mean value of 3.19 and a standard deviation of 0.97. This indicates a general tendency for a neutral opinion on the fact that stock market regulations would increase venture capital performance, and the number of investment exits in South Africa. However, the variable is associated with the regulatory factor, and perhaps requires attention to ensure a positive impact in the venture capital ecosystem. Empirical evidence from China proves that good stock market regulations play a key role in attracting investment. Chinese stocks are classified into different categories, providing the possibilities for both international and local listing (Azevedo, Guney and Leng, 2018).

Investment incentives:

The analysis revealed a mean value of 3.98 with a high standard deviation of 1.03. This indicates a wide deviation of opinions on whether investment incentives in South Africa increase the venture capital performance and exit rate. The consensus from extant relevant

literature is that investment incentives would increase venture capital performance and exit rate in South Africa. Evidence from Brazil posits that the lack of investment incentives during the 1980s and early 1990s did not attract investors; the nuclear winter period of 1999 to 2005 saw many companies exiting Brazil due to a poor regulatory environment that did not motivate investors (Minardi et al., 2020). The approval of a bankruptcy law in 2005 paved the way to a more incentivised venture capital ecosystem, which saw many investment companies entering Brazil (Minardi et al., 2020). These reforms caused a boom, as investors enjoyed tax shields (Antonio, Humberto and Joelson, 2014). The approval of a tax law to allow technology companies to utilise research and development funds to finance venture capital activities saw the emergence of the first Brazilian Unicorn in 2018, and by July 2019, there were 7 unicorns in Brazil (Minardi et al., 2020).

Mergers and acquisition bylaws:

The analysis revealed a mean value of 3.49 and a standard deviation of 0.88, indicating a moderate agreement that mergers and acquisitions regulations increase the venture capital performance and exit rate in South Africa. Generally, mergers and acquisitions scenarios require that the merging companies come to an agreement, which is not often an easy decision, especially if the regulatory environment is not investment-friendly (Weniger, Jarchow, and Nenadic, 2023). In the case of South Africa, the tricky regulatory environment (Faku, 2022; Jones and Mlambo, 2013; Sunderland, 2020) and lack of incentives (Faku, 2022) may negatively impact mergers and acquisitions bylaws, and slow the progress of the venture capital industry.

Management buyout arrangements:

The study revealed a mean value of 3.56 and a standard deviation of 0.89 from the five-point Likert scale factor analysis carried out. This indicated a fair agreement amongst participants, that management buyout arrangements in South Africa increase venture capital performance in South Africa and exit rate. In the case of South Africa, the lack of entrepreneurial skills (Jones and Mlambo, 2013; Mateko, 2024) and the acute shortage of funds in South Africa may have a negative impact on this exit route. This exit option, if not appropriately addressed, could lead to operational inefficiency, as it requires employees and management to mobilise the funds to pay for the company's equity (Weniger, Jarchow, and Nenadic, 2023). Employees and management are expected to possess the managerial abilities to control the entity, otherwise the performance may fall.

5.6 Exit management analysis

This section provides an analysis of venture capital exit management performance in South Africa. It provides evidence of an understanding of the industry's performance in South Africa, based on the sampled data focusing on expected after-tax return on investment, targeted after-tax return on investment, and average investment exit duration. The section provides a guide on how long it takes to exit an investment in South Africa, as well as how much investment return is expected from an investment in a venture capital business in South Africa, on the one hand, and on the other hand, it highlights the sectors with possibilities of high exit rates, as well as investment stages that are preferred by industry participants.

5.6.1 Industry current profit/loss ratio on exited investment

According to Ruhnka, Feldman and Dean (2022), a winning venture capital investment generates multiple returns on investment upon exit of the investment, which can be translated to an average return of 20% – 35% Internal Rate of Return (IRR). Zhao (2016) points out that the highest return on exit in China comes from IPO exits. Mirnardi (2020) revealed an average internal rate of return of above 20% in Brazil.

Table 5.8.1 depicts the average current investment return ratio (IRR) of the South African venture capital industry, based on 192 participants, who reported a profit range between zero (0) to above 30%. To simplify the analysis, the lower-class boundary was set at zero, as losses were not quantified, and the upper-class limit set at 35%. Table 5.8.2 and figure 5.5 depict the overall responses from the 203 participants, followed by a discussion of the results for the related questions.

Table 5.8.1: Venture capital estimated current profit after-tax profit

Analysis of venture capital industry current internal rate of return (IRR) on investment after tax				
Profit range (%)	Frequencies	%	Mid-point (f)	fx
0 - 5 %	27	13.30	2.5	67.5
6 - 10%	22	10.84	8	176
11 - 15%	41	20.20	13	533
16 - 20%	60	29.56	18	1080
21 – 25%	31	15.27	23	713
26 - 30 %	6	2.96	28	168
Above 30%	5	2.46	33	165
Total	192			2902.5
Mean ($\bar{x}$) = 15.11719 Variance = 55.29226	$\bar{x} = \sum \frac{fx}{n} = \frac{2902.5}{192} = 15.11719$			

Source: own source - respondents survey

Table 5.8.2: Venture capital estimated current profit/loss after-tax profit

Analysis of venture capital industry current return on investment after tax		
Profit range (%)	Frequencies	%
Loss	11	5.42
0 - 5 %	27	13.30
6 - 10%	22	10.84
11 - 15%	41	20.20
16 - 20%	60	29.56
21 – 25%	31	15.27
26 - 30 %	6	2.96
Above 30%	5	2.46
Total	203	100%

Source: own source - respondents survey

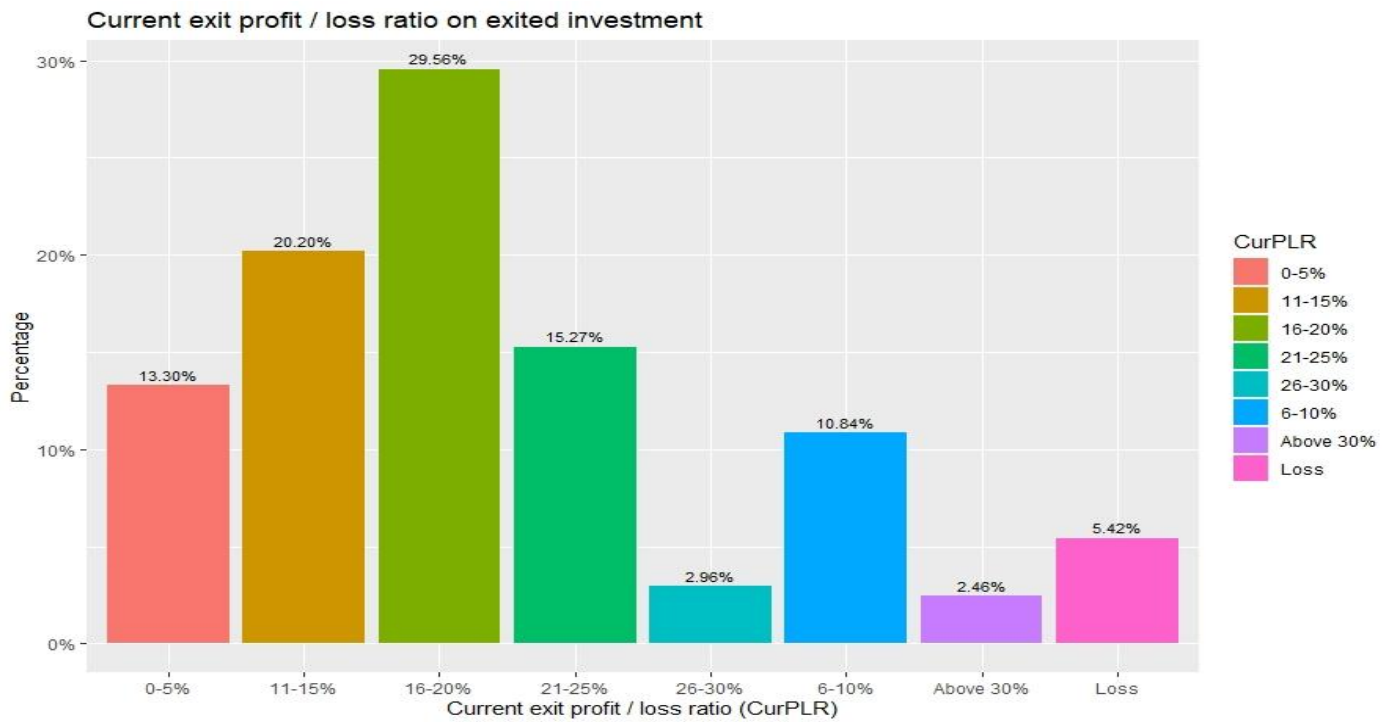


Figure 5.5: Average current profit/loss

Source: Own initiative – survey responses

The study revealed that 5.42% of the industry is making a loss on exited investments, and just about 2.46% make a profit of above 30%. The majority (29.56%) of the industry participants are in a profit range between 16% and 20%. The research revealed an average profit ratio of 15.12% of the sampled population who break even. The data equally revealed that 13.30% percent of the participants are in the profit range of 0% to 5%, 20.20% of participants are in a profit range of 11% to 15%, 15.27% of participants are in a profit range of 21% to 25% and 2.96% are in a profit range of 26% to 30%.

The analysis revealed that the South African industry's current profit ratio (2024) stands at 15.12%. Although making strides, the profit ratio is below the Brazilian ratio of above 20% in 2020 (Mirnardi, 2020), and below China's annual ratio of above 114.38% in 2015 (Xiaolan, Mckern and Jin, 2019). Although India's performance in 2018 failed to reach 25%, analysis points to a strong venture capital industry, with over 20% internal rate of return (Indian PE/VC, 2019).

5.6.2 Industry target profit ratio

According to Seraf Technologies (2024), the Internal Rate of Return for venture capital fund ranges between 15% and 27%. GPs generally adopt various approaches to improve LPs IRR

results. Factors such as the timing of the investment, the cash inflows and outflows, affect the IRR. The longer the GPs keep the LPs funds, the lower the return (IRR) of the LPs. Venture capital returns are generally in multiple figures, with early investments generating higher returns (Seraf, 2024). The analogy can be illustrated using the two investment scenarios below:

- Option 1: Yields 4X original investment in 2 years.
- Option 2: Yields 8X original investment in 6 years.

The simple explanation is that you get double your original investment after every 2 years (better option). Hence the timing and risk horizon are much longer in option 2 than option 1 (Seraf, 2024).

Table 5.9 and figure 5.6 depict estimated venture capital target profits after tax (IRR) in South Africa based on the sampled data.

Table 5.9: Target profit ratio for South African venture capital industry

Analysis of venture capital industry target profit return on investment after tax				
Profit range (%)	Frequencies	%	Mid-point	Freq x mid-point
0 - 5 %	0	0	2.5	0
6 - 10%	2	0.99	8	16
11 - 15%	16	7.88	13	208
16 - 20%	22	10.84	18	396
21 – 25%	48	23.65	23	1104
26 - 30 %	50	24.63	28	1400
Above 30%	65	32.02	33	2145
Total	203			5269
Mean ($\bar{x}$) = 25.95567 Variance= 42.24927	$\bar{x} = \sum \frac{fx}{n} = \frac{5269}{203} = \mathbf{25.95567}$			

Source: Respondents' survey

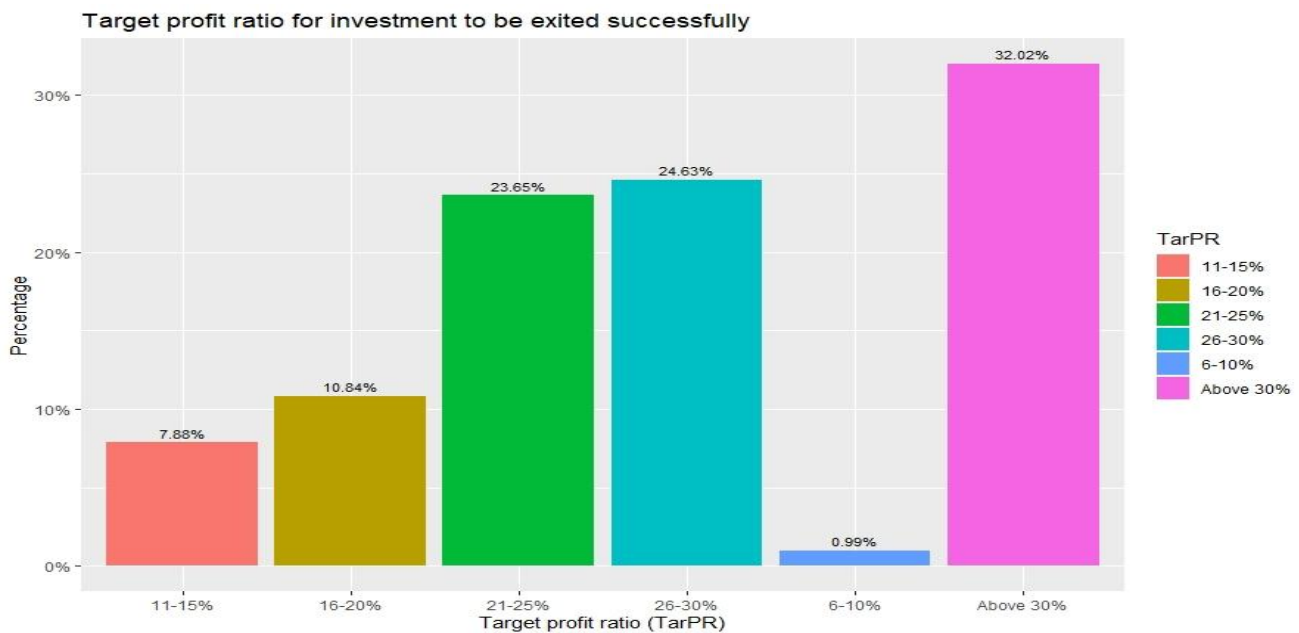


Figure 5.6: Target profit ratio for South African Venture capital investment to be exited
Source: Own initiative - respondents survey

The results revealed that most venture capital industry participants yearn for a profit margin above 30% for an investment to be exited in South Africa. No participant is willing to accommodate a profit margin of 5% or less. Less than 1% are willing to accommodate a profit margin between 6 and 10%. 7.88 % of the population is willing to accommodate a profit margin of 11 to 15%, 10.84% of the population is willing to accommodate a profit margin of 16 to 20 %. 23.65% of the population is aiming for a profit margin of 21 to 25% and 24.63% of the population aim for a profit margin of 26 to 30%. On average, the target profit margin (IRR after tax) for the industry, based on the sample, when computed gives a value of 25.955567%. This 25.956% target ratio aligns with Ruhnka, Feldman and Dean's (2022) venture capitalists' expectation of multiple returns on investment upon exit.

5.7 Analysis of estimated investment exit duration

An exit connotes an endpoint of venture capital investment (Laine and Torstila, 2005) and provides an opportunity where the formal investor (Espenlaup et al., 2009), and investee relationship is terminated. An exit provides an opportunity for the investors to dispose of their investments to new shareholders, and investors would realise their returns if the investment was profitable, or count their losses in the case of liquidation as a result of an unprofitable investment (Cumming et al., 2006). An exit duration signifies the time it takes to exit an investment. In tables 5.10 and 5.11 below, the research presents the current and preferred

investment exit duration as per the sampled opinions of participants in the South African venture industry. The data in tables 5.10 and 5.11 are the results of 153 responses from venture capital practitioners. Figures 5.7 and 5.8 below depict the graphic representation of the current average investment exit duration, and venture capitalists preferred average investment exit duration in South Africa, respectively.

Table 5.10: Current investment exit period

Analysis of venture capital current average investment exit duration				
Duration range	Frequencies	%	Mid-point	Freq*mid-point
1 - 3 years	3	1.96	2	6
4 – 6 years	49	32.03	5	245
7 – 9 years	58	37.91	8	464
10 - 12 years	42	27.45	11	462
13 - 15 years	0	0	14	0
16 - 18 years	0	0	17	0
19 - 21 years	1	0.65	20	20
Total	153	100	-	1197
Mean = 7.823529 Variance = 6.968858	$\bar{x} = \sum \frac{fx}{n} = \frac{1197}{153} = 7.823529$			

Source: Own initiative

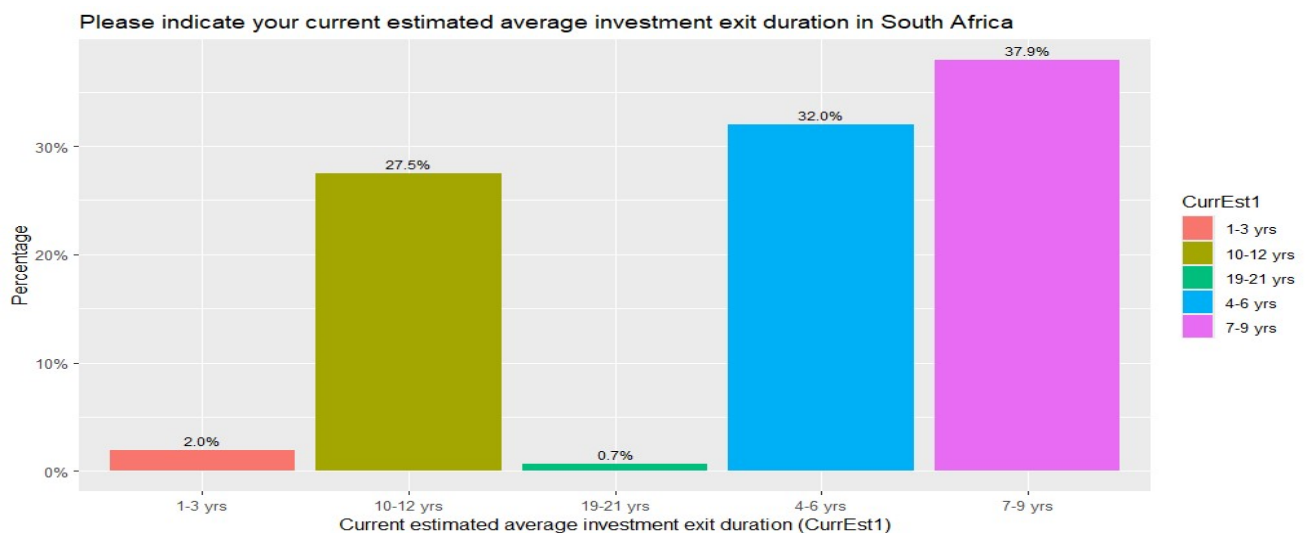


Figure 5.7: Average investment exit duration (current)

Source: Own initiative

The research revealed that 1.96% (approximately 2%) of venture capital investors can exit their investment portfolios after 3 years. This timeframe is reasonably short and similar to the exit duration of 3 to 7 years in China, as observed by Fan (2016). This is closely followed by 32% of the venture capital investment practitioners exiting their portfolios between 4 and 6 years; this is close to the Brazilian exit duration of 4 to 8 years, with an internal rate of return above 20% (Minardi et al., 2020). 37.91% of venture capital investors in South Africa can exit their investment within 7 to 9 years, which is similar to Dossani's (2002) assertion, that the average investment exit duration in India during the early days was 7 to 10 years, and SIDBI (2019), which asserted that venture capital exit in India is a challenge due to lack of liquidity and limited number of mergers and acquisitions. Table 5.11 below summarises the results of 153 responses from venture capital practitioners regarding their preferred exit duration.

Table 5.11: Preferred investment exit period

Analysis of venture capital preferred investment exit duration				
Duration range	Frequencies	%	Mid-point (f)	Fx
1 - 3 years	6	3.92	2	12
4 – 6 years	77	50.33	5	385
7 – 9 years	57	37.25	8	456
10 - 12 years	13	8.50	11	143
13 - 15 years	0	0	14	0
16 - 18 years	0	0	17	0
19 - 21 years	0	0	20	0
Total	153	100		996
Mean = 6.650804 Variance = 4.485198	$\bar{x} = \sum \frac{fx}{n} = \frac{996}{153} = 6.650804$			

Source: Own initiative

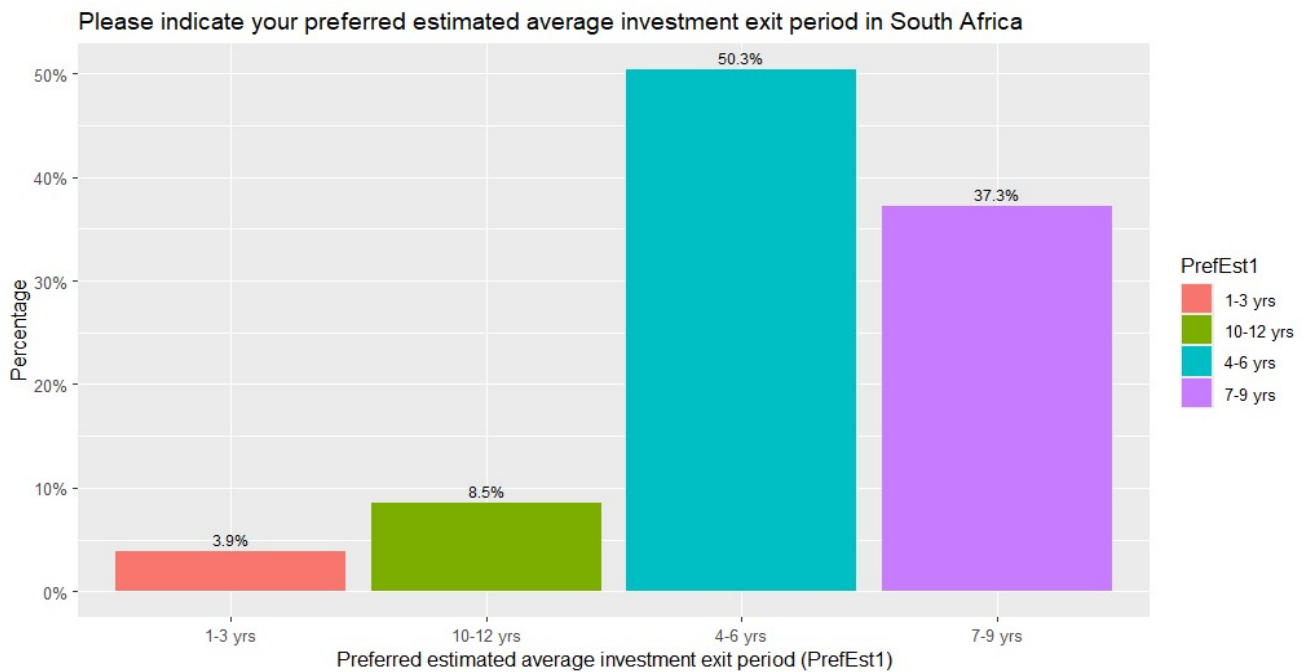


Figure 5.8: Preferred investment exit duration

Source: Own initiative – survey responses

The analysis revealed that 3.92% of venture capital practitioners prefer exiting their investments between 1 to 3 years. This preferred exit duration of three years falls in line with the estimated average exit duration of the tech-driven industry in China, the USA, and India (Dominic and Gopalswamy, 2019). 50.33% of practitioners would prefer exiting their investments between 1 to 6 years, 37.25% of practitioners prefer an exit duration of 7 to 9 years and 8.5% prefer an exit duration of 10 to 12 years. The survey indicated that no investor would like to stay invested for more than 12 years. This would suggest an industry where investors generally would want to make quick returns and reinvest into other ventures. On average, the preferred venture capital investment exit duration for South Africa stands at 6.65 years. This preferred exit duration is far below the international average exit duration of 10 years plus 2 (Moreva, 2018). It is equally below the 8 years average exit duration of USA, below the Chinese average exit duration of 4 to 7 years (Zhou et al., 2017), and below India's average exit duration of 7 to 10 years in the early years of India's venture capital activities (SIDBI, 2019). The interpretation is that the expectations are high in South Africa, and, if given a push, the industry can do better.

5.8 Likelihood of venture capital investment exit in 10 years or less in South Africa

The research investigated the likelihood of exiting investment in 10 years or less in South Africa using the following questions on a five-point Likert scale:

To what extent would you agree or disagree the following statements? <i>Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.</i>						
1	Venture capital investment in South Africa can be exited within 10 years or less given the present market and economic conditions.	1	2	3	4	5
2	Venture capital investment in South Africa can be exited in 10 years or less given stable economic condition with high skills, strong entrepreneurial ventures, political stability, good stock market regulations, more investment, and tax incentives	1	2	3	4	5

The results of five-point Likert scale revealed a mean value of 3.61 (high mean value) and standard deviation of 0.84 for Question 1, and a mean value of 4.36 (higher mean value) with a standard deviation of 0.99 for Question 2. The mean value of Question 1 indicates a general agreement by participants that venture capital investment in South Africa can be exited within 10 years or less. This indicates a clear possibility of exiting investment portfolios in South Africa within 10 years or even less, though with a low number of reported exits. Hence, the industry can meet the international exit benchmark of 10 years plus 2 (Moreva, 2018) and can perform even better amidst any challenges in the industry. Graphically, the results for Question 1 are presented in figure 5.9.1 below:

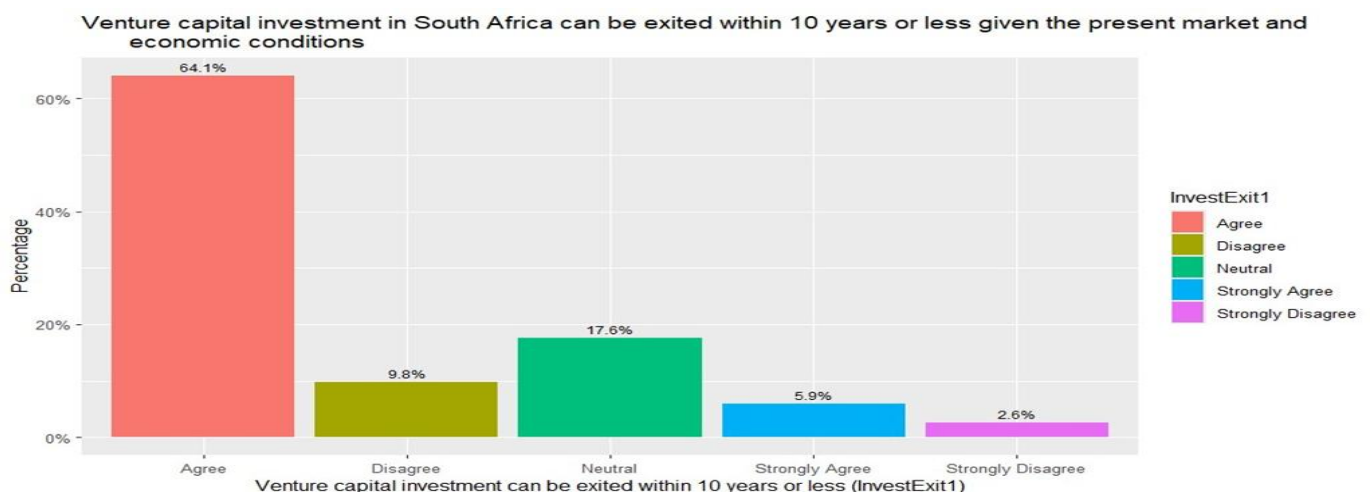


Figure 5.9.1: SA exit possibility in 10 years or less given current economic conditions.

Source: Own initiative – survey responses

The five-point Likert scale revealed that 64.1% of industry participants agree that investments in South Africa can be exited within 10 years or less, irrespective of any challenges the industry or the economy may be facing. The 64.1% agreement is further augmented by 5.9% who strongly agree, taking the results to 70% of participants accepting that venture capital investment in South Africa can be exited within 10 years or less, given the current market environment. 17.6% of the participants are neutral, 9.8% disagree and only 2.6% strongly disagree that venture capital investment in South Africa can be exited within 10 years or less.

The higher mean value of 4.36 in question 2 based on the five-point Likert scale depicts a situation of a strongly agreed position by participants, that venture capital investment in South Africa can be exited within 10 years or less, given that the industry gets the support it needs in terms of incentives, skills, good regulations, etc. This indicates optimism on the part of market participants if they can find the necessary support in South Africa. The results from Question 2 are presented below in figure 5.9.2.

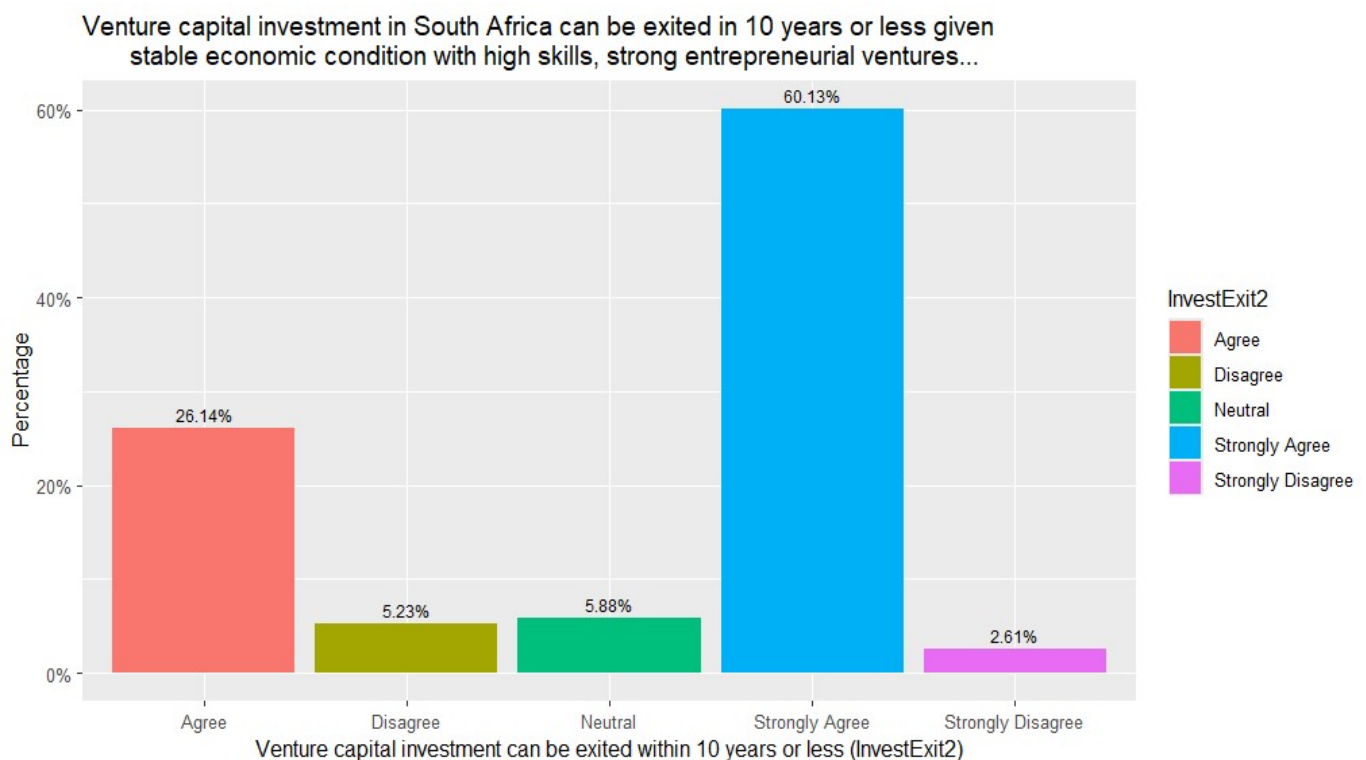


Figure 5.9.2: SA exit possibility in 10 years or less given a stable economy with motivation for venture capital to thrive

Source: Own initiative – survey responses

The results of the five-point Likert scale revealed that 60.13% of participants strongly agree that venture capital investments in South Africa can be exited in less than 10 years, given a stable economy, and with all the support that the industry requires. The 60.13% who strongly agree are further supported by 26.14% who agree, taking the total number of participants in agreement to 76.27%. From the sampled data, 5.88% are neutral, with 5.23% in disagreement and only 2.61% strongly disagree.

5.9 Analysis of venture capital exit by sector in South Africa

In this section, practitioners used their industry experience to rank their exit performance in the various sectors of the venture capital industry in South Africa. Drawing from the probability models for ranking (PMR) data, the research used the descriptive statistics approach (Lee and Yu, 2013) to rank the data collected using five-point Likert scale questions to ascertain the sectors witnessing venture capital investment exits and ranked them, taking cognisance of their mean rank, pairwise frequencies, and marginal distribution of the ranked items (Lee and Yu, 2013). The ranking ascertains which sectors in the industry have the most exits, fair number of exits, average exits, few exits, and no exits. In a similar manner, the research ranked venture capital sector preference using the descriptive statistics, as posited by Lee and Yu (2013) to ascertain the sectors of venture capital that investors preferred investing in within South Africa. The ranking followed the order of “most preferred”, “preferred”, “average preference”, “low preference”, and “not preferred”. Based on venture capital literature available, the study used seven critical sectors for ranking, namely; information and communication technology, financial services, education, energy, manufacturing, mining, and electronics. The ranking distribution for the data was tested for uniformity using chi-squared (χ^2) test. In both instances the test indicated the data is not uniformly distributed. The distribution for exit performance has chi square value of 959.0931 with a p-value of 3.127425e-204, while the sector preference ranking has a chi square value 545.9907 and a p-value of 5.127268e-11. In order to explore other sectors with exits, the last option (others) captured any other sector(s) that investors might have exited. This was helpful in ascertaining a wide range of sectors that have witnessed exits in South Africa.

5.9.1 Exit performance by industry sectors

In ranking the exit performance by venture capital practitioners, the following question was asked:

Please rank your venture capital investment exit performance in South Africa by industry sector ranging from 5 = Most exits, 4 = Fair exits 3 = Average exits, 2 = Few exits and 1 = No exits

The results of the five-point Likert scale question on exited investments by sector is presented in figure 5.10 below:

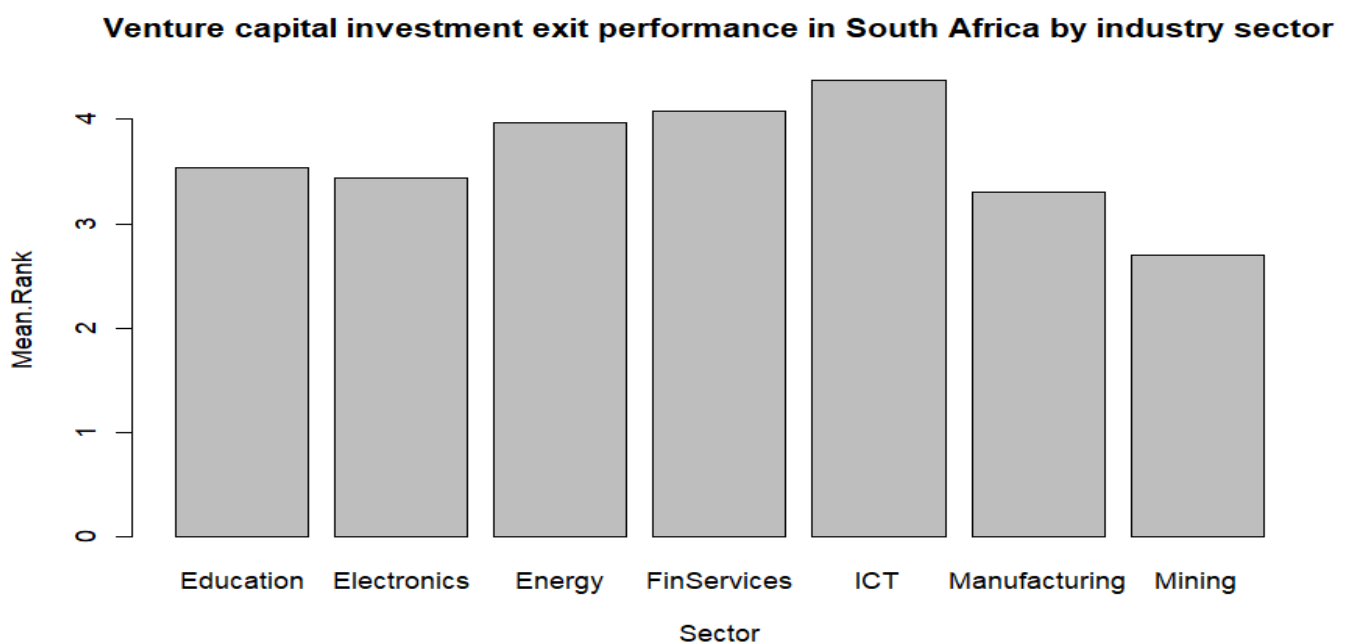


Figure 5.10: Venture capital investment performance in South Africa

Source: Own initiative – survey responses

The results of the five-point Likert scale revealed that information and communication technology has the most exits, with a ranked mean value of 4.373. This confirms the notion that venture capital has its focus on the tech-driven companies, with high profit potentials. In terms of exit, ICT is closely followed by the financial services sector, with a ranked mean value of 4.083. The energy sector is 3rd, with a ranked mean value of 3.969, the education sector is ranked 4th with a ranked mean of 3.536 followed by the electronics sector in the 5th position with a ranked mean of 3.442. The manufacturing is in the 6th position in terms of exits with a ranked mean value of 3.306, and mining occupies the 7th position with the lowest ranked mean

value of 2.703. The analysis revealed that the mining companies in South have the lowest number of exits.

5.9.2 Investment preference by industry sectors

In ranking the venture capitalists' investment preferences by sector, the following Likert scale question was asked:

Please rank venture capitalists' investment preference in South Africa by industry sector ranging from 1 = Not preferred, 2 = Low preferred, 3 = Average preferred, 4 = Preferred, and 5 = Most preferred

The results of the five-point Likert scale question are presented on the figure 5.11:

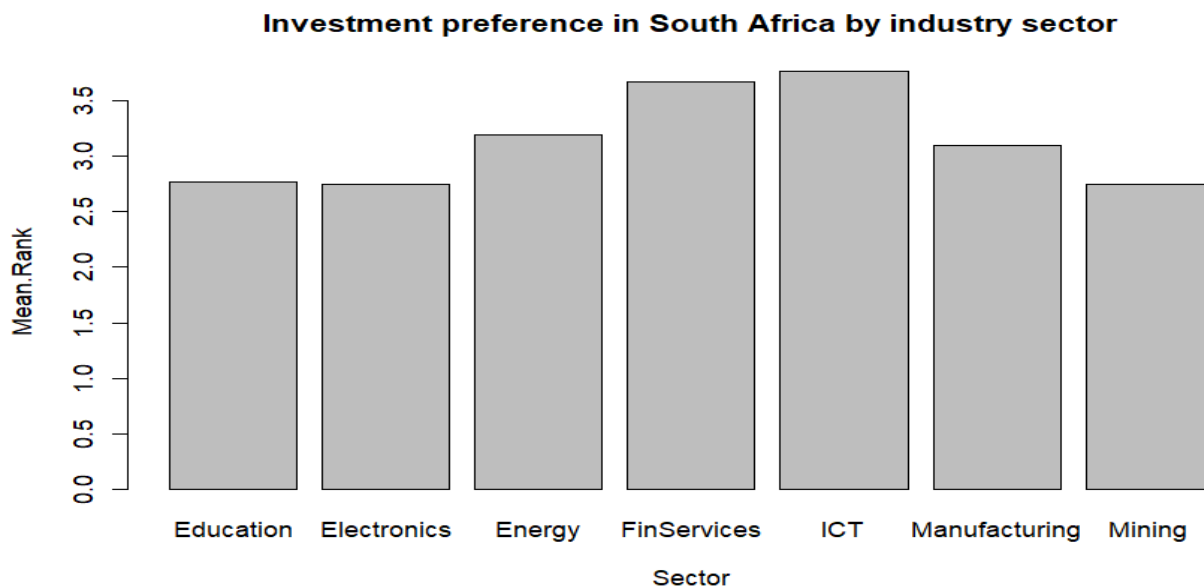


Figure 5.11: Venture capital investment preference in South Africa

Source: Own initiative – survey responses

The analysis using the ranked mean revealed that information and communication technology is the most preferred investment sector, with a ranked mean value of 3.765. The financial services sector occupies the second position with a ranked mean of 3.672, followed by the energy sector in the 3rd position with a ranked mean value of 3.197. The manufacturing industry occupies the 4th position with a ranked mean value of 3.101 followed by the education sector in the 5th position. Electronics occupies the 6th position in terms of investment preferences while the mining industry seems the least preferred industry for venture capitalists to invest in. In the following graph the study presents a pictorial representation (Figure 5.12) of other sectors in the industry for which investments have recorded exits.

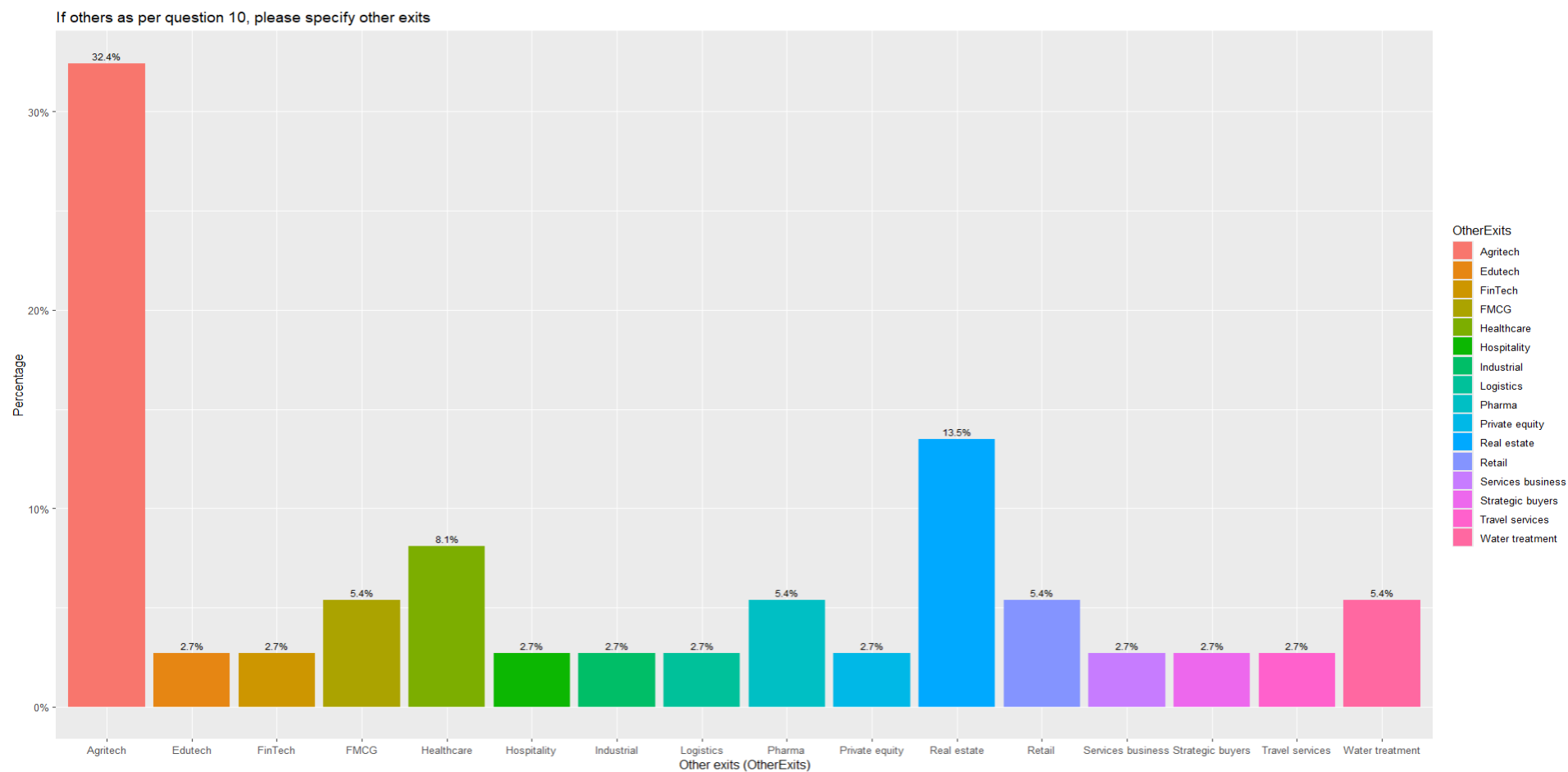


Figure 5.12: Other exited sectors

Source: Own initiative – survey responses.

A total of 29 participants provided responses on other sectors exited in South Africa. The responses portrayed random responses of 37 observations, which were then categorised and ranked according to the frequencies of the data (sectors). The summary of the data revealed 16 other sectors in which investments deals have been exited either completely, partially or through liquidation. The data revealed that 32.4% of 37 observations from other exits are in agricultural technology, 13.5% is real estate, 8.1% is health care, fast moving consumer goods (FMCG), pharmaceuticals, water treatment and the retail sector all accounted for 5.4% each. The remaining nine sectors, namely edutech, fintech, logistics, service businesses (not specific), strategic buyers, industrial, private equity, hospitality and travel services recorded 2.7% each. The results revealed that venture capital activities in South Africa are not confined to only tech-related companies but cover a wide range of industries where investments can be made.

5.10 Venture capitalists' investment preference by stages of investment

This section analyses venture capital investment preferences according to the investment stages, as outlined in Mantel (2009), which are; the seed stage, start-up stage, expansion stage, and the mezzanine stage. As investors are generally risk averse, stage financing provides an opportunity for an early exit, especially if the investment proves to be unprofitable, and the venture capitalists see no need to commit to investing in subsequent stages (Pezeshkan et al., 2019). The probability models for ranking (Lee and Yu, 2013) were used to rank venture capital investment preferences by stages of investment. In this section, venture capitalists were asked to rank their investment stage preferences according to their choices, namely; first choice, second choice, third choice and fourth choice. The descriptive statistics for ranking data was applied. The mean ranking was used, as illustrated in Lee and Yu (2013). The ranked mean was multiplied by – 1 to create an inverted plot for ease of visualisation. The data distribution was tested for uniformity using the chi square test. The value of the chi square (129.1956) and p-value (1.722624e-26) indicated no uniformity of the data, as the chi square value was high, and the p-value was very small. The question posed to capture the ranking data is presented in the Table 5.12 below:

Table 5.12: Venture capitalists investment preference by stages ranking question.

Please rank venture capitalists' investment preference in South Africa by stages					
Please tick the appropriate column		Ranking			
		1 st choice	2 nd choice	3 rd choice	4 th choice
	Seed stage				
	Start-up stage				
	Expansion stage				
	Mezzanine				

The results from the responses to the above question are depicted in Figure 5.13.

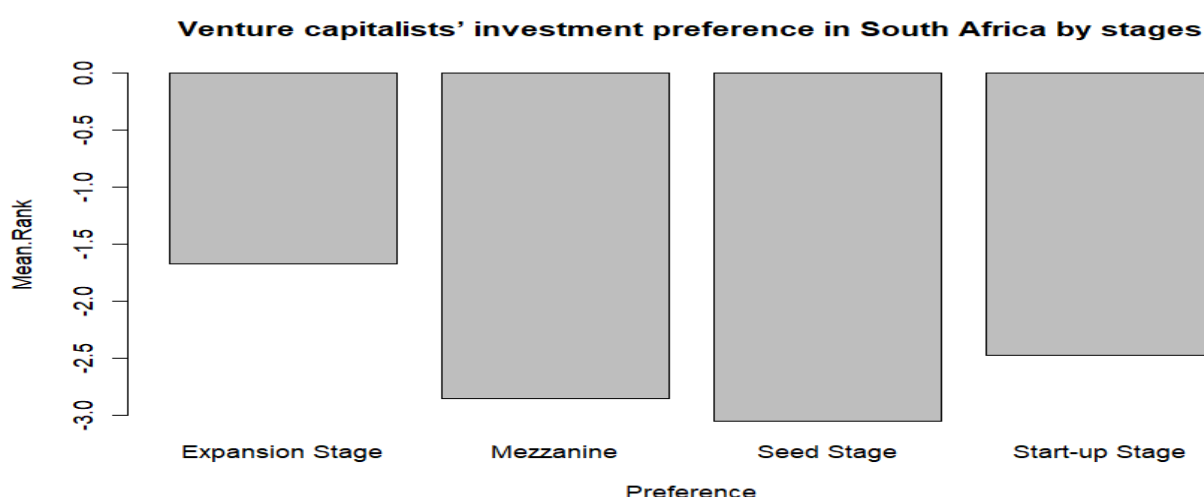


Figure 5.13: Venture capitalists investment preference by stages

Source: Own initiative – survey responses

The analysis revealed that venture capital practitioners consider the expansion stage as their first choice of investment, followed by the start-up stage in the second position. Mezzanine occupied the third choice in the minds of venture capital practitioners in South Africa, and the seed stage was identified as the fourth and last choice of the investment stages where venture capitalists would like to invest in South Africa. The evidence from this analysis suggests that venture capitalists in South Africa are hesitant to finance investments in seed and pre-seed stages. Jalalabadi (2018) pointed out that investment in early-stages is highly risky, uncertain, and takes time. The lack of incentives and poor regulatory environment in South Africa (Faku, 2022; Mateko, 2024) may be the deterring factor causing investors' hesitancy. Horáková, (2022) and Pezeshkan et al. (2019) explained that regulatory practices that ensure good

business practices can reduce information asymmetry, and attract funding at all stages of the venture capital process. Hence, the need for venture capital industry specific reforms in South Africa.

5.11 Analysis of investees' investment preference by stages

To match venture capital funding preference by stages to the request for funding by investees, the study sought to know for which investment stages investees mostly require funding assistance from the venture capitalists. In this regard, the investees (entrepreneurs) were asked to indicate for which investment stage they often solicit for funding from venture capitalists. The question posed to the investees was as follows:

Which investment stage do entrepreneurs often solicit for funding?

The responses are presented in Figure 5.14 below:

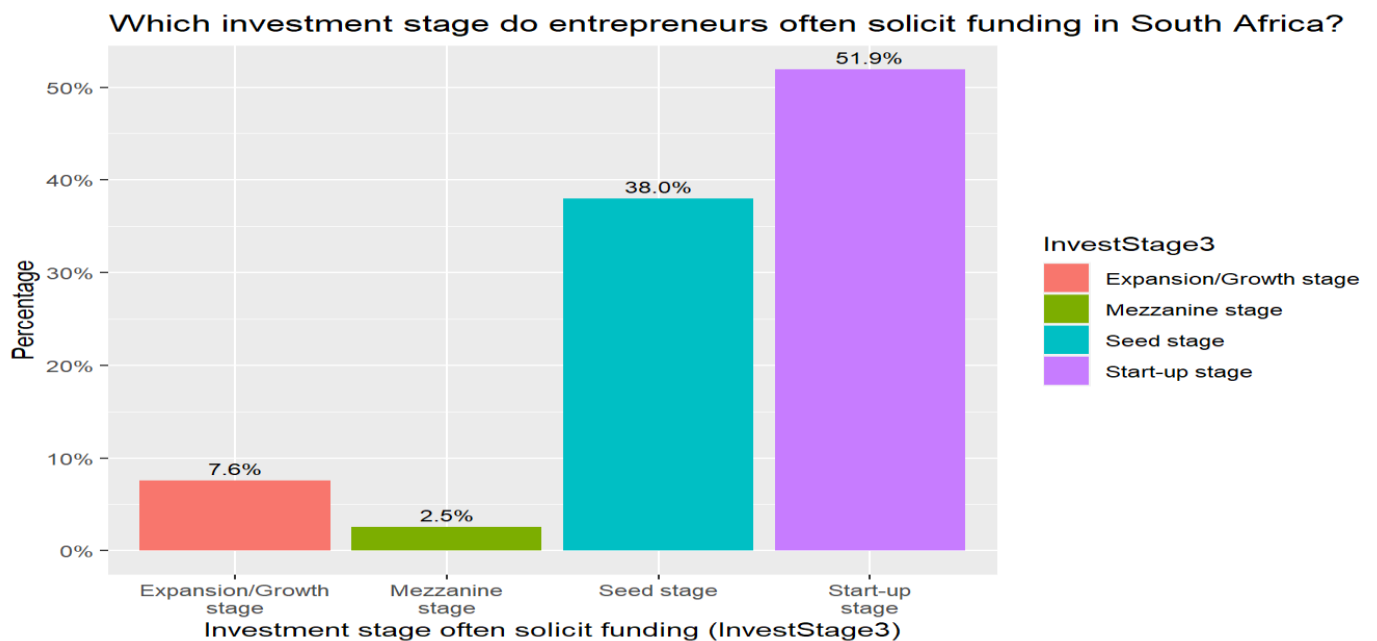


Figure 5.14: Preferred investee funding stage

Source: Own initiative – survey responses

The findings revealed that 51.9 % of entrepreneurs in South Africa seek funding to finance their start-up operations, 38% seek funds to finance their seed stage, 7.6% seek funds to finance the expansion of their businesses and only 2.5% would do the same at the mezzanine stage. Matching the venture capital investment preference by stages and the entrepreneurs' search for funding reveals that most entrepreneurs need funds to finance start-ups, followed by seed operations. On the contrary, the practitioners are looking for businesses that have

passed the seed and startup stages and as such, they are more open to financing businesses that are in the expansion stage. While 51.9% (highest respondents) of the entrepreneurs seek start-ups funding with only 7.6% in favour of expansion, expansion is ranked as first choice by venture capital practitioners. Similarly, the seed stage accounts for 38% of funding requests by entrepreneurs but ranked last by venture capital practitioners. The evidence from the survey suggests that investees are seeking seed and start-up funding, but the investors are more willing to offer funding for expansion. The study sought to establish the stages for which investees received funding by asking investees the following question:

At which investment stage did you receive financing from venture capitalist(s)?

The results from the above questions are depicted in Figure 5.15 below;

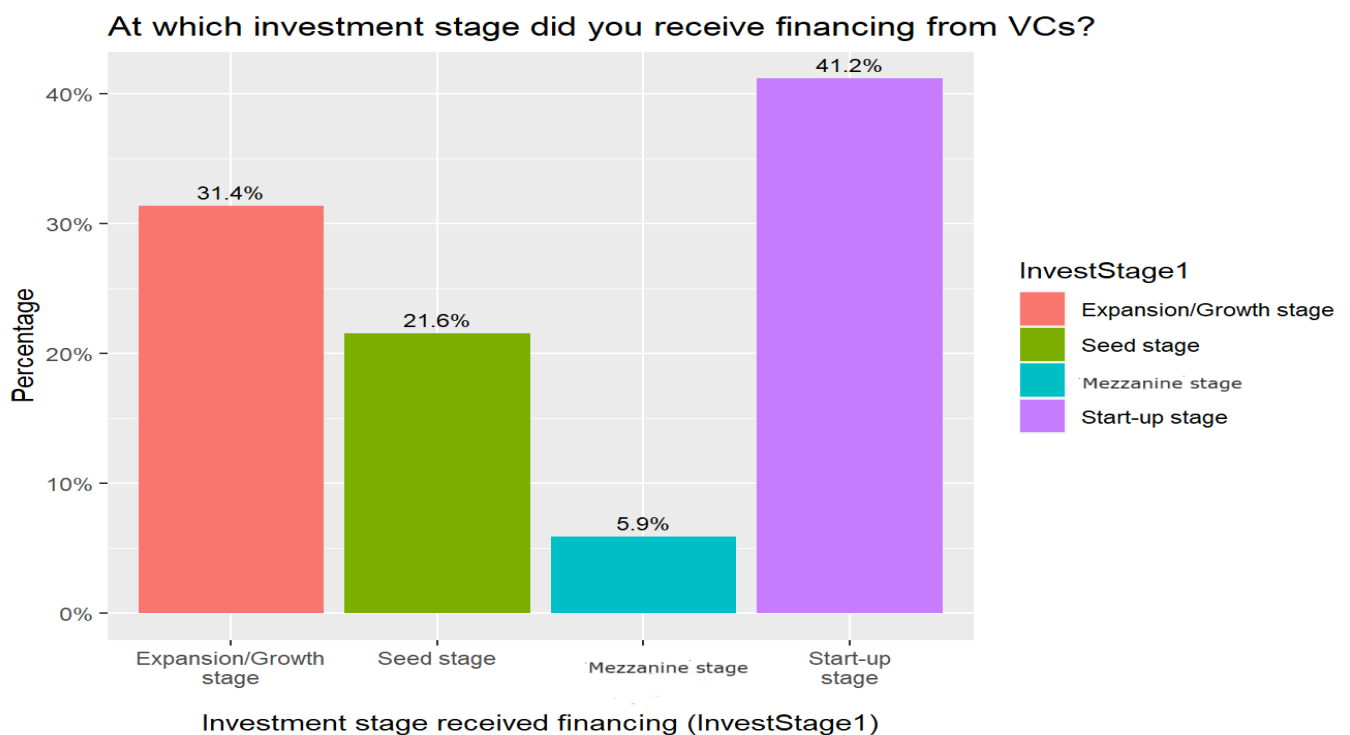


Figure 5.15: Investment stages funded by venture capitalists

Source: Own initiative – survey responses.

The results revealed that most of the venture capital funding (41.2% of funding) is going into the start-up stage followed by 31.4% which goes into the business expansion stage. 21.6% of funding goes into seed funding and 5.9% goes into the mezzanine stage. This indicates an increasing need for early-stage funding, and a need for venture capitalists to provide the much-needed resources for start-ups to grow in South Africa.

5.12 Analysis of venture capital investment exit strategies (exit options) in South Africa

An exit strategy signifies an option which the parties to a venture capital agreement may utilise to terminate the venture arrangement. An exit of a venture capital investment may occur through an IPO, a merger, an acquisition, a trade sale, a secondary sale, a management buyout, or liquidation. It provides an opportunity for the investors to dispose of their stake in the investees' business. In this section, the research presents data from the exit strategies utilised by venture capital investors in South Africa, as well as evidence of the strategies or exit options already utilised to exit investments in South Africa. To understand the exit options utilised in South Africa, venture capitalists were asked to indicate the exit routes utilised in South Africa, as indicated in table 5.13:

Table 5.13: Exit routes utilised in South Africa

Tick the exit routes currently utilised in South Africa	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidation	6 Management buy-out

Source: Own initiative – survey question

The results from the responses to the above question are depicted in Figure 5.16 below, and indicate that all six exit options are considered by practitioners when planning their exit strategies.

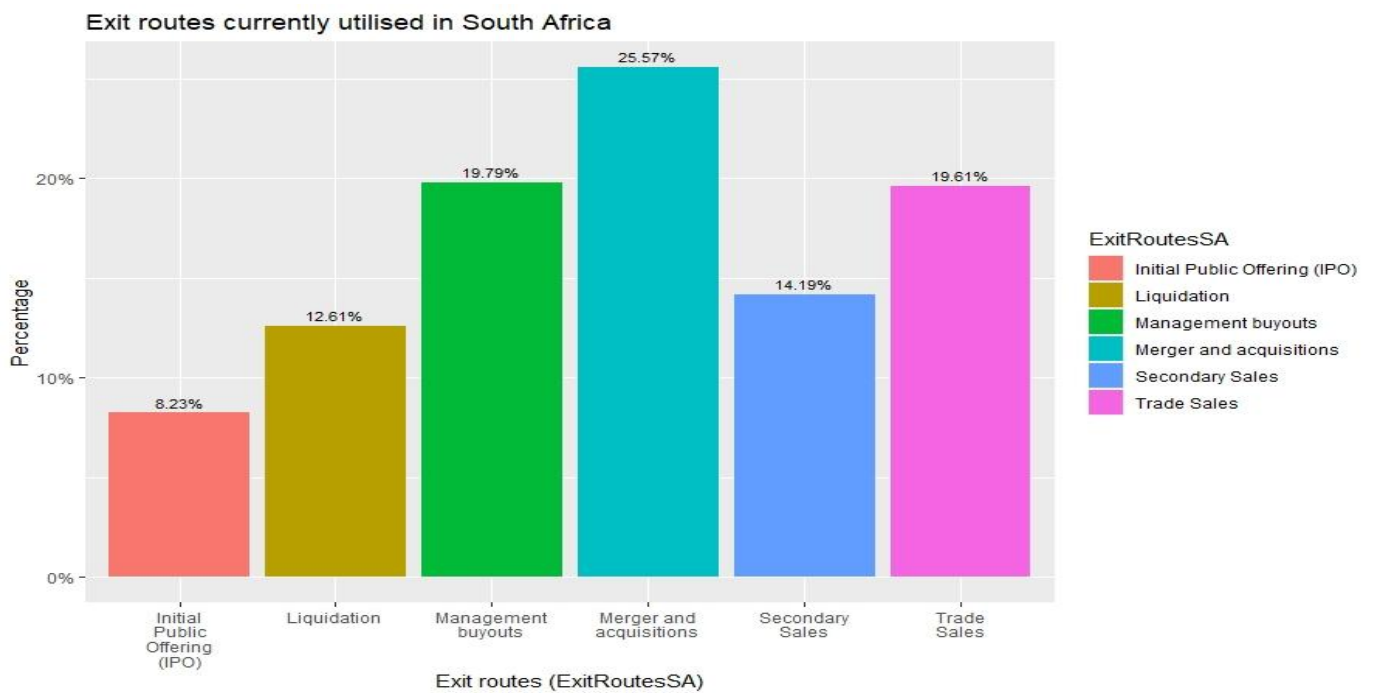


Figure 5.16: Exit routes utilised by Venture Capitalists in South Africa

Source: Own initiative – survey responses

The analysis, as depicted in Figure 5.16, indicates that mergers and acquisitions is the dominant exit strategy or exit option utilised in South Africa. While IPO is the least considered option in planning for an exit in South Africa, management buy-outs and trade sales occupy the second and third positions respectively in South African exit records. Secondary sales is in fourth position, followed by liquidation in the fifth position. The analysis suggests that the venture capital industry in South Africa is dominated by exits through mergers and acquisitions as the first option, followed by management buy-outs and trade sales. However, if an outright buyer or a merger and acquisition is unlikely, secondary sales are options. Liquidations are required to save the investors from incurring further losses (Fan, 2019).

5.13 Analysis of exit routes experienced by investees

While the venture capital practitioners provided an overview of the exit strategies considered by venture capitalists in South Africa, the investees were asked to indicate which exit routes the practitioners utilised to exit their businesses, as well as their preferred exit options for venture capitalists to use in exiting their businesses. The results from the responses from the questions are depicted in Tables 5.14 and 5.15, and Figures 5.17 and 5.18, underneath their respective questions (Tables 5.14 and 5.15).

Table 5.14: Exit routes preferred by investees

Which exit route do you prefer Venture capitalist(s) to use in exiting your investment?	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidatio n	6 Manageme nt buy out

Source: Own initiative – survey question

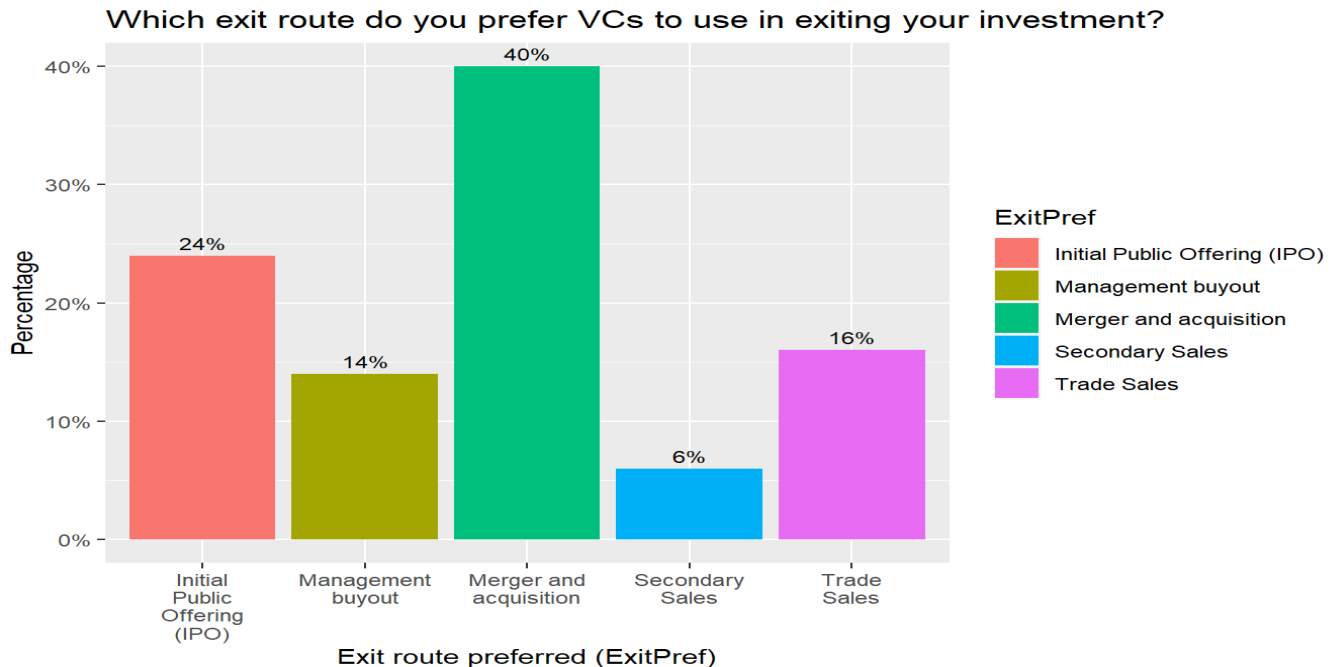


Figure 5.17: Investees' preferred exit routes

Source: Own initiative – survey responses

The results from the survey indicate that 40% of investees would like to exit through mergers and acquisitions. This aligns with the venture capitalists' strategies, as evinced above, where mergers and acquisitions are the dominant exit options. Interestingly, investees yearn to exit through IPOs, representing 24%, as opposed to venture capitalists' low consideration of IPO as an exit route (8.23%). This aligns with the concept, that IPOs provide higher investment returns than other exit methods (Weniger, Jarchow and Nenadic, 2023). Trade sales, at 16%, occupies the third option in the investees' exit preference, after IPO, followed by management buy-out (14%) in the fourth position. The fifth and last preference for investees is secondary sale (6%). Liquidation is not an exit option for investees. implying that no investee would like to liquidate his or her business.

Table 5.15: Exit routes used in exited investees

Which exit route did the venture capitalist exit your investment (if exited)	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidation	6 Mgt buy out	N/A

Source: own initiative – survey question

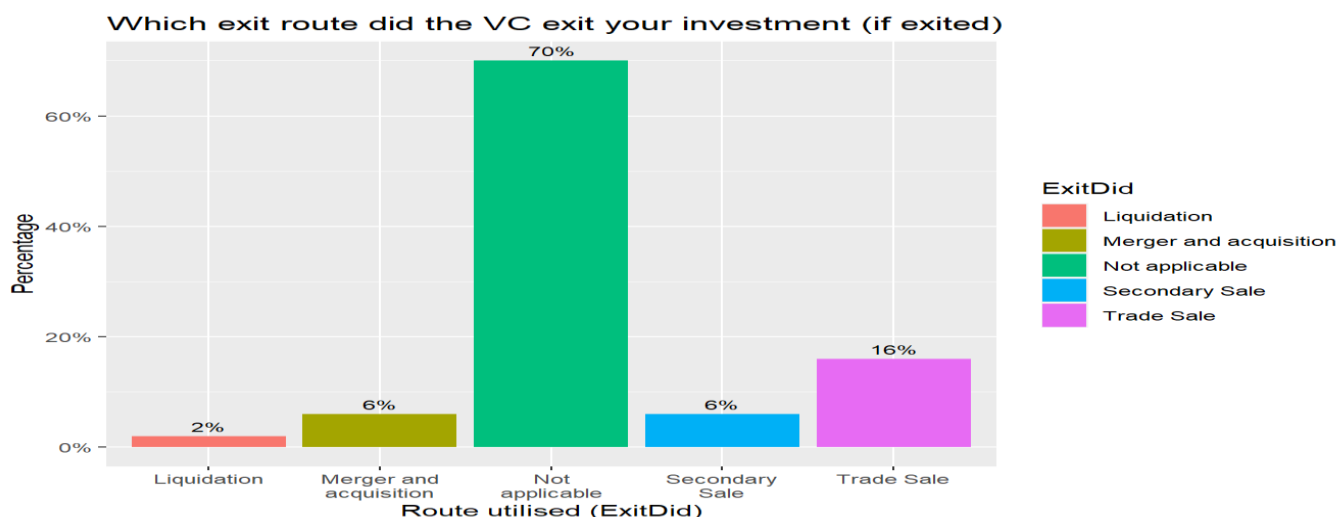


Figure 5.18: Exit routes used in exited investees

Source: own initiative – survey responses

The results revealed that most of the participants (70%) that took part in the survey have not witnessed an exit from their investment yet. This is evidence of a low-performing industry with no IPO exit, as the stock market is not yet developed. According to Zhao (2023), the number of IPO exits triggers further investment into the industry and attracts more investors. Von Rosen (2021) asserts that the strength of the stock market and the level of government commitment in setting up efficient regulatory frameworks also helps in attracting investment. This improves performance and IPO exit potential. For exited investments, trade sales came first with 16%, followed by mergers and acquisitions and secondary sales with 6% each. Unfortunately, 2% of the investees' businesses were liquidated, exhibiting the tendency of venture capitalists trying to prevent further losses and not providing funding in subsequent stages (Fan, 2019). No exit happened through IPO at the time of this study. This analysis aligns with the findings of Jones and Mlambo (2013), pointing out that venture capital exits in South Africa are predominantly trade sales and management buy-outs (SAVCA, 2012). Mergers and acquisitions and secondary sales provide an alternative route to IPOs in situations where there are no alternative routes to IPOs, or where the market is not lucrative enough to exit through IPO (Weniger, Jarchow and Nenadic, 2023).

5.14 Analysis of factors contributing to low exit of venture capital investment in South Africa

Investors in the venture capital industry not only concern themselves with the return they make on an investment, but also consider how long it takes for the investment to pay-off (Giot and Schwienbacher, 2007). Several factors, including the regulatory and economic atmosphere of the country (Subhash, 2007) would influence investment decisions in the country. The lack of incentives, such as capital gains tax (Toumi and Neto, 2013), demotivates investment in the venture capital industry. In the same light, access to finance can be a major problem (Gornall, 2015).

The factor analysis carried out in this study revealed that four principal factors, namely economic and financing environment, deal-sourcing, business performance, and the regulatory environment impact venture capital performance and exit in South Africa. In this section, the research sought participants to particularly point out the specific factors that contribute to the late exit of venture capital investments in South Africa, by asking the question depicted in Table 5.16 below:

Table 5.16: Question on factors contributing to low venture capital exit rate in South Africa

Question/response	1	2	3	4	5	6	7	8
What factors contribute to low venture capital exit in South Africa?	Govt regulations	Information asymmetry	Contractual arrangements	Stage of investment	Low investment amount	Stiff stock market regulations	Poor investment decisions	Lack of commitment from investees

Source: Own initiative – survey question

Figure 5.19 below depicts the results of the survey based on the above question.

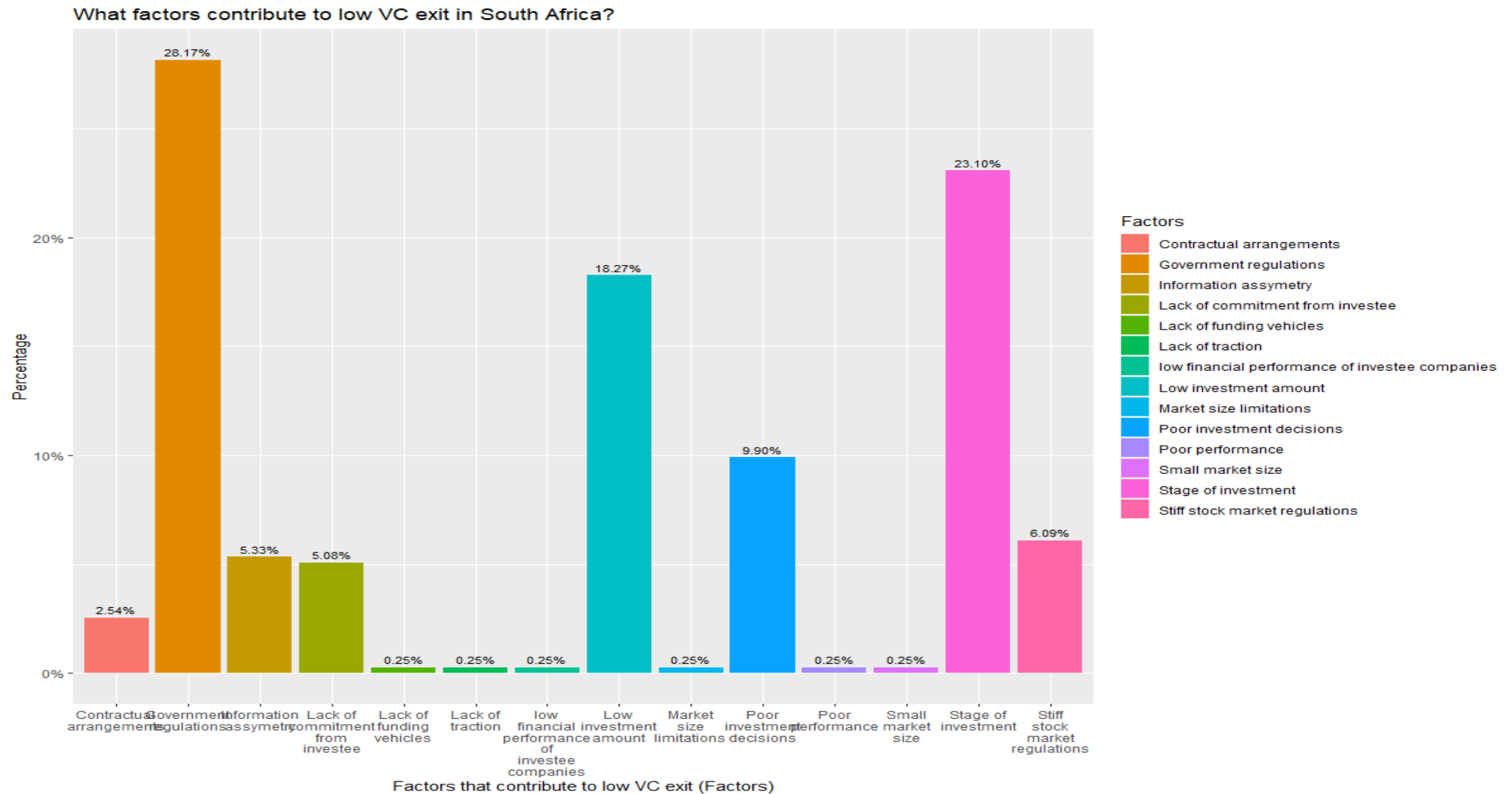


Figure 5.19: Factors influencing late exit

Source: own initiative – survey responses

In answering this question, participants were allowed to add other factors that contribute to the low exit of venture capital investments in South Africa. A total of fourteen factors were highlighted. The analysis revealed that government regulations contributed the highest (28.17%) in slowing down venture capital exits in South Africa. Perhaps the policies are not fair, or not good enough to facilitate investment in this industry. Faku (2022) indicated that lack of regulatory transparency in South Africa destroys investors' confidence, and foreign investors are giving up their shares in the Johannesburg Stock Exchange. This could be one of the reasons for the low exit rate in South Africa. The second contributing factor is the stage of investment, with 23.10%. The obvious interpretation could be that investments in the early stage take time to scale the investees' operations before expansion and eventual realisation of investment returns. The third contributing factor is the "low investment amount," with 18.27%. This indicates that the lack of funding (Mateko, 2024) negatively impacts venture capital activities and exits in South Africa. According to Jones and Mlambo, (2013), the acute shortage of funds, coupled with a tricky regulatory environment, deters the progress of the venture capital industry in South Africa. Gqoboka, Anakpo, and Mishi, (2022) add that the poor regulatory environment does not attract investment in the digital space.

The fourth factor is poor investment decisions, with 9.90%. Stiff stock market regulation with 6.09% was the fifth factor contributing to the low exit of venture capital investments in South Africa, followed by information asymmetry (sixth factor) with 5.33%. Lack of commitment from the investees occupied the 7th position, with 5.08%. Other factors contributing to low exits include contractual arrangements, lack of traction, low performance of investees' companies, market size limitations, small market size, lack of funding vehicles, and poor performance. Evidence from India (Minardi et al., 2020) and China (Lin, 2019) demonstrates government active participation in ensuring an effective stock market by classifying shares sold in the domestic stock exchange and foreign stock exchange markets to guarantee investors' confidence. In Brazil, arbitration panels help resolve disputes, enhance investors' confidence and guarantee that contractual arrangements are respected (ABDI, 2011; De Carvalho et al., 2006). It is therefore important that the South African government participate in facilitating and enacting legislations that attract investment, as the case of Singapore and Israel, where both the government and industry practitioners restructured the legal and financial system to attract investors (Wonglimpiyarat, 2016).

Table 5.17: Summary of resource mobilisation rating questions and responses

Resource mobilisation related questions summarised responses					
Questions	Response %				Remarks
	None	Few	Adequate	>adequate	
Are there venture capital fund mobilising institutions such pension funds, saving schemes etc.in South Africa?	5.4%	82.3%	8.4%	3.9%	There are just a few venture capital fund mobilising institutions in SA. Hence, SA lacks funding vehicles.
Are there venture capital research institutions such as university venture capital institutions in South Africa?	13.3%	80.8%	4.9%	1%	There are very few venture capital research institutions in SA. Hence more research is required in this area.
Are there government venture capital funding institutions?	15.8%	77.3%	5.9%	1%	There are very few government venture capital funding institutions.
Are there government policies in place that favour venture capital activities in South Africa?	30%	66%	4%	0%	There are very few government policies in place that favour venture capital investment in South Africa.
Are there investment incentives motivating/facilitating venture capital investment in South Africa such as tax-free investment, low capital gain tax, tax breaks, R&D incentives, etc?	33%	61%	6%	0%	There are very few incentives in place that favour venture capital investment in South Africa.

Source: Own initiative – survey responses

Table 5.18: Summary of Yes/No closed ended questions and responses

Summary of Yes/No closed ended questions and responses			
Question	Response %		Remarks
	Yes	No	
Does the present school curriculum facilitate the acquisition of entrepreneurial skill sets that attract venture capital investments?	4%	96%	The results of the survey revealed that the present school curriculum does not facilitate the acquisition of skills that attract venture capital investment in South Africa.
Are there platforms for selecting prospective investees by venture capitalists?	37%	63%	The survey results revealed that there are hardly any platforms for selecting prospective venture capital investees.
Do listing regulations facilitate venture capital exit through IPO?	29%	71%	The results of the survey revealed that listing regulations in South Africa do not facilitate venture capital investment exit through IPOs
Does the current political position of South Africa positively influence venture capital performance?	10%	90%	The results of the survey revealed that the current political position in South Africa does not positively influence venture capital activities in South Africa
Are there alternative listing routes for emerging companies to go public?	67%	33%	The survey results revealed that there exist some form of alternative listing arrangements for emerging companies in South Africa
Do the alternative listing arrangements (if any) facilitate listing of emerging companies?	28%	72%	The survey results revealed that the alternative listing arrangements do not facilitate listing of emerging companies
Are venture capital companies represented in the investees' board of directors?	91%	9%	The survey results revealed that venture capital companies are well represented in investees' board of directors.
Do foreign venture capital firms and local (indigenous) venture capital firms collaborate in funding entrepreneurial ventures in South Africa?	90%	10%	The survey results revealed that there is collaboration between foreign and local venture capital firms in South Africa
Does venture capital representation in the investees' board of directors add value to investees' performance that ensures early exit?	86%	14%	The survey results revealed that venture capital representation in investees' board of directors adds value to the investees.

Source: Own initiative – survey questions/responses

5.15 Chapter conclusion

In this chapter, factor analysis was used to extract the critical factors impacting venture capital and exit performance in South Africa, based on the constructs extracted from related literature on venture capital around the globe. The constructs extraction focused on venture capital exit management, and the factors impacting venture capital exit. These constructs were rated by the participants using a five-point Likert scale survey. Four main factors impacting venture capital performance and early exit in South Africa were extracted, namely; economic and financing environment, deal-sourcing, business operations and regulatory environment. The chapter further looked at South Africa's most exited venture capital investments by sector, and their preferred financing stages, comparing them to investees' choices of investment. An estimate of how long it takes to exit an investment in South Africa was made. The analysis proved that venture capital investments can be exited within ten years, and the situation can be better, given an environment that promotes venture capital activities. In actual fact investment average duration is below 8 years, and below the international standard of 10 years plus 2 (Moreva, 2018). This is an indication that the South African venture capital ecosystem can do better if appropriate measures are taken to address funding and regulatory concerns. Chapter Six presents a full analysis of the participants' view on venture capital management and exit performance from a qualitative point of view, beginning with the analysis of the comments made by participants in the last question of the online survey using thematic analysis. The opinions of 11 industry participants were sought (through interviews) and analysed through thematic analysis, with the intention of getting an in-depth understanding of the subject matter in order to come up with a framework for venture capital investment in South Africa, that ensures the better performance and early exit of investment portfolios in South Africa.

CHAPTER SIX: QUALITATIVE DATA PRESENTATION, ANALYSIS, AND DISCUSSION OF RESULTS

6.1 Introduction

In Chapter Five, the researcher conducted the quantitative data analysis and discussion of results. In this chapter, the analysis and discussion of the findings of the qualitative aspects of the study are done. The study employed thematic analysis (discussed in Chapter Four) to present and discuss the extracted themes from the open-ended question of the surveys. This is followed by the presentation and discussion of the themes extracted from the interviews conducted with those participants actively involved in the venture capital industry. These themes aided in addressing the research problem, as they provided sufficient data (in conjunction with the quantitative data gathered and presented in Chapter Five), that helped in the development of the strategies needed for the construction of a framework for venture capital early exit in South Africa.

6.2 Presentation, analysis and discussion of survey comments

In this section, the research used thematic analysis to analyse participants' comments or suggestions on how venture capital exits in South Africa can be improved. Using the Inductive Theory (Creswell and Plano Clark, 2011; Young, Varpio, Uijtdehaage and Paradis, 2020), the study grouped comments under themes relevant to address the research questions, with a view to gather information that provides guidance on establishing a framework for investment exit in South Africa. Themes related to the secondary objectives were first analysed to gain an insight into what strategies to adopt in establishing a framework for the early exit of venture capital investment in South Africa. Thereafter, an insightful summary was made and linked to the strategies that helped in developing the framework, as indicated and established in the research main objective. The related themes are depicted in Figure 6.1 below:

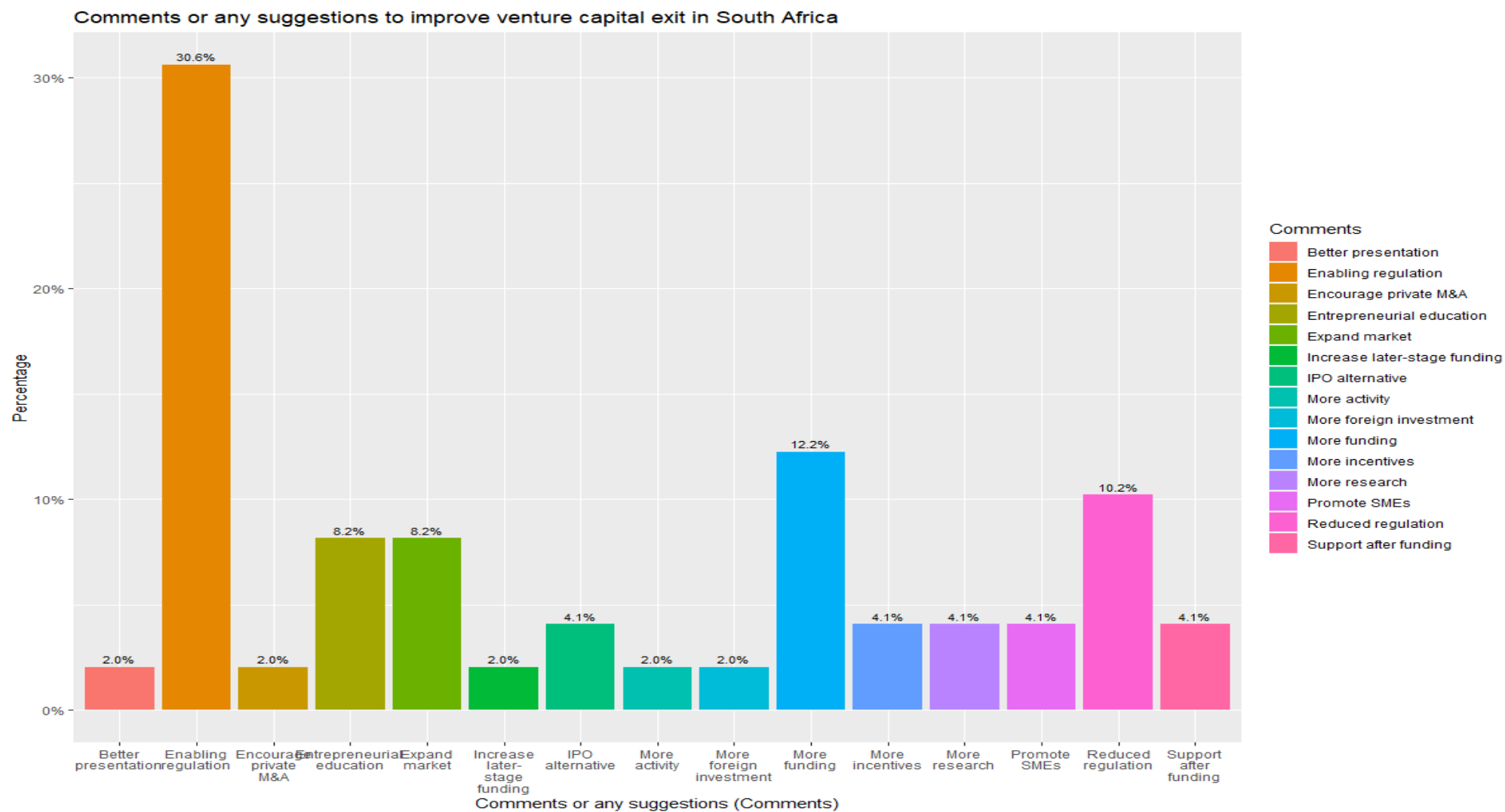


Figure 6.1: Comments to improve venture capital performance and exit in South Africa

Source: Own initiative – survey responses

6.2.1 Factors impacting venture capital early exit in South Africa (Sub-objective 1)

The analysis of the comments from respondents revealed that the regulatory environment in South Africa is a major factor impacting venture capital activities and exit rate in South Africa. In this section, the research isolates the factors responsible for late exit of venture capital investments in South Africa. The goal here is to understand what drives down the exit rates, in order to come up with a framework that optimises venture capital performance in South Africa, and increases the exit rate. Table 6.1 below summarises the themes that impact venture capital early exit in South Africa.

Table 6.1: Themes on factors impacting venture capital early exit in South Africa

Theme	Factors impacting early exit	Codes (5)
01	Regulations - Over regulation	2
02	Young market	1
03	IPOs alternatives - Lack of OTC alternatives	1
04	Lack of funding	1

Source: Own initiative

01 Regulations – Over regulation

Comments from the respondents revealed that South Africa is overregulated, which makes it less attractive for global investors. This suggests a general uncertainty in the economy, which makes investors feel unsure about the security of their investment. This is supported by the following comments from participants:

“Less government regulation of our economy. 99% of global venture capitalists will not (or cannot by mandate) invest in SA given current government performance.”

“Too much uncertainty and over-regulation negatively affects the venture capital industry in terms of fundraising.”

This finding corroborates the work of Allen and Song (2002), which indicates that the law and order variable is negatively correlated to the importance of venture capital finance. This implies that less law and order in the sector attracts venture capital, in contrast to La Porta et al. (1997), where the opposite holds true in public markets. The implication is that explicit laws are not important, as conventional wisdom suggests that the creditors' rights are paramount in determining the venture capital amounts needed in the venture capital market (Allen and Song, 2002).

02 Young market

Another factor impacting the early exit of venture capital investments in South Africa is the fact that the industry is relatively young, and the concept is still new, with limited resources to expand. This is supported by the following comments from a participant:

“Very young ecosystem needing incentives to expand.”

“...The venture capital ecosystem is still young; in more mature ecosystems it is common for early investors to be bought out, at least partially, in subsequent rounds. The South African ecosystem seems to be philosophically opposed to these exits for early investors, meaning it's very difficult to get a track record of exits and that typically investors must plan on waiting much longer to realise their investment...”

This comments coincide with the findings of Sutherland (2020), which highlighted the small South African domestic market in the tech space, despite aspirations. As venture capitalists are keen on tech startup financing like the cases of China (Lin, 2019), India (Baiju, 2023), and the USA (Zhao, 2023), a small tech market in South Africa implies limited scope for the venture capital ecosystem in South Africa. Hence the need to expand and showcase South African technology across the African continent and beyond. Venture capitalists are capable of providing the required networks (Huang, Wang, Sheng and Zhao, 2025) to expand the market, as local venture capital firms collaborate with external foreign firms to source funding and grow their investment portfolios, which may improve exit (Jo, Dai and Kassicieh, 2012).

03 IPOs alternatives – (lack of...)

The comments from the respondents revealed that there is need for alternative exit strategies for IPOs, as investors stay invested due to the inability to find suitable buyers at the expected price, even in instances in which investments may be matured for exit. This is supported by the following comment:

“Venture Capitalists stay invested in companies till the "rate of return" declines (similar to diminishing returns, although without adding more capital). After which they seek Pensions funds/Investment Boutiques that are confident with the current returns of the company, then the venture capitalist sells its shares and tries to find another unicorn to invest in. Typically, this would take a minimum of 6 years to reach

the climax of return. Another alternative would be IPO; however if the venture capitalists realize that the returns haven't reached their optimal point, they would reduce their stake in the firm until such a point where returns are now normal, prior to exiting.”

These comments are in line with the views of Gutterman (2022), and Giot and Schwienbacher (2007) that venture capital-backed companies initially exhibit a likelihood of exiting through IPOs until they reach a plateau, and non-exited investments become less likely to be exited through IPO, then they turn to other exit options available. However, regulatory environment in South Africa makes it difficult (Faku, 2022; Mateko, 2024; Sutherland, 2020) for IPO exits, and venture capitalists are left with no choice other than trade sales (Jones and Mlambo, 2013) and mergers and acquisitions.

04 funding

There is a general outcry for funds to ensure the success of the venture capital industry in South Africa (Mateko, 2024). This also has a negative impact on how fast investments can be exited; the lack of funds puts the investee companies in financial strain, making them unable to leverage their operations properly. This is supported by the following comments from the respondents:

“Increase the availability of later-stage funding. This would help startups to grow and scale, making them more attractive to acquirers and investors.”

The general outcry here is that funding is limited, and the investment funds are struggling to source funds to grow the businesses in South Africa. Faku (2022) confirms that foreign investors are no longer interested in buying shares listed on the Johannesburg Stock Exchange. Gqoboka, Anakpo and Mishi (2022) highlight the lack of funding for digital investment in South Africa alongside inadequate infrastructure.

6.2.2 Major challenges faced by venture capitalists in South Africa (sub-objective 2)

In Table 6.2, the research presents the themes related to challenges of the venture capital industry in South Africa, in line with the propositions of secondary objective 2 of this study.

Table 6.2: Themes on challenges of venture capital industry in South Africa

Theme	Challenges faced by venture capitalists in SA	Code (11)
01	Regulations Exchange control IP regulations	3
02	Small market	2
03	Takeovers by corporates	1
04	Lack of research	1
05	Lack of support after funding	1
06	Funding: - Lack of funding	3

Source: Own initiative

01. Regulations

From a regulatory standpoint, the comments revealed that exchange control and IP regulations stand as the major stumbling blocks for the venture capital industry in South Africa. According to the respondents, transferring intellectual property rights into and out of South Africa is concerning. It is also not easy dealing with foreign currency transfers. This is supported by the following comments from the respondents:

“Exchange control is a constant headache for foreign investors, and South African tax incentives are rarely if ever relevant, as foreign investors are usually subject to their own tax laws in their home country.”

“... Our fund invests in capable people with proof their concept is already working in order to scale it up.”

“Exchange control, IP regulations, lack of funds to grow the industry constitute major stumbling blocks to the industry growth in RSA.”

Regarding regulations, exchange controls and intellectual property regulations continue to impede the flow of funds and transfer of intellectual property in and out of South Africa, as noted by Jones and Mlambo (2013) despite investing in capable people to manage processes.

02 Small market

Reviewed comments indicated that besides the industry being young in South Africa, the market is relatively small, with a limited customer base for the investees to service. This is supported by the following comments from the respondents:

“Small market which limits VCs and entrepreneurial products offerings.”

“Lack of a wide market to serve limits VCs ability to effectively add value to venture capital ecosystem.”

The issue of small market limits foreign participation in the South African venture capital ecosystem, as investors are critical about investees' expansion, product offering, and customer outreach (Gutterman, 2022)

03 Takeovers by corporates

As the exits through IPOs gap narrows, the corporates take advantage of the market situation to buy up the small startups, as they have the ability to reach a wide market using their networks. This is supported by the following comments:

“Most exits are to larger corporates in SA instead of IPO, because the SA consumer market is small, and big corporates have great distribution, thus they have a better ability to reach the market.”

As exits through IPOs are unattainable, venture capitalists in South Africa are left with the option of disposing of their shares to large corporates in desperate need of the technology developed, because of the near-impossibility of stock listing on the Johannesburg Stock Exchange (JSE) and lack of alternative listing routes for emerging companies or start-ups. As Faku (2022) puts it “Foreigners are dumping their listed shares instead of buying” which makes the South African venture capital market less attractive to potential investors.

04 Lack of research

The analysis revealed that there are very few venture capital research institutions. This is further supported by the following comment from a respondent:

“It’s a low-researched topic in South Africa. It’s dominated by white people as well, which makes it hard to recognise as an industry.”

The industry participants indicated that more research is required to ensure the progress of the venture capital ecosystem in South Africa, as it is currently not a well-known industry in the African continent

6.2.3 Improving venture capital performance and exit rate in South Africa (sub objective 3)

In Table 6.3 below, the research summarised the themes related to improving venture capital performance and exit rate in South Africa, to address secondary objective 3

Table 6.3: Themes on how to improve venture capital performance and exit in South Africa

Theme	Improving venture capital performance and exit rate in SA (14)	Codes (36)
01	Providing more funding opportunities	3
02	Attracting foreign investment	1
03	Enabling regulation – incentives	4
04	Providing more incentives	5
05	More activities: increase venture capital activity scope	1
06	Providing a good entrepreneurial-based education from basic education to university level	5
07	Reducing regulations	3
08	Expanding the market	4
09	Promoting SMEs across the country	3
10	Encourage private mergers and acquisitions	1
11	Encouraging more research	1
12	Providing support after funding	1
13	Better presentation of entrepreneurial ideas	1
14	Increasing later-stage funding	2

Source: Own initiative

Looking through respondents’ comments, it is evident that it requires a lot for the venture capital industry to thrive. A combination of different approaches can be used to come up with strategies to ensure a vibrant industry that ensures good performance and early exit

opportunities in South Africa. This is supported by the following comments listed under each theme from the table above.

01 Providing more funding

“More funds needed for early stage.”

“There needs to be appropriate funding for appropriate stages of investment, we often see more exits in later stage/ private equity like deals, as there are more parties playing in that space. There aren't enough funders in the pre-seed/ seed stage, which leads to lower exit opportunities for those funds in the next stage of venture capital funders.”

“Facilitate early-stage funding.”

The industry participants are soliciting for funding at each stage of the venture capital cycle to ensure that the early stages of the investment cycle, particularly the pre-seed and seed stages which are in dire need of funds.

02. Attracting foreign investment

“More foreign investment.”

Attracting foreign direct investment is critical, as this increases the flow of funds in the economy. Sutherland (2020) points out that the role of government is needed to ensure good regulations that attract investors.

03. Enabling regulations

“The SA market needs more investors. For that, tax incentives can be reconsidered, or favourable government policies to attract foreign investment, including relaxing exchange controls for IP transfer, as this will make it easier for startups to be acquired by offshore entities. Incentives for pension funds to invest in venture capital would also stimulate more capital flow into the venture capital funds, and hence increase the pool of worthy startups that get funded.”

“Tax breaks and incentives.”

“Facilitate entry of investment from foreign venture capitalists.”

“Incentivise pension funds and other institutional investors to invest in private equity and venture capital industry to grow the pool of funds.”

Measures are required to ensure a good regulatory environment. In the USA (Etzkowitz and Zhou, 2012), for example, low capital gains tax was introduced to attract investment in early-stage technology; similar incentives were introduced in China and India (Minardi et al., 2020) to facilitate investment in the venture capital market.

4. Providing more incentives

“Incentives to promote venture capital activities.”

“Create more favourable incentives for investors.”

“Create more favourable incentives for investors.”

“Tax breaks.”

“Incentives like 12J should be revisited and revised.”

Section 12J ignited venture capital activities in South Africa (Jones and Mlambo, 2013). Unfortunately, it was withdrawn in 2021. Revisiting and reviewing the text could be of help; besides, companies could be given tax breaks and other incentives such as reduced tax rates, and investors incentivised with low capital gains tax.

05. More activities

“Develop a more mature and well-functioning exit market. This could be done by encouraging more corporate venture capital (CVC) activity, attracting more foreign investment, and developing more local public market options.”

A well-structured capital market facilitates exit through IPOs and attracts more foreign investors. In the case of China (Azevedo, Guney and Leng, 2018) and Brazil (Minardi et al., 2020), companies' shares are classified into various categories, with certain shares listed locally and others listed on foreign stock exchanges to attract foreign investors.

06. Providing a good entrepreneurial-based education, from basic to university level

“Education, education and education of entrepreneurs”.

“Appropriate balancing of business' supply capacity and demand capacity”.

“Educating entrepreneurs on venture capital activities”.

“Educate founders on the availability of venture capital funding”.

“Entrepreneurial education.”

“Entrepreneurial-based education at earlier stages in school.”

The respondents' comments revealed that entrepreneurial education is critical for a successful venture capital ecosystem. It is therefore important to encourage and grow skills, not only tech-related skills, as highlighted in the 2030 government plan to develop skills for one million youths in the tech space (Mateko, 2024), but also in ensuring a good entrepreneurial curriculum that would equip future founders with the management expertise to run their business ventures.

07 Reducing regulations

“Reduce regulation.”

“Reduce labour regulations.”

“Venture Capitalist needs to use both skilled and unskilled labour to stabilize their entry stay in the market, and to have a profitable exit, and not put all on labour cost. The current political policy in South Africa discourages venture capital activities because some scarce skills that exist in the country cannot be used, especially if it is foreigner who have such skills (Because foreigners find it difficult to get work permits)”

There seem to be a situation of overregulation within the venture capital ecosystem in South Africa. Jones and Mlambo (2013) assert that the regulatory environment is tricky, and weighs on the negative impact of labour laws, exchange control, and IP regulations on venture capital performance. Sutherland (2020) and Faku (2022) highlighted the problem of poor regulations to attract investment. Hence, the need for proper regulatory frameworks that are investor-friendly.

08 Expanding the market

“The most important thing is to expand the base of both deal makers, corporate finance specialists who are close to entrepreneurs, and the number and variety of venture capitalists.”

“The ideal exit for venture capital in South Africa is Mergers and Acquisitions (M&A); however the venture capital market is not mature and therefore few venture capitalists end up going the M&A route. There's a need to develop the venture capital market to ensure smooth exit through M&A by creating M&A exit platforms for venture capitalists.”

“Expand the market.”

“Very young ecosystem needing incentives to expand.”

There is a great need for South Africa to expand the market, given the tech position it occupies in the continent, as highlighted by Mateko, (2024). This requires penetrating other markets within Africa, the Global South, and other trade blocs of which South Africa is a member. Collaboration and alliances with relevant institutions and other countries is therefore necessary to ensure market and industry expansion for South Africa (Autio, Nambisan, Thomas and Wright, 2018; Zhang, 2018).

09 Promoting SMEs across the country

“SMEs play a crucial and valuable role within the business ecosystem, particularly in emerging markets, as they drive innovation and promote positive transformation in the local economy. The sustained prosperity of emerging market economies hinges on the prosperity of the SME sector. Our objective is to disrupt the existing paradigm and meet the needs of the largely underserved SME funding landscape in Southern Africa. A notable “missing middle” exists in these regions, where numerous high-potential SMEs fail to fully realize their potential due to inadequate support. Traditional financial institutions such as banks are hesitant to fund these smaller enterprises due to perceived risks, thereby limiting their access to capital. Private equity and venture capital firms primarily focus on providing larger amounts of funding while adhering to specific mandates. Smaller alternative SME lenders often impose rates and fees that result in a higher cost of capital, which is largely unsustainable for many SMEs over the long term. We operate in the intermediary space between banks and alternative financiers, offering investment options in the form of debt, equity, or a combination of both. We tailor bespoke deal terms for each business we provide funding to, sculpting each arrangement to suit the unique characteristics of the respective business cases. Although we maintain a sector-agnostic approach, we prioritize investments that have a positive impact on job creation, and promote social development objectives, including gender equality, reduced inequalities, and responsible consumption and production. With a geographical focus on Southern Africa, our aim is to empower and enable SMEs in this region to unleash their growth potential.”

“The future of South Africa is in SME’s and the government should create an environment conducive enough and that encourages FDI together with local investments.”

“Promote SMEs.”

Considering the essential role that SMEs play in economic development, it may be of help to lay emphasis on the development and expansion of SMEs like the case of China, where the SME board was created in 2004 in Shenzhen to facilitate the development of small businesses (Lin, 2019). In the context of South Africa, Fatoki (2014) points out that SMEs are seen as vehicles for economic growth. Government policies to encourage entrepreneurship are critical. Entrepreneurial finance is therefore key to ensure sustainable businesses that are fundamentally attractive to investors. Facilitating entrepreneurial education like the case of China to build self-efficacy can help the South African venture capital ecosystem (Khuram et al., 2023).

10 Encouraging private mergers and acquisitions

“We need to have more investors willing to invest during various growth phases of a given company so that exits are not only through stock exchange listings, but more of them can also be via private M&A transactions or similar.”

11 Encourage more research

“It’s a low-researched topic in South Africa. It’s dominated by white people as well which makes it hard to recognise as an industry.”

“More research.”

12 Providing support after funding

“Venture capital in South Africa does support seed funding but lacks the support in order for these ventures to proceed or maintain sustainability.”

“Support after funding.”

13 Better presentation (education)-resource mobilization/deal-sourcing

“More venture capital firms need to be willing to “take the gamble” and more founders need to know how to present their startups to the venture capitalists. All too often good ideas are overlooked due to poor presentation.”

Again, entrepreneurial education is needed to ensure that founders understand the aspect required for pitch presentations, as most projects are rejected due to lack of better ways of presenting the projects to investors during the selection process (Jalalabadi et al., 2018).

14 Increasing later stage funding

“Increase later-stage funding.”

“Increase the availability of later-stage funding. This would help startups to grow and scale, making them more attractive to acquirers and investors.”

6.2.4 Strategies for an early exit framework

Based on the respondents' comments, as highlighted and classified in the pervious paragraphs in response to the concerns of the study's secondary objectives, the following strategies can be adopted, following the themes identified from the comments, in order to develop a guiding framework for South Africa's venture capital industry that would facilitate early exit of the investment. Table 6.4 below presents a summary of the strategies.

Table 6.4: Themes on strategies to develop an early exit framework for venture capital in South Africa

Theme	Strategies to develop a venture capital guiding framework for SA	Codes (23)
01	Providing more funding vehicles	2
02	Regulations: Provide an enabling regulatory environment for ventures to thrive	14
03	Development of well-structured exit market (Increase venture capital activities)	2
04	Developing a curriculum with sound entrepreneurial education that begins from basic education to university	2
05	Promoting SMEs	2
06	Increase funding at all stages of the venture's capital process	1

Source: Own initiative

In respect of the theme that provide insights into developing an exit framework for South Africa, the following observations were noted from the respondents' comments.

01 Providing more funding vehicles

The industry participants indicated that most exits are at the later stages of the venture capital cycle, and suggested appropriate funding for the early stage of the investment cycle. This is supported by the quotes below:

“There needs to be appropriate funding for appropriate stages of investment. We often see more exits in later stage/ private equity-like deals as there are more parties playing in that space. There aren't enough funders in the pre-seed/ seed stage, which leads to lower exit opportunities for those funds in the next stage of venture capital funders.”

“Incentivise pension funds and other institutional investors to invest in private equity and venture capital industry to grow the pool of funds.”

This suggests the need for appropriate funding vehicles that would guarantee the funding of investments at all levels. The Indian experience demonstrates how venture capital was used to transform the economy. Pandey (1998) asserts that venture capital activities in India were supported by the Federal government, state-owned financial institutions, public sector finance banks, private sector companies, foreign banks and finance institutions, and members of the public. These organs provided multiple funding vehicles, which led to the industry's high performance in the 1980s, and exponential growth in 1996 (Pandey, 1998).

02 Regulations

The general view from the participants was that government regulations play a key role in determining the success of the venture capital industry. The policies and regulations should facilitate industry operations and attract investors both within and outside South Africa. The present regulations seem to be working against venture capital industry success. This can be supported by the following comments from the participants:

“Government regulations to provide incentives to the venture capitalists especially in this current economic environment. This will aid the investee performance e.g. Tax rebates / tax concessions.”

“Investment in venture capital stage of private equity is low in South Africa, as investors find it more risky than mature companies with low risk of failure. Increase in government initiatives like S12J to boost more investments is needed, such that investors have motivation to inject funds into startups.”

“Develop policies to grow the market.”

“Regulations that ease the mobilisation of funds to support the venture capital industry in South Africa.”

“More government support is needed.”

“Start-up Act.”

“Regulations to broaden the funding base.” etc.

From the above comments, one would infer that the industry participants are eager to work with the government in order to ensure the industry grows and performs better. Furthermore, the adoption of a Startup Act would help to regulate entrepreneurial activities and promote emerging companies and new startups.

03 Development of a well-structured exit market (Increase in venture capital activities)

The industry participants highlighted the need for a well-structured exit market that may result in the increase of venture capital operations in South Africa, with possible exits through IPOs. The industry participants hold the view that the market is not well structured, and exits are delayed due to these difficulties of finding suitable buyers at the right time to exit. This view is supported by the following comments:

“Develop a more mature and well-functioning exit market. This could be done by encouraging more corporate venture capital (CVC) activity, attracting more foreign investment, and developing more local public market options.”

“Provide more support to startups in developing their exit strategies. This could be done through mentorship programmes, educational workshops, and access to experienced advisors.”

Like the case of China with multiple over-the-counter markets, and varying categories of shares that are listed both in domestic and foreign securities markets, South Africa can adopt a differentiating approach to naming shares that interest both domestic and local investors to invest in domestic and foreign stock markets, as is the case in China and Brazil (Minardi et al., 2020).

04 Entrepreneurial education

The survey results revealed that 96% of participants agree that the current school curriculum does not facilitate the acquisition of skills that attract venture capital investment in South Africa. As such, there is need for an entrepreneurial-based curriculum that should equip people with the required skills for venture capital investors to utilise. This is supported by the following comments from respondents.

“Entrepreneurial-based education at earlier stages in school.”

“Appropriate balancing of business supply capacity and demand capacity.”

The survey results revealed the need for entrepreneurial-based education. This would help in creating awareness of venture capital activities and the acquisition of skills to equip youths with the required knowledge and expertise to run businesses. The lack of entrepreneurial finance and related skillsets among the youth contributes to the failure of new ventures (Bruhn and Zia, 2013; Dahmen and Rodrigue, 2014; Fatoki, 2014).

05 Promote SMEs

To ensure a thriving industry with early exits from investment portfolios, SMEs should be promoted. This goes in line with the adoption of a Startup Act highlighted earlier, as SMEs would provide a pool of investment opportunities to be selected by the investors. This is supported by the following comments from respondents:

“The future of South Africa is in SME’s, and the government should create an environment conducive enough and that encourage FDI together with local investments.”

“SMEs play a crucial and valuable role within the business ecosystem, particularly in emerging markets, as they drive innovation and promote positive transformation in the local economy. The sustained prosperity of emerging market economies hinges on the prosperity of the SME sector. Our objective is to disrupt the existing paradigm and meet the needs of the largely underserved SME funding landscape in Southern Africa. A notable “missing middle” exists in these regions, where numerous high-potential SMEs fail to fully realize their potential due to inadequate support. Traditional financial institutions such as banks are hesitant to fund these smaller enterprises, due to perceived risks, thereby limiting their access to capital. Private equity and venture capital firms primarily focus on providing larger amounts of funding while adhering to specific mandates. Smaller alternative SME lenders often impose rates and fees that result in a higher cost of capital, which is largely

unsustainable for many SMEs over the long term. We operate in the intermediary space between banks and alternative financiers, offering investment options in the form of debt, equity, or a combination of both. We tailor bespoke deal terms for each business we provide funding to, sculpting each arrangement to suit the unique characteristics of the respective business case. Although we maintain a sector-agnostic approach, we prioritize investments that have a positive impact on job creation and promote social development objectives, including gender equality, reduced inequalities, and responsible consumption and production. With a geographical focus on Southern Africa, our aim is to empower and enable SMEs in this region to unleash their growth potential.”

These comments stress the need for alternative approaches to financing and growing SMEs in South Africa, which has been a challenge over the years, despite government efforts (Fatoki, 2014). Biney et al. (2017) observed that the performance of venture capital-backed businesses is better, compared to non-venture capital-backed businesses in terms of profitability, employees' performance, and revenue generation. If SMEs are seen as vehicles for economic growth (Fatoki, 2014), providing an institutional framework that opens up the economy to develop and grow new SMEs would build a resilient economy that creates more job opportunities for South Africa. This requires the efforts of all stakeholders as in the case of India in the 1980s, where the state, the private sector, foreign financial institutions, and the general public got involved in fund mobilisation to grow the venture capital ecosystem in India (Pandey, 1998).

06 Increase later stage funding vehicles

According to the respondents' comments, ensuring the availability of funding at later stages of the venture capital cycle helps to grow startups, and scales up the industry, as this attracts more acquirers. This is supported by the following comment from a respondent:

“Increase the availability of later-stage funding. This would help startups to grow and scale, making them more attractive to acquirers and investors.”

6.3 Presentation of the qualitative study (excluding comments on the surveys)

In the qualitative component (comments on surveys excluded) of this research, semi-structured interviews, as explained by Newcomer et al. (2015), were used. The research first sought consent from each participant (Bos and Bos, 2020). These interviews were online one-on-one interviews, and were recorded. The interviews are critical in that they provided both the researcher and the participants with the opportunity to engage further on issues under discussion (Kallio, Pietilä, Johnson and Kangasniemi, 2016), and to ask questions and follow-up questions in order to enhance the understanding of the subject matter (Naz, Gulab, and Aslam, 2022), as well as increase the reliability of the results (Dicicco-Bloom and Crabtree, 2006; Newcomer et al., 2015). The interviews were then transcribed using “auris ai” transcription software. For the thematic coding and analysis, the research used the NVivo software. It was necessary to utilise the coding process outlined by Gibson and O’Connor (2003) as well as by Rubbin and Rubbin (1995). The thematic coding process considered the research questions and objectives (Miller and Brewer, 2020) in order to extract the relevant themes emerging from participants’ responses and views or perceptions (Braun, Clarke, Hayfield, and Terry, 2019) about venture capital performances and early exit possibilities in South Africa. The discussions helped in providing an understanding of the exit challenges faced by the venture capital industry in South Africa, and the potential strategies available for enhancing venture capital performance and the early exit of venture capital investment in South Africa. An inductive approach was used to identify the themes, as well as in the process of analysing the data, as described by Braun and Clarke (2024), Ritchie and Lewis (2003), and Attride-Stirling (2001). To eliminate the interviewer’s bias, and ensure the reliability of the findings, verbatim quotations were used, and then summaries presented after the analysis of each section.

6.4 Interview Participants

The study targeted 15 participants for the interviews, using purposive sampling in order to ensure that the right people were included in the sample for reliability. Hence the interviews were conducted with seasoned directors of venture capital firms, and founders of investee companies. The interviews were scheduled well in advance, and at the convenience of each of the participants, giving them enough time to go through the interview guides, consent letters and other related ethics documentation that was sent to the participants in advance for review. This was done to enable the participants to prepare in advance, as well as allocate time for the interview. This also gave the participants the opportunity to understand the subject matter of the research, and provide valuable inputs during the interviews (which added value to the

development of the framework for venture capital early exit in South Africa). Semi-structured interviews were conducted online using platforms convenient for the participants (Zoom, MS Teams and Google Hangouts). A total of 11 directors (9 venture capital practitioners and 2 investees) were interviewed before reaching data saturation.

To ensure the credibility of the questions in the interview guide, a pilot study was conducted on one participant. The pilot study provided an opportunity to ensure the consistency of the questions, and to eliminate errors before the main interviews. The interview process took longer than expected (approximately 4 months), as the participants had very hectic schedules. In most instances interviews were rescheduled to fit into the changing schedules of the participants. In total, nine directors of venture capital firms and 2 investees (founders) were interviewed. The participants were assigned categoric codes of VCP and VCI, representing Venture Capital Practitioner and Venture Capital Investee respectively, with VCP P01 coding being Venture Capital Practitioner Participant Number 1, VCP P02 being Venture Capital Participant Number 2, VCI P01 representing Venture Capital Investee Participant Number 1 etc. Table 6.5 below shows the distribution of the interview participants:

Table 6.5: Demographic distribution of interviewed participants

Code Category	Category description	Interview code	Number
VCP	Venture capital practitioner	P01 – P09	9
VCI	Venture capital investee	P01 – P02	2
Total			11

Source: own initiative

6.5 Presentation of interview themes

After presenting the thematic data analysis process in chapter four, and applying the first five phases of the thematic analysis (Phase1: familiarisation with the data, Phase 2: initial code generation, Phase 3: themes search, Phase 4: themes review and establishment of thematic map, and Phase 5: naming and defining various themes) in the previous stages of this research, the researcher now presents Phase 6 of the thematic analysis process, which is the production of the report that provides the meaning and validity of the analysis. The research adopted the inductive approach in extracting relevant themes linked to participants' views as they relate to the research objectives and the overall aim of the research. In the report, the research outlines the themes, subthemes, and the relevant codes (interviewees' comments code VCP-P01 to VCP-P09 and VCI-P01 to VCI-P02) supporting the findings, and how the

findings are applicable to the proposed framework for the early exit of venture capital investments in South Africa. The discussion and analysis of the findings followed a pragmatic approach, stated and described in the methodology chapter, as it considered the results of the quantitative phase of the study in order to gain in-depth knowledge of the venture capital industry in South Africa, and to ultimately propose a framework that is reliable. Table 6.6 presents the themes and subthemes extracted from the interviews with venture capital practitioners and investees respectively, using the thematic process.

Table 6.6: Summary of themes and subthemes.

SN	Themes	Sub themes
1	Young and unstructured market (industry)	1). Structured exit plan 2). Not well-developed venture capital market 3). No series A, B, or C kind of arrangement 4). Market traction
2	Business performance	1). Good Return 2). Poor performance 3). Exit is opportunistic
3	Misalignment of Shareholders	1). Desire to create a legacy
4	Investment area (industry)	1). Fintech 2). Capital intensive project 3). Nature of the business
5	Economic factors	1). Interest rates (preferred investment areas) 2). Unstable currency 3). Growth rate
6	Entrepreneurial spirit and skills	1). Founders experience 2). Availability of skills 3). Lack of skilled advisors
7	Amazing financial sector	1). No history of crisis 2). Payment gateway 3). Good financial market
8	Attractiveness of investee	1). Fitness of the sector to investment mandate 2). Potential for international exit 3). Cycles invested against 4). Management team 5). Traction
9	Regulations	1). Exchange control regulation

		2). Intellectual property regulation 3). High taxation 4). Over regulation 5). Section 12J incentives 6). Labour regulations 9). Deregulation
10	Liquidity	1). Difficulty in raising capital from local/foreign investors 2). Unattractive market 3). Lack of funding vehicles 4). Concept not understood by decision/policy makers 5). Lack of capital 6). Very few investors in the African continent 7). Few foreign investors
11	Corporate activities	1). Corporate takeovers (M & A) 2). Lack of corporate activities at early stage
12	Investment mandate	1). Section 12J implication 2). Global/investors' view of South Africa
13	Small market	1). Limited clientele 2). Limited growth opportunities
14	Investee selection strategy	1). Top-down approach 2). Bottom-top approach 3). Different valuation techniques /methodology (investment thesis). 4). Investment selection stage (low early-stage funding)
15	Investment security	1). Perceptions of the economy 2). Safety of international investments
16	Loss of control	1). Degree of involvement by investees 2). Degree of risk taken by investees
17	Attractive corporate sector	1). Incentivise founders 2). Policies for startup
18	Lack of industry specific investors	1). Investors take time to understand the business 2). Investors who want it work the way it worked in their own industry
19	Profiling the South African venture capital industry	1). Track records of demonstrated success 2). Profiling the ecosystem 3). Profiling of founders
20	Lifelong investee support	1). International positioning of investees

		2). Staying in investees boards 3). Setting up business in foreign countries to attract funding 4). Collaborating with investees
21	Investment Model	1). Convertible notes 2). Little equity shareholding
22	Scaling	1). Scale internationally (go international) 2). Extend funding to convertible securities/equity funding 3). Syndication 4). Product market fit
23	Education	1). Entrepreneurial education 2). Research 3). Financial literacy 4). Media coverage of those doing well
24	Government initiatives to attract investment	Improve Perception around South Africans Tax system - Review of Section 12 J - Capital gains tax
25	Development of policies that attract venture capital investment	Policies attracting institutional fund managers to early stage Policies to create more funding vehicles 1). Incentivise institutions to invest in the venture capital industry 2). Build partnership with venture capital sector for collaborative purposes 3). Expedite the development and enactment of the startup act 4.) Relax exchange control regulations. 5). Review and relax intellection property regulations. 6). Consider the effect of BEE on labour regulations.
26	Public Private Partnership Agreement	Collaboration with industry participants
27	Education	1). Entrepreneurial based curriculum 2). Research on venture capital activities

Source: Own initiative – themes developed from interviews

6.5.1 Relating themes to the research questions and research objectives

To facilitate the understanding of themes, it was necessary to link the themes to the related research questions and research objectives as stated earlier in Chapter One of the research. The linking of the themes allows the readers to understand how the themes and codes from the interviews relate to the study, and how the relevant findings were used to develop the framework for the early exit of venture capital investments in South Africa. Tables 6.7.1 and 6.7.2 provide an overview of the research questions and objectives, together with the assigned codes used to associate them with the study themes.

Table 6.7.1: Research questions and associated codes to study themes

SN	Research question	Code
1	What strategies can be used to develop a guiding framework that facilitates early exit of venture capital investment in South Africa? (primary question)	PRQ1
2	What factors impact venture capital early exit in South Africa?	RQ2
3	What are the key challenges faced by the venture capital industry in South Africa?	RQ3
4	What can be done to improve on venture capital exit rate in South Africa to ensure early exit from venture capital investment and guarantee returns for subsequent reinvestments for economic growth?	RQ4

Source: Own initiative

Table 6.7.2: Research objectives and associated codes to study themes

SN	Research objectives	Code
1	To develop a framework that is anchored on strategies that facilitate venture capital performance for early exit of venture capital investment in South Africa (primary objective)	PRO1
2	To explore factors impacting venture capital early exit in South Africa.	RO2
3	To ascertain how to overcome the key challenges facing the venture capital industry in South Africa.	RO3
4	To provide guiding principles on how to improve venture capital exit rate and ensure early exit for reinvestment of funds in the industry for economic growth in South Africa.	RO4

Source: Own initiative

Table 6.8: Summary of themes and linked research questions and objectives

Themes linked to factors impacting venture capital exit in South Africa (research question 2 and research objective 2) RQ2 & RO2			
SN	Themes	Sub themes	Other linked RQ/RO
1	Young and unstructured market (industry)	1). Structured exit plan 2). Not well-developed venture capital market 3). No series A, B, or C kind of arrangement 4). Market traction	RQ4/RO4 RQ4/RO4 RQ3/RO3 RQ4/RO4
2	Business performance	1). Good return 2). Poor performance 3). Exit is opportunistic	RQ3
3	Misalignment of Shareholders interest	1). Desire to create a legacy	RQ3
4	Investment area (industry)	1). Fintech 2). Capital intensive project 3). Nature of the business	
5	Economic factors	1). Interest rates (preferred investment areas) 2). Unstable currency 3). Growth rate	
6	Entrepreneurial spirit and skills	1). Founders experience 2). Availability of skills 3). Lack of skilled advisors	RQ3 RQ3
7	Amazing financial sector	1). No history of crisis 2). Payment gateway 3). Good financial market	
8	Attractiveness of investee	1). Fitness of the sector to investment mandate 2) Potential for international exit 3). Cycles invested against 4). Management team 5). Traction	
	Exit mechanism and timing of exit	1). Exit planning 2). Timing of exit	

Themes linked to challenges of venture capital industry in South Africa (research question 3 and research objective 3) RQ3 & RO3			
SN	Themes	Subthemes	Other linked RQ/RO
9	Regulations	1). Exchange control regulation 2). Intellectual property regulation 3). High taxation 4). Over regulations 5). Section 12J incentives 6). Labour regulations 9). Deregulation	RQ2 RQ2/RO2/PRQ1/PRO1 PRQ1 & RQ4
10	Liquidity (RQ2&RQ3)	1). Difficulty in raising capital from local/foreign investors 2). Unattractive market 3). Lack of funding vehicles 4). Concept not understood by decision makers/policymakers 5). Lack of capital 6). Very few investors in the African continent 7). Few foreign investors	RQ2/RO2 RQ2/RO2 RQ2/RO2
11	Corporate activities	1). Corporate takeovers (M & A) 2). Lack of corporate activities at early stage	RQ2/RO2 RQ2/RO2
12	Investment mandate	1). Section 12J implications 2). Global/investors view of South Africa	RQ2/RO2
13	Small market	1). Limited clientele 2). Limited growth opportunities	RQ2/RO2 RQ2/RO2
14	Investee selection strategy	1). Top-down approach 2). Bottom-top approach 3). Different valuation techniques/methodology(investment thesis) 4). Investment selection stage (low early-stage funding)	
15	Investment security	1). Perception of the economy	

		2). Safety of international investment	
16	Loss of control	1). Degree of involvement by investees 2). Degree of risk taken by investees	
17	Attractive corporate sector	1). Incentivise founders 2). Policies for startup	PRQ1/PRO1/RQ4/RO4 PRQ1/PRO1/RQ4/RO4
18	Lack of industry specific investors	1). Investors take time to understand the business 2). Investors who want it to work the way it worked in their own industry	RQ2/RO2 RQ2/RO2
Themes linked to improving venture capital performance and exit rate (research question 4 and research objective 4) RQ4 & RO4			
SN	Theme	Subthemes	Other linked RQ/RO
19	Profiling the South African venture capital industry	1). Track records of demonstrated success 2). Profiling the ecosystem 3). Profiling of founders	RO3 PRQ1/PRO1/RO3 PRQ1/PRO1/RO3
20	Lifelong investee support	1). International positioning of investees. 2). Staying in investees boards 3). Setting up business in foreign countries to attract funding. 4). Collaborating with investees.	
21	Investment Model	1). Convertible notes 2). Little equity shareholding.	
22	Scaling	1). Scale internationally (go international) 2). Extend funding to convertible securities/equity funding 3). Syndication 4). Product market fit.	
23	Education	1). Entrepreneurial education 2). Research 3. Financial literacy 4). Community education and media coverage of those doing well.	PRQ1/PRO1 PRQ1/PRO1 PRQ1/PRO1 PRQ1/PRO1

Themes linked to early exit framework strategies (primary objective and primary research question) PRQ1 & PRO1			
SN	Theme	Subthemes	Other linked RQ/RO
24	Government initiatives to attract investment	Improve Perception around South Africans. Tax system: - Review section 12 J - Capital gain tax	other All RQs/ROs
25	Development of policies that attract venture capital investment	Policies attracting institutional fund managers to early stage. Policies to create more funding vehicles: 1). Incentivise institutions such as pension funds and other institutional investors to invest in the venture capital industry. 2). Build partnership with the venture capital sector for collaborative purposes. 3). Expedite the development and enactment of the Startup Act. 4.) Relax exchange control regulations. 5). Review and relax intellectual property regulations. 6). Consider the effect of BEE on labour regulations.	All other RQs/ROs
26	Public Private Partnership Arrangement.	Collaboration with industry participants.	All other RQs/ROs
27	Education	1). Entrepreneurial based curriculum. 2). Research on venture capital activities.	All other RQs/ROs

Source: Own initiative

6.6 Analysis and discussions of qualitative data (interview discussions)

The analysis and discussion of the findings is premised on the ideas of establishing an early exit framework for venture capital investment in South Africa. Bearing in mind the findings of the quantitative aspect of the research presented in the previous chapter, the discussions of the data from the interviews were aimed at providing further insights into better understanding the challenges, and key factors impacting venture capital performances in South Africa. The discussions followed the thematic codes discussed in Table 6.6 (Summary of themes and subthemes), and linked them to the study objectives as illustrated in Table 6.8 (Summary of themes and links to the research questions and objectives).

The discussions provide clarity on the participants' view with regards to the happenings within the venture capital industry and its performance in South Africa, through guided semi-structured interviews, with a focus on addressing the research questions and problem. Direct quotes were reproduced as they were presented/spoken by the participants, and captured in the interview transcripts. This was done in order to minimise bias, and to ensure the quality and validity of the research. The discussion and analysis begins with a description of the themes derived from the eleven (11) interviews, followed by an analysis of the theme codes which evinces the individual perceptions or opinions of the participants, as captured within direct quotes of them.

6.6.1 Analysis and discussion of factors impacting venture capital exit in South Africa

In this section, the research analysed the findings of the factors impacting venture capital early exits in South Africa, as set out in secondary research question 1, and secondary objective 1, through a review of the discussions during the interviews with participants.

6.6.1.1 Young and unstructured market (industry)

Although the concept of venture capital has been around since 1939, following the stock market crash of 1929, the Great Depression and World War II (Etzkowitz and Zhou, 2012; Reiner, 1989), the concept of venture capital is relatively new on the African continent. In South Africa it was ignited by the promulgation of Section 12J, which allowed for 100% tax-free investment in qualifying assets. Unlike in the United States, Great Britain and other developed nations, where the industry is fully developed and well-structured, the market received greater attention from market participants only after the enactment of Section 12J in 2009 (withdrawn in 2021), and policymakers are yet to understand the philosophy and market arrangement of

the venture capital industry. Prior to 2012, limited literature existed on venture capital in South Africa (Mlambo, 2013). Even after the creation of SAVCA in 1998, venture capital fund mobilisations started around 2007 (SAVCA, 2010). The findings revealed a young and growing industry, with the need for a structured venture capital market to facilitate market operations. This is supported by the following observations made by the participants.

VCI P01 said:

"No, look, it's known, but it's not really associated with Africa or with the ecosystem in South Africa. So...yes, we do need to get it out there. The way to do that, in my opinion, is to have policies or allocations of policies for institutional fund managers that go earlier and earlier stage. So, if you have to put, I don't know, 0.5% of your total assets under management into VC or into seed stage or into Series A or whatever the case is, I think that's how you do it. And I think people have a conceptual understanding of venture capital, but they're associated with the stories they hear overseas of these tech companies. They don't think of the entrepreneur down the road in need of startup capital."

VCP P03 said:

"So, the venture capital industry in South Africa is still really young. In reality, it's only about five or six years old. Well, it's older than that, but it only really achieved significant momentum five years ago when the SA SME fund catalysed the number of early-stage VC businesses in South Africa. Prior to that, there were three, maybe four VC funds active in South Africa. So, the industry is still really young. If you think about Silicon Valley, for instance, that's a 40-year project, and that's why they're at the level that they're at already."

"I think a big issue is that there isn't really a secondary capital market in South Africa or a secondary VC market."

"There isn't established series B or C or D venture capital funds in South Africa. And again, that has got a lot to do with the restrictions that is placed on the flow of funds in South Africa."

"...but it's also a matter of time in that we are a young industry. There are very few funds that have gone full cycle in terms of taking capital on board and going through

a full fund cycle of 10 to 12 years and closing a fund and demonstrating what the actual IRR of a fund is, and that will only come over time”

VCP P04 said:

“I think one benefit in South Africa is that it's a relatively small market for venture capital. I think there's more demand for money than there is money available. So that there's less competition, put it that way. If we find a good business that's unlikely, they talk it to anybody else. That is an advantage for being in South Africa.”

“Yeah, I think, you know, in my experience in the South African market, there's very little differentiation between the seed stage, the angel stage, the growth stage, series A, series B. Those are first world refinements on the venture capital model. I mean, in South Africa, it's kind of early stage.”

VCP P05 said:

Sure. I think firstly, it's about the actual structuring of your particular organisation. What we've seen work well is if you have a holding company in a more developed market and operating company within a local market, I think it sets the framework because there's global standards for how M&A operates in more developed markets. You don't really have to deal too much with regional heterogeneity. So, the structure that we typically see is that you'll have a US hold firm and let's say a South African operating company. There's typically well-defined standards and procedures for M&A in the US and Europe, etc. So, I think the company's structure is really important.”

“Okay, I think it's the lack of exit alternatives.”

“I have seen the emergence of new alternative exchanges like the Altex or the Cape Town Stock Exchange, but they don't have much traction yet.”

“So, there's no real over-the-counter, or these public market alternatives and IPOs are very challenging in the country. So, I'd say it's just the lack of exit opportunities.”

VCP P07 said:

“Yeah. So, we’ve had, I’d say three years. So, we’ve had a few partial exits and those were, I mean, the two that I’ve got at the top of my head, because we’ve only been investing since 2016. So, we’re not that old. So, about three years. It took three years to get to the point of having a form of exit.”

VCP P08 said:

“Yeah, again, I can only give you this answer. We’ve, in our short history of existence, so let’s say one of our most active investment vehicles only started investing in 2019. And we’ve had our first exits already in 2022, so three years later. And they were phenomenal exits in terms of a return that we’ve generated. But we really play it on, it’s really on a case-by-case basis.”

VCP P09 said:

“So there was a tax break for investors called Section 12J, which came about in early, I think it was 2013 or so, trying to attract investors into the venture capital industry in South Africa, so my partner and I were attracted by the opportunity that was going to open up, but then also it’s a fledgling industry, so there’s a huge amount of greenfield opportunity there, and we wanted to be part of growing that, growing the business into, or growing our business and helping to contribute to a more mature ecosystem for venture capital in South Africa.”

In conclusion, only a few participants were active in the venture capital space in South Africa prior to the enactment of Section 12J – tax legislation – that attracted venture capital firms into business in South Africa. More so, the industry is still developing, with very few structures in place, in order to ensure that there is operational efficiency. This then ultimately accounts for the low exits of venture capital investment in South Africa. This is in line with the view of Frimpong et al. (2024) highlighting that the size of the economy and monetary supply increases liquidity. The market size of South Africa, coupled with the fact that the concept is still new and unknown constrains performance and exit. Besides, the capital market is unstructured, with limited options for IPO exits, which further stifles the industry’s performance, as highlighted by Guttermann (2022) and Minardi et al. (2020).

6.6.1.2 Business performance

The results from the interviews revealed that the operational performance of a business is a contributing factor to investment exit in South Africa. The greater the performance, the more it attracts funding from investors, and vice versa. High performing businesses, which generate early returns, would normally result in an early exit. While profitability may not be paramount, investors are interested in seeing evidence of growth prospects. More so, exits in South Africa are opportunistic, and an investment would be exited as the opportunity grows. This is supported by the following explanations from the participants.

VCI P01 said:

“The risk return profile on capital is not great. So, the delta between investment returns on a call secure or safe asset class is not enough of a difference to what the VC guys are earning. So, there isn't a lot of incentive for money to come into the more risky assets, which is why there's a lack of liquidity through the class of investment.”

VCP P01 said:

“In the case of what I mentioned there in terms of poor performance or lower profit targets, that really just delays your exit from a result or return results, return on equity results or a multiple on invested capital results. So, it's a combination. I see that these are some of the factors, so let's call it poor performance.”

“If these business operations are working well, and they're streamlined. That leads to a case of a company that would look attractive for an exit.”

VCP P02 said:

“Is there, can we see the exit and is the exit price that would be paid potentially a multiple of what we invest?”

“So, their business performance counts a lot.

... Profitability, the companies don't have to be profitable, but I need to see, for example, the path to profitability.”

“We need to understand how they have performed over the last few years.”

“... So, there are a wide range of external and other issues that impact timing, that

impact whether an exit over and above, whether the company is actually fundamentally good, whether this is actually an attractive investment for somebody else and therefore an exit opportunity.”

VCP P03 said:

“I think business performance is your number one measure.”

“... Business performance and profitability.”

“I think it's predominantly to do with lack of performance of the investee company that causes a later than expected exit.”

“So, one factor that is driving the decision to exit earlier is to attain a higher IRR and start giving money back to your investors, which is always useful and that plays into the bigger dynamic of having to raise future funds.”

“So, I would say those are probably the main reasons or you can just get lucky as an investor, receive an unexpectedly high offer from a strategic investor that's really interested in the business right now and is willing to pay the premium above what you think the business is worth at the moment. So, I suppose if you get a better than expected offer, you may consider to take that.”

VCP P04 said:

“I think, it just comes down to how successful the business is. If the business is doing well, you'll always find a way to exit. If the business is struggling, you'll battle to sell it. So, it really comes down to success.”

VCP P05 said:

“When we make an investment, we have a particular view on current market conditions, the current market opportunity, and the current performance of the business...”

“... If we think that the market opportunity wasn't as large, or performance has been substandard, we may look to exit early just so that we can essentially get some capital out of a particular opportunity and recycle that into higher conviction opportunities.”

... “The third is when the company will be performing exceptionally well.”

VCP P07 said:

“Because if you go to a pension fund manager and say, allocate funds to us, but you've been losing money or you're not really performing better, then they wouldn't give you the capital.”

VCP P09 said:

“Yeah, so let me just say that getting a good exit is actually partly, there is actually, part of it is luck, right place, right time, we made an investment which had an early exit, that we were just in the right place at the right time, we literally in and out in the business in two years, and we made over 200% internal rate of return on that particular transaction, it was just a wonderful deal for us, and we just managed to catch the wave, so sometimes it's a bit of luck...”

While there are good opportunities for exits, depending on the performance of the business, investments that are not performing well are also written off early in order to mitigate further losses. This seems to mitigate the effects of keeping middle-ground (living dead) investments, as described by Chaplinsky and Gupta (2016) and Ruhnka, Feldman and Dean (2022).

6.6.1.3 Misalignment of shareholders' interest

The findings from the interviews also revealed that the low exit rate, or fewer exits, is not because investments are not profitable or good enough for an exit, but rather some stakeholders, particularly funders, shareholders, and founders, become sentimentally attached to the investees, and would want to create a lifetime legacy, and thus prefer staying invested with a particular company rather than exiting. This of course impacts the overall exit performance of the industry. Also, exits can be impacted by conflicting views of the funders and the investee management team. Funders may not be willing to provide venture capitalists with funds for specified periods that can grow the business to a level significant enough for an exit. The following comments support the view regarding the misalignment of shareholders.

VCP P01 said:

“The other piece is, of course, that sometimes shareholders are not aligned at the same time ...”

“... You may have a funder or another shareholder that wants to stay in a bit longer. He wants to go and stay on a few more stages or he wants to exit in a year or two longer than you would, and sometimes that can derail the plan slightly ...”

“... I mean, the other major part is, as I say, when shareholders are not aligned. So, when not all shareholders are willing to exit can cause a bit of difficulty.”

.. “Well, it happens, in certain startups that, some of the early-stage funders want to have an attachment to the business, almost want to call it an emotional attachment or they want to hang on for some sort of legacy in the business.”

“What I mentioned here now is in terms of initial investment criteria. So, if you select the wrong team of founders, for example, without the right team and the right makeup of entrepreneurs or startup founders, you find that you're going to have a bit of conflict at some point when time comes to exit. Because like I said before, as much as they know that the VC or investor wants to exit at some point, it's never the right time for them most of the time. So, it can be key to be just clever about how you do your initial investment criteria.”

VCP P04 said:

“Well, I mean, my expectation is when we invest in early-stage businesses, we're going to be invested for a long time because, and I don't know if this is a particularly South African thing, but nothing grows that quickly and everything takes longer to resolve and sort out businesses than, you know, maybe than you planned or you hoped.”

VCP 08 said:

“So, I believe that there is a lot of money. I know there's a lot of money, but the money is only available in terms that the people that need the money can't accept.”

“... We've approached South African pension funds, and we told them, guys, we offer you our entire portfolio. We offer you that as first lost capital. And they said no, we're not interested because we can only give you money for five years. We can't give you seven-year money. So, there is a complete mismatch and it's a result of, South Africa is a very extreme society ...”

“... So, there's a lot of investments in our portfolio where I don't think we would have a problem exiting them. But we choose to hold on because we do believe that it

would be too early for us. And we can generate a higher return by holding on to them. I don't know, average time, I would expect you to know, nothing out of the ordinary, maybe like five to seven years. But to be very honest, a lot of them I would prefer to hold on for longer. And a lot of them we've held on for much shorter.”

“... We don't invest because we want to exit. It's very important. And I think it's important that you know that... the importance of venture capital and to grow the South African economy, grow South African SMEs, have an impact on job creation. No, I haven't met an entrepreneur yet that says, I want you to be our partner for three years and then you must exit. The entrepreneurs that we have met, they look for long-term patient partners. Yes. And that is the role that we play ...”

This last view contradicts the analysis by Seraf Technologies (2024), who believes that venture capitalists generate multiple returns that are higher in shorter periods than in longer periods.

VCP P07 said:

“I mean, we've had, there was a deal, I think it was two years ago we wanted to do, but we walked away because this business had received funding from the government, from what's it called, the (institution's name withheld), right?”

Evidently, venture capital practices in South Africa seem to be interesting, as the investors prefer to hold on to their investment, either to create a legacy or to just grow the economy without focusing on exit (this category views an exit as an opportunity). In some instances, exits are delayed or are low, due to the lack of funding, as highlighted by Mateko (2024) for the appropriate investment periods.

6.6.1.4 Investment area (industry)

The study revealed that investments in the tech related sector attracts more funding, with high exit potentials, as it is much easier to scale and grow. These findings align with Cumming and MacIntosh's (2002) findings that economies with good tech regulatory frameworks easily attract venture capital and private equity managers to invest in high-tech SMEs that spur innovation, and mostly exit through IPOs, rather than through buy-out and trade sales. Apparently, not every form of business leads to early exit, and the tech industry is one of those attracting venture capital investors across the globe, and accelerating business development (Giot and Schwienbacher, 2007). This is supported by the following quotes from participants.

VCI P01 said:

“So, I've worked well with technology because that's probably the most general, but I've got financial services and insurance focus, I've got education, food and agri, and consumer, and then property technology...”

(The above comment is from an investee who doubles as a consultant in the venture capital industry and senior executive in an investment company).

VCI P02 said:

“I am one of the three founding members of a company called (company name withheld). It is most probably Africa's largest integrated... company. So basically, we would work with from large podcasters up to radio stations and media groups and they would give us their audio streams, live streams, which we send out on the internet and also the podcasts.”

“It's very much like almost YouTube for digital audio where we do integrated podcast streams and digital advertising... We've got 120 streams, 16 countries, multiple languages ...”

VCP P01 said:

“Look, other than the fact that it's, it's a, a very high-paced tech industry with lots of IP and lots of opportunity. It brings a lot more opportunity to exit. There's a lot more potential acquirers in that type of space. It's much more difficult if, for instance, we've invested in food businesses; bricks and mortar, I want to call them old school manufacturing entities...”

“... They take a lot more capital, and they take a lot more space and people to scale. Whereas if you can have a good fintech, for example, that requires five or six engineers and a very interesting business model, such as a service, or a software product, then that can scale exponentially without having to inject large amounts of capital; and if you have a successful one or you take a piece of a successful one, they tend to attract buyers quite quickly. So that's the reason why I prefer being in the fintech and tech space now...”

"Well, most of the companies we are taking an investment in are very much in the early stage. So, it's fairly easy. We can take a safe note or convertible debt note."

VCP P02 said:

"So, we invested in, let's call series A-stage technology companies in South Africa, which means these are normally companies of between 10 and 50 employees. They are at the point of investment, not profitable, but post-revenue."

... "No, we never did seed" ... "They have industry traction. It's about scaling."

"...specifically, companies where we believe that there is a significantly large market and where we believe that there is exit potential."

VCP P03 said:

"... As I mentioned, we come from an incubator background, building businesses from pre-revenue just around a technology solution, and turning those into businesses, and growing them from there on to the point where they are actually generating revenue and things like that..."

"... So, on the one side, it's stuff that we know. It's risks that we understand, and we know what the process is to grow a business. So, we're comfortable with that. But also at the seed stage, if you've got confidence in the investment that you're making, you can attain a better stake in that business, for less money than when you come in at a growth stage, where everything is proven and completely de-risked, and the price significantly goes up" ...

"Yeah, our current focus is principally tech investing... so we invest at the pre-seed and seed stage. So early-stage technology businesses with a competitive advantage through their technology."

VCP P04 said:

"Yeah, our current focus is principally tech investing."

"Um, you know, I suppose maybe it's unique, unique technology. That's probably unique, exportable technology. So, something that you could sell around the world."

"Yeah, we invest in the seed stage, startup, growth funding, and all that..."

VCP P05 said:

“In terms of our investment focus area, so we currently manage the corporate venture capital fund on behalf of (name withheld). So (name withheld) is a large port authority, large port operator, excuse me, that operates out in Dubai. So, our focus is very much on supply chain and logistics.”

VCP P06 said:

“Vehicles. So, this is in particular for section 12 J. Section 12 J. Which was a tax incentive. So, it's mostly movable assets.”

“Yeah, probably startup or growth because that means you can get a nice chunk of the equity at a low price. You can get a board seat, perhaps you can play more of an active role in the company, and then there's also usually less competition in those stages because of the risk.”

“I know of a company, a solar company that my friend works at, that they invested 20 million Rand in month one, and in month four they exited with 80 million Rand, but then I also know a friend that works at a private equity firm, they still trying to exit and it's now five, 10 years down the line.”

VCP 07 said:

“So, we are sector agnostic, we invest across the various sectors. We don't have a specific sector focus. While we do invest in early stage, like the venture capital stage, we generally see ourselves as almost a permanent asset vehicle. So, exits are more opportunistic as opposed to having a specified cutoff date for exit.”

“But the ones we've had partial exits are largely the ones that are capital intensive.”

“The challenge is it's very difficult to, a lot of businesses find it difficult to reach, especially those in the business to consumer space, like B2C space, they just don't have the same reach as the bigger players.”

The implication is that this participant (venture capital firm), wants to ensure that the firm reaches all businesses across the industry that require funding. This is the main reason for which the firm was created – to fund early-stage businesses in order to empower

entrepreneurs within the black community. This seem to align with the 2030 agenda, of building capacity by training, and developing one million youths in the tech sector to realise the digital economy in South Africa (Bamata et al., 2019; Gqoboka et al, 2022; Mateko, 2024) which unfortunately is constrained by acute lack of funding (Faku, 2022; Jones and Mlambo, 2013; Mateko, 2024) caused by lack of proper institutional and regulatory frameworks.

VCP P08 said:

"We largely focus on tech investments at the moment, but we have various venture capital investment companies, and each of them has a different focus. But the one that's most active at the moment is specifically looking for tech."

"So, we, we, we expect there to be very clearly defined growth plan that's accompanied by a very clearly defined budget, not necessarily a forecast, but a, but a budget. And we would then look to fund the, or well, to fund the growth capital as required to achieve the growth plan."

"... We don't have a clearly defined mandate, we don't have a clearly defined return requirements for our investors, we don't have a clearly defined exit horizon."

"Our sweet spot would be seed funding. But we have done pre-seeds, we've done angel investments, we've supported entrepreneurs that came to us with an idea and a half-developed platform..."

VCP P09 said:

"So, and we look at tech businesses, so it's all technology, and the various sub-industries of that would be, you know, FinTech, HealthTech, AgriTech, EdTech, for example, LogisticsTech, so those are the kind of businesses that we invest into, and our timeframes are long, venture capital's long-term timeframes."

"... So, if you've got an environment which is thriving in this sort of VC space and companies that are investing in that space, and then you're going to attract other venture capitalists into the market because it's a thriving ecosystem, all of that helps." ... "We don't do a lot of pre-seed. ... we do seed up to series A,... So, primarily, we operate in the kind of seed, post-seed, series A space. Early stage, very much early stage, but not right at the very, very, very beginning."

“We just found that valuations are lower, your opportunities to get in and get a meaningful stake are better. And, yeah, I just find it's a good, we found our sweet spot in that area”

In conclusion, despite the unfriendly regulatory environment highlighted by Sutherland (2020), the lack of transparency in the regulations (Faku, 2022), the lack of funds (Jones and Mlambo, 2013; Mateko, 2024) and the general risk involved in early-stage tech startups (Pezeshkan et al., 2019), venture capitalists in South Africa have a soft spot for the sector. They still devise means to leverage their operations irrespective of the challenging regulatory environment around IP transfers, and the acute lack of liquidity and funding vehicles. This implies that an enabling environment can create a huge positive impact for the sector to grow beyond the current state of affairs.

6.6.1.5 Economic factors

The findings revealed that the state of the economy plays a critical role in attracting venture capital investors into the country, as highlighted by Toumi and Neto (2013). The findings point to the fact that the growth of the South African economy has been slow over the past years, people are poor, the cost of doing business is high, and the currency is volatile, with high interest rates. This is supported by the following explanations from the participants.

VCP P01 said:

“Of course, there are those macroeconomic factors that we can't get away from. Venture capitalists in the US, probably see this market as having too much risk whereas, our venture capital industry in South Africa.”

VCP P02 said:

“In South Africa, if you want to go and have lucrative exits, your exit target is most likely international. It's international investors.” “If South Africa as a country is perceived in a negative political and economic stability light, foreign investors will rather go and invest somewhere else than in South Africa...”

“... And really commercial investors in a VC environment; they might be interested once in a while in a very specific deal because of the technology, but otherwise they are shying away from South Africa at the moment ...”

“... Of course, exchange rate has a significant impact ...”

VCP P04 said:

“I think it just comes down to economic growth. It's really hard to start a new business if you're growing it at 1% a year. Back in the early 2000s, we were investing when the country was growing between 3% and 5% a year. It was just so much easier to grow a business and make money.”

... “I don't sit in the United States or in the UK and I look at South Africa”...

“... So, whether it's the gray listing, whether it's the shitty economic growth, whether it's the stories of crime and corruption, whatever it is, South Africa has fallen off the world map in terms of new investment money ...”

VCP P06 said:

“Corruption. These are all, I think, very big blanket statements, but it feeds into every aspect of life in South Africa. It is the corruption, electricity, crime. I mean, why would I invest into a VC if the area is unsafe or, you know what I mean?”

“... Investing into South Africa is becoming more and more tedious, especially for foreign investors ...”

“... They don't see the benefits in delaying gratification now for future gratification, and actually putting that money away, earning seven, eight percent interest per year ...”

“... So, it's mostly macroeconomic issues ...”

VCP P07 said:

“... if I'm an entrepreneur, and I'm looking for investment, I want people to invest in my business that, they can open doors for me. So, it helps if the economy is growing, that the government has created an environment where there's growth in the economy, the more activity in the economy is better, it creates opportunities. But with that, I think what's important is, as VC, as funders, we should be able to find

markets for people, relevant people in the markets that our entrepreneurs need to invest in. I think the government can help by creating markets, by finding markets and growing those first.”

“I mean, things like loadshedding do not help because they make it way too expensive then for our entities to, or for our investors to compete, right? If you don't have power most of the time, you need to then spend money to find an alternative, money that could be used to grow the business, that could be used to access those markets. If you can't get your goods to the port or get it exported, you have to spend additional money to find a way to do that. And we couldn't just open up a business in India that would do it at a cheaper rate”

VCP P08 said:

“I mean, high interest rates, ever increasing tax rates, increased cost of living, petrol price going from 12 to 22 Rand within 18 months, all those things” ...

VCP P09 said:

“... A difficult economy, because ultimately, you're needing a thriving economy to help those ventures actually take off quite nicely, quite often. There are exceptions, but you're needing a good economy. So, if the economy is poor, if you've got high interest rates, because the main types of exits you're going to get are, so listings would be one. But we haven't had many listings in this country for some time, from a venture capital side ...”

“... So, South Africa's got a very low risk appetite for investment in general. That's not a venture capital economy yet, in terms of the way that the investors think ...”

In light of these observations, there is an absolute need for the powers that be to foster policies and actions that can realise a growing economy, as the growth rate serves as a good indicator of the country's ability to attract investors. Carvalho et al. (2014) and Minardi et al. (2020) note that a stagnant economy, as in the case of Brazil during the 1980s and the 1990s, did not attract any investment. This implies that the need for curbing inflation, reducing borrowing costs (interest rates), and incentivising the sector through tax breaks etc, would add value to the venture capital industry. Investors would be attracted; performance would improve, and there is potential for an increase in the number of exits.

6.6.1.6 Entrepreneurial spirit and skills

The research findings revealed that, although it may be difficult to find the right skills sets to engineer entrepreneurship and attract investors into South Africa, there exists amazing talent in innovative and creative technology. There is amazing ingenuity in South Africa, which can help improve the venture capital market, and give South Africa a competitive advantage in the tech industry, if given the required support. Such technical expertise would play a key role similar to the experience of Silicon Valley in the United States (Vanacker and Manigart, 2013) and China, where innovative technology helped build the industry (Lin, 2019; Salter, 2009), and where exits are achieved within 3 to 4 years in the tech sector. In similar reasoning, the Brazilian venture capital does not experience much of an exit problem (Mirnardi et al., 2020), because of the tax-deductible incentive that allows technology companies to utilise funds from R & D to finance venture capital operations. On the other hand, the lack of entrepreneurial skills sets (management and numeracy skills) to run businesses negatively impact the investees' abilities to grow and scale the South African venture capital industry. These findings are supported by the following quotes from participants.

VCI P02 said:

"We are proudly South African."

"... We're not importing anything. You know, all our developers are based in Cape Town. We are working remotely, but we've been able to find all the people we need to... not easily. Yeah, it's quite difficult to find very skilled programmers. But we've managed to, we've managed to come by. So, in that sense, not easy, but certainly possible. And we do have an excellent skill base in South Africa."

"... One of the things which one of the European partner companies was exploring with us at one point was actually to move the more of the development to South Africa and have us manage that because of the perceived quality of the workforce and the work that we do."

VCP P02 said:

"Of course. Yeah, of course [we do have skills]. I mean, we've done it."

"We've invested, we've built funds, we've exited companies, we've made returns for our investors. The question is whether we have enough [skills]. That's a different question. But do we have them [skills]. Yes, of course. Of course we have [skills]."

In terms of the mastery of business concepts, it would appear that many do not possess such qualities and expertise, as indicated by the following comment from participants:

VCP P02 said:

*“So many don’t, but then they shouldn’t get venture capital money.”
...” we expect them to be able to run a business. Otherwise, we would not invest. I mean, we as the VCs are not the one running the business.”*

VCP P03 said:

“... I think given that we invest in the technical businesses and technical founders, often those guys are really good at the tech, but very bad at the business side of things. And so, a requirement of our investment sometimes is that you need to bring in specifically a CFO type role in business to supplement your technical strength ...”

VCP P04 said:

“Yeah, in our experience, you often find people who are very good technologists, but not necessarily good businessmen. So, they know their technology and they love their technology, but they're not really good at how do you sell it effectively and how to grow a business effectively, how to market it effectively. So, they are masters in part of being a business owner, but not in the whole range.”

“Therefore, so in effect, they've got a technical know-how, but they lack the entrepreneurial ability somehow.”

VCP P05 said:

“... I think five to ten years ago, I would say the structures were not in place, I think there was a lack of skill sets is the wrong word. But I think more and more you're seeing these structures being put in place...”

“... So, I would say, that has changed. There is entrepreneurial talent in South Africa and the rest of Africa more broadly ...”

“...So, yeah, so I'd say in South Africa less so just because entrepreneurship is typically not a focus point of many school curriculums ...”

VCP P06 said:

“... But I think in Africa we’re entrepreneurial. Everywhere, in Africa, people are entrepreneurial because they have to make money for themselves... So, I think that South Africa is right with entrepreneurial spirits. There's opportunity everywhere. What I do think, though, is financial literacy. People don't know how to keep books of accounts ...”

VCP P07 said:

“I think, I agree. I think we've got good universities. And we find that the people that do particularly technical degrees, like engineering, like sciences, they tend to be very effective founders. They definitely have the skills. I think South Africa definitely has the skills. I don't think there's a challenge to attract investment ...”

VCP P08 said:

“Absolutely. That's key. Yes, absolutely [there are skills] ...”

“... I can tell you there is so much amazing South African ingenuity. There are so many bright guys out here that come up with amazing ideas that have international appeal, but the challenge is that they don't get the support.”

VCP P01 said:

“... Sometimes, of course, they don't demonstrate any knowledge of the market at all. So even though they may start off their proposal with an interesting problem or an interesting solution to a problem, but the pieces of the parcel do not fit together. It just doesn't show a good mastery of the product that they want to create, or they don't show a very, holistic overview of the whole business model.”

“So that can hinder it. So that's why I say it's, 50-50. It's not always that you'll see an interesting business model and process from them.”

“... I'd say no. Let me qualify why I say no.”

“This is because a lot of entrepreneurs in this country become entrepreneurs out of necessity and not out of, creativity or inspiration.”

“In other words, you have a South African that may, for example, not have or come from a family that can send him to a university to get well-educated or to a business

school or a place where he could understand these things. He then decides he wants to be in his own business, and he tackles something, which is, like I would call it the bricks and mortar type of entrepreneurship.”

“... So, he trades goods and maybe he has a basic service and then becomes more of a lifestyle entrepreneur.”

“So that they tend to find and grow into by accident. Whereas there's probably not enough, entrepreneurship training, even though some schools I see, high schools are offering business studies. It's starting, it's better, but it wasn't like that in the past.”

“So, I would say we don't have it yet, but we're getting to that where perhaps entrepreneurship and business ownership is becoming a subject worth exploring for South Africans.”

VCP P09 said:

“... Yeah, so we, certainly when we start off with them, you know, we're doing background checks, we're looking at their experience, we're looking at the team, what they can bring, we believe that many of them have the skills to bring about a successful business and bring about an early exit or a good exit, but only some of them make it... so, some of these things are outside of the control but certainly there are, when you sign up with someone, by the time you're signing up with them as a venture capitalist, you believe that they've got the skills, the requisite skills and experience to pull off what they need to pull off.”

These responses are confirmation of the answer to the question of whether South Africa has the requisite entrepreneurial skillsets that can attract venture capital investors. According to the participants, at the moment South Africa has the technical ability to excel in technology, but certainly not enough entrepreneurial skillset to run the businesses (Fatoki, 2014; Mateko, 2024). In line with the resource-based views, South Africa seems to be falling short of the resources required to ensure industry resilience, as the startups are not only in need of funds but also in need of entrepreneurial capacity required to build the valuable, rare, inimitable and non-substitutable resources (Zvarimwa and Zimuto, 2022). Policy makers therefore have to play a role in building the institutional frameworks that show industry resilience as evidenced in China, the USA, Brazil, and Russia (Autio, Nambisan, Thomas and Wright, 2018), to ensure a striving venture capital ecosystem that would give South Africa a sustainable competitive

advantage over other nations as it exploits its technological ingenuity (Ozanne, Chowdhury, Prayag, and Mollenkopf, 2022). This adds to the dynamic capabilities of the economy.

6.6.1.7 Amazing financial sector

The findings revealed that South Africa is blessed with an amazing financial sector, with no known history of crises such as that of 2008, but is failing to add value to the industry, as institutional investors such as pension funds, insurance companies, and DFI institutions are risk-averse, and hesitant to inject money into the industry. This view is supported by the following comments from interview participants.

VCI P01 said:

“You've got a rule of law, you've got currency that's recognized, you've got tertiary institutions ...”

VCI P02 said:

“We've..., by the way, and banking, banking is a sort of top-of-mind thing, because one of the things that we need for our service is the ability for people to automatically subscribe via credit cards and just have, you know, transactions run. You probably may find this surprising, but it's been incredibly difficult to set up a mechanism where there's an international payment gateway where we can actually integrate automatic credit card payment, international credit card payment solution.”

VCP P03 said:

“...South Africa seems to have quite well-developed capital markets and private equity markets, but the reality is that there's very few, very little money actually making it down into the venture capital industry and into early-stage investment ...”

VCP P06 said:

“... I mean, we've got strong financial institutions, but it still results in inefficient allocation of capital.”

VCP P09 said:

“So, we've, as a country, we get some things incredibly wrong, but we get some things incredibly right. And one of the things we've got right over time has been our financial system is very mature, it's very sophisticated, but it's also very, very risk averse.”

“... So, we've got institutions like banks that never fell into the banking crisis that the American banks fell into, and other first world countries were way overleveraged and the global financial crisis in 2008, our banks weren't affected, or they were affected, but they didn't have any major issues off the back of that. You've got banks, you've got insurance companies, you've got pension funds that are very well run, but they're very, very conservative... So, we're quite a risk-averse nation. So that's a cultural thing. There's something in the DNA of South Africa, which is not nearly as embracing of innovative new ways of doing things, um, uh, risky, higher risk, higher return type of investments, which can add benefit to a portfolio when done within a small portion.”

The interviews revealed interesting facts about South Africa's financial sector, including the fact that the sector could help provide institutional funding, which the venture capital sector in South Africa is in dire need of. While they point out that the financial service sector is excellently structured, organised and efficient, it still falls short of providing the impetus to adequately support investments in venture capital. Financial institutions, if given the mandate, with proper regulatory framework, could act as institutional investors in the economy. In the case of China, Lin (2019) and Wang and Sheela (2020) explain that the government in 2010 put measures in place that allowed insurance and social security funds to fundraise, and make private equity investments in venture capital activities, which provided further access to finance. Cumming and MacInctosh (2002) argue that exits can be influenced by the presence of institutional investors such as pension funds, banks, and other investors, as they syndicate sourcing and providing funding to industry.

In the USA, Pension Funds played a great role, and were not taxed on their private equity and venture capital investments (Grilli, Latifi and Mrkaic, 2019). Their commitment to ensure economic stability in Brazil during the 1994 Real Plan brought down inflation from 50% to 1% monthly (approximately 5% yearly), which was an important milestone achieved, especially during the tenure of President Lula da Silva (2003 and 2004). In India, Dominic and Gopalaswamy (2019) noted that the businesses financed by the Business and Financial Services Industry (BSFI) have a high probability of exit due their high liquidity, with an estimated exit duration of between two to six years. Several examples exist across the globe, where venture capital funding is facilitated by these institutional investors. They can be mandated to mobilise funds from companies and the general public, including high net worth individuals, to invest in venture capital activities.

6.6.1.8 Attractiveness of investee

On the part of selecting a prospective investee for investment, the findings revealed that acquirers and investors are most often attracted by the investee's ability to manage their own businesses (management team), industry traction of the investee, proven business concepts, scalable business, the attractiveness of the technology, customer base, track records of the company, and many other variables. Hence investing in companies that do not demonstrate most of these characteristics may result in late exit. This is supported by the following comments from the participants during the interviews.

VCI P02 said:

"We've been through a couple of rounds where we spoke to companies and most of them wanted to see us at least break even, which, you know, it's already sort of an interesting conversation if you're talking about angel-type capital. So, we had to spend quite a bit of work to actually prove the concept. And we've been part of a program called Grindstone where we did very well, but we sort of just missed the cut, I think, unofficially. I think we came second to the company that was first, was bought out by (company name withheld), I believe."

VCP P02 said:

"The company doesn't have enough, well, either the industry has changed, or the company doesn't have enough traction or doesn't have enough traction in the areas that matter to a potential acquirer."

"For example, if it is important to potential acquirers that you are more than just South African, but actually African, for example, and you only have a footprint in Africa, then that's a reason why you simply can't get acquired at the moment. So, it's normally about traction."

The participant went further to emphasise that the team, the market, the technology, and the possibility of a clear exit with multiple returns on what they invest, are crucial to choosing an investee. The participant said:

"It's the team, it's the technology, it's the market. And is there, that is actually very important. Is there, can we see the exit and is the exit price that would be paid potentially a multiple of what we invest?"

VCP P03 said:

“... And one of the questions that one looks at is if any of their current clients could potentially be an acquirer in future. So, I suppose one would have sight of potential early exit opportunities during the due diligence phase.”

“I think generally one looks at the normal success factors for an early business to have a really good team, a strong entrepreneur driving the business, a good solid market, fundamentals, a competitive advantage and things like that.”

“But I think what would potentially make an early exit more viable is if you invest in second time or third time founders that really understand what that exit journey looks like and have exited businesses previously. I think your chances of achieving an early exit is significantly enhanced.”

“Yeah, I suppose the main reasons for later exits is that there hasn't been sufficient traction for the investee company to have realized the kind of value addition that you're hoping for as an investor. So, either the company had technical challenges in bringing its product to market, or the adoption has been slower than expected. I think it's predominantly to do with lack of performance of the investee company that causes a later than expected exit.”

VCP P05 said:

“So, they essentially want opportunities to have some type of track record, to have some type of traction that they can point to as evidence of product market fit.”

“So, I'd say a lot of it is not really in the conceptualization or product design phase. A lot of it is, you know, you've proven product market fit and we're adding additional capital to help you scale.”

“The first is relevant experience. So, does senior management, does the founder(s) have significant relevant experience and market knowledge? What is their unique insight into particular opportunities that we think we get back?”

“The next is customer engagement and this really relates to traction. Depending on the related stage, this might be revenue. If you're earlier stage, it might be activity metrics such as user engagement. It might be the number of views or whatever, just activity metrics that we can show that, there is actual demand for this particular service that you're offering. So that's customer engagement.”

“The next point is user adoption. This is how easily can customers adopt a particular product or service? “

VCP P06 said:

“Yeah. High cash flow, good reputation, long history, successful history. Yeah. Good management.”

VCP P07 said:

“Yeah. I mean, while we haven't had a lot of exits or we don't have a view of it, we want to grow value. So, the question is relevant. So, the most important thing is generally the management team or the founding team of that the target is... We find that we are most comfortable when the founding team or management team has founded a business before, or they founded and exited an opportunity for business before because it speaks to their ability to operate a startup to get you and build value.”

“... then their background, because you want, ideally, you want complementary skills in the management team, especially for the core of whatever that business is. It doesn't help to have, because some things you can outsource, right, as a business, but if that business is outsourcing its core, what it's there to do, it's problematic for us. So, we'd want them to have the relevant skills in that area.”

“So, with those two, generally, gives you a sense of comfort in terms of track record and ability to move forward. We wouldn't necessarily look at things like product market fit, and that probably comes in a bit later because we invest early.”

VCP P08 said:

“So, what are the key factors that we look at in selecting our investees? There must be a high level of integrity and ethics to be found within the entrepreneur. There needs to be a very professional developed growth plan that can dissect and scrutinize. So, we're more looking at the merits of the company and the personality of the entrepreneur, as opposed to will we be able to exit this quite quickly, because we're not interested in an early exit.”

VCP P09 said:

“... you've got to have a really good quality founding team, so good founders, if they've got networks, if they've run more than one startup before, so on to their second or third startup, and they've got a network within the industry, or within the startup world also helps, and then of course the popularity of the sector that they operate in, that's also key, so I mean, you've got some sectors that are hot, if you're in artificial intelligence right now, that's driving most of...”

In essence, if you have a founding team that is not good, and has no experience, the business will fail. This justifies why Barnard and Chicktay (2018) observed, that venture capitalists spend a considerable amount of time screening and selecting investees in order to minimise the effect of adverse selection. About 50% of applicants for venture capital funding are rejected after the initial review (Bronzini, Caramellino and Magri, 2017), and only a few eventually get venture capital funding (Morawczyński, 2020). This takes us back to the aspect of skills availability (both technical and entrepreneurial skills), and necessitate the importance of building a proper skills-base, to build and manage companies that would attract venture capital funding in South Africa.

6.6.1.9 Exit mechanism and timing of exit

According to Chaplinsky and Gupta (2016), a successful timely exit ensures that venture capital firms recover investment funds for recycling, which builds the reputation of the venture capital industry, as these funds are reinvested into new ventures. Successful exits give limited partners confidence in fundraising for new capital, which increases the liquidity of the industry. Exit is key to venture capital operations (Gompers and Lerner, 1998), as investors realise their returns on investment (Covin, Daily and Dalton, 2001; Cumming and Johan, 2008). As such, it is therefore necessary for venture capitalists to have structured exit plans, which motivate investors to invest in the various sectors. The following comments outline the expected investment exit durations and exit mechanism, as noted during the interviews by the participants from the venture capital industry in South Africa.

VCI P01 said:

“...That mandate is the LPGP partnership, and most closed funds in the country are 10 years plus 2. So, it's a 10-year period.”

VCI P02 said:

"The whole from the beginning, the idea was to prove the concept, so that we eliminate some of the risks, and then get sufficient funding that we can really accelerate it and preferably do an exit to an international company."

VCP P01 said:

"...these investments can be exited within three to five years [7 years maximum] and easy to scale."

VCP P02 said:

"Yeah, I mean, the point is, if you want to kind of go to exit, you need to understand why a potential buyer would be interested in that business because we don't believe in IPOs as the exit mechanism. We believe in M&As as the exit mechanism."

"So therefore, we need to understand if the company has something that would potentially, in five to seven years' time, be interesting for a potential acquirer. And that, of course, is the most important investment."

"In an ideal time. It can take up to 10 years, but yes."

Participant VCP P02 also emphasised that exits can take up to 15 years or more, if an investment is made at the very early stages, and further explained that this is the reason why they do not do seed funding.

VCP P03 said:

"Expected timeline to exit is seven to nine years from deployment."

"... And the preferred mechanism we believe at the end, certainly in the South African context where there's very few IPO's ever happening, the preferred exit is to a strategic investor that's willing to pay a premium, either because you're eating their lunch as a business, or because they want to expand their activities into the region. And an even better scenario is where the business itself started in South Africa but is now setting also into international markets and if that exit can happen to an international investor, obviously there's a premium for that as well."

"Yeah, I mean just historically there's been zero technology IPO's. So, I mean even the big exits that have happened to the likes of Visa and Garmin and those things

of companies that were built in South Africa has definitely not happened through IPO. I think the requirements for listing and the strength of our capital markets means that it's not a viable option and hence we're not seeing any such examples."

VCP P04 said:

"So, my expectation is always almost it doesn't matter what stage I invest in, I'm expecting to be invested for five to seven years, five to 10 years."

"Yeah, so typically our exit strategy would be to sell to an industry player. So, trade sale as they call it. We don't expect to exit via IPO in South Africa."

VCP P05 said:

"So, when you're setting up a fund and you have your discussions with the LPs, you'll set up a target horizon for your investment. So, our exit horizon is typically 7 to 10 years after our initial investment. But I believe, you know, the later you invest, typically the shorter that horizon would be."

"So, what I've seen in South Africa typically is that...., it's low probability of IPO-ing quite generally. I would say the most typical form of exit would either be an acquisition from a market incumbent or some other trade sale. But I would say that M&A acquisition by a market incumbent, that's either looking to do a few things, they could either be looking to expand geographically, or they're looking to acquire new technology. That's the most likely exit from our portfolio."

VCP P06 said:

"We do like leveraged buyouts to exit mostly."

"It's about six to seven."

VCP P07 said:

"So, we've had a few partial exits and those were, I mean... It took three years to get to the point of having a form of exit."

VCP P08 said:

"I don't know, average time, I would expect you to know, nothing out of the ordinary, maybe like five to seven years... But to be very honest, a lot of them I would prefer to hold on for longer."

“It would be great to take an investment all the way to IPO. But we are more opportunistic.”

Further investigations revealed that investors are not comfortable with the opportunistic approach to exit, and would perhaps prefer a clearly -defined exit plan. This is further highlighted in the following comment by interview participant VCP P08:

“So, where we try to raise additional funds from other institutional international investors, they were keen to hear about our exit strategy. And they're obviously not very comfortable with our more opportunistic approach.”

VCP P09 said:

“So, five to ten years.”

“Okay, yeah, so we look for, it sounds quite simple, but we keep our eyes open for willing investors, so we need to know who the next investor is that's going to buy our stake, so who are they? Private equity, trade sales, and management buyouts is something I didn't mention earlier, and those would be, you know, if the shares, if the company's creating enough cash flow, they can actually use bank financing to buy out the shareholders, so trading debt for equity, essentially, so yeah, those, we keep our eyes out to meet, we have a path for a particular industry that the company plays in that might very well work for exits, and who might be the players in that industry for exits, and that's how we work it out.”

In summary, the findings revealed that South Africa's venture capitalists do not believe in exiting investments through IPOs, although it is an exit option when planning an exit strategy. The predominant exit mechanism is mergers and acquisitions, caused by big industry players trying to position themselves in the market in order to gain a competitive advantage. Mergers and acquisitions provide founders with the opportunity to bargain and price their companies at relatively higher values, with market incumbents trying to buy their technologies (inventions). Management buyout and trade sales are equally noticeable exit options. The market size and listing requirements are major deterrents to IPO exits, and there is no structured alternative listing market in South Africa comparable to that of fellow BRICS+ countries like China (Azevedo, Guney and Leng, 2018) and Brazil (Gonzalo et al., 2022; Minardi et al., 2020), where the markets have been greatly improved over the years to attract investment from

multiple sources (CVCA, 2021; Lin, 2019; PE Daily, 2015). As such, companies are being set up to list in international markets rather than locally in the JSE, due to the small market, international perception of the economy, and regulatory challenges in South Africa.

Using the estimated exit periods presented by the interviewees, the researcher grouped the values according to the class intervals used during the quantitative component, in order to calculate the average exit duration for the qualitative component of the research. Table 6.5 below presents the average exit duration mentioned in the qualitative responses:

Table 6.9: Summary of qualitative exit duration responses

Qualitative response summary (ungrouped exit duration)										
VCI P01	VCI P02	VCP P01	VCP P02	VCP P03	VCP P04	VCP P05	VCP P06	VCP P07	VCP P08	VCP P09
10	-	3, 5, 7	5, 7, 10, 15	7, 9	5, 10	7, 10	6, 7	3	5, 7	5, 10

Source: Own initiative - interview responses

Table 6.10: Qualitative exit duration estimation

Qualitative summary of investment exit duration in South Africa (grouped data)				
Duration range	Frequencies	%	Mid-point	Freq*mid-point
1 – 3 years	2	9.52	2	4
4 – 6 years	6	28.57	5	30
7 – 9 years	7	33.33	8	56
10 – 12 years	5	23.81	11	55
13 – 15 years	1	4.76	14	14
Total	21	100	-	159
Mean ($\bar{x}$) = 7.5714 years	$\bar{x} = \sum \frac{fx}{n} = \frac{159}{21} = 7.5714$			

Source: Own initiative - interview responses

In conclusion, the average investment exit duration, from the qualitative view, is 7.57 years. This is very close to the quantitative average of 7.82 years.

6.6.2 Analysis of the venture capital industry challenges in South Africa

In any industry, there are bound to be challenges. Setting up a venture capital firm, and mobilising resources to fund and grow a new venture, requires great expertise in management

and finance. Otherwise, the firm may run out of working capital (Sabitha and Shravani, 2019). Generally, venture capital challenges range from market risk to the lack of a tangible track record to help venture capitalists assess the entrepreneurs' ability to run their businesses (Lee, 2019). Other challenges include the general lack of syndication to pool resources collectively, investors not understanding the business environment, as well as regulatory and funding challenges (Pezeshkan et al., 2019). In the following subsections, the research highlights the major challenges faced by the venture capital industry in South Africa.

6.6.2.1 Regulations

Sabitha and Shravani (2019) note that the changing regulatory environment and financial policies in countries are wreaking havoc, and creating uncertainties for businesses across the globe. In the context of South Africa, the findings observed the existence of an overregulated economy (with little understanding of how the venture capital industry works), and a lack of incentives to mobilise private and institutional funders to inject the required finance to boost industry performance and ensure early exit from investments, are some of the major challenges. Evidently, the regulatory environment has not changed much after the introduction of Section 12J (Faku, 2022; Jones and Mlambo, 2013). Concerns of exchange control, IP control, and shortage of skills are the key challenges to the prospects of early-stage venture capital investment in South Africa that remain unaddressed (Jones and Mlambo, 2013). In the following comments, venture capital practitioners in South Africa highlight their frustration with the regulatory authorities, and their wish that the government would come and sit at the table to chart better ways that the venture capital industry can be structured for better performance, that would attract local and international investors.

VCI P01 said:

"The regulatory environment is tricky. BEE is a disincentive for investment in many cases."

VCP P01 said:

"I just think it's a challenging investment environment. If we put the political factors aside, the regulatory and statutory obligations and requirements are quite challenging."

"I will give you an example that may be well known, the [company name withheld] example where, ..., where they wouldn't invest in South Africa because they needed to immediately give away 30% of their equity to a black empowerment investor."

“Now, no one is going to come and do that in this country.”

VCP P02 said:

“I mean, let's put it like this. If you believe that you have a South African company, and you want an international acquirer to buy the South African company, then the IP regulations of the South African government are a significant issue”

“... then of course, the next big question is, do you actually have the right skills in South Africa to kind of go and do this? Or are you not able, like, of course, we all know that the labour law in South Africa is quite rigid, so what can you actually kind of go and do there?”

“It is so difficult for a start-up to kind of go and hire people if, because they need extremely well performing staff.”

“But it's so difficult in South Africa, again, to get rid of people if they're not performing.”

“It's also very difficult if you want to kind of go and get foreign skills, how to kind of go and get work permits and so on. It's extremely difficult. Visa regulations. If you are a start-up and you need, and your customer is based, is somewhere else, and you need to kind of go, and the customer says, I want to see you tomorrow. If you are on a South African passport and you don't have a visa, you can maybe only come and visit that customer in a few months' time until you're going to go and get the visa. You can't do business like this. So, there is a lot of these kinds of issues that, if they could be addressed, that would definitely make an impact and make it easier to be successful as an entrepreneur in South Africa.”

“The IP intervention of the South African government does not make it easy. The exchange control regulation does not make it easy.”

“So, we are dealing..., when trying to go and do business outside of South Africa, we are always working from a point that we first have to establish far more trust than if we would come from a different political background, and that can actually kind of go and really harm any business relationships.”

VCP P03 said:

“Exchange controls is a big one... We've got exchange control measures that make it really heinous to get money out of South Africa. So finally, come on, just put money in and take it out when it requires. It needs to jump through a whole bunch of reserve bank hoops.”

“We've got very tight restrictions on IP. Being able to domicile and relocate IP is really difficult. So, you find that firms are establishing themselves or at least relocating themselves to friendlier jurisdictions.”

“We had 12J previously. That was badly implemented and failed predictably, and instead of fixing the loopholes that existed, and which caused all the money to flow into property development, the government scrapped the programme instead of adapting it and learning from it.”

“So yeah, there's no incentive for VC. We've got really high capital gains, taxation in South Africa, which is obviously not helping.”

VCP P04 said:

“I kind of feel like a lot of South Africans, the challenges we have are linked to government.”

“Yeah. I mean, one example we've come across recently is that it's extraordinarily difficult to get South African-developed IP out of South Africa. Okay. So, the South African government seems to want to trap IP in South Africa, and the problem with that is no one from outside of South Africa wants to invest if this IP is just trapped.”

VCP P05 said:

I think a lot of feedback that we get from parties looking to invest in South Africa somewhat is the regulatory landscape... I think the exchange control laws are not really conducive or not really investor friendly.”

“I think this is a bit of a strange one.... I think the infrastructure in many parts of South Africa works particularly well... So, if you make the comparison to the rest of Africa, where you've got a highly fragmented base, the infrastructure is not there. Some of the laws haven't been particularly well developed. It leaves an opportunity

for co-creation with the regulatory bodies. Whereas here, you almost have to operate within an existing framework,”

VCP P06 said:

“Regulation, labour regulation, exchange control.”

“The legislation [section 12J] was supposed to be written better, I think, but there will always be loopholes in the laws that people will find. There would just need to be better controls by the government and better written legislation.”

“Too much legislation and regulations. The government is meddling too much in the private sector. And I think it's not truly a free market as it should be, but can be more free, in my opinion.”

“... the fees to comply with the JSE regulations are exorbitant. So, for most people, it's not even worth listing on the JSE.”

“We have got good financial markets, but sometimes I think the regulation can be a bit too much, then exchange control as well. It's just too hectic, the exchange control.”

VCP P07 said:

“... I mean, if you look at issues like our rules and laws around intellectual property, being able to get that externalized, those are the deterrents.”

“In addition to this, the exchange control thing is a challenge. And then things like logistics, these things need to work.”

“The issue about intellectual property creates the same issue. We have to set up businesses in Delaware in order to get international money to come operate here.”

VCP P08 said:

“So, you know, I'd like to say the less regulation, the better, because I think in South Africa, we're completely over-regulated.”

"Obviously, exuberated or exasperated, made a lot worse by the gray listing of South Africa, but the amount of KYC and KYB and ultimate beneficial owner information that I had to submit in the last 12 months was just absolutely insane."

"I give you another example of over-regulation..."

"It's actually at the heart of what we do is the BEE code of good practice, Black Economic Empowerment."

"... When I came to the country, there was only the BEE Act, which was at the time three pages and basically said there will be something like Black Economic Empowerment and the ministers authorized to issue regulations."

"Two years after I arrived, we saw the BEE code of good practice. Now, we have, I don't know how many different sector codes that fall underneath the code of practice. Can you know? There must be like 40 by now. Every little sector has their own little regulation around how BEE works."

"We're completely over-regulated ... This complete overhead of regulation just leads to inefficiencies. How can regulation assist with exits? You know what I'd say? It's like, stay out of it. Don't even regulate it, because you should just let willing buyer, willing seller, if there's somebody that wants to sell their company, that wants to sell their IP, that wants to sell the tech that they've developed, let them sell it. I don't think we need specific regulation for it."

"You know, we had an amazing framework. I'm sure you're familiar with section 12J. It was an amazing framework. And the second our government realized that people can actually make money, they shut it down."

VCP P09 said:

"I think the government here is terrified that if they relax exchange controls, that money and IP is going to fly out of the country. What it can actually do is stimulate investment into the country as well and create jobs."

"Yeah, just, I mean, competition commission can be difficult. Um, and then exchange controls, I mentioned that they can hamper offshore investors buying South African IP. That's a big thing at the moment. You can, you look that up and

that is a really large thing. So, what is, uh, exchange controls and the impact of movement of IP having on tech investing in South Africa? It is a very real issue.”

According to the participants, the regulatory environment is not friendly to the venture capital industry. Exchange controls, IP controls and labour regulations are top of the list of conditions deterring investment activities in the venture capital space. These comments confirm the work of Jones and Mlambo (2013) and that of Faku (2022). Jones and Mlambo (2013) highlighted that exchange controls, intellectual property regulations, and labour regulations are the fundamental obstacles deterring the growth of the venture capital industry in South Africa. Faku also asserts that the regulatory environment is not transparent enough to motivate investment in listed companies, and is causing foreigners to sell their JSE listed shares rather than buying. The findings revealed that in order to raise funds to grow businesses founded in South Africa, the venture capital firms founded in South Africa with an exclusive mandate to grow South Africa and empower the black community in South Africa, have to register and run businesses outside South Africa, make money out there, and deploy the funds back to invest in South African-based companies. An observer's question might be “What if the exchange control regulations in the host countries are equally tight, and the funds cannot come to South Africa?” The lack of incentives such as tax breaks, a Section 12J kind of legislation, and capital gains tax, all contribute to demotivating local and international investors from investing in industry. The appeal is that the government should revisit Section 12J, review it, and put forward more incentives to attract investors to the country.

6.6.2.2 Liquidity

The findings revealed that the lack of liquidity (Faku, 2022; Mateko, 2024) in the industry to boost investment, constitutes a major stumbling block to the industry's progress and success. The inability to raise funds caused by tough regulations and a crippling economy, marked by crime and uncertainties, constantly changing regulations (Sutherland, 2020), inflation, high interest rates, unemployment, and perceptions of the economy by the international community, all sum up a less attractive economy, which cannot attract local and international investors. Also, the lack of support structures that facilitate institutional funds is a general complaint, as the sector is in dire need of funding vehicles to inject funds into the industry (Jones and Mlambo, 2013). The following comments from participants are worthy of note regarding the lack of funding.

VCI P01 said:

“The biggest problem is liquidity. So, the issue that Africa has is that there's very few investors throughout the value chain..., and then very few free private equity. And then, even between private equity and public markets, there's very few players, doing IPOs. So, the liquidity is kind of the summary of why there's so few exits.”

“... And that's a problem for both founders and investors. So, investors struggle because they can't exit their own portfolio, and founders struggle because they can't raise another round or create liquidity for themselves.”

VCI P02 said:

“We found it very difficult to get local South African funding. And in actual fact, a fair amount of our funding is from Europe and other places. But we had numerous meetings where we would sit with people and their citizens... [they would say] ... If this was a Silicon Valley or even a London-type company, we would be throwing money at you. But we're not comfortable with investing in a South African company in this type of field.”

To be specific, this is a high-profile tech company that is respected both in South Africa and abroad, with a proven concept and track record, seeking to position itself locally and internationally, yet struggling to attract local and international investors. This highlights the need for South Africa to use its relational capital through the existing venture capital networks to build dynamic resource capabilities and ensure industry resilience (Cao and Li, 2023; Teece, 2016).

VCP P01 said:

“When they're starting their business, they don't have their own money, they need to raise capital to get moving, and they want to give investors a return on investment.”

“I think that can be the challenge, that there's just not enough capital in the system. So, because it remains a small industry, it remains a small investment class due to lack of funds. Whereas if we could get access to funds, and things were more investor-friendly, then yeah, we're going to get more access to capital coming into these startups.”

VCP P02 said:

“Yeah, so first of all, one of the major challenges that we have in South Africa is that we don't have enough funding. So therefore, only the best of the best companies can go and get funded.”

“Whereas more, like if we had, if there was more capital, we could kind of go and fund more and fund earlier [fund earlier stages].”

VCP P03 said:

“At the moment, there is virtually zero pension fund money flowing into early stage, and it is at the discretion of the pension funds, but they're too risk averse”

“... And it's partly because of how young the venture capital industry is, but also because of the fact that it isn't particularly friendly to put money in there.”

“Some of the other challenges to the VC industry in South Africa is that South Africa is not attracting significant amounts of foreign funding into the country, and there's a number of reasons for that.”

“Risk. Risk. Okay. Money doesn't like risk [reason for lack of liquidity.]”

“Yeah, I think the government is not making it easy for investors to come into the country. We don't have any support structures to encourage venture capital. We had 12J previously. That was badly implemented and failed predictably, and instead of fixing the loopholes that existed, and which caused all the money to flow into property development, the government scrapped the programme instead of adapting it and learning from it.”

“So yeah, there's no incentive for VC. We've got exchange control measures that make it really heinous to get money out of South Africa. So finally, come on, just put money in and take it out when it requires. It needs to jump through a whole bunch of reserve bank hoops.”

“What else? Yeah, I mean, there's a number of challenges with VC and funds coming into South Africa.”

VCP P04 said:

“I think there is a very thin pool of people looking to invest in South Africa. So that makes it hard to exit.”

VCP P06 said:

"I go back to the fact that there's just no capital in South Africa. I mean, all the high-net-worth individuals that have money, and that want to retire, they are sending all their money overseas, they are not going to invest into some little fledgling South African company who's IPO-ing on an alternative stock exchange."

"So, they think we are sharks, we are loan sharks for better word, because the situation usually is that they're desperate for capital. They need the capital to see the next year. They need the capital to grow ... I do think we're just glorified banks or loan sharks."

"A lot of the companies in the early stages are happy for you to come on. They're excited. They got new capital. They can maybe expand their company. They're excited for the future ahead ..."

VCP P07 said:

"So, we've had businesses in, I'm trying to think now, for example, we had a water treatment business in water technology. It needs a lot of capital. So as a VC, we could only get it to a certain point, but then we needed to crowd in other funders, and we then got a partial exit from that. So, we could say that in this particular area, like the water treatment, is a bit challenging because you need funds. Yeah, it needs a lot of capital." "... the reality is we don't have, call it institutional money in venture capital, because if you look at it, and that's why a lot of the businesses then exit to larger businesses... because there aren't a lot of financial sponsors."

"That's what you're trying to sell to, because the pension funds generally don't invest in venture capital. I think things started recently, almost this year. The [name withheld] Pension Fund, for example, they sent us proposals or requests for proposals because they wanted to fund, but it's quite small."

"So, I mean, one could even argue that at this stage, venture capital is not an asset class because it doesn't attract institutional money."

"... it's very difficult then to attract local funding in particular, funding from South Africa, because there's a lot of funding, but you can't access it because the decision-makers do not have an understanding and an appreciation of how this whole thing works."

“... Which then makes it difficult for the industry to develop, to grow, because you need the people with the big capital to put money into the industry.”

VCP P08 said:

“There's not sufficient funding for venture capital in South Africa, as simple as that.”

“... And, you know, the role that pension funds play at the moment is they're investing their money on the JSE, and the JSE is going sideways. And they don't understand that a pension fund actually should not just merely play a, let's call it a wealth preservation strategy for the pensioners that contributed to the fund, but it also has a mandate to actually build this nation. Because if this nation fails, then where are the pensioners in 40 years going to get their pension money from? So, there is a way too small allocation from pension funds into what is perceived to be a more risky asset class.”

“So, and to be very honest, I don't think that venture capital is that risky if you go right about it.”

VCP P09 said:

“You've got these massive pension funds, private equity houses, some of which are listed, but they don't invest in venture capital. So, you've got this aversion to that risk, the risk appetite that should come with the venture capital.”

“...so, there's a lack of institutional money into VC, so what do I mean by that? So, I suppose I did mention it earlier, sorry, but you've got these really massive pension funds in South Africa that are actually allowed to allocate money to alternative investments within which sits in private equity, and venture capital is a subset of private equity, or it's at the earliest stage of private equity, it's all still under private equity.”

As noted earlier, the findings revealed a general lack of institutional capital, very few foreign and local investors, and a lack of investment incentives. That companies in the USA and Europe are generally not mandated to invest in South Africa because of their perception of the country. Also, the regulatory challenges such as IP regulations, exchange controls, crime,

labour regulations, exchange rates, and inflation etc., as highlighted by Faku (2022), Jones and Mlambo (2013), and Sutherland (2020), remain unaddressed. However, South African-based venture capital companies with a global mandate seem a bit comfortable, as they can source for funds and invest anywhere around the globe. One good source of funding is the United Arab Emirates, where a large corporate is funding start-ups with disruptive operations in their areas of operations. Also, there is a general lack of funding at early stages of the venture capital process, as highlighted by Mateko (2024).

6.6.2.3 Lack of corporate activities at early-stage, and increasing corporate takeovers

The findings revealed that most exits happened through mergers and acquisitions, as large corporates are very active in the mergers and acquisitions space, seeking to position themselves in the market to gain a competitive edge. However, these corporates are only active at the later stages of the venture capital cycle, and not present in the early stages. Hence, there is lack of competition and only a few corporates are involved in funding venture capital activities.

VCP P01 said:

“If it was an M&A opportunity, it becomes something quite challenging.”

VCP P03 said:

“... the preferred exit is to a strategic investor that's willing to pay a premium, either because you're eating their lunch as a business, or because they want to expand their activities into the region.”

VCP P05 said:

“So, we invest with the lens of strategic relevance on behalf of our LP. So, what we do is essentially looking at early-stage startups that could be disruptive to [name withheld]'s current and future operations and make, say, somewhat defensive investments into startups with disruptive business models and/or disruptive technologies.”

“... Now, that's a big challenge for some startups in South Africa, because what you've seen is that it is very difficult to displace market incumbents. So, if you are a health care startup in South Africa, it's very difficult to displace your [institution's

name withheld] or [institution's name withheld], or you end up having them as your primary customer, as opposed to completely disrupting the incumbents ..."

"I think lastly is that if you can mobilize corporate capital. Now, corporates are quite active within the mergers and acquisitions space in South Africa, but many of them do not invest early stage into new and structured technology."

"... So, I would say, the lack of fragmentation is actually a bit of a disadvantage in South Africa."

"I mentioned prior that M&A is the most likely scenario in South Africa ..."

"... So, it's basically one of the marketing companies looking to acquire a particular technology, acquire a technology team, or to increase their geographical footprint within South Africa."

"... Now, you know, there's no or there's very few alternatives to M&A in South Africa."

VCP P06 said:

"As the industry or sector is maturing, I think it is a widely-seen phenomenon that M&A's are then the predominant activity within the sector. Yeah. And I think that M&A's are also desirable because when those happen, the buyer sees the value in the company in merging or acquiring it, but then that's also an advantage to the seller, because the seller then has a bit of bargaining power."

VCP P07 said:

"So, what you have is you're going to get bought out by a bank, or a [institution's name withheld], or like a big retailer, one of those."

"The challenge is, historically in South Africa, if you look at venture capital, it's that it's always been done within big corporates."

VCP P08 said:

"Yeah, I think we've had early exits, and they were just opportunistic. We were approached by two different JSE listed corporates who had expressed an interest in the technology that the portfolio companies had developed, and they made us a great offer. So, we exited them."

VCP P09 said:

“I think that's another thing, you know, because we're talking about early exits and trade sales coming from big companies.”

“If you've got big companies that go, oh, I don't really need to disrupt this industry, I'm doing perfectly well as I am. And they're in a cozy and comfortable position and they haven't got huge competition.”

In conclusion, exits are generally motivated by market incumbents who want to leverage their operations better, through mergers and acquisitions, but hardly ever inject funds at the early stages to spur innovation and the disruption process. It may therefore help to come up with policies that attract corporate activities to the early stages of the venture capital process. In Russia, there is a growing trend of angel investors, corporate investors, and state funding (Moreva, 2018), as the government continues to play a key role in attracting funding into the ecosystem, which motivates funding from accelerators (Hardy, Adams and Moore, 2020). The government also invests constructively into the sector, especially in the early stages. In 2016, Russia launched the NUMA Moscow, an international hub to implement an acceleration programme for funding local startups from its own seed funds (Hardy, Adams and Moore). This could be a practical lesson for South Africa to emulate, and take an active part in venture capital activities to ensure a resilient venture capital ecosystem.

6.6.2.4 Investment mandate

So far, the study findings do not indicate that the South African industry is struggling with exits, but that exits are low simply because of the different motives of investors, beside the acute shortage of liquidity and tight regulations hindering capital flow into the industry. The following comments from the interview participants provide clarity on the current state of exits from venture capital investment in South Africa.

VCP P02 said:

“Having raised money for a VC fund for the last few years, I can tell you that at the moment it's only DFIs who are interested in investing in South Africa, because they see this as an impact investment. And really commercial investors in a VC environment; they might be interested once in a while in a very specific deal because of the technology, but otherwise they are shying away from South Africa at the moment.”

VCP P03 said:

“The fact that DFI's and other developmental fund-raising organizations see South Africa as almost, not a developing country, it's not a third-world country, neither is it the first-world country, so they are often not mandated to deploy into South Africa and although that is changing somewhat, ..., but the reality is that there's very few, very little money actually making it down into the venture capital industry and into early-stage investment.”

VCP P04 said:

“One thing we learned in the last two years, we were trying to raise money for one of our investments. And we started looking to the UK and the US venture capital markets. And somebody said to us, I can't remember who it was, he said, 99% of global venture capital firms have a mandate which won't let them invest in South Africa.”

VCP P05 said:

“Our investment mandate is to invest across logistics and supply chain opportunities. It's not actually managing. Just the sense of budget operations for [name withheld]. So, we invest with the lens of strategic relevance on behalf of our LP.”

“We have a global mandate, so we can invest in more than one market. But South Africa is an important market generally ...”

To explain this further, the mandate of this participant is to source for early-stage fast growing tech companies that are disruptive to the current and future operations of their LP (based in Dubai), and make investment into these startups with disruptive models or technologies i.e. acquire them.

VCP P06 said:

“So, because we are mostly section 12J, there's no such thing as an early exit because you need to remain invested for five years. Otherwise, if you disinvest before the five years, it makes a recoupment on the tax benefits.”

“So, they may have to remain invested for longer.”

Evidently, Section 12J was a regulatory incentive that attracted venture capital investment (Lin, 2019) into South Africa as it allowed venture capitalists to mobilise funds and invest in qualifying businesses in South Africa (Jones and Mlambo, 2013). However, Zhao (2023) highlights that a successful and timely exit is vital for the venture capitalists to recycle funds into further or new investments, and create further investment opportunities. Dominic and Gopalswamy (2019) support that timely exits provide limited partners with the opportunity to raise more funds for further investment. Hence Section 12J constrained early exits, as investments made into qualifying companies needed to stay longer (at least 5 years). This implies that the venture capitalists cannot seize the opportunities to exit earlier than five years if a potential acquirer is found, they would stay invested under unprofitable conditions and cannot liquidate the investment in order to recover even part of the initial investment to minimise losses (Cumming et al., 2006; Fan, 2019). In the case of China, investment in technology can be exited between 3 and 4 years (Lin, 2019; Salter, 2009). Section 12J therefore made it difficult to effectively fund early stage technology in South Africa, as investors would find it difficult to exit even after realising their return on investment (Snyman et al., 2014). Also, the fact that USA and UK venture capital investors are not mandated to invest in South Africa constrains the sources of liquidity from foreign investors (Faku, 2022). However, attention can be turned to the UAE, and channels should be opened up to ensure that institutional funding flows from both foreign and local investors, such as from pension funds, insurance funds, high net worth individuals and the corporate sector, beside relaxing exchange control and other regulations.

6.6.2.5 Small market

The findings revealed that the South African market is not big enough to match the activities and expectations of venture capital investors and acquirers. This corroborates the findings of Sutherland (2020), who indicated that the South African market is small, and the regulatory environment make it less accessible. Investments in venture capital attract a wide market. Venture capitalists seek to invest in companies with minimum product viability that is scalable and attracts customers, not only within the African continent, but across the globe. So, besides regulatory and liquidity challenges (Faku, 2022), the South African market is small, and companies need to position themselves internationally. The following comments from interview participants shed more light on the issue of market size.

VCI P02 said:

“You can imagine, you know, if you're up against a Spotify, you know, or a Google. So, the South African market, you know, you talk about, you know, South Africa, you know, we had 12 million South Africans on our platform last year listening to audio. That's not very large, not if you talk about an international company ... “

“But if you look, you know, sort of at a global platform, the South African economy is not really big enough to build this type of product. So, we've known from the beginning that we will have to grow internationally.”

“Similarly, there's nobody really in South Africa that would be interested in taking the product. Certainly, we can list on a stock exchange, for example. But our feeling was that positioning this for an international exit to a company that's interested in this type of technology would be better.”

VCP P01 said:

“So, because it remains a small industry, it remains a small investment class due to lack of funds.”

VCP P04 said:

“... South Africa is that it's a relatively small market for venture capital... So that there's less competition, put it that way.”

VCP P07 said:

“I feel the South African market is quite concentrated. Most especially in technology, than a lot of fintech transactions. So, we've got to a point where you won't necessarily be able to compete with, say, the banks, and you won't get capital to compete with them. So, your only solution to exit at that point is to sell to one of them, to get a buyout from one of them. So, I think it's more of an infrastructure issue.”

If the market incumbents are not there to acquire the investments, or the venture capitalist is unable to get a buyer, the next option is to quickly move out of South Africa in order to expand the market internationally, because the South African market is small. This is highlighted in the following comments from the participant:

“In fact, what you find is that you quickly need to move out of South Africa because our market is not that big. So, you need to start selling overseas as quickly as possible. It becomes complicated if you now have those exchange controls and/or intellectual property controls.”

VCP P09 said:

“And then another thing would be a small economy, where you've got monopoly-sized companies or oligopoly companies where they don't see the need for change.”

In summary, the small market highlighted by (Sutherland, 2020) constrains the operational activities of the venture capital industry in South Africa. This keeps the industry in a small asset class, that is little known, and does not attract investments. The expanding BRICS+ bloc may afford South Africa the opportunity to expand its venture capital market internationally, and trade amongst the BRICS+ member states. Trade could also be facilitated within the African continent, as there exist huge opportunities for venture capital market across the continent (AVCA, 2019; Sovereign, 2020). Africa has the second fastest growing GDP, attracting investors from the USA, Europe, Asia and within Africa (Sovereign, 2020). Hence, the growing the African market and expanding the BRICS+ bloc would help to expand the South African venture capital market, and put South Africa on the map. As such, friendlier regulations and trade agreements that facilitate trade between South Africa and other African countries, and the BRICS+ members, would help expand the South African venture capital market.

6.6.2.6 Investee selection strategy

The study findings revealed that the valuation and selection process used by venture capitalists in South Africa to select investees is not standardised. The methodology used varies from one venture capital firm to another, as there is no consensus, and most often, the views of the accountants prevail rather than those of the industry experts. This view is supported by the following comments from the interview participants.

VCI P01 said:

“You've also got very challenging valuation methodologies that don't speak to each other. So, everyone has their own playbook on how to value a company that isn't a sort of a consensus view. And oftentimes the prevailing view is that of the audit, the auditors, or the accountants. That's a stumbling block for business, because if an

accountant doesn't evaluate a particular level, then other investors won't either. So that's the difficulty."

"So I'm thinking of the leaders of venture capital funds, for example, if they say this is how valuation should take place, or this is how we do changes in shareholding or capital loss ratio, whatever it is, then they should be leading what the industry does, not the accountants and auditors who are used to doing listed companies, and then they pass on their view to everyone else."

VCP P01 said:

"It equally depends on the VC's investment thesis, where they are sitting. Whether it is a larger fund, an angel or a micro-VC. I think they have different perspectives. So, these are the things (factors) that lead to perhaps taking an early exit."

VCP P05 said:

"No, we are thesis driven. So, what we'll do is typically conduct areas of research that we believe would be disruptive to our current LP. That's typically anywhere between 60, 70, 80-page documents; and we will dive into subvertical that we think would be disruptive or complementary to our LP's capability. So, we go in with full insight into what we're looking for within a particular investment area. One of the primary outcomes of this research that we do is we'll have a table of potential investment opportunities. ... reach out to them and see if they can be fundraising or see ways in which you could potentially get onto the cap table. So, we're very deliberate in how we invest...."

"Equally, the investment returns are quite compelling if you have the right thesis, as opposed to what's happening now [primarily just public equities and bonds]."

In this view, venture capitalists focus on investments that they think are disruptive to their LP operations, profile the investees' abilities to disrupt operations and invest in those they think are in line with their LP's operations, irrespective of whether they have dealt with such technologies before or not. This then necessitates syndication or union investment, which then brings in expertise and advisory skills that align with the investees' operations. This helps to synergise the monitoring and evaluation of joint investment (Weniger, Jarchow, and Nenadic, 2023) through their networks.

6.6.2.7 Investment security

Devi et al. (2017) submit that, if a reputable and renowned venture capital firm gets negative information about a company, they stop investing in the company. In similar reasoning, when investors do not trust the economy, they are not attracted to invest in that economy. The study findings revealed that the South Africa economy is not that safe for foreign investment, and most often venture capitalists would spend much time to build trust with international partners in order to attract investments into the venture capital space in South Africa. This is supported by the following comments from interview participants.

VCI P02 said:

“So, I think, in between banking, you know, challenges around, you know, around tax, challenges around the perception of the economy and the safety of it in terms of international investment. Those are the things that are sort of top of mind for me.”

VCP P02 said:

“... Then we need to build trust in our country. It is very, very difficult in the current environment to go and speak to any international investor trying to go and promote South African businesses because of the political instability, and it's really harming business.”

VCP P04 said:

“...whether it's the stories of crime and corruption, whatever it is, South Africa has fallen off the world map in terms of new investment money. So, for us to raise money for this business, we had to move the business offshore.”

VCP P06 said:

“These are all, I think, very big blanket statements, but it feeds into every aspect of life in South Africa. It is the corruption, electricity, crime. I mean, why would I invest into a VC if the area is unsafe or, you know what I mean? Investing into South Africa is becoming more and more tedious, especially for foreign investors. Foreign investors don't actually want to invest in South Africa because of all the stuff that's going on.”

“So, we need to or, the government needs to make the market attractive and stabilize the currency, stabilize crime, stabilize electricity, and actually work on making it more attractive to foreign investors.”

VCP P07 said:

“We have security issues, which makes it a little bit difficult also to get in talent when you need to. Because South Africa is not always a very appealing place to live. It's not that safe. So, if we could improve security, it would also help with, particularly with talent.”

In conclusion, the participants raised concerns about the security of foreign investments, the security of individuals in the country, rising crime, and the lack of trust in the economy, which all contribute to investors' low appetite to invest in South Africa (Faku, 2022; Sutherland, 2020).

6.6.2.8 Loss of control

Although venture capital investees in South Africa are in dire need of funds to grow their ventures, the findings revealed they are generally scared to lose control, and would walk away from investors seeking to acquire high stakes, that would put the founders in the minority position. These findings corroborate with the findings of Biney et al. (2016), which held that Ghanaian companies fear losing control of their investment and prefer the \$1 total ownership than \$100 - 10% ownership. In this regard, venture capital practitioners in South Africa are conscious, and generally take on very small stakes, and most often in convertible security, in order to ensure fair pricing. The findings are supported by the following comments made by interview participants:

VCI P02 said:

“So, there's been one or two cases where maybe we could have received investment, but the perceived risk around the strings attached to it has also been too high.”

“... And it's been very difficult to find a company which can provide valuable assistance in the space that we are. But at the same time, you're not trying to take the thing over and control it.”

VCP P01 said:

“We can take a safe note or convertible debt note. Worst case, a little bit of equity percentage, but that's, it's no more complicated than that.”

“We get onto the cap table at a really small percentage, and we manage it from there.”

VCP P04 said:

"I think they're generally quite nervous. They're a little bit... They typically, where the first outside investor coming into their business, and they're worried they're going to be giving up control, that we're going to get in their way, that we're going to interfere with how they're running the business ... "

"... We do have to spend quite a lot of time with them, getting them comfortable with us, helping them understand what our role is, what their role is, how we can add value, what we expect of them, because it's a big thing to bring someone new into the ownership structure of your business. If you started something you've been working at for five years, and now you've got to give some of it away to some investor."

"They're scared of losing control, yeah."

"So typically, they don't want to sell us a controlling stake."

"They'll only want us to have a minority shareholding."

VCP P05 said:

"There are certain companies that just want your money, and they don't want your strategic advice. If things are going well, they may not seek your advice..."

"The other is that this is largely a relationship-based business. What we have seen is that where an investor may overreach or try to impose too many controls on a particular company, then we'll find that relationship can sour and then the company may not want to interact as closely with the VC."

VCP P06 said:

"They need the capital to buy expensive equipment in order to grow their company, but they do sometimes think too much equity for too little money. Yeah. And that relationship can also sour over time but for the most part, they're just too happy to be coming on board and just too happy."

VCP 08 said:

"And then in the post investment, there's a few things that we insist on. For example, we do insist that we remain a minority shareholder."

VCP P09 said:

“It's going to depend on the type of exit. So, if, you've got, um, if you've got another investor coming out, uh, also another investor coming into the business, they want management to have enough shares to be incentivised ...”

“... So, so it totally depends on what type of investors coming in. If you've got a big company coming in to buy your startup, they're going to want control...”

“... Those guys didn't become founders of startups and crawl over broken glass for five to 10 years to build something special, to go back and become a corporate employee. So, they would want, they would want to be incentivized through equity, not just through, salaries and bonuses.”

As noted in the comments, founders are generally scared to lose control of their business and may turn away investors who are trying to obtain huge stakes in the company, as this generally leaves founders as minority shareholders. Cognisant of this, investors generally take minority shares and spend much time educating and training the founding team about their role as investors. Gutterman (2022) asserts that convertible stocks are most appropriate scenarios, as they provide the possibility for investors to convert stakes at a later date, and protect investors' rights.

6.6.2.9 Attractiveness of the corporate sector

The study revealed that the corporate sector in South Africa is highly attractive, and well incentivised, to the extent that highly educated and qualified individuals with the skills to start their own businesses are attracted to work for corporates rather than starting their own ventures. This plays down the skillsets required by venture capitalists to run and scale up investee companies that would attract funding and grow the industry. In the process, this limits market expansion and exits. This view is supported by the following comments from participants during the interviews.

VCI P01 said:

“I think you've also got a very, very strong corporate sector and profile for reputation. So very excellent founders, or let's say studied individuals with opportunity to build businesses, are often very comfortable and incentivized to stay in the corporate sector. That's a challenge.”

VCP P05 said:

"I think secondly is that a lot of people leaving universities or educational institutions, go on to work for large corporates just because there's a slight risk aversion as well. So, I'd say that is not perhaps the best ground for entrepreneurship in South Africa. Yes, something needs to change."

VCP P06 said:

"... But I feel many times the management is just too happy to take a retrenchment package or like, you know, move on, instead of, in some instances, staying around in the industry that the company is in ..."

VCP P07 said:

"And what we found, especially as an organization that's looking for Black entrepreneurs, is that we are competing with things like Black tax. So, if you're looking for Black people, who are the majority in this country, to go into venture capital, to start firms, they have issues like they need to go into corporate, outside of university, to support family members. And that's the challenge. They've got the skills, but life just doesn't permit them to take the risk of venture capital."

VCP P08 said:

"One of the big trends that you've seen is that a lot of entrepreneurs who went and studied abroad, and they've become accustomed to, I'd say, those particular markets, come back into Africa and find local opportunities."

In summary, the highly incentivised corporate sector is a major disincentive that drains the skillset from the venture capital industry, as very skilled individuals are not willing to take the risk of starting their own businesses. Entrepreneurs should therefore be incentivised to start their own business and continue operations (Fatoki, 2014; Khuram, Ahmed and Ali, 2022). Adequate policies to encourage the creation of new businesses should be put in place.

6.6.2.10 Lack of industry specific advisors

Literature points out that venture capitalists not only provide funding, they also provide the expertise needed to manage and control the business (Etkowitz and Zhou, 2012; Gornall, 2015). The findings revealed that the venture capital industry in South Africa needs industry-

specific advisors, as it is difficult to find venture capitalists who understand the business concept. Some practitioners are often not aligned with the founders' concepts, and would want to apply their own concepts and rules based on their personal experience. This creates a mismatch, and possibly derails the vision of the founders. Korpela's (2019) findings suggest four types of resources for venture capitalists, namely capital, deal sourcing, social connection, and expertise. Zhang (2018) further adds that union investment brings about a multiplicity of skills from various areas, as more than one venture capital firm is involved, which strengthens management and facilitates funding for the investees through the pooling of funds. The lack of industry-specific advisors is supported by the following comments from interview participants.

VCI P01 said:

"So, I guess this is maybe a finding that not everyone will have, but in my case, we had advisors appointed or joined as a result of these funding rounds who were not good. And so, we had to fight against our own stakeholders who had an idea or a vision for the business which was not valuable..."

"It was bad. I don't know how else to say that. They detracted value from the value proposition. They misunderstood the opportunity. They typecast the business incorrectly. And so, with regards to what support we got that wasn't valuable, I would say non-sector-specific advisors have the potential to detract or to diminish value in a startup."

"They were appointed by private investors, but the people themselves came from a mix."

This last statement highlights the fact that the advisors were private investors, and the team of advisors came from both the private and public sector.

VCI P02 said:

"Well, definitely working with (company name withheld), you know, they've been really good. It's a very experienced company. And besides getting capital we needed to accelerate our growth, they've also been, so they've played a much wider role than just giving capital, but also providing contacts. You know, I've got a member on our board who assists with information, so it's been, certainly it's been a very valuable exercise."

“... I think it's difficult to find investors that are comfortable in a high technology venture space like this.”

“... The entity that we were talking to had no idea in what type of business we are, and the type of restrictions that we're going to place upon us was most likely going to kill the business. So, we walked away from that. And we've had other cases as well, where it's been, we've worked to sort of more conservative board members in order, ... but this is now more in organizations that wanted to invest in us, established organizations.”

“... And it's been very difficult to find a company which can provide valuable assistance in the space that we are. But at the same time, you're not trying to take the thing over and control it. And that has been very, very good in answering, in asking pointed questions, but at the same time, spending the time to understand the business and to really assist as opposed to saying, you know, we've now invested. So now, you know, we're going to take more of a controlling stake.”

6.6.3 Improving venture capital performance in South Africa

An assessment of investment behaviour and exit performances of venture capital firms operating out of their home countries revealed that foreign venture capitalists in Asia have a comparative advantage over local venture capitalists in terms of size and experience, and they look forward to investing in areas where there is information transparency (Jo, Dai and Kassicieh, 2012). Transparency occurs when the information asymmetry gap has been bridged (Fan, 2019), and this may open up investment from foreign venture capitalists into the country, as they become better able to understand the legal and regulatory environment of the economy, amongst others (Pezeshkan, Smith, Fainshmidt, and Zhan, 2019). Evidence from this study points to a young and unstructured venture capital market (with no traction) that is highly illiquid, in an economy characterised by uncertainties, with a lack of investment incentives and funding vehicles. Besides, the government needs to understand the need to regulate the sector in a way that attracts investors. Bridging the information asymmetry gap implies that local venture capitalists, on their part, take the lead in ensuring that trust is built between the national and foreign venture capitalists, through syndication (Chikop, Johan and Tarsalewska, 2020) and information sharing, to ensure that the concept is understood by the government, entrepreneurs, prospective funders and the community at large. In this section, the researcher captured key aspects on how to improve the venture capital market in South

Africa (in participants' own words) that ensures better performance and growth with successful exits from investments.

6.6.3.1 Profiling the South African venture capital industry

Being a young and unstructured industry, there is a need for the industry to be profiled so that the industry's performance, key activities and key players are known. This may attract more attention to the industry if its track record is seen as beneficial to the economy. Interview participants provided the following views, which supported the need for the profiling of the industry.

VCI P01 said:

"So, if it looked better to be educated, sorry, if it looked better to be a founder, then more people would want to be a founder. So maybe also profiling, you know, founders would help."

"Yeah, I think it is important that there is a network in South Africa called SAVCA that tries to do that. I don't know if it's doing fantastically well, but part of the profiling, part of the thing that needs to happen is that the players in that space need to be profiled..."

VCP P03 said:

"So, it's building up a record as a South African venture capital industry to be able to attract those funds and be able to show that VC is performing better than private equity or fixed investment vehicles in South Africa."

VCP P07 said:

"Because we desperately need a track record as an industry. A track record that will demonstrate that venture capital can work or works in South Africa, and to be able to build the track record, we need some quite a lot of successful exits. Once we get to the point of a track record, then we should be able to attract the institutional capital; from then we can develop, have an industry, have venture capital as an asset,"

"I think profiling would be helpful. So, one of the challenges in the industry is around..., if we look for, if you're raising funds, capital, you're raising a fund, you'll find that a lot of the people you interact with, the people that have the funds, do not

understand the industry, do not understand what it's about, do not understand how it works."

6.6.3.2 Lifelong investee support

One of the fascinating aspects of venture capital, besides funding, is to provide human and intellectual support that investee companies can use and grow the company, even after an exit. In the South African context, venture capitalists provide enormous support to help the investees gain traction, access to funding and market exposure amidst the challenging regulatory environment and acute shortage of liquidity. The following quotes capture the participants' own views, and highlight the support to investees' companies that keep them going, even after exit.

VCP P01 said:

"Yeah!! That's why I say, access to some traditional funding, maybe later in the business life cycle is a good bit of support..."

"... then you've got to look for options like convertible securities and try and help."

VCP P02 said:

"...So political issues are definitely a significant problem. That's why we externalise most of our companies so that they at least are no longer that affected by South African kind of political issues. ..."

VCP P03 said:

"So ... these businesses do need a lot of support. So, it's hands on, I suppose, business support that we provide as early-stage investors to help them commercialize and maximize their commercial potential. So, I think that's kind of the overall broad range of, I mean, it's helping with selection of service providers, financial model, going to market strategy, various aspects around that."

VCP P04 said:

"Innocence [please don't say I told you], it's not necessarily the answer that South Africa wants to hear, but the most valuable support we can give our investees is showing them how to move their business outside of South Africa so that they can escape the limitations that South Africa is imposing on them at the moment."

VCP P05 said:

"I think one of the benefits of managing the investment fund on behalf of such an international global entity is that you can help facilitate market access because, you know, operations push all over the place. So, yeah ... you can help startups who happen to be regional champions expand to areas potentially."

"So, I'd say we've also taken on a more full-stack approach to venture capital. So, we work with independent third-party providers for technology due diligence, and financial due diligence."

VCP P06 said:

"If you can add value and skill to them, they're very grateful and happy."

"... So that would be financial skills because most of these companies don't have CFOs or accountants. So, someone to keep, someone to do their monthly reporting, the quarterly reporting so that they can actually identify issues before they are big issues."

VCP P07 said:

"If they don't have the mastery, we wouldn't invest. If we have any doubts about them having mastered what's required to the business, we wouldn't invest. But then we also have a business incubator... in the business incubator, the founders, of the business are much earlier stage, like pre-seed funding. So, you kind of helping the entrepreneurs get to a point where they can have this good mastery. Yeah. But that's much earlier in the investment cycle."

The business incubator provides an opportunity to test their products, and ensure that they get the minimum viable product, and to make sure that they understand the business, work a model that makes sense, and master their business models. The participant also added that providing access to market for investees is critical, as seen in the following comment:

VCP P07 said:

"I think the most critical thing is the ability to provide access to markets for ventures. So, and for that, you really need networks. So, you need a very thriving ecosystem. That's why, in my view, anyway, if you look at the businesses that have succeeded, they are those ones that have been built by other corporates that have been

incubated by corporates; as those ventures come out, there's a ready market for them through this corporate. So, a lot of the time we spend with entrepreneurs is around how can we provide access to markets? How do we introduce them to the right people who provide them fair terms and just access to be able to get their products to market? I think that's because, at the end of the day, the most important thing is for these businesses to be able to sell their products."

VCP P08 said:

"We believe in the notion that an opportunity is best left in the hands of an entrepreneur... We make it very clear from our early engagement what we are looking for in terms of ongoing engagement post-investment."

"We like to then, however, really get into the trenches and get our hands dirty and assist the entrepreneurs with more than just the required funding. So, we actually have weekly engagements with the entrepreneurs, and we assist them with specifically business development, financial know-how and financial management, corporate, and compliance. And I believe that when we exit, that those three items have been very carefully taken care of and that, to a degree, the founders or the entrepreneurs have adopted our approach."

VCP P09 said:

"I think this is a country full of, there's a lot of incubators, accelerators, so you've got a lot of those kind of things around and there's no shortage of that, some of them are sponsored by corporate, some of them are sponsored by government, you've actually got a reasonable amount of support. What they really, really need is more capital flowing into the venture capital space, you need more VCs and you need more banks taking a risk on the later stage VC where they're prepared to actually invest debt funding as well to finance future growth, so you need more capital flowing into the start-up world, that's the ultimate thing."

"... we provide capital and we provide support, we sit on the boards of our investees' companies and we provide support in terms of strategic support, financial support, connections that we've got and basically lending, you know, putting our shoulder to the wheel as well, so helping them and that's appreciated by them because quite often, especially if it's a small team, they need to lean on their board."

In conclusion, South Africa's venture capitalists help facilitate market access (Ahluwalia and Kassicieh, 2024; Bubna, Das and Prabhala, 2020) for their investees, sit on the investees' boards to help monitor progress, investment in the human capital building of the investees (Zhang, 2018), position their investees for the international market, help conceptualise and build their business ideas through the use of incubators and accelerators, and above all, they try to provide the finance required to run the business.

6.6.3.3 Adaptive investment models

Business investment models vary from business to business, and each model has an impact on the performance of the business and the way it is run. The study findings revealed that investees are often uncomfortable with investors exercising so much influence on their businesses and would prefer not to engage with venture capitalists acquiring shareholdings that leaves founders in minority positions. As such, venture capitalists in South Africa are conscious of investees' fears, and are adopting models that are adaptable by the entrepreneurs, even after their exits. The following quotes from the interview participants highlight how South African venture capitalists align their investment models that seek to improve the investees' confidence, which ensures continuity of operations even after a complete exit.

VCP P01 said:

"We can take a safe note or convertible debt note. Worst case, a little bit of equity percentage, but that's, it's no more complicated than that ..."

"Sometimes we syndicate with a larger VC in the UK that allows us to follow the lead."

"So that is our model and that's why it's easy for our investees' companies to follow."

VCP P02 said:

"They asked us to remain on the board. So, there's always ways to kind of go and do this, but hopefully by the time of an exit, the entrepreneurs have that kind of knowledge."

VCP P03 said:

"I think firstly, it's important to note that our main mechanism for investment is convertible notes, which we think is fair to both parties, generally, because it sets the correct price in future. Whereas initially, it's difficult to value an early-stage business correctly."

“But then secondly, some of the things that we bring into the business is reporting and governance rigour, which is required for us as funders to know that the business is on track and is doing the right things with the money that we're giving them. And that, I think, is of a long-term benefit to the business, to introduce those structures and be more organized in the way that they operate going forward.”

VCP P06 said:

“I think specifically for foreign investors they can get, most of the time, higher returns on bonds, safe bonds...a lot of them. Okay, so they rather take bonds rather than taking risk to invest directly.”

VCP P07 said:

“... we always say that we invest in people, essentially the management team. So, the terms are that we invest and then that needs to work for them. One would assume that if it works for them, it will work for the business in the long term. The second part is we also invest with intention that we can never be the only investor in that business. So whatever terms we agree on, it needs to be such that other investors can come into the business at a later stage. Either they buy it from us, or they join us in the business. Whatever it is..., the funding needs to be attractive to others as well. So, it should be adaptable.”

The approaches highlighted by the participants ensure the continuity of business after exit, as investee companies can take ownership of their business after acquiring the necessary skills, and continue tapping into the experiences from the venture capitalists through their seats in the board. Also, the convertible bonds provide a fair pricing of the company share as the company grows (Guttermann, 2022), for those financing early-stage investment such as pre-seed.

6.6.3.4 Scaling

Hoffman and Yeh (2018) popularised the concept of ‘scaling’ with the notion of “blitzscaling” signifying the rapid global roll-out of digital business models in markets dominated by the ‘winner-takes-all’ syndrome, which requires early scaling for businesses intending to have market prevalence (Weiss, Perkmann and Phillips, 2021). The concept of ‘scaling’ is quite broad, and goes beyond the speed of simply rolling-out the business. It entails the ways in which entrepreneurs systematically deal with synchronising business internal operations and

growth prospects. It considers how entities replicate at scale and expand their activities as they grow, to stay relevant. Scaling embodies strategies that must be adapted concurrently as the business grows, which include but are not limited to improving organisational design, staffing, and organisational culture, that make the organisation more relevant. In the case of the venture capital industry in South Africa, 'scaling' helps to increase market opportunities, and mitigate the risk of failure. Hence, venture capitalists assist in scaling businesses globally, expanding operations, and a lot more. In respect of scaling, interview participants indicated views as follows.

VCP P01 said:

"Look, I think, for us as African businesses, what we should look at towards the exit is, scaling and whether we can scale globally? These are always the questions that are probably in the African and developing countries."

VCP P04 said:

"I think would try and make it a lot easier for businesses that started in South Africa to expand outside of South Africa.

So, what we've, what we're trying to do is, we're trying to get, we're trying to invest in businesses that have the ability to grow outside of South Africa.

Yeah, certainly. I mean, we're only 60 million people, there's 7 billion people in the world, so if you can target markets outside of South Africa, you've got a much higher chance of success."

In conclusion, scaling provides an opportunity for the industry to expand, both in terms of operations and globally. This gives the South African companies the leverage to position themselves globally to sell their brand with an increased market share.

6.6.3.5 Creating public awareness and building an entrepreneurial-based education system

The study findings demonstrated the availability of technical and conceptual skills in the tech space within South Africa, skills that venture capital investors are earnestly seeking for globally. However, these tech skills are not matched by good entrepreneurial skillsets to balance the scales enough for those who possess them to successfully run the business. Besides, the concept of venture capital funding is still new in South Africa, and yet to be fully understood by many; most people are keen on exploring the ways in which they can ignite the

growth of the industry. It is therefore imperative to create awareness of the activities of venture capitalists in the country, sing their success stories, and hopefully pave a way for an entrepreneurial-based education that would ensure the availability of entrepreneurial skills that can potentially attract venture capital funding.

The following comments from the interview participants highlight the need for running educational campaigns and awareness programmes to create familiarity with the venture capital industry, in order to foster the acquisition of knowledge that can potentially enhance the performance of the sector, and grow companies that can realise early exits.

VCI P01 said:

“So, you could have a SABC radio station running podcasts of asset allocators, and it should be going out every weekend. The whole nation can listen in for free, learn, upskill, understand the sector, meet the players, hear about entrepreneurs, and develop support structures. That would be an example of profiling, not the entrepreneur, but people who build an ecosystem. So maybe just to add, that would be a nice thing to see happen.”

VCP P02 said:

“Our schools don’t train people to become entrepreneurs. We know that we have an unemployment problem in South Africa. And if we hope that big corporates can solve this, then we are wrong. So, we need to educate people to become entrepreneurs. But not just subsistence entrepreneurs who just kind of go and make a living by just doing something themselves, but actually to build companies.”

“We also then need universities to kind of go and follow up on that ...”

“And then we need far more incubators and accelerators to kind of go and really help entrepreneurs to build the skill set. So that at some stage we can have companies that are maybe VC fundable ...”

“... And I can tell you, we see so many entrepreneurs with the passion and everything, but they just don’t have the skills. They don’t, and therefore we cannot give them money.”

To conclude, the participant was asked if an entrepreneurial-based education from pre-primary to university would add value to the system, and this was the response:

“Yes, absolutely. Yes, yes, 100%.”

VCP P08 said:

“And in order to achieve that, obviously, you need a relatively good level of education of some sort, right? So, I think the enabling environment is around a basic form of education, ensuring property rights, facilitating access to finance or access to funding again, on very cheap and long terms.”

“So, South African education is so far behind what is required now, I don't even know where to start. I mean, what is the pass rate for mathematics? Is 30% now. You know, we can't, I mean, if you can't add one and one together, how are you going to do your, your monthly accounting?”

In conclusion, education and awareness of the impact of venture capital activities on the economy is vital. Ensuring that the South African curriculum is one that builds talent for the innovative world, is key (Mateko, 2022). The findings revealed that there exist good universities in South Africa. These universities would need to support the structures for venture capital research, and assist incubators in building the right skills. At the basic level, it would help to build the entrepreneurial spirit at all levels, in order to expose students to entrepreneurial thinking. Academic programmes should be more talent-oriented, in order to expose learners to more innovative and creative thinking in business development courses. Property rights are important, and discussions around these rights should be handled with caution, as investors are quite sensitive on this aspect – irrespective of whether they are investing in their own business, or in someone else's business.

6.6.3.6 Structured exit plan

According to Puri and Zarutskie (2012), Raghupathy and Rajan (2010), and Schwienbacher (2007), the venture capital funding follows a systematic approach of funding business ventures with high profit potentials, with the ultimate intention of exiting the venture upon maturity. Hence, the process is incomplete without an exit. Investors need to realise their return on investment. An exit plan is therefore necessary from the onset, to give investors a clear picture of how long it would take the investment to pay back. Furthermore, exit choices have distributional consequences on the venture capitalists and the entrepreneurs (Smith, 2005). As such, investors are keen on the exit mechanisms, and time limitations, amongst other factors, which cause venture capitalists to decide on the appropriate exit method (Félix, Pires and Gulamhussen, 2008). This should be clear enough to investors, and therefore, it is vital to begin with the end, the exit, in mind in order to attract investment. The lack of clear-cut exit

planning may impact funding mobilisation, and a well-thought-out exit plan may facilitate funding mobilisation. The following sentiments from the interviewed participants paint a clear picture of how successful exits happen in South Africa.

VCP P01 said:

“Yeah. I think a well-structured and thought-out exit plan in the early stages; in terms of three, four, five years, the same way you're planning your revenue and you're planning your rollout to product or tech, think about how that would match up to a potential buyer.”

VCP P05 said:

“What we've seen is that the companies that are more successful in their exits begin the conversations far in advance to when they actually plan to exit.”

VCP P06 said:

“On a micro scale, before I want to exit my company, I should perhaps start earlier in looking for a buyer. I need to do research. I need to expand my network. I need to, you know, make marketing material, like reports, investment memorandums, and actually start looking for, looking for buyouts, partners, while in advance, before it's actually, before I need to, because these transactions also take years to complete, most of the time. So, I think more of a proactive stance.”

In conclusion, it would be helpful for the venture capitalists to adopt a more conventional approach to venture capital management (Guttermann, 2022), by ensuring that investors see and clearly understand their exit strategy. While some of the venture capitalists sampled could clearly demonstrate their exit strategies, some have varying approaches to investment, without clear-cut exit mechanisms; to them, an exit is imagined as an opportunistic event or a matter of luck. The findings revealed that investors are not that happy with the opportunistic approach to exit. It is undeniably true that Africa is a land of opportunities, and most of these opportunities are found in South Africa. These include the technology (Mateko, 2024), skills to develop the technology, and the natural and infrastructural resources to run the businesses. As such, wonderful opportunities to exit will always come, but an exit plan for investors to see the end in mind, would attract them to the wonderful opportunities.

6.6.3.7 Relax the regulations

Top of the list of challenges faced by the venture capital industry are regulations (Faku, 2022) and lack of funding (Mateko, 2024) for the industry. It is noted that the regulatory environment is not friendly to the venture capital industry. These findings correlate with those of Portmann and Mlambo (2013) and Jones and Mlambo (2013), who submitted that venture capitalists have no clearly-defined exit strategies, and this lack of exit options and over-regulation impact the performance of the industry. With regards to the need for an enabling regulatory environment for the industry to thrive, the interviewed participants commented as follows:

VCP P02 said:

“Scrap exchange control, loosen up labour law requirements, and one of them, just be very, very careful about particularly kind of BEE requirements for startups, that is difficult.”

“Make sure that startups are, in general, kind of visa requirements, that it's easier to go and obtain very short business travel visas to other countries, and, of course, any kind of subsidies or any kind of support for training.”

“... if I want to go and exhibit at a conference somewhere else, or even in South Africa, and it costs that, and I can actually kind of go and make it clear why this is of benefit, that there's some way for the government to kind of go and support this. I think these would all be very concrete measures to support entrepreneurship.”

VCP P03 said:

“I suppose, deregulate and make it easier for money to come into this industry.”

“So, reduce pain in terms of exchange control and things like that. I think those are the main things that will strengthen the venture capital industry.”

VCP P06 said:

“There needs to be less regulation. If we want to employ people today and fire them tomorrow, we must be able to.”

“Remove the legislation that is hamstringing companies, hamstringing families, hamstringing everyone.”

VCP P08 said:

“So, you know, I'd like to say the less regulation, the better, because I think in South Africa, we're completely over-regulated. I give you another example of over-regulation, it's actually at the heart of what we do, is the BEE code of good practice ...”

“Don't even regulate it, because you should just let willing buyer, willing seller, if there's somebody that wants to sell their company, that wants to sell their IP, that wants to sell the tech that they've developed, let them sell it. I don't think we need specific regulation for it.”

This phenomenon of over-regulation, and the lack of knowledge of how the venture capital industry functions, is not strange, especially considering the level of risk aversity in the economy. China, which is now second to USA in venture capital performance, initially struggled to grasp the concept. China had to make deliberate efforts to shift from its socialist rule to embracing capitalism, which is the core of venture capital activities (Salter, 2009; Pandey, 1998). The development of the industry went through four stages, namely the emergence phase, the experimentation phase, the decline and subsequent growth phase, and the deepening structural reforms phase (Lin, 2019). Today China occupies the second position, after the USA, in venture capital funding (Lin, 2019; Salter, 2009). Each time they tried to over-regulate the capital market, things went the other way.

The government of China played a key role in facilitating market access to funding, encouraging innovation, and creative technology. The government ensured a friendly regulatory business environment, a feasible legal framework with clear guidelines on how venture capitalists can operate, on matters relating to the establishment, management, supervision, taxation, and foreign investment of venture capital. India went through a similar process after so many challenges. Venture capital activities were promoted by the central federal government (Pandey, 1996). India is doing equally well, and occupies the fourth position after the UK. Being in the same trade bloc (BRICS+), South Africa can painlessly learn from the examples of China, India, and Brazil how to ensure a good regulatory framework for this industry. It is all about creating an enabling environment rather than over-regulation. China recently copied ideas from the USA, and this is working for the Chinese economy (Lin, 2019; Wang and Sheela, 2020).

6.6.4 Strategies for early exit framework

In Chapter Three, the research presented a conceptual framework for venture capital investment, and further conceptualised the framework to reflect the South African context, based on the reviewed literature, and in consideration of facts relevant to the South African venture capital ecosystem. This section presents relevant facts collected from the interview participants, which can potentially add value to the development of an early exit framework for venture capital investment in South Africa. The qualitative findings in this section, together with the quantitative findings, assisted in the development of the proposed framework for venture capital exit in South Africa.

6.6.4.1 Government initiatives to attract investment

The qualitative findings of the study revealed the investors' lack of trust in the present economy due to corruption, crime, inflation, currency fluctuation, political instability, and an economy unfriendly to capitalism, marked by so many regulations which make it difficult to attract both foreign and local investment into the venture capital industry. All these result in an acute shortage of funds to boost the industry and grow the economy. Being an emerging economy, blessed with much infrastructure, it would be of help if the government came up with concrete initiatives to build trust, curb crime, and facilitate economic activities. These will help in mobilising the required resources in order to foster growth in the venture industry. The following sentiments from the interview participants provide insights into what the industry experts expect from the government, in order to ensure a viable venture capital industry in South Africa.

Building trust in the economy

VCP P02 said:

"Then we need to build trust in our country. It is very, very difficult in the current environment to go and speak to any international investor trying to go and promote South African businesses because of the political instability, and it's really harming business."

VCP P03 said:

"I think government should be friendlier towards stimulating the venture capital industry through opening up or removing the challenges that exist for funds to flow into South Africa."

VCP P08 said:

“So, then that leaves us with a foreign investment. And with foreign investment, you know, we, we have unfortunately a government that talks about things like expropriation without compensation.”

The concept of building trust is beyond the fundamental scope of this study. However, trust is critical in relationship management, and its erosion has serious implications for the economy. Trust is foundational to building businesses, because every business transaction is in itself an element of trust (Kalish, Wolf and Holdowsky, 2021). Without going into the intricacies of trust, it is important that the government develops mechanisms to enhance the country's reputation, by engaging holistically with industry stakeholders, improving diplomatic relationships with other countries inside and outside Africa, in order to build a good reputation for South Africa. This would help facilitate inter-continental trade between South Africa and the rest of the world, hence, giving South Africans the opportunity to showcase and sell their technology to the world (Pennec and Raufflet, 2018).

Incentivise businesses to invest in the early stages

VCP P03 said:

“So, I think the biggest part is to try and encourage investment into early-stage business. Another aspect of that is to try and unlock pension fund money into alternative assets. At the moment, there is virtually zero pension fund money flowing into early stage, and it is at the discretion of the pension funds, but they're too risk averse.”

VCP P05 said:

“I think if you can mobilize their [corporate's] involvement within the VC ecosystem, then you'd see a lot more capital going towards venture capital in South Africa.”

VCP P06 said:

“The government needs to incentivize businesses.”

VCP P07 said:

“I guess, outside of giving the money directly, they could give us tax breaks, which should make it compelling. I mean, especially if you look at one of our neighbours

here in Mauritius, everybody's sitting in Mauritius entities operating in South Africa, because it's just easier or it's cheaper."

VCP P09 said:

"if government were to pass either the right kind of incentives to bring up the industry or the right incentives to push some pension fund money towards that, which that's harder because you need a mature industry, you can't be wasting pension fund money, you can't go down a black hole. I get that, but you've got to make sure that you've opened up enough opportunity for them to actually invest, then you open up those pools of capital and that would make an enormous difference in the venture capital industry in South Africa."

"Let's incentivize investors and private, private money, essentially high net worth individuals to invest into it by giving them a tax break."

Seeing the impact of corporates at the later stages of the investment process through the increased number of acquisitions, the participants highlighted the need to attract corporates to invest in the early stages of the venture capital process. This will ensure that the accelerators and startups invest in innovative technology, and expose the South African tech expertise, in the process, grow the industry. Incentives such as tax breaks, reduced income tax rates for startups and accelerators, relaxing intellectual property regulations to encourage innovative technology development within South Africa and around Africa, would help.

Unlocking pension fund money to flow into the venture capital processes implies creating viable policies that attract institutional funding into the venture capital ecosystem (Grilli, Latifi and Mrkaic, 2019), such as capital gains tax exemption, and tax-free investment of institutional funding into venture capital early-stage investment. Also provide a monitoring system that oversees the flow of capital from individuals into venture capital investment, to ensure compliance with any applicable regulations attached to such investments.

Creating an attractive market

VCP 06 said:

"The government needs to make the market attractive and stabilize the currency, stabilize crime, stabilize electricity, and actually work on making it more attractive to foreign investors."

VCP P07 said:

“So, think about the IDC, the Development Bank of Southern Africa, the DTI. If those guys could help in certain instances, by giving or providing the first check to these ventures to give the more private funders, or to decrease the risk for private funders, right?”

“... if the government says no, (to conservativeness of funders especially at early-stage), we'll come in first and we will provide them funding up to a certain point, so that at least we'll cover your losses to a certain point. It goes a long way in opening up the industry, it makes more money around.”

“So, I think there are two things that I'd say. Firstly, just how the government should try to provide first losses in certain things. So, provide funding to ventures that will then attract other funders, and then just get the infrastructure right to make it as affordable as possible for businesses to operate.”

In light of this, the government should consider this market as vital to economic development and innovation for the growth of the country, by opening avenues to ensure that the market works and attracts both foreign and local investors. For example, the government can invest in infrastructure that leverages the market, as well as opening independent investment firms, regulated according to the industry. Such institutions can invest in the industry, work in collaboration with other venture capital firms, and share the first loss if need be as the case of Russia where the NUMA Moscow hub was launched in 2016 to accelerate the growth of start-ups (Hardy, Adams and Moore, 2020). This would help motivate investment and grow the industry.

Creating a regulatory sandbox

VCP P09 said:

“So, they've [government] got to be quite creative around things like that and create a sandbox, a legislative regulatory sandbox, in which certain qualifying startups can actually thrive so that you can build this sort of ecosystem of innovation in the country, and we've never got that right, but I think Senegal was the first country in Africa to bring about a Startup Act.”

“So, if you carve out some regulatory space for startups and give them incentives that way, that's another way of doing it.”

In summary, government needs to understand the need for innovation and creativity, as in the case of Brazil (Minardi et al., 2018) and China (Lin, 2019). It is important that a regulatory framework be put in place, in collaboration with industry participants, which allows the stakeholders (key participants) of the industry to apply the framework, and monitor and report on their progress. Standards should be set in collaboration with experts in the industry. This could lead to more solidified structures that govern the industry, and make it more competitive and sustainable. In this regard, lessons could be learnt from what other developed countries have done to create a venture capital-enabled environment.

6.6.4.2 Policies

Besides the concerns about the hamstringing regulations that need to be relaxed, the participants also highlighted the need for a good regulatory environment, which should be more friendly to the venture capital ecosystem. In this section, the researcher summarises the salient propositions from the interviewees, in the form of strategies to be adopted, in order to ensure a thriving venture capital ecosystem in South Africa. These strategies are supported by verbatim transcriptions of the participants' views expressed during the interviews.

1. Enacting legislation that facilitates access to funding, and promotes innovation and startups.

VCP P03 said:

“So broadly, the Startup Act is there to identify the obstacles to venture capital investment, and investment into early-stage businesses and make the government aware of those things.”

In this regard, participants are advocating for the government and other stakeholders to support and expedite the development of the Startup Act, initiated by SiMODiSA and other industry partners. The development of the Act, as seen in other African countries such as Tunisia, Senegal, Egypt, and Nigeria, has facilitated tremendous changes in the venture capital ecosystem, and attracted investment in early-stage businesses (South Africa Startup Act Movement, 2023).

2. Revise the exchange control regulation, IP regulations, and labour regulations.

VCP P03 said:

” So, you can't just put money in and take it out again. So, I think the biggest part is to try and encourage investment into early-stage business.”

VCP P04 said:

“So, I certainly think that there'd be some benefit in relaxing the rules around exporting IP.”

VCP P08 said:

“They can't give a clear answer around about ownership status of companies in South Africa, because BEE regulations are changing. It used to be 25% black ownership, increased to 51% black ownership, all those things.”

“Slash-down the regulations.”

“I think, and if local or international investors, they don't like to hang in limbo and that's what's happening with a regulatory uncertainty.”

According to the participants, a revision of some of the regulations would ensure a friendly economic environment that facilitates trade between South Africa and the rest of the world. This allows for South Africa to export IP, and boost SA's image internationally. There is also the need to address issues around BEE to bring about certainty. There seems to be no clear-cut plans on how to deal with BEE issues. There is regulatory uncertainty here, as the law keeps constantly changing.

3. Create a regulatory mechanism to attract investment from institutional investors (pension funds, insurance funds, trust funds, community initiative groups, cooperatives etc.) as well as the protection of the funds invested.

VCP P03 said:

“Another aspect of that is to try and unlock pension fund money into alternative asset-funding vehicles.”

VCP P09 said:

“I mean, if you look at a first world country, you're going to have a percentage of pension fund money that is being managed in the portfolios of the pension fund, which is your largest pool of money in the country, a percentage of it is going towards VC investing and private equity investing, which helps to stimulate the economy and helps to stimulate the companies that are less mature.”

This will ensure that there is a permanent investment vehicle that finances investment activities at all stages of the venture capital process, as well as other related sectors in the country.

4. Reviewing the tax system to promulgate tax laws that attract investment into the venture capital space.
- 4.1. Revisit Section 12J and address the loopholes that resulted in the abuse of the investment incentive.
- 4.2. Expand Section 12J to accommodate more venture capital investment potential for both foreign and local investors.
- 4.3. Ensure that there is a mechanism to track the funds invested through Section 12J and similar incentives. It may be necessary to ringfence the funds, and assign an incentive(s) for reinvestment into similar projects and disincentive(s) for withdrawal from the investments.

The following comments from participants align with the above listed points:

VCP P03 said:

“...but I think if there are incentives to encourage people to put money into venture capital, stuff like 12J, also to attract foreign investment into the country, again, make it easy for foreigners to put money into the country and take it out when they feel like.”

VCP P05 said:

“I just don't think it was broad enough (Section 12J). So, it's made a considerable impact and I think a lot of venture capital companies were actually founded on the back of Section 12J. Now, I think they could expand that more broadly, because Section 12J was an incentive to taxpayers to invest in venture capital companies that are funding small and mini-sized enterprises with long-term growth potential. Now, I think they need to expand that, because we have started to see venture capital activities' increase off the back of that; and I think they need to expand the existing frameworks for that. So, I think it was a good start, but they could do more.”

VCP P08 said:

“Then we had 12J, 12J was great, you know, 12J was great. Why not revive 12J? It was such a great framework. It could have been done even easier. The challenges that I saw with 12J was that it was trying to make things more complicated. There is a similar framework in the United Kingdom – copy, paste, simple.”

5. Improving South Africa's image abroad. Diplomatic and international relations are required here.

VCP P04 said:

"I think would try and make it a lot easier for businesses that started in South Africa to expand outside of South Africa. I mean, we're only 60 million people, there's 7 billion people in the world, so if you can target markets outside of South Africa, you've got a much higher chance of success."

6. Engaging with venture capital participants (industry experts) to formulate the standards required for the market to thrive.

VCP P05 said:

"I think the formulation of certain market standards, which could help a lot, because you essentially set in the framework for organic capital transactions in South Africa."

To ensure the industry's sustainability, it is important to set standards for the industry. As such, there is the need to ensure that the market is known and understood by policymakers, as well as the public. Industry experts need to set the standards of operation in collaboration with government representatives, for the sake of regulatory governance. This leaves us with nothing but a tripartite arrangement between venture capital institutions, the government, and the industry regulators, which is independent of the government. This of course leads to a Public Private Partnership Arrangement (PPPA) proposed by the industry participants during the interviews, and summarised in the following subsection.

6.6.4.3 Public-private partnership

The findings revealed the need for all stakeholders to come to the table and draft modalities that can add value to the industry. This implies that industry experts should give an input on how the sector should operate, and together with the government, put in place regulatory mechanisms aligned with global industry standards. Apparently, South Africa has some basic structures in place that can help with the implementation of any recommendations that may come up during roundtable discussions or agreements between industry experts on one side, and the government on the other. Structures such as SIMODISA, SAVCA, and AVCA should be considered valuable stakeholders in terms of reporting and regulatory compliance. The venture capitalists should ensure that the agreed standards and rules of engagements are

respected, and report their activities to their networks (SAVCA and AVCA). In respect of the framework, the following comments were noted from the interview participants.

VCP P02 said:

“Then we need to have a legal and governance framework that makes it easier for companies to go and comply and have good corporate governance without, again, being hamstrung by too much of admin work, because they don't normally have the kind of people to go and do this.”

VCP P03 said:

“So, the guys at SiMODiSA and SAVCA and other organizations are working really closely to try and promote the Startup Act.”

“I mean, any sensible department of small business development should fall over themselves to support that, but unfortunately it doesn't seem to be happening yet. There are really good examples of it as well in the rest of Africa, where Startup Acts have made really positive implications.”

VCP P05 said:

“Now you need a framework that works for both parties. So, you know, from an economic development perspective, the country, the government would like to see increased economic activity, but the venture capitalists will have, let's say, a base-level understanding of how business actually works, how the venture capital investment actually works. So that would need to be co-created.”

“It leaves an opportunity for co-creation with the regulatory bodies.”

VCP P06 said:

“My view on the adoption of an early framework for venture capital investments is important, well needed, but by saying that, I also, I think it can't be seen in isolation, in my view... but it can't be seen in isolation, you know, just in particular to this industry. Okay, I think, you know, if all the macro policies are in place.”

“...it should be collaborative between the private and public sectors, because I mean, the public servants are so removed from reality... yeah, it's just the government is so removed from society, it needs to be a collaborative effort

between public, private, and more, more buy-in from the public sector, because I mean, the private sector is here, you know, this is how they make their money, this is how they feed their families. It's not because of a lack of effort from the private sector, it's a lack of effort from the public sector."

VCP P09 said:

"There's a graveyard full of good legislation over the years that just never really met what it was supposed to do. So, you would want private sector driving it with a boost from behind, from public sector, because that's where the real deal can be, with sort of tax incentives and legislation that is favourable. So, yeah, your drivers must come from the private sector though. So how you get that, how you kind of mix that all together in terms of the right shape of a framework and a model is, that's the magic of it all. But yeah, essentially, you're wanting something driven by private sector, boosted by public sector."

"Yeah, so I guess it's a public-private partnership, isn't it?"

In conclusion, the public-private partnership arrangement helps to carve a way forward in terms of the regulatory environment for the venture capital ecosystem, which would allow the sector to function optimally.

6.6.4.4 Education

The study findings revealed the proliferation of so much ingenuity in South Africa, which is probably unexploited and unnoticeable. However, these tech developers often fall short on entrepreneurial abilities to cater for and grow these ideas in ways that attract venture capital funding. They are often short of the finance and strategic management abilities to grow and give the businesses traction. This therefore necessitates starting to shape minds towards a system that builds people with an entrepreneurial mindset, from the base. This is to allow creative thinking from the base, accompanied with capacity building in finance, management, economics and technology development. Education on entrepreneurial finance is key to entrepreneurial success amongst the youth (Fatoki, 2014). Therefore, planning as a government to facilitate entrepreneurial education, and build financial self-efficacy is important (Khuram et al., 2023). To mitigate the risk of the failure of many new ventures, it is worthwhile including entrepreneurial modules in our academic curriculum, and putting emphasis on entrepreneurship in growing the economy, and its impact on investment budgets.

In the following comments, participants pointed out the need for more entrepreneurs in the economy, and the need for entrepreneurial education at all levels, that supports the skillsets required by the venture capital ecosystem, and aligned with the regulatory environment of the venture capital ecosystem.

VCP P02 said:

“We need to get more entrepreneurs, so there's a training and education framework to kind of go and do this.”

“Then we need to kind of go and get higher skilled entrepreneurs, so again, there is maybe an incubation and acceleration framework that needs to be built.”

“So, I think in terms of a framework, the framework needs to be a step framework that starts very, very early with education and then moves over to active support, regulatory kind of support, as well as financial support, and overall need to take into consideration ease of doing business.”

VCP P05 said:

“...So, yeah, so I'd say in South Africa less so, just because entrepreneurship is typically not a focus point of many school curriculums...”

VCP P08 said:

“I believe that to a large degree, people are driven to take up the reins of becoming an entrepreneur out of desperation, as opposed to it being an active choice very often. But obviously, anything that assists with people not seeking employment, but coming up with their own ideas to become entrepreneurs; that in itself is an investment. And in order to achieve that, obviously, you need a relatively good level of education of some sort, right?”

In conclusion, a curriculum focused on skills development and entrepreneurship would add value to the pool of entrepreneurs required by venture capitalists.

6.6.4.5 Collaboration with other African countries

Being a new industry that requires expansion, lessons can be learned from other developing African nations such as Tunisia, Egypt, Senegal, and Nigeria, who have already put in place

Startup Acts. Hence, inviting the African Private Capital Association (AVCA) and some of these countries already advancing in the industry to liaise with venture capitalists in South Africa would help pave a better way for South Africa. This implies that working on a more united front with other countries in the African continent could provide better leverage and build a market, not only for South Africa but for the entire African continent.

The following comments highlights this fact as noted during the interview:

VCP P01 said:

“Really, I don't know if it's South Africa's, I don't want to call it obligation, to do so. I think that they could also, we could as South African VCs take a leaf out of the book of those other West African VC firms and investors and learn from them. So perhaps a collaboration is the way to go for an early framework on the continent. I think, like I say, it's about maybe a portion of the VC industry deciding to take a look at how we then create that framework for a better exit?”

In conclusion, collaboration with other African countries would help in expanding the South African market within the African continent, expose South African tech, and build a global market for Africa. In other words, collaboration with other African countries would most likely harmonise venture capital activities, and the regulations around the venture capital space in Africa, in order to build a common market, leading to an extension of the Public Private Partnership Arrangement across Africa.

6.7 Chapter conclusion

In this chapter, this research presented the participants' views on the factors impacting venture capital exits, the critical challenges faced by the venture capital industry in South Africa, as well as major ways to improve the performance of the venture capital industry in South Africa in a way that opens the industry to funding opportunities, in order to regenerate further investments. This would result in many exits, and the expansion of the market. Central to this was the presentation of participants' views on the kind of framework (Public Private Partnership Arrangement - PPPA), and the strategies, that facilitate the realisation of such a framework, that fosters a thriving industry, capable of generating the outcomes for the industry and increasing the number of exits and investment potentials to grow the economy. In Chapter Seven, the study summarises the quantitative and qualitative findings and presents the framework for early exit. The study recommendations, limitations, and recommendations for further studies are also presented in Chapter Seven.

CHAPTER SEVEN: SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

7.1 Introduction

Chapter Six provided the analyses and discussion of the qualitative findings for this study. In this chapter, the researcher summarises the findings (both quantitative and qualitative) for the study, and integrates the results. This chapter, therefore, builds on the previous chapters to discuss the contributions that the current study makes in charting a road map to the development of a framework for the early exit of venture capital investments in South Africa. It also summarises the study through reflections on how the study has addressed the research problem, and the underlying questions and objectives. It is hoped that the empirical findings of the study will add value to the South African-based evidence, and provides a guiding framework that would facilitate the early exit of venture capital investments in South Africa. The lessons learned from countries such as Brazil, Russia, India, and China – the founding BRICS+ members – and the United States provided a reasonable base for formulating recommendations that can improve the performance of the venture capital industry in South Africa, and facilitate the early exit from investments in South Africa.

7.2 Overview of the research problem and objectives

According to Santhi and Nanda (2017), venture capital represents entrepreneurial investments in startup companies, with high risk but also with potential for high growth and high profitability, for which conventional funding is not readily available. Investment in venture capital activities is expected to be highly profitable, and thus attract further investment (Snyman et al., 2014). As such, venture capitalists assume the intermediary role of accumulating funds for growing such entrepreneurial ventures that guarantee high returns for the investors. Investment in venture capital is generally made with the intention of exiting the investment at a later date, and paying multiple returns to investors (Seraf, 2024).

With its origins in the USA in 1946 (Etzkowitz and Zhou, 2012), the concept has gained ground across the globe, growing startups and adding value in new venture creations, and economic development (Gornall, 2015). Within the founding BRICS+ members, venture capital investment has contributed enormously to growing businesses, yielding a great number of profitable exits, including IPOs. In China, the concept spurred innovation, with most of the profitable exits through IPOs (Lin, 2019; Salter, 2009). Dominic and Gopalswamy (2019) point

out that India has reported no exit exceeding 10 years, and Minardi (2020) highlights the importance of venture capital activities in growing the Brazilian economy.

The concept is gaining ground in South Africa, with an increasing number of activities, especially after the introduction of the Section 12J tax incentive in 2009 (withdrawn in 2021). Despite the creation of SAVCA in 1998, the concept is seemingly new and not understood by many, including government authorities. Venture capitalists struggle to source funding for businesses amidst regulatory challenges (Jones and Mlambo, 2013), which stifles the performance of the industry, thereby creating an exit problem (SAVCA, 2000; SAVCA, 2020). It is against this background that the research sought strategies to provide a framework that ensures a better performance of the industry, in order to facilitate early exits, and guarantee investors' returns at a reasonable timeframe, which could be used for further investment. Developing the framework required the review of relevant literature in order to understand the success stories of venture capital investments in countries such as Brazil, Russia, India, and China – the initial BRICS members – and the USA (venture capital originating country). This evidence was further augmented with the results from the quantitative and qualitative analyses of the South African context, conducted in this study. The facts were gathered with the goal of providing answers to the questions and objectives set at the beginning of the study, which sought to come up with viable strategies necessary for the development of a framework for the early exit of venture capital investment in South Africa (see figure 7.1).

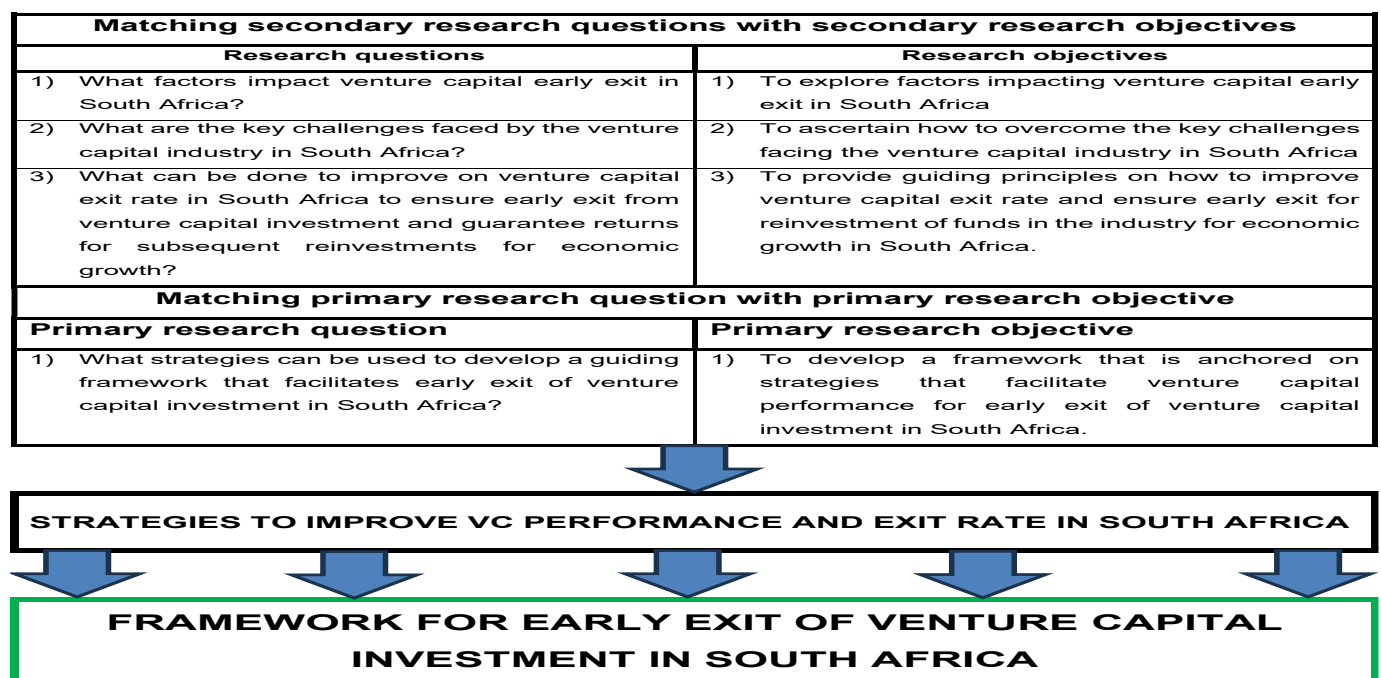


Figure 7.1: Link between research questions, objectives and exit strategies

Source: Own initiative

7.3 Findings from the related literature

The reviewed literature provided a clear understanding of the concept of venture capital. Exit was explained, and its conceptual framework brought to light in chapter three. The literature revealed the factors influencing venture capital performance, and the challenges of the venture capital industry, and explored the strategies adopted by countries such as the USA, China, India, and Brazil, to improve the performance of the industry.

1. Factors impacting venture capital performance and exit:

Investment exit is invariably tied to the performance of the business, and venture capitalists split funding into stages (Giot and Schwienbacher, 2007), to make the alternative best choice of exit, if the optimum performance, through IPO, is not attainable (Giot and Schwienbacher, 2007; Gompers, 1995; Hege, 1998). Stage financing enables investors to stagger their risks to avoid unprofitable investment stages (Cornelli and Yosha, 2003). The qualitative results revealed that South African venture capitalists do not see IPO as an ideal mechanism to exit investment, and therefore resort to other exit mechanisms, such as mergers and acquisitions, trade sales, management buy-out, and liquidation. The interview results align with this view, as most venture capitalists in South Africa are interested in financing later-stage investments, specifically during expansion, in order to avoid the risk of failure in the early stages. This supports the fact that the industry is still growing, and needs some basic structures to facilitate its growth to maturity.

Megginson (2004) points out that the country's legal system is paramount in influencing the activities of the venture capital industry, as differences in design and development of the venture capital and private equity sector are caused by institutional frameworks (Cumming and MacIntosh, 2002). Hence, fund managers operating in countries with venture capital-friendly regulatory environments have a greater tendency to invest in high-tech SMEs that spur innovations leading to IPO exits. Cumming et al. (2004) posit that better legal systems ensure proper syndication, which reduces the failure rate (Pezeshkan, Smith, Fainshmidt and Zhan, 2019), and leads to a simplified screening of deals. Good legal systems ensure the efficient use of resources, and increase the probability of investment in high-tech companies. This implies that South Africa should revisit its institutional settings, to ensure that the regulatory framework supports a venture capital ecosystem that is investment-friendly (Faku, 2022, Sutherland 2024) and attracts funding from both local and foreign investors (Mateko, 2024).

Also, the levels of liquidity of the stock market play a pivotal role in recycling funds, as this allows venture capitalists to redirect human capital to new projects. Hence, the lack of liquidity impedes the performance of venture capitalists, and makes it impossible to successfully exit an investment (Dominic and Gopalswamy, 2019). This correlates with the earlier findings of Dossani (2002). Smith (2005) asserts that planning an exit is crucial, as there is a trade-off between liquidity and exit.

The levels of entrepreneurial skills, stock of knowledge, and patent filings, backed by great ingenuity in the economy, have a positive impact in attracting venture capital investment. Economies marked by growing GDPs, and attractive interest rates, combined with low market rigidity, attract venture capital investments. Furthermore, stable economies with growing or stable private pension markets add value to the venture capital industry, as pension funds act as institutional investors, thereby reducing the liquidity challenges. According to Ribeiro, De Carvalho and Furtado (2006), the established reputation of the industry, together with the industry operating standards and practices, determine whether investors come in for the shorter or longer term. The volume of IPO exits in the market indicate a lucrative market, and would trigger more investment and more exits.

Venture capital activities would flourish in locations or regions with developed clusters of entrepreneurial activities, and such clusters of activities attract start-up funding by venture capitalists in areas such as Silicon Valley (Giot and Schwienbacher, 2007). The interview results prove that South Africa has the potential and tech skills for a tech-enabled environment that attracts startup funding from venture capitalists. However, Mateko (2024) points out that funding to grow these startups in South Africa is limited, and Faku added that foreign investors are dumping their listed shares on the Johannesburg Stock Exchange instead of buying, due to a lack of transparency of the regulations in place. The technological milestones achieved by the investees signify that the company is progressing rapidly, and would be a successful investment for a timely exit (Bergermann and Hege, 2002). The achievement of these milestones are continuously stifled by the current unfriendly regulatory environment (Sutherland, 2020), which requires attention by the government.

According to the Russian Venture Capital Association (RVCA, 2016), entrepreneurial ventures in innovative technology and information and communication technology attract very high returns on investment and are generally attractive sectors with high exit potentials. Silicon Valley in the United States is proof of investments made in ICT (Vanacker and Manigart, 2013),

as in 2016, 86% of venture capital investment in Russia was in ICT (RVCA, 2016). Within the context of South Africa, ICT and fintech are in the lead in terms of attractiveness and exit performance, as seen in both the quantitative and qualitative results. Hence, South Africa can learn from Russia and invest in early-stage technology (RVCA, 2016), or promulgate regulations that attract investment in early-stage technology, as in the case of China, that applied “constructive destruction” to build capacity and promote the technological expertise evidenced in the country. This would help in building the envisaged digital economy (Bamata, Govender and Field, 2019; Gqoboka, Anakpo and Mishi, 2022).

Facts from India revealed that venture capital activities grow out of home-grown software technology industries that sprung onto the international scene in the mid-1990s, of which some were listed on the United States NASDAQ. Moreover, Indian migrants to the United States had begun their own tech companies and were very successful; most became venture capitalists and angel investors in India (Dossani and Kenney, 2002). Indian venture capitalists operating in highly regulated and monitored sectors exit much earlier, as information asymmetry is reduced.

2. Challenges

Besides the critical issues of the lack of funds, venture capitalists are often faced with agency and challenges related to control, as entrepreneurs who do not clearly understand the venture capital processes can conceal vital information, leading to adverse selection if the venture capitalist is not skilled enough to perform due diligence (Barnard and Chicktay, 2018). The consequence here is that venture capitalists normally tend to maximise short-term objectives to the detriment of the investee, and exit earlier (Fan, 2019). This implies investments are being called-off prematurely. Evidence from this study evinces the abandonment of a project, because the terms were not favourable for the venture capital firm to embark on the project. Resolving information asymmetry requires the use of information by professionally-skilled venture capitalists (Jungwirth and Moog, 2004), hence the need to understand the local industry’s operating environment.

The lack of exit alternatives, the lack of clear-cut exit mechanisms, and imperfect exit methods are critical challenges, as investors are highly dependent on listings (Fan, 2019). As such, developed economies ensure that highly effective stock market regulations are in place, and at optimum levels, in order to facilitate IPO exits, as opposed to situations prevailing in developing African economies. This perhaps accounts for the reasons why South African venture capitalists position investees to look forward to listing on international stock

exchanges, rather than on the Johannesburg Stock Exchange (JSE), apart from the challenges of a small market and an unstable economy.

The findings also revealed that venture capital market risks are generally higher when investing internationally, as cultural differences, language, and legislation, are of concern to international investors (Park and Tzabbar, 2016). This aligns with the view of Giot and Schwienbacher (2007), who opine that proximity affects the type of investment decisions that venture capital investors make, as they need sufficient information about prospective investments.

While India and China are top of the list of the high-performing venture capital countries in the world, their achievements did not come easy. Both countries originated from socialist forms of economies, whilst the notion of venture capital originated from America, which has a capitalist-centred approach to governance. Hence, the institutional frameworks for venture capital (capitalist), and those of China (communist economy) and India (socialist – now liberalized) were different (Salter, 2009; Pandey, 1998). Government commitment played a key role in turning things around.

The Chinese economy used its normative structures (cultural values and expectations, social networks and cohesion as well as regulatory institutions) to have an impact in shaping the emergence and development of the national venture capital industry in China. Supporting the growth of venture capital depended on the level of economic development (Gornall, 2015), the existence of ownership regulations, legitimacy accorded to private firms, educational attainment, and the legal system. India, on the other hand, used its emerging technology and reforms, which attracted those citizens who had emigrated to the USA to come back as investors and venture capital practitioners. Both China and India received different levels of political and practical support in order to grow their venture capital industries.

South Africa, being a mixed economy system, stands a greater chance of developing the venture capital ecosystem faster, if all parties involved conduct the essentials that the industry requires to flourish. In the context of the Russian venture capital ecosystem, the industry is predominantly government-controlled, and progress is stifled by international sanctions, economic conditions, cyclical and political upheavals, economic depression, depreciation of the Ruble, and other unfavourable macroeconomics conditions (Batalov and Piper, 2016; Moreva, 2018).

3. Strategies for resolving or improving venture capital performance and exit

Etzkowitz and Zhou (2012) explain that, in order to strengthen the US venture capital market, The National Venture Capital Association was formed, and a Small Business Investment Act was passed in 1958. The Act paved the way for licensing private investment companies to finance start-ups. Besides, the American Research and Development Corporation (ARDC) was established as an avenue for developing regional economies using universities. The formation of ARDC (1946) saw the raising of 3.5 million dollars, of which 1.8 million came from institutional investors such as MIT, Penn, and the Rice Institute. To further facilitate the process, tax breaks were introduced for both professionally-registered venture capitalists and private investment firms. This boosted the industry, and companies such as Apple, Xerox, and Intel sprung up. The studies of Gompers and Lerner (1998), Jeng and Wells (2000) and Romain and Van Pottelsberghe (2004) added that the reduction of capital gains tax attracted venture capital activities into the economy.

The approval of a tax law by the Brazilian congress, which allowed technology companies to utilise funds from R & D mandatory tax-deductible provisions to finance venture capital operations, led to the realisation of the Brazilian first unicorn in 2018, and by 2019 July, Brazil had realised seven unicorns. Literature from Brazil indicates that their first “decacorn” is a tech company worth over US \$10 billion. Minardi et al. (2020) confirm that the Brazilian venture capital ecosystem does not experience much of an exit problem, after instituting industry-specific legal structures. Despite its volatility, the average investment period for the sector stands at 4 years.

According to Castilho, Resende, Montoro and Shokoto, (2019), venture capital and private equity funds in Brazil are regulated under Normative Instructions Numbers 209/94 of 1994 and 391/03 of 2003, respectively. The findings revealed that the Brazilian venture capital industry overcame its challenges by establishing the Comissão de Valores Mobiliários (CVM), investment funds (FIPS and FMIEEs), with complete tax shields, and investors were allowed to collect income at their own tax rates (Antonio, Humberto and Joelson, 2014; Silva, Paula and Silva, 2024). These funds added value to the fund proportion, as private equity and venture capital funds grew from 33% to 42% between 2004 and 2009. The creation of ABVCAP in the year 2000 provided an opportunity to negotiate meaningful regulations and policies geared towards improving the industry to what it is today.

The Funding Authority for Studies and Projects within the Ministry of Science and Technology collaborated with other organs to launch the INOVAR programme (Silva, Paula and Silva, 2024), which fostered private equity and the venture capital industry in Brazil. Through this programme, fund managers, investors, and entrepreneurs were trained on best venture capital practices (Gonzalo et al, 2022). Government differentiated stock listings – New Market Level 2 and Level 1 – were launched in 2000 by the Brazilian Stock Exchange (BOVESPA). Many companies migrated to New Market Level 2, as IPOs were issued in this category. Conflict resolution was recognised by the Supreme Court, and Arbitration Chambers were opened to accelerate dispute resolutions amongst shareholders and debt holders in corporations. In 2005 a new bankruptcy law was approved, in order to enhance the protection of lenders, and this opened up opportunities for a market in distressed companies' securities. (Minardi et al., 2020). These reforms caused a boom in the stock market, and opened IPO windows between 2004 and 2008. Exited investments with high returns and fundraising in Brazil increased. Foreign firms such as Carlyle, Actis, Sigular, General Atlantic, and Warburg Pincus opened offices in Brazil, with the emergence of new fund managers.

Experience from Ghana indicates that venture capitalists have adopted a “fly-in fly-out” attitude whereby they only fly into the country when they discover an investment opportunity, and fly out shortly after due to lack of incentives by the government (Biney et al., 2016). South Africa should avoid being trapped in such an unpleasant approach. Dossani and Kenny (2002) assert that the story of venture capital industry in India was a tough one, as it required the push of the government during a time when the policies were opposed to capitalism, which is the foundation for venture capital.

Only collaborative efforts managed to move the industry in India from the resistance stage to the infancy stage in 2000, to the growth stage in late 2010 (Raghupathy and Rajan, 2010) and to near maturity (Dominic and Gopalaswamy, 2019). Venture capital activities in India are controlled and promoted by central government-controlled finance institutions such as the Industrial Finance Corporation of India alongside public sector finance banks, foreign banks, private sector companies and finance institutions (Pandey, 1998). Venture capital activities in India are solidified by a strong venture capital association that rigorously reports about the successes and challenges of the industry.

Venture capital funding in India comes from a cross spectrum of stakeholders, including the World Bank, private sector, public sector, non-resident Indians, nationalised banks, foreign

institutional investors, local institutions, insurance companies, and mutual funds (Pandey, 1998). About 42 % of Indian venture capital investment in mid-1990 was in startups (Pandey, 1998), and venture capital was part of the innovation tool used to liberalise the Indian economy and support the industrial sector growth that began in the 1980s. Evidence from this study suggests that South African investees are still seeking seed and startup funding, while venture capitalists are keen to fund expansion. Learning from the Indian experience can help mitigate the funding problem in South Africa.

The Chinese venture capital agenda is tech-focused and championed by the government. China's first debate on the concept was a central government "Decision to Reform the Scientific and Technology System" in 1985 (Lin, 2019) and reiterated in 2006 by President Hu Jintao during the Fourth National Conference on Science and Technology, on the need to build an innovation-oriented country (Lin, 2019; Salter, 2009). China's venture capital concept was based on high-risk investment, intended to boost entrepreneurial and innovative ventures in China (Lin, 2019; Lin, Xu, Zhang and Yang, 2018). The government had to circumvent and replicate the American model, and set up government-backed companies to provide funding to high-tech start-ups (Cheng 2008), and their success was thanks to the government's efforts in implementing a good regulatory mechanism and reforms.

Firstly, the launch of ChiNext – *chuangyeban* (NASDAQ-like secondary board) in 2009, which acted as a third stock exchange in China to attract investment in fast-growing innovative high-tech companies (Lin, 2019). By the end of 2015, 464 firms were listed on Chi-Next. This accelerated the venture capital ecosystem, as it provided alternative exit routes for venture capital-backed companies. Secondly, in 2010, the government put in place measures, allowing insurance funds and other social security funds or fundraisers to make equity investments in the venture capital market, providing further access, not only to the venture capitalists but also to high-tech and innovative companies. Thirdly the launch of several Qualifying Foreign Limited Partners Schemes, with technical expertise in venture capital operations, in Shanghai, Beijing, Tianjin, and Chongqing permitted many foreign-qualified institutional investors to make equity investments in China's venture capital market.

At some point, vigorous regulations lead to an overpricing of IPOs, without taking cognisance of the forces of demand and supply. Realising this shortcoming led to the suspension of the IPO process by the China Security Regulatory Commission, from 2012 to 2014. This negatively affected fundraising, but the market was assisted by an alternative nationwide expansion of

the National Equity Exchange and Quotation (NEEQ) system (created to pursue the vision of innovative green and open development), which allowed investors the opportunity to trade shares over the counter (an alternative exit route). The emergence of private firms and investors attracted foreign investors, as well as private individuals and families, who constituted the majority source of funding (PE Daily, 2015).

The financial market in China currently operates diversified types of shares, namely A-shares and B-shares, H-shares, N-shares, and S-shares. A and B shares are traded on the Shanghai and SZ stock exchanges. A-shares are traded by domestic investors or foreign investors, if approved by the CSRC, and B-shares shares are traded by foreign investors on the Shanghai and SZ security exchanges in US dollars and HK dollars, respectively. H-shares, S-shares and N-shares are shares of domestic firms listed in Hong Kong, Singapore and New York, respectively. Recently, the American Depository Receipt (ADR) was created. ADR is a negotiable certificate issued by a US bank and can be traded on a US exchange, representing a specified number of shares where the underlying shares are not listed in the home market. (Azevedo, Guney and Leng, 2018).

The implementation of the strategic task of deepening reforms under the supervision of CSRC, as outlined by the 13th Five-Year Plan for National Economic and Social Development, NEEQ activities spurred the growth and development of the venture industry in China, especially when IPOs were suspended in 2012, as they provided an alternative way of trading equity shares over-the-counter (Lin, 2019). Angel Investment Club and many more organisations including research institutions (e.g. Zero2IPO), which were set up for investors to interact, fostered research and provided professional advisory information to venture capital and private equity investors, including the government of China and other institutions (Lin, 2019; Zero2IPO, 2020). The examples of China, India, and Brazil are worth emulating, to improve the performance of the venture capital industry in South Africa.

4. Contribution of venture capital

The findings revealed that venture capital financing is key to infrastructural innovation (Gornall, 2015). Venture capitalists supply the funds that finance new ventures created by entrepreneurs (Barney et al., 1996), they bridge information asymmetry gaps between entrepreneurs and investors, and provide guidance to entrepreneurs on their role as managers (Huang, Wang, Sheng and Zhao, 2025; Sahlman 1990; Sapienza, 1992). In the USA they financed high-tech businesses such as Apple, Cisco, Intel, Amazon etc. Their expertise helps

speed up business processes, and add value to entrepreneurship and investors' groups (Gompers and Lerner, 2001), which in turn grow the economy. They are accepted as an asset class in the USA, unlike in South Africa, where some argue that the venture capital industry seems not to be an asset class, or the asset class is way too small.

Although the growth of India's venture capital market was only apparent in the 21st century, it has recorded the fastest growth rate of 47% of the industry around the world between 2004 and 2008, and currently occupies fourth position in world, ranking after the UK (Dealroom, 2024). It has contributed significantly to liberalise the Indian economy. In the context of the Chinese economy, the venture capital industry has spurred innovation and economic growth (Huang, Wang, Sheng and Zhao, 2025), and China is second after the USA on the ranking list of venture capital activities (Lin, 2021).

7.4 Quantitative findings

Quantitative research is generally useful in summarising averages, making predictions, and finding patterns, as well as testing the causal relationships and generalising results about an entire population. In this section, the research summarises the findings from the survey conducted during the quantitative phase of the study, as presented in Chapter Five. These findings provided valuable information that contributed to our understanding of the venture capital exit problem, i.e a low exit in South Africa, and to propose a framework to address the problem.

Major factors impacting venture capital exit in South Africa

The factor analysis revealed four main factors impacting exit performance in South Africa, namely the economic and financing environment (EFE), deal-sourcing (DS), business performance (BP), and regulatory environment (RE). In the following subsections, the study presents an overview of the four main factors impacting venture capital performance in South Africa.

Economic and financing environment

From an economic and financing environment perspective, the study revealed that the South African growth rate, good corporate governance practices, government policies, the type of industry invested in, investee performance, the state of technology, and stage financing greatly impact venture capital activities and exit rate in South Africa. These findings are consistent with the views of Gompers (1998) and Jeng and Wells (2000), that macroeconomic expansion

steers startup growth and attracts investment into venture capital. Hence, the high growth rate of a country is essential for attracting venture capital funding. Kuthari (2004) found that good governance practices, good listing arrangements with alternative listing routes, and policies incentivising investment (Wilson 2015) are great inputs for the venture capital industry.

Such arrangements benefit both public and private sectors (Murray, 2021), as a hybrid venture capital model attempts to meld the benefits of private and public sectors (Bonini and Capizzi, 2019). Minardi et al. (2020) confirm that investments in ICT-related industries have short gestation periods, and thus attract venture capital investors. Also, stage financing provides an opportunity for the venture capitalists to avoid the risk of failure and exit the investment, if it is foreseen that future rounds of financing would be unprofitable (Bergemann and Hege, 2002; Giot and Schwienbacher, 2006; Puri and Zarutskie 2012). Furthermore, investment in the early stages generally takes longer to scale and build traction, compared to those in the expansion stage, thus impacting the rate of exit (Gompers, 1985).

Deal-sourcing

The concept of deal-sourcing in this research relates to how venture capitalists go about searching for and selecting investees, either through the use of their networks, reference groups, selection platforms, or talent exhibition shows. The focus of the study was to assess whether the current entrepreneurial-based education supports venture capital activities, whether South Africa has the required skills for new venture creation that attract venture capital funding, and whether venture capitalists have avenues they can refer to when sourcing investees. The findings revealed that most practitioners are neutral about the existence of entrepreneurial exhibition shows, neutral about the existence of entrepreneurial selection platforms, and not sure whether the current educational system encourages venture capital activities in South Africa. However, the findings affirmed that there are entrepreneurial skillsets (tech related skillsets) in South Africa that attract venture capital activities, especially in the technology industry.

Business performance

The findings revealed that business performance is a contributing factor to exiting an investment. The contributing variables to business performance in the study include the amount invested into the venture, the profitability of the venture, and availability of multiple ventures that venture capitalists can choose from. There is a consensus that the amount of money injected into the business impacts the performance of the business, as well as the exit (Chen and Lou, 2024). The factor analysis revealed that there exist numerous opportunities

for investment in South Africa. This explains the emergence of the growing venture capital market in South Africa. Also, the findings revealed that the performance of the investment is an important factor for the performance of the business and exit.

Regulatory environment

The factor analysis carried out in the study revealed that the regulatory environment has an impact on the venture capital performance and exit in South Africa. Critical to this is the lack of incentives and the unavailability of alternative listing routes, followed by management buyout arrangements, and mergers and acquisitions regulations. This is in line with Lin's (2019) findings, that good government regulations, with incentives such as tax breaks, and capital gains tax, attract venture capital investment and create a positive impact in the ecosystem, and in the process, improve exit performance. Gompers et al. (2020) equally assert that a good regulatory environment facilitates cashflow movement into the system and reduces the liquidity (financing) problem. This was evident in the case of the United States of America, where the Small Business Investment Act, passed in 1958, paved the way for licensing investment professionals and facilitating fund mobilisation (Etzkowitz and Zhou, 2012). China and India battled with the concept, and had to finetune their economic systems from a socialist perspective to a capitalist approach to become the 2nd and 4th position, respectively, in venture capital activities globally (Dominic and Gopalaswamy, 2019; Lin, 2019). Hence, good regulations ignite investment, whereas an unfriendly regulatory environment drives away investors.

Venture capital exit performance in South Africa

The findings revealed an estimated average exit duration of 7.823 years for South Africa. This implies that it takes on average 7.823 years to exit an investment in South Africa. Investors' preference stands at 6.650 years to exit an investment in South Africa. Estimated return on investment for South Africa stands at 15.12%, as opposed to the 25.96% of the investors' preferred return. Table 7.1 below summarises the exit performance data for South Africa as per survey results.

Table 7.1: Quantitative summary of venture capital exit and profitability performance in South Africa

Item description	South Africa
Current exit duration (estimate)	3 – 12 years (7.823 years on average)
Preferred exit duration (estimate)	6.650 years
Current IRR (estimate)	15.12%
Preferred IRR (estimate)	25.96%

Source: Own initiative – survey responses

Most companies are exiting between 7 - 9 years, followed by 4 – 6 years. However, most of the companies would prefer an exit period of 4 – 6 years. The study revealed a consensus that venture capital investment in South Africa can be exited in less than 10 years, and the situation can be better if the economy is stable, with better regulations in place.

The quantitative findings revealed that exits in South Africa are predominantly mergers and acquisitions, followed by management buyouts and trade sales. These findings are similar to those of Jones and Mlambo (2013), who submit that exits are mostly trade sales and management buyouts, except for the fact that mergers and acquisitions are currently in the lead. Based on the sample results, no investee was exited through IPO as at the time of this research, which was conducted in 2024. However, the findings revealed the investees' desire to exit through IPO.

Exit performance by sector

The findings revealed that the ICT sector is top in terms of number of exits made, followed by the financial service sector (fintech), with the energy sector in the third position. The exit ranking aligns with industry preferences. This implies that venture capitalists in South Africa are mostly attracted to the technology industry. However, venture capitalists in South Africa finance operations across sectors, including, education and edu-tech, agri-tech, real estate, water treatment, logistics, hospitality, healthcare, manufacturing, mining etc.

Investment preference by stages

The quantitative findings revealed that venture capitalists in South Africa prefer financing the expansion stage followed by startups, and then mezzanine, with the least preferred funding going towards seeds investment. However, the investees are mostly soliciting for startup and seed funding as opposed to expansion, which is predominantly financed.

Factors contributing to low exit

The findings revealed that government regulations (notably, exchange control and intellectual property regulations) are key factors contributing to the low performance of the industry, as earlier noted by Jones and Mlambo (2013), followed by the stage of investment, lack of funds, poor investment decision, and stock market regulations. Other factors include the market size limitation, the lack of funding vehicles, lack of investees' commitment, lack of research, lack of alternative listing routes, the socio-political status of the South African economy, lack of support after funding, etc. Finally, the findings revealed that the current school curriculum does not facilitate the acquisition of entrepreneurial skills, which can attract venture capital investments into South Africa, and that venture capital representation in the investees' board of directors adds value to the investees' management teams.

7.5 Qualitative findings

This section summarises the qualitative findings as evidenced during the research interviews, with the aim of providing a clear picture from the point of view of industry participants. The findings are clearly presented taking cognisance of the quantitative findings, in order to reduce any ambiguity or facts that are not self-explicit in the quantitative results.

The qualitative findings revealed that exits in South Africa are predominantly mergers and acquisitions (as evidenced in the quantitative findings) and happen mostly at the later stages of the investment (expansion) rather than the seeds and startups for which entrepreneurs seek funding. This happens for the following reasons:

1. The large corporates want to consolidate their operations and have control over their respective industries. They target startups that are disruptive to their operations and acquire them.
2. Sellers see selling to these corporates as an opportunity for making more money, as this also increases their bargaining powers.

Further findings in this regard point to the fact that these corporates are not active in the early stages of the venture capital cycle. As such, they are not active in the pre-seeds and seed stages, where investees are in dire need of funding in order to develop concepts. This slows down innovation, as there is little or no competition in the early stages to develop the tech industry in South Africa.

The findings equally revealed that South Africa has a highly incentivised corporate sector, which acts as a disincentive for founders to start their own businesses. Many learned and

qualified individuals capable of starting their own businesses are often attracted to work in the corporate sector, either because of the wonderful incentives (good benefits, high pay packages, etc.) in the corporate sector, or because they need the immediate means of survival after school to offer support to immediate family members. This discourages the creation of new startups, and slows down the venture capital performance, thereby limiting exit performance.

The findings revealed that venture capital investment in South Africa is mostly in the expansion stage rather than the early stages. These findings are the same as those from the quantitative analysis, which also evinced that most investments are within the expansion stage. The qualitative findings further revealed that funding is mostly in the expansion stage for the following reasons:

1. Investors are risk averse. Investors are not comfortable investing in South Africa in the early stages because the economy is generally risky. Other reasons include:
 - a. Lack of traction for early-stage investment.
 - b. Early-stage investments take longer periods of time to exit, as they may take up to 15 years or more to exit.
 - c. The general lack of funds to support early-stage investment in South Africa. The lack of funds makes venture capitalists adopt a conservative funding approach, and prefer to allocate funding to later stages of the venture capital cycle due to the risk associated with early stages.

Also, venture capital activities in South Africa are mostly centered on the growth stage, and are mostly attracted to the technology industries, because they are easy to scale within short periods of time, they have traction, and there is evidence of a minimum viable product (MVP). However, funders of early-stage investments confirmed that they have a sweet spot in seed funding, especially in the tech space, as it is easy to scale up, easy to find a buyer, they are specialised in that area, and able to support the tech entrepreneurs to build the technology using their incubation hubs. Moreover, early stages are open to fair pricing in terms of equity stockholding; investors can get a good chunk of the equity in the early stages, compared to expansion, where there is market traction, and the market value is much higher.

The findings revealed that South Africa venture capitalists do not believe in exiting investment through IPOs. The quantitative results indicated that no investment was exited through IPO, and that venture capitalists consider IPO as exit options when carving out their exit plans. A

follow-up on this during the interviews revealed that South African venture capitalists do not believe in IPOs for the following reasons:

1. The South African market is not big enough for IPO exits. South Africa's population is comprised of just about 60 million people, but there are over 8 billion people in the world. As such, companies are looking for strategic buyers and external IPO exit opportunities in foreign stock markets.
2. The listing regulations do not facilitate listing through IPOs in South Africa, and many companies have delisted over the years.
3. There are no alternative over-the-counter markets; the Cape Town Stock Exchange is not structured.

However, IPO exit is an option for South African venture capitalists when planning their exit strategy, though IPO exits are not realistic in South Africa.

The findings revealed that exit is dependent on the investment mandate. Section 12J of the Income Tax Act ignited venture capital activities in South Africa in 2012. However, there is no such thing as an early exit with Section 12J, as funds are supposed to stay invested for at least five years. Otherwise, there would be a recoupment of the amount withdrawn. Also, the few pension funds thinking of investing money in the venture capital ecosystem do so on terms that the venture capitalists cannot accept, and the amount they are willing to put in is too little, and for a limited period that cannot see the investment through to a successful and profitable exit. It was revealed that only DFI institutions may be interested, or are somehow mandated to invest in South Africa. However some of the DFIs and developmental organisations do not fully understand whether South Africa is a developing country, a developed country, or an emerging economy, and therefore find it difficult to designate funding to South Africa.

The research established that some venture capital companies in South Africa have the vision to create big businesses in order to grow the economy, and create long-term relationship with their portfolio of companies. They do not begin with an exit in mind. Ultimately, exit becomes an opportunistic event. They would rather hold on to their investment for a longer period, with expectations of high returns, despite the fact that the investment can be exited earlier without problems. Furthermore, some shareholders may have sentimental attachments to the investee's company, and would want to create a legacy, and prefer to stay in for many years rather than exit. This derails the initial exit plan and impacts the timing and number of the exits. The findings revealed that most of the venture capitalists in South Africa do not have clear-cut

exit plans (although some do), and some of the investors they meet are not happy with their opportunistic approach to exit, as they want to see a well-defined exit plan.

It was noted that South Africa has amazing ingenuity in the tech space, and this can attract investment in the technology space. Besides, there are opportunities everywhere in South Africa that can attract investors into South Africa, but the regulatory environment is a constant headache, and makes it extremely difficult for venture capitalists to raise funds and grow the businesses in South Africa. Top of the list of these regulatory challenges are exchange control regulations, IP regulations, labour regulations, and the acute lack of investment incentives.

It is extremely difficult for investors to move funds in and out of South Africa without passing through unnecessary restrictions imposed by the Reserve Bank. The labour regulations are everchanging, and it is difficult to hire and fire in South Africa. At the core of the labour regulations is BEE, which makes it difficult to fire non-performing staff. There is a general lack of incentives from the government to motivate investments into the sector. The government officials do not understand how the sector operates and its value to economic development. The findings revealed that there is a clear misunderstanding between venture capital funding and SME funding (e.g. a spaza shop). Government officials, decision-makers and capital allocators in the industry need to understand the differences clearly, in order to avoid any confusion. This perhaps accounts for the lack of incentives from the government to boost the venture capital industry.

The unfriendly regulatory environment is a disincentive for investment in the venture capital industry, which creates a huge liquidity problem, as both local and foreign investors are not motivated to invest in South Africa. The general lack of institutional investors in the country compounds the liquidity problem, as there are no institutional vehicles to mobilise and drive funds into the venture capital ecosystem. The findings revealed that most venture capitalists in the UK and USA are generally not mandated to invest in South Africa (a participant noted the number as about 99%) because of the international perception of the South African economy. This perception is linked to the regulatory environment, crime, insecurity of foreign investment, instability of the economy, and fluctuating currency and interest rates.

Raising funds to grow South African companies is an extremely difficult task, and the findings revealed that for venture capitalists to raise funds and grow South African startups, they have to take the businesses offshore. Venture capitalists would create companies overseas and

generate funds to bring back and invest in South African startups. To ensure that investee companies are not trapped into the South African economy, which is perceived as bad, South African venture capitalists are positioning their investees to have international footprints. In other words, they are moving the companies' key operations, and opening branches, out of South Africa so that they are no longer affected by the poor economy and the unfriendly regulatory environment in South Africa.

However, the findings equally revealed that South African-based venture capital companies with global mandates have little concern about liquidity. Unlike the UK and the USA, where most venture capital firms are not mandated to invest in South Africa, LPs in Dubai seem to be interested in funding venture capital investments in South Africa, especially in corporate spaces of disruptive technology.

The study revealed that South Africa has a well-structured and matured financial market with no history of severe crisis, such as 2008 crisis, or the dot.com bubble burst in 2000. However, the financial sector is not so active in the venture capital space. These financial market participants are typically geared towards large pension fund mobilization, and do not act as institutional investors who add value to the venture capital ecosystem. In the cases of China and India, institutional investors such as pension funds, insurance funds, banks, and community groups, play key roles in mobilising for funds from the public, in order to solve the liquidity problems in the ecosystem (Wang and Sheela, 2020). Hence, exits are influenced by the syndication of these institutional investors (Cumming and MacInctosh, 2002). Furthermore, it was revealed that it is difficult to find international payment gateways that facilitate international payments from South Africa.

The findings revealed that the venture capital market is still young, growing, and unstructured, and thus requires development and proper structuring. A lot still needs to be done in terms of collaboration with industry stakeholders in order to ensure a thriving industry. Participants in the industry need to show proof of the successful track records of the industry, and that venture capital does work in South Africa. The track records of the industry performance in terms of successful exits would help.

To conclude, the average investment exit duration from a qualitative view stands at 7.5714 years. This indicates that venture capitalists take approximately 8 years on average, to exit an investment in South Africa. The quantitative average exit duration stands at 7.823 years, which

is approximately 8 years. The frequency distribution tables indicate that most companies would exit between 4 to 9 years. South Africa's exit duration is closest to Brazil (8 years on average), which ranges between 4 to 8 years (Igarashi, Pereira, Júnior and Porto, 2019), with an internal rate of return of above 20% (Minardi et al., 2020), and is doing better than Russia, in terms of the average exit period. Russia's average exit period is estimated at 10 years (Moreva, 2018). While South Africa's exit performance is below the average exit duration of India and China, it looks promising and can be improved, if measures are taken to improve on the performance of the industry.

7.6 The development of a proposed framework for early exit of venture capital investment in South Africa

In Chapter Three, the study presented an overview of the conceptual framework for the early exit of venture capital investments in South Africa. This framework's structure was adapted from the conventional venture capital framework, as guided by relevant literature reviewed in Chapter Two. From an objectivist deductive view (Park, Konge and Artino, 2020), the conceptual framework is normally developed based on the literature and relevant theories around the subject matter under consideration, in this case, the venture capital process, taking into consideration the aim of the study, the underlying objectives and study variables before data collection (Lara, Elise, Sabastian and Meredith, 2020).

From the subjective inductive perspective, the framework evolved during the study, as new ideas and insights cropped up. This requires the construction of a tentative conceptual framework at the beginning, with possible adjustments as the data transforms the researcher's views regarding the phenomenon (Lara et al., 2020). Based on the relevant literature, the methodology, and research objectives, the tentative framework was developed in Chapter Three. The qualitative and quantitative data collected provided further guidance on what the problem is, and how it should be addressed.

Ultimately, the researcher reviewed the framework presented earlier in Chapter Three, after assimilating relevant facts from the data analysis chapters (Chapters Five and Six). Insights from Chapters Five and Six are pointing towards a collaborative framework, which should lead to policies that incentivise foreign and local investments into the South African venture capital ecosystem (Hawkins and Andrew, 2010). The study modified the initial framework to accommodate the realities of the South African venture capital ecosystem, using Lara et al.'s (2019) approach to tackling framework development issues as illustrated in figure 7.2 below.

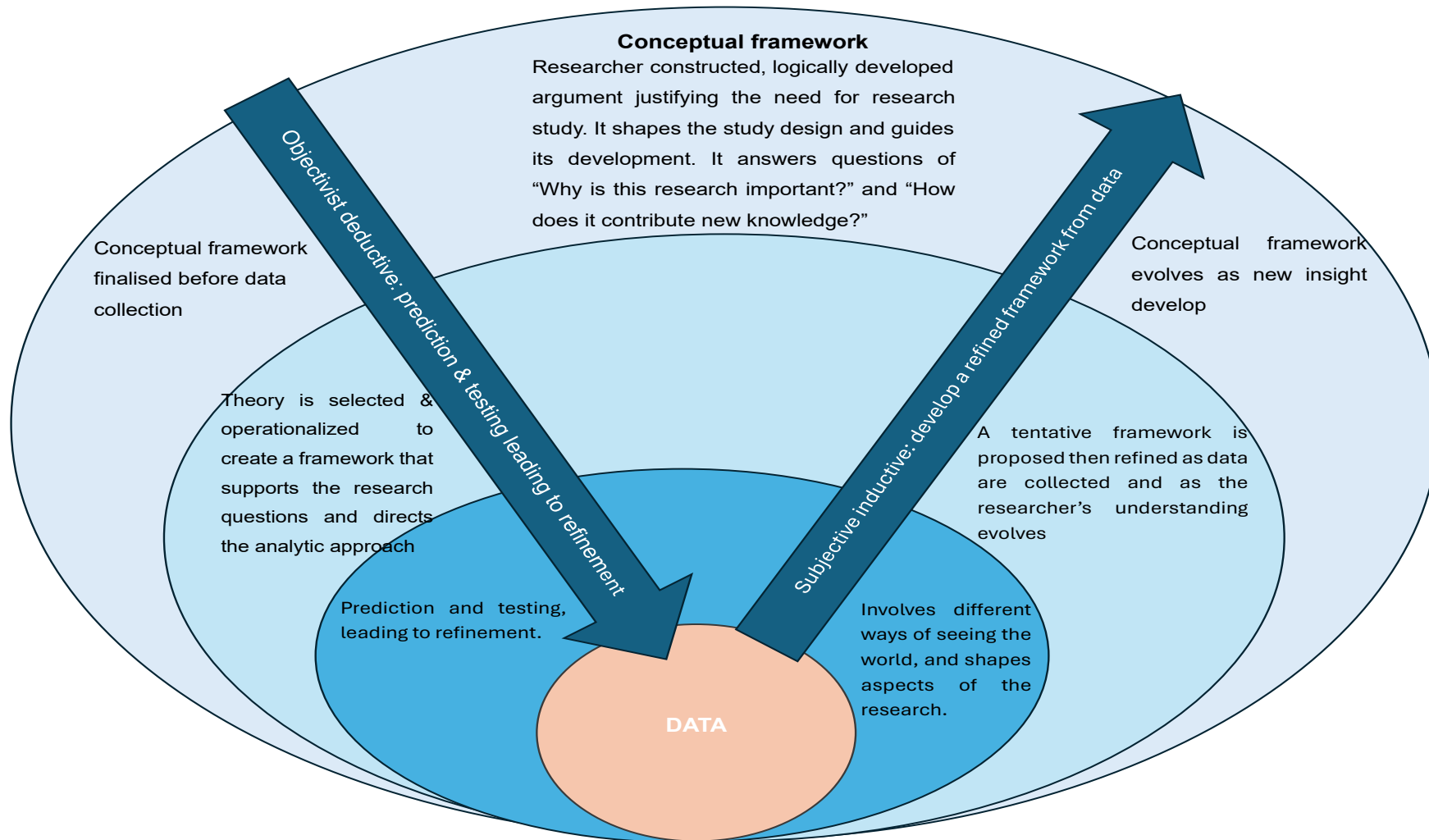


Figure 7.2: Framework development process.

Source: Adapted from Lara et al. (2020)

7.6.1 Collaborative framework

There has been growing interest in the study of collaboration and networking, particularly within the sphere of local and regional networking (Ha, Lee and Feiock, 2016). Generally, governments initiate informal and formal network collaborations or cooperations with a variety of organisations, in order to improve economic competitiveness (Hawkins and Andrew, 2010). Such cooperative moves signify that governments are acting strategically to foster development objectives. Findings from the Institutional Collective Actions (ICA) framework revealed that cooperation has no effect on “go it alone” tax incentive strategies, but provides positive effects on capital-intensive strategies that are critical for enhancing regional competitiveness (Hawkins and Andrew, 2010).

In similar reasoning, engaging in collaboration and cooperation in the venture capital industry in South Africa and across the African continent, especially in this era where South Africa is proving strong in tech (Mateko, 2024) and the African market is growing, would put South Africa at a competitive advantage in the global space. Besides, learning by taking a leaf from what other African countries have experienced and put forward in terms of regulatory frameworks on venture capital ecosystem (e.g. Startup Acts) would ensure a better regulatory landscape for South Africa. If institutional collective actions have no effect on “go it alone”, then no amount of incentives would add value to the venture capital ecosystem in South Africa, as neither of the parties to the game would obtain optimum benefit, if all stakeholders to the sector do not set the tone of the industry together.

Hence, it is of utmost importance that the government, the industry professionals, industry facilitators, and all other stakeholders see the need for collaboration and cooperation, and come to the table to chart a way forward for the industry. This of course, begins by building genuine trust in the system, and resolving the major problems of the venture capital industry’s ecosystem. Critical to the problem is the regulatory environment that is so challenging (Faku, 2022; Sutherland, 2020), and impedes the success of the venture capital industry, leading to the acute shortage of liquidity in the system.

The study findings point to the fact that it is indeed difficult for venture capitalists and investors to navigate the legal environment (Sutherland, 2020), and external funders continue to lose trust in the South African economy (Faku, 2022). This pushes the venture capitalists to position South African companies on the international space outside of South Africa, in order to ensure that they are off the hooks of the South African system, which is perceived as bad. This makes

the situation complex for one party to handle, hence the need for joint efforts to help address the issue, and collaboration provides the possibility to jointly solve complex societal problems (Austin and Seitanidi, 2012; Gray, 2013). This suggests that South Africa not only needs a framework that is seen as good for South Africa only, but one that opens doors to the world. Again, this requires trust building, together with a good regulatory environment that is transparent, appealing to both local and foreign investors (Faku, 2022).

Building trust requires that the government, the venture capitalists, and other industry facilitators and stakeholders come to the table and look at matters of joint interest that would put economic interest above individual interests. The Stakeholder Theory highlights the importance of value creation for stakeholders (Paavilainen, Heikkinen and Johanna, 2020). Trust does not just happen; it requires the ability of the stakeholders to collaborate in good faith for their joint interests. The Stakeholders Value Creation (SVC) model (see Figure 7.3 below) describes these three attributes of value creation (Trust, Joint Interest, and Ability to Collaborate), as important factors in trust building and value creation for stakeholders (Kangas et al., 2019).

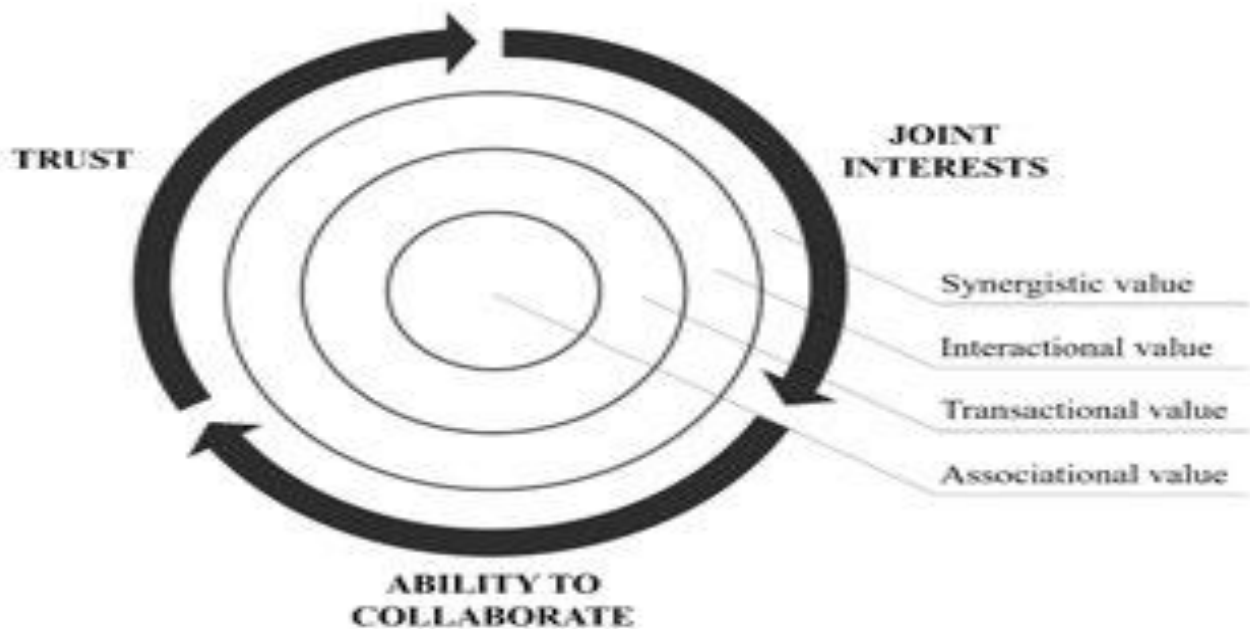


Figure 7.3: Stakeholders Value Creation Model

Source: (Paavilainen et al., 2020).

In the context of the SVC, ‘stakeholders’ refers to any actors and organisations that are affected or may be affected by the activities of a firm. In the context of this study, ‘stakeholders’

refers to those actors and organisations including the state, venture capital professionals, venture capital networks, research institutions and any other venture capital industry facilitators whose actions and activities impact the venture capital ecosystem in South Africa. These stakeholders define their values and decide on what is of best interest to them (Kangas et al., 2019).

The framework on value creation in inter-organisational stakeholders identifies, in a continuum process, four types of hierarchical values for collaboration – beginning from associational value to transactional value, interactional value, and finally synergistic value (as seen in Figure 7.3 above) (Pennec and Raufflet, 2018). Each of these values yields benefits to the collaborating stakeholders. Associational values are the benefits of engaging in collaborative activities such as credibility, visibility, and general support from collaborating partners. This of course, would add value to the venture capital ecosystem and improve the image of South Africa.

The benefits obtained from the exchange of assets with parties are the transactional values. These could be the shared infrastructure, and investments in the venture capital ecosystem that stakeholders would enjoy as a result of the collaborative efforts. The interactional values denote aspects such as knowledge creation and learning, and developing and growing capabilities for the stakeholders. These interactional values would bring South Africa into the limelight, considering that the country is noted for its technical ingenuity, and in the process, attracting more investment in the technology sector into the country. Finally, synergistic values stem from the other three values (combined), as a result of coming together as a team, which would not have been possible without teamwork. This would be an extended African market, external funding flowing into South Africa, less trade restrictions from other countries, and an improved international image (Pennec and Raufflet, 2018).

7.6.2 Public Private Partnership Arrangements

With trust fully initiated, and stakeholders comfortable in dealing with each other without fear, it becomes much easier to believe in one another. At this level, collaborators can then move forward to establishing the modalities of the operations of the industry, and assign responsibilities to collaborating members. At this stage, the collaborating stakeholders would need to prove to the entire venture capital ecosystem that venture capital works in South Africa, by setting modalities with clear-cut responsibilities of the participating members. Setting modalities requires that the parties again come to the table, and set the rules of engagement

for the industry, that would attract more activities into the venture capital ecosystem in South Africa.

In line with the views expressed by industry participants, the study proposed a framework based on Public Private Partnership Arrangements (PPPA). This is a tripartite arrangement, which consolidates the effort of the trust-building presented in the stakeholders' value creation framework (Paavilainen et al., 2020). It sets the modalities for operations in the venture capital ecosystem in South Africa. This framework brings together key South African stakeholders in the industry, namely, the government, venture capital professionals, and related institutions and industry facilitators (network organisations) such as SAVCA, SiMODiSA, and AVCA, to establish the rules of the game for the venture capital ecosystem in South Africa. In this framework, each stakeholder commits to a specific role, after joint deliberations for a common purpose.

The study used the tripartite personal identity model (modified) to illustrate how the Public Private Partnership Arrangement, in addition to the Trust Framework and the Conventional Venture Capital Framework would add value to the South African venture capital ecosystem, and improve performance and exits (Carter, 2001). Figure 7.4 below illustrates the venture capital ecosystem (the study's proposed collaborative framework) in accordance with the tripartite personal identity model demonstrated by Carter (2001).

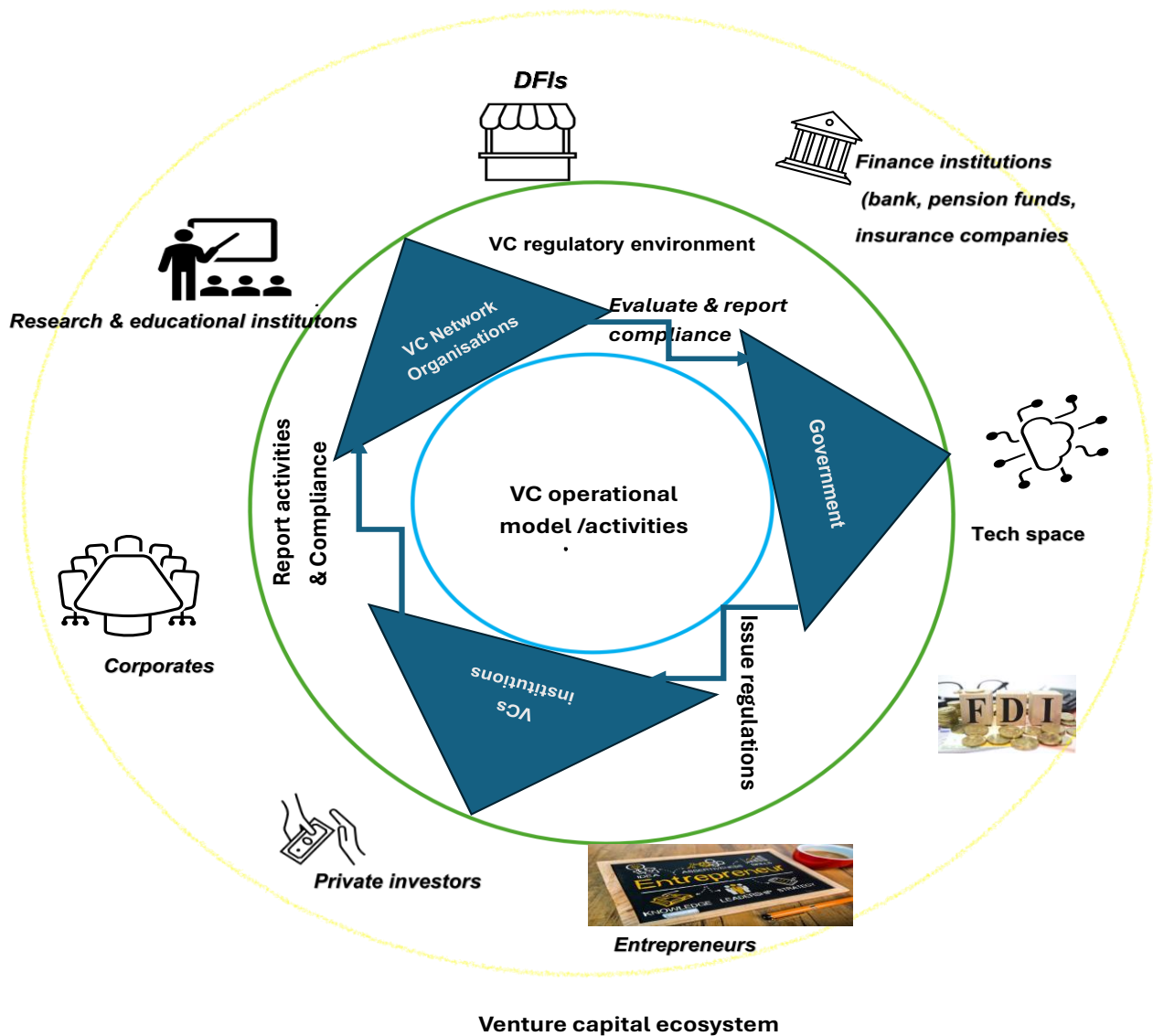


Figure 7.4: Venture capital ecosystem following tripartite identity framework

Source: Own initiative - Modified tripartite identity model for venture capital ecosystem (Carter, 2001)

Figure 7.4 above depicts a venture capital ecosystem collaborative framework, which brings into play stakeholders of the South African venture capital ecosystem grouped into three main categories, notably the government and related authorities, venture capital institutions, and venture capital network organisations (e.g. SAVCA, SiMODiSA, Angel networks and AVCA). These stakeholders would assume a relationship of mutual trust, as discussed above, in the trust framework. The government, the industry participants, the industry facilitators jointly look at how the industry can be shaped for better performance, and assign responsibilities to each other, with each of these participants having a committed major role to play in the venture capital ecosystem.

The study findings reveal that the regulatory environment is a critical challenge to the venture capital ecosystem in South Africa, coupled with the bad economy (Faku, 2022; Jones and Mlambo, 2013; Sutherland, 2020). This challenge directly affects investment potential, and acts as a disincentive for investment, thereby aggravating the issue of lack of liquidity, as investors are not motivated to invest in South Africa (Faku, 2022; Mateko, 2024). As such, addressing the issues around regulatory environment is paramount, as better regulations in a trustworthy economy would offset many of the economic challenges.

The ecosystem depicts three core components to be driven by the collaborative arrangements (Public Private Partnership Arrangement – PPPA). At the centre, the venture capital activities are carried out, based on a standardised conceptual framework of venture capital investment (Salomon, 2016), presented in Chapter Three. Here the core activities of deal-sourcing, selection/evaluation of investees, investment activities, post investment activities and exit decisions are manifested. The next layer moving outward, represents the regulatory environment, which determines the extent to which the venture capital operational activities would occur. Bad regulations would mean that the processes would be slow and poor. The venture capitalists would find it difficult to navigate through bad regulations, and get the required support from the external environment of the venture capital ecosystem. The legal environment is critical, as it links the external environment to the venture capital operational environment. A bad legal environment drives away investors and slows down the liquidity drive into the internal venture capital environment (Firmansyah and Al Ayyubi, 2024). This explains the need to get all parties involved and ensure a good regulatory environment that motivates other stakeholders to take active part in the South African venture capital ecosystem.

The outer layer represents other stakeholders – both local and foreign – that may be interested actors, or are actors in the South African venture capital ecosystem (e.g. funders, entrepreneurs, corporate investors, pension funds and research institutions). Their participation depends on what they perceive the regulatory environment to be. If the regulations are fair, and they see the positive results from inside, as provided by the industry participants, then they become motivated to participate and add value to the South African venture capital ecosystem. Otherwise, they shy away from engaging with the industry participants in South Africa.

Within the layer of the regulatory environment, the Public Private Partnership Arrangement clearly defines the role of each of the parties and their responsibilities at this level. The parties jointly discuss how the market arrangements should be, based on the experience gathered from other countries with success stories on venture capital management. This should be a guided debate which ends with a mandate for each party to accomplish certain tasks intended to add value to the entire ecosystem. The government role would be to issue the required standards (regulations) as per the agreed arrangements of the PPPA, the industry participants to ensure they comply and report compliance to other industry facilitators (venture capital network organisations), who then evaluate the compliance status of each industry participant, make the information publicly available to the entire ecosystem, and report to the government on the compliance status.

This process is a vicious cycle which allows for joint modification or improvement of the status quo, if need be. As such, the development of a legal framework specific to the venture capital ecosystem in South Africa is imperative, and this should bring into play the government, the industry players, and facilitators of venture capital activities. This will ensure that the input needed to support the venture capital framework drafted in Chapter Three (see figure 7.5 below), becomes more relevant. Ultimately, resource mobilization becomes more impactful as the regulatory environment would be friendly enough for venture capital activities.

Figure 7.5 depicts the venture capital conceptual framework developed in Chapter Three, now incorporated into the early exit framework for venture capital investments in South Africa. This venture capital framework is at the centre of the PPPA framework, where venture capital processes or activities take place. As indicated earlier, its effectiveness and efficiency is dependent on how the third layer (outside layer stakeholders) view the second layer (regulatory environment). An unfriendly regulatory environment, as highlighted by Faku (2022), Jones and Mlambo (2013), and Sutherland (2020), leads to dysfunctional operational processes, resulting in poor performance and low exit rates of the venture capital ecosystem in South Africa, as it constrains the finance available to boost the industry (Faku, 2022; Mateko, 2024). As such, the resource mobilisation process would be ineffective, as the inputs into the process are badly constrained by an unfriendly regulatory environment.

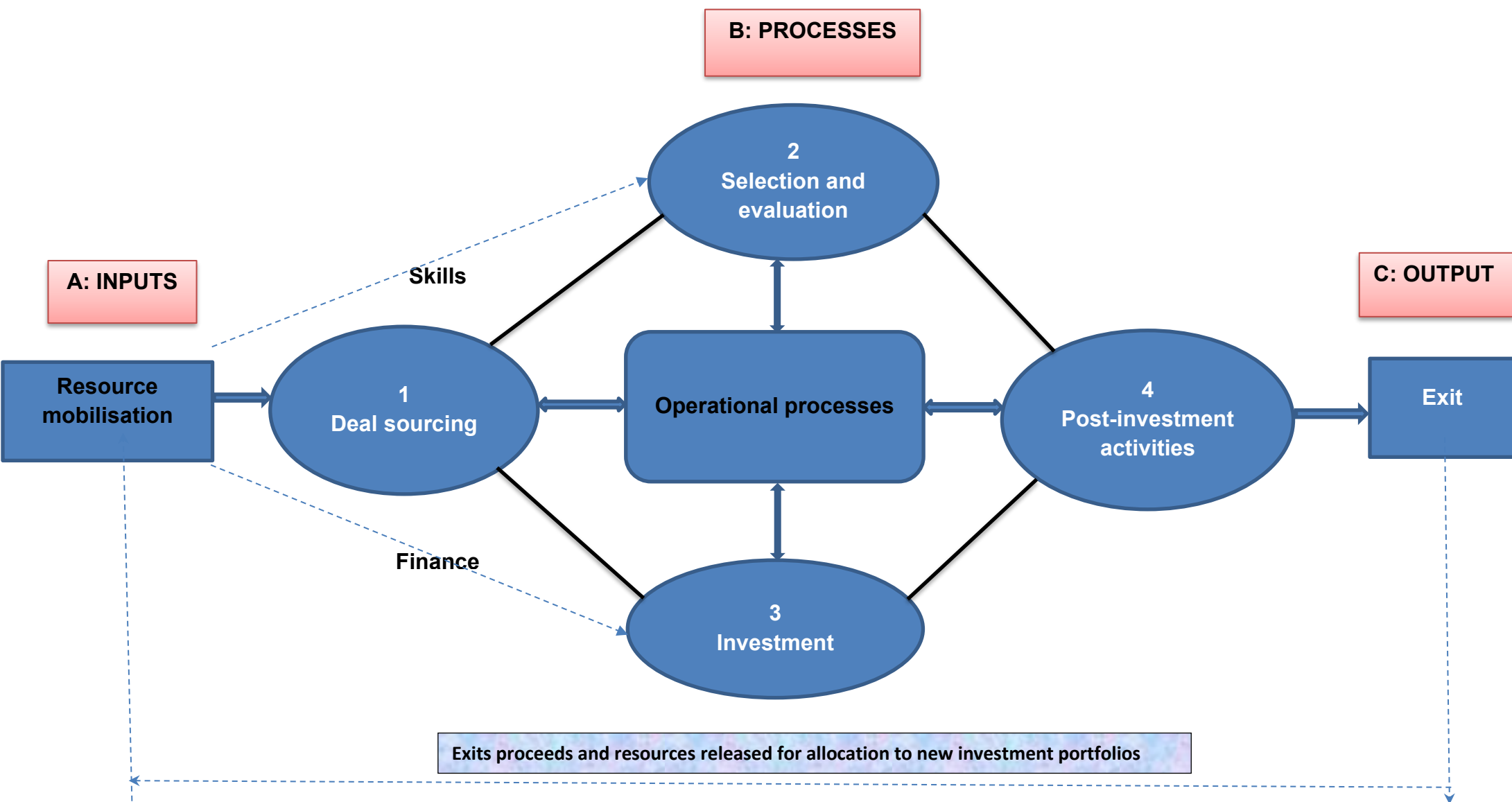


Figure 7.5: Venture capital operation framework

Source: Own initiative - Venture capital exit framework forming the PPPA framework for early exit of VC investment in South Africa.

7.7 Study implications and recommendations

Considering the value of venture capital activities and their contribution to economic development across the globe (Gornall, 2015), it is important that due attention be given to this industry by the respective stakeholders in South Africa. The policymakers need a thorough understanding of how venture capital operates, and the implication of government policies on the activities of the venture capital ecosystem. Evidence from the USA, China, India, and Brazil point to the fact that developing a venture capital market is a daunting task. China, a communist economy, struggled with the issue of policy transformation. Shifting from a socialist (communist) framework to a capitalist governance approach was difficult and problematic (Pandey, 1998; Salter, 2009).

Nevertheless, China's venture capital history is too short, and translates to global standards, but it was very complex to handle from a governance perspective (Lin, 2019). The Chinese were focused on pursuing industrial development and innovation, to grow their country beyond expectations (Zhou et al., 2017). The agenda for innovation was first debated in 1985 by the Chinese central government and focused on the "Decision to Reform the Science and Technology System" (Lin, 2019). This agenda was championed by the government and reiterated by the then Chinese president, Hu Jintao, in 2006 during the fourth National Conference of Science and Technology.

China had to emulate the American approach, which eventually worked, and put them in second position in venture capital activities, after the USA (Lin, 2019; Salter, 2009). According to Zhou et al. (2017), China's approach of "creative destruction," which aimed at testing innovative systems and techniques, fixing and implementing creative ideas to pursue their industrial development agenda (Huang, Wang, Sheng and Zhao, 2025) helped them a great deal. This was followed by rigorous policy frameworks that restructured the capital market. Being part of the BRICS+ bloc, South Africa could learn by taking a leaf from China's approach to innovation.

In the USA, where venture capital idea originated, the government played a key role in enacting policies that encouraged business development. The introduction of the concept came with the establishment of the American Research and Development Corporation (ARDC) to explore alternative ways of developing regional economies through universities and similar institutions (Etzkowitz and Zhou, 2012). In 1958, the Small Business Investment

Incentives Act was passed, which provided avenues for venture capital and private equity firms to be licensed, in order to guarantee the management of startups by investment firms.

The Act was a great incentive for investment in the sector. Between 1960 and 1962, 585 Business Investment corporations were licensed, with over 205 million US dollars recorded as private investment money in the USA. These funds boosted the investment in tech companies such as Macintosh, Xerox, and Intel. The rapid rise was driven by ICT, the internet, and biotechnology, and the industry is an asset class in the USA (Vanacker and Manigart, 2013).

The Indian experience was similar to that of China, where the government structure was difficult to accommodate a capitalist idea (the core of the venture capital model). The government was opposed to capitalism and the practice of venture capitalists (Dossani and Kenney, 2002). This caused so much resistance to the concept. The venture capital industry went through four stages before getting to position itself globally: namely the resistance stage, infancy stage in the early 2000s, the growth stage in late 2010 (Raghupathy and Rajan, 2010), and is presently nearing maturity (Dominic and Gopalaswamy, 2019).

Venture capital-financed businesses in China operate in a highly regulated environment and are monitored by sectors such as the Business and Financial Services Industry (BFSI). The rigorous monitoring reduced information asymmetry, resulting in shorter exit durations. Venture capital activities in India are promoted by the central federal government-controlled financial institutions, state government-controlled developmental finance institutions, public sector finance banks, foreign banks, and the private sector (Pandey, 1998), and solidified by the Indian venture Capital Association, which rigorously reports about the challenges and successes of the industry.

The enormous support from the government and all stakeholders constitutes an adequate way of providing liquidity to the industry. South Africa needs this kind of support in order to open its tech ability and grow the economy. Amongst other things, venture capital was part of the innovation tool that India used to liberalise its economy and support the growth of the industrial sector, despite initial resistance to the idea (Pandey, 1998). In 1980, about 29% of venture capital investment was in industrial products and machinery, 13% in consumer products, and 8% in food processing. Software and medical industries were also preferred

areas for venture capital investment in India. Again, the Indian and American experiences provide valuable lessons for South Africa.

The Brazilian experience demonstrates that the industry is regulated under Normative Instructions Numbers 209/94 of 1991 and 391/03 of 2003 (Castilho, Resende, Montoro and Shokoto, 2019), just immediately after venture capital activities started in 1990 ((Minardi et al., 2020). For a country with a double-digit monthly inflation rate in the 1980s and part of the 1990s, it was difficult to attract foreign and local investment, as the economy was stagnant (Carvalho et al., 2014; Minardi et al., 2020), politically unstable, corrupt, and with underdeveloped financial markets (Carvalho et al., 2014; Miranda, 2012). Besides, there were no legal structures governing private equity activities in Brazil at that time, compared to other countries such as the USA. During this period, LPs operating in Brazil were offshore, and no tax incentives were available to the venture capital industry in Brazil. While pension funds in the USA played a key role in funding the ecosystem, the Brazilian ecosystem was yet to enjoy the tax benefits that facilitate the process of venture capital funding, until the government committed to ensuring economic stability in 1994, which saw the economy growing and inflation dropping by 50% (approximately 1% monthly and 5% yearly) during the presidency of Lula da Silva (2003 and 2004).

This saw a great improvement in venture capital activities between 1999 and 2009 (Carvalho et al., 2015). To overcome its limitations, the Securities Exchange Commission (CVM) established investment funds – FIPs and FMIEEs. These funds were accorded complete tax shields, and investors were allowed to collect income tax at their own tax rates (Antonio, Humberto and Joelson, 2014), which added value to the private equity and venture capital markets, resulting in investment increases from 33% to 42% (2004 to 2009), as private investment funds cropped up.

However, the experience during this period was disappointing due to the depreciating currency, and the effect of the dot.com bubble in the global industry in 2001 (Minardi et al., 2020), which saw many international venture capital firms exiting the Brazilian market, and practitioners named this period as the Private Equity “Nuclear Winter”. This era saw the Brazilian government and private sector launching many initiatives and policies to improve the ecosystem, thereby promoting a rebirth of the private equity and venture capital activities in Brazil. Equally, the Brazilian venture capital Association (ABVCAP) was launched in 2000

to consolidate institutional representation (Minardi et al., 2020) and provided opportunities for fund managers to negotiate meaningful regulations and policies to improve industry performance.

Besides, the stock market was restructured. As the cases of China, India, and the USA, the focus was on the regulatory environment in order to ensure an efficient venture capital ecosystem, and this worked for Brazil, which finally stabilized the industry by 2010 and attracted new funds into the economy after the reforms. Investment grew again until 2012, when political crisis set in, leading to the impeachment of President Dilma Rousseff in 2016 (Minardi et al., 2020). The election of President Bolsonaro in 2018 revived the investors' faith and trust in the Brazilian economy, as there was commitment to economic revival. Brazil recorded 73% of the total venture capital funds in Latin America in 2018. The early-stage investment boomed in 2010, as it was financed by the Multilateral Investment Fund (MIF), the Brazilian Development Bank (BNDES), federal agencies, and high net worth families. They adopted a Silicon Valley approach by raising funds in US dollars. This signifies strong investment vehicles for the venture capital ecosystem in Brazil, and a lesson for their South African counterparts. It is important to note that the regulatory environment and state of the economy are critical, as investors prefer stable economies with friendlier regulations matched with good government initiatives. The Brazilian commitment has seen the re-emergence of many corporate venture capital firms, and independent players opening offices in Brazil. This is the result of strong institutional frameworks developed by the Brazilian stakeholders to the expectations and dynamics of the industry (Grilli, Latifi and Mrkajic, 2019).

The tax law approved in 2018 allowed technology companies to utilize R & D funds (tax deductible) to finance corporate investment. This boosted the industry, leading to their first unicorn in 2018 and by 2019 July, the ecosystem had yielded 7 unicorns (Gympass, Stone, iFood, Movile, Nubank, Loggi and Arco Educacao) and Nubank Brazil's first "decacorn" (Minardi et al., 2020). Exit is not an issue in Brazil, as Minardi et al. (2020) assert that 61% of investment in 2009 was exited from by 2018, followed by 56% of investment in 2010 and 53 % of investment in 2011. Exits in Brazil are mostly to strategic buyers and IPOs.

Drawing from the above experience, it is crucial that South Africa builds an investment-friendly economy that incentivises venture capital investors. Such an ecosystem would

require a regulatory framework that stakeholders consider friendly, and transparent enough to safeguard the investors' confidence (Faku, 2022; Sutherland, 2020). This requires that the industry participants, together with the government, co-create the values and standard requirements for such an ecosystem that motivates investors and boosts funding for the venture capital and equity markets in South Africa. The co-creation process should prioritise issues around the regulations, attracting local and foreign investment.

The co-creation process should be focused enough and address issues around developing a structured capital market that facilitates the listing of emerging companies. In the case of China, alternative over-the-counter markets provided the possibilities of stock trading, when IPO listing was suspended during the period of 2012 to 2014 (Lin, 2019). This study's findings revealed that venture capitalists in South Africa do not believe in IPO exits, as the market is small and the listing requirements are still very challenging. Although there is an alternative stock exchange (Cape Town Stock Exchange), this alternative stock exchange is yet to attain the level and structure for emerging companies to get listed, besides the unfriendly regulatory environment in South Africa highlighted by Faku (2022) and Sutherland (2020). In line with venture capital markets arrangements in South Africa, the findings revealed that the venture capital market needs to be restructured to reflect the international standard, where activities are well-classified and funding arranged in series (E.g. series A, series B, series C etc.). Such classification is key in motivating and attracting investors to the various areas of venture capital practice (Azevedo, Guney and Leng, 2018).

It is equally important that the venture capital industry in South Africa be profiled to show proof that venture capital works in South Africa. This would prove to investors and prospective investors what the venture capital ecosystem offers. Rigorous reporting of the industry's performance, and reporting on exit, would also show the strengths of the industry to the outside world as most of venture capital activities are self-reported (Dominic and Gopalaswamy 2019). Also, the profiling and reporting of venture capital activities would indicate the internal stakeholders' commitment to the course, and motivate more activities in the venture capital space. Profiling and reporting would equally help in bringing to light the work of venture capital firms, and educating entrepreneurs on who the key players are, and their success stories, and motivate entrepreneurial activities. The study's findings suggests little awareness of the general notion of venture capital activities in South Africa, as is indicated by Jones and Mlambo (2013), that venture entrepreneurs view venture

capitalists as mere lenders, and would approach the venture capitalists for loans instead of seeking for the standard venture capital assistance needed to grow their businesses. Mateko (2024) highlighted that even the government struggles to find funding to develop skills to boost entrepreneurial activities. It is therefore vital that venture capital activities get media coverage to ensure proper profiling of the industry, and expose venture capital activities to the entrepreneurs and the general public. The activities of the industry's performance could be broadcast weekly to showcase the happenings in the industry, its key players, their successes and challenges. Like in the case of Russia, venture capital activities are only partially reported (Moreva, 2018), which makes it difficult to attract foreign investment.

Providing a regulatory framework that supports the ecosystem to grow, as evidenced in the USA, where the Small Business Incentive Act was passed in 1980 to facilitate investment in Silicon Valley (Robyn, 2018), is vital for South Africa. Talks around the ongoing Startup Act should be expedited, as startups play a significant role in growing the tech industry (South Africa Startup Act Movement, 2023). Examples from China, India, Brazil, and the USA are worth emulating. Tax incentives are vital to boost investment in the industry. Introduction of reduced (zero) capital gains tax for the sale of investments that are reinvested in the venture capital ecosystem would motivate investors to continue recycling their proceeds in the ecosystem. Industry participants suggest a review of Section 12J to suit investments in the ecosystem.

Mobilising for corporate investment at the early stages of the venture capital process in order to encourage innovation, as in the case of Russia, where government has put in measures to attract corporate investors (Hardy, Adams, and Moore, 2020), would add value to the venture capital ecosystem in South Africa. Hence, government partnership with industry expert and syndication of government venture capital firms with independent venture capital firms is necessary to grow many startups, and bridge the funding gap (Muhammad and Serve, 2025; Hardy, Adams, and Moore, 2020). At the moment, the large corporates are more active at the growth stages, and more focused on consolidating their strength and acquiring already-built tech companies than investing in the early stages of the innovation process. There is general lack of funding for innovative ideas, which constrains the industry's growth (Faku, 2022; Mateko, 2024).

Creating networks and collaborating with members countries of trade blocs such as BRICS+, SADC, and the African Union could expand the South African market beyond the current level. This entails building genuine trust with fellow member states of the various blocs, reducing trade barriers to create a common market that is accessible by fellow African countries. Regional trade blocs can help expand the South African venture capital market. Sutherland (2020) indicated the current South African market is too small and difficult for even fellow African states to penetrate. Collaboration is therefore necessary to ease the transfer of funds within member states of various trade blocs. Jointly reviewing the regulations hamstringing the industry, such as exchange control regulations (South Africa Startup Act Movement, 2023), and intellectual property regulations, would go a long way to facilitate trade, and attract investment into South Africa. Reviewing intellectual property regulations would ensure the transfer of intellectual property rights into and out of South Africa. This would provide a broader opportunity of building and growing South African technology within and outside South Africa, and increase South Africa's footprint in the tech space abroad. Licensing and registration of trademarks of ideas and concepts with their origin in South Africa before taking them outside for further development may help.

Addressing the skills shortages highlighted by Jones and Mmabo (2013), and confirmed by Mateko (2024), would require that the South African school curriculum be updated to incorporate more entrepreneurial-based educational value systems at all levels, beginning from kindergarten through to universities. This would build a pool of skills required to ensure that the young people embrace entrepreneurial thinking, and take risks in starting their own ventures. This would help build the skills required to realise the envisaged digital economy (Bamata et al., 2019; Gqoboka et al, 2022; Mateko, 2024), and provide a pool of skills for venture capitalist to utilise.

Furthermore, government's active participation in the industry is required. The government should provide funding mechanisms that remove risk from the industry in some ways. Government-established finance institutions could take the risk of funding early-stage innovations to build concepts that attract external funding (Hardy, Adams, and Moore, 2020; Moreva, 2018). Alternatively, they could partner with venture capital firms in funding these early-stage concepts, and be willing to accept working on equal terms, in order to de-risk the industry, by accepting losses where the situation arises.

Adding value to the venture capital ecosystem and attracting investment would require that the partnership arrangement ensures the development of policies that attract institutional capital into the ecosystem, such as pension funds, insurance funds, banks, high net worth individuals, corporates, etc., as evidenced in China, Brazil, the USA, and Europe (Minardi et al., 2020). This is to ensure that appropriate funding vehicles exist to mobilise funding for the ecosystem and provide funding at all stages of the venture capital process. These policies may focus around the provision of incentives such as tax breaks, research and development assistance, tax rebates, and low capital gains tax to encourage reinvestment of funds into the venture capital ecosystem.

Trust building amongst collaborating members is vital (Paavilainen, Heikkinen and Johanna, 2020), especially in the aspect of institutional and regulatory frameworks, as industry participants would respond according to the policies in place (Institutional isomorphism). As explained by Röhm and Kuckertz (2019), the government and the collaborating partners should ensure that business arrangements are clear and easy to handle at all levels, as Faku (2022) has highlighted the lack of transparency in the regulatory environment. This should provide venture capitalists the opportunity to have a say in setting a base-level of how the industry operates. Ensuring a tactical political strategy and a judicial system in South Africa that handles issues around proprietary rights with caution, should attract foreign investors and ensure the safety of investors (Faku, 2022; Grilli, Latifi and Mrkajic, 2019). The study findings evinced that investors are sensitive to issues around this area, and shy away from South Africa, irrespective of whether they are investing in their own business or in someone else's business. Evidence from this study points out that venture capitalists in South Africa are positioning their investee companies outside South Africa in an effort to keep them away from the unfriendly regulatory environment (Faku, 2022; Sutherland, 2020). Also, the venture capitalists operate offshore in an effort to raise funds and grow South Africa startups in dire need of funding. Hence, facilitating the process of fundraising and providing incentives that attract investment and motivate founders to start their own businesses would help.

Easing labour regulations should make it easier for the industry to hire the required skills and relieve unproductive personnel (Jones and Mlambo, 2013). Findings revealed that the current labour regulations are very uncertain and unpredictable. The industry requires a stable regulatory environment where it is easy to hire the required skills. Critical to the issue

of labour regulation is BEE, which practitioners in this study view as inconsistent with industry practices, and constantly changing, which creates uncertainty around this area. Industry requires skilled labour. It is currently very difficult to obtain short-term visas to travel around for business purposes and meet business partners, or even hire foreign skilled workers. Participants in this study highlighted that the general issues around BEE are tricky, both for investors and venture capital practitioners, and need to be handled with care.

Fatoki (2014) highlighted that the government should support growing SMEs in South Africa, as they are seen as vehicles for economic growth. In this light the continuous support and promotion of SMEs across the country is vital to ensure that funding assistance is available at the start (pre-seeds and seeds) and thereafter. With a transparent regulatory environment, and continuous motivation for SMEs to grow, funding would be available for entrepreneurs to initiate new ventures and increase the number of businesses, innovative ideas, and pools of investment, from which venture capitalists can select businesses for funding.

On a general note, more support and collaborations are needed from the government, just as it is evidenced in China, India, Brazil, and the United States of America. South Africa is up to the task and can do it better than other countries, given the infrastructure and evidence of ingenuity in the country. South Africa has a role to play within the BRICS+ bloc, the African continent, and in the global venture capital ecosystem.

7.8 Limitation of the study

1. Sample size limitation

The statistical model “Exploratory Factor Analysis” uses a large sample size (Lopata et al., 2020). Unfortunately, the concept is relatively new in South Africa, with few industry participants. Besides, the industry is quite conservative, which made it difficult in accessing the few available participants, who were generally not willing to share information, thereby constraining the sample size (Dominic and Gopalaswamy 2019). Thus, the original sample size had to be reviewed, from 338 participants to 201 participants, due to this limitation, and the data collection period was prolonged, as it was extremely difficult to reach out to participants due to their tight schedules, besides the conservative attitude and low response rate of industry. It was also necessary to combine the data from the practitioners (153

respondents) and investees (50 respondents) surveys to obtain a reasonable sample size suitable for factor analysis, as the two surveys tested the same concepts.

2. Reliability of interviews

The qualitative component required that the research adopted a purposive sampling technique to obtain the required information from industry experts, and this was a huge concern in terms of the reliability of the data collected, since the industry is small and new. Getting hold of participants with the right information for the study was challenging. This was solved through reference connections. The researcher reached out to key individuals with good reference networks in reputable venture capital and investment companies, who then recommended their specialists to assist the researcher. Besides, contact with venture capital firms started long before the application for the PhD study pre-selection colloquium. There were consistent and persistent follow-ups asking for help from the venture capital firms and industry experts. The qualitative data collection took about four months, in order to ensure that the right participants were included in the sample. All eleven participants interviewed were senior directors and/or founders of venture capital firms, and founders of investee companies. This required that interviews be planned accordingly, and scheduled far in advance (in most instances two weeks in advance) to suit the schedules of the interviewees. In some instances, the interviews were re-scheduled to accommodate the changing schedules of participants. Some participants were on leave, which delayed the qualitative data collection process, as the researcher had to wait until the participant returned to duty.

3. Biasedness of industry participants

A preliminary analysis of the industry revealed that the industry is conservative, and that respondents can be biased. To eliminate bias, both from the point of the participants and the researcher, the mixed methods adopted helped to provide a clear picture of the industry, and minimised the limitations of both methods. Also, the framing of the questions allowed the researcher to first gather the basic facts, then follow up with confirmatory questions (closed ended and multiple-choice questions), and open-ended questions and follow-up discussions during the interview phase.

4. Limited knowledge on the subject matter

It was noted that venture capital investees are less knowledgeable on the subject matters of venture capital management and exit. In most instances they would refer the researcher

to their funders for more information on the subject. First-time founders are almost clueless about the subject matter of the research; second and third-time founders may demonstrate good knowledge of the subject. Hence, the interview was more focused on getting the data from the venture capitalists rather than investees. Only three investees were included in the qualitative sample and data saturation occurred at two. These two (interviewed investees) were founders with many years of experience. One of the founders has been working with his current business since 2008, and understands the industry and its challenges. The other is currently a consultant in the field and an angel investor, who has seen his company liquidated due to liquidity problems.

Some of the industry players do not understand the context of venture capital. Some key stakeholders such as angel investors (individuals, groups and networks) do not understand that they are part of the venture capital ecosystem. As such, they refused to take part in the surveys. They referred the researcher to the conventional venture capital funds. There is a general lack of public awareness about the concept of venture capital in South Africa. Getting information from those you think would normally provide such information becomes difficult. Hence the data collection took longer than expected.

7.9 Delimitation

1. Qualitative sample

The qualitative sample was limited to high profile industry practitioners and intended to ensure the reliability of data collected. A purposive sampling method was used, and participants deemed not key role players were not considered for interviews. The focus was on the industry role players in order to understand their challenges. Only senior management (top executives) of venture capital companies with expertise in the venture capital industry in South Africa, and founders of investee companies were interviewed. Non-executives and non-founders were not included in the qualitative sample. No company had more than one participant in the qualitative sample. The eleven participants were representatives (directors and funders) from eleven different companies.

2. The aim was to propose an early exit framework specific to South Africa

The focus of the study was South Africa, as the study's aim was to develop a framework for the early exit for venture capital investments in South Africa. As such, the study population

was limited to SAVCA members with a footprint in South Africa. Hence, SAVCA members with no footprint of venture capital activities in South Africa were not included in the sample.

The study was constrained to looking at the venture capital exit performances in South Africa, comparing them to those of its founding BRICS+ member states (Brazil, Russia, India and China). As such, apart from reviewing the historical background, the development and management of venture capital in the United States of America (Ghana was included for Africa) where the concept began, in order to understand the venture capital process, the venture capital framework and to learn from the USA's experience, the study did not look at exit management in other countries.

7.10 Recommendations for further studies

Considering the importance of venture capital activities in the South African economy, as evidenced from countries such as China, India, Brazil, and the United States of America, it is necessary to expand the research on venture capital activities in South Africa. The findings revealed that there is little research in this area. Participants also highlighted that there is the need for more research, pointing out the need to educate and create public awareness. Assistance from universities is needed in order to expand on innovative research, so universities need to follow up on entrepreneurial education.

This study was focused on venture capital exit performance in South Africa. In this regard, the challenges specific to the venture capital industry were examined. Venture capital has great links with private equity activities. During the study, private equity participants were not included in the sample. Similar research in private equity could be conducted to ascertain the performance and challenges of the private equity industry. This could provide vital information to set better regulations in the private equity and venture capital ecosystems in South Africa.

Building trust amongst stakeholders in the venture capital ecosystem is critical. This may require diplomatic relationships with other countries. Other researchers should consider looking at trust-building for an effective venture capital ecosystem.

Providing access to the market is the fundamental support that venture capitalists offer to their investees. They link investees to funders and potential acquirers, and help with market

positioning of investees to expand their market beyond the South African market. All these valuable support activities are achieved thanks to the experience of the venture capitalists and their networking abilities. It may help to attempt an assessment of the value of networking on the performance of venture capital in South Africa.

The study was anchored on the establishment of a legal framework as key to facilitating venture capital activities in South Africa. It may be of great help to assess the impact of Startup Acts within Africa's venture capital ecosystem.

Building an African venture capital market is a great necessity, and building a framework that consolidates the efforts of the African countries may help create a huge market for the continent. Similar studies may consider assessing the impact of collaboration amongst African countries, or amongst members of the BRICS+ bloc.

7.11 Study conclusion

The focus of this study was to develop and propose a guiding framework that enhances venture capital performance and exit in South Africa after considering relevant facts and evidence from the venture capital industry in South Africa, and related literature. Theoretical literature underpinning the study and the development of the proposed framework for the early exit of venture capital investment in South Africa emanated from three key theories associated with venture capital investment, namely the agency theory, the resource-based view theory, and the institutional theory, supported by empirical evidence mostly drawn from the USA, and the first five BRICS+ member states, based on the concept of venture capital.

The agency theory provided guidance on how to resolve issues of conflicting interests of the principal (Meckling and Jensen, 1976) and the agent or when the principal-agent objectives do not converge (Vargas-Hernández and Teodoro Cruz, 2018) leading to information asymmetry and moral hazard. Resolving information asymmetry and moral hazard issues requires that the agent who, in this case is the entrepreneur that has been entrusted with funds, be loyal and truthful to the principal (investors or venture capitalist who provided the funds) to ensure transparency and fairness in the compensation system (Vargas-Hernández, and Teodoro Cruz, 2018; Xu, Liu, and Jiang, 2021). Cognisance of the agency theory, resilient venture capital ecosystems are based on cooperation and collaboration between the venture capital practitioners and the entrepreneurs (Xu, Liu and Jian, 2021).

Hence cooperative mechanisms and alliances guided by institutional policies are necessary to facilitate successful venture capital operations.

While the agency theory draws attention to the need for collaboration, the Resource-Based View (RBV) theory provides an understanding on how institutions attempt to develop, acquire and maintain a competitive advantage in order to maintain resilience (Barney, 1991). The maintenance of organizational or institutional resilience requires that the organization or institution possesses critically valuable, rare, inimitable, and non-substitutable resources (You et al., 2023) and has the ability to utilize or exploit these resources for the benefit of the institution, to ensure long-term sustainability (You et al., 2023; Zvarimwa and Zimuto, 2022). Therefore the dynamic capabilities of the institution become valuable as it assist the organization in acquiring, exploiting, and leveraging the operations of the institutions in a manner that ensures organizational resilience in the long-term (Ozanne et al., 2022). In the context of this study, the venture capital industry falls short of funding, and entrepreneurial skillsets, and the infrastructure is not up to standard to deliver the required results to ensure industry resilience, even though the country exhibits technological leadership (Mateko, 2024). The financial constraints and skills shortages, coupled with poor institutional frameworks that cannot add value to resource capabilities, obstruct the abilities of the venture capitalists in South Africa to provide the necessary support to grow the technology required to realise the digital economy (Bamata et al., 2019; Gqoboka et al, 2022). Evidence from China (Cao, and Li, 2023), USA, India, and Brazil (Corvello et al., 2023) demonstrate how the venture capitalists utilise networks and relational capital to build dynamic human resource capabilities to ensure resilience in the industry, besides the provision finance (Cao, and Li, 2023; Teece, 2016). China used the creative destruction concept to develop and build resources, and helped restructure their stock market, which facilitated the flow of funds into the venture capital market (Robyn, 2018). If the legal system in South Africa is not as complex compared to that of China (Lin et al., 2014), and better than those of other African countries (Kato and Chiloane-Phetla, 2021), it then provides an opportunity for South Africa to build stronger institutional frameworks that facilitate the accumulation of valuable, rare, inimitable and non-substitutable resources that can be exploited to ensure industry resilience, and expand their market which is currently very small and difficult to access, even by fellow African countries (Sutherland, 2020). This then necessitates the role of the government in policy development, to provide support for the building of institutional

frameworks that facilitate resource mobilisation and exploitation of the resources, to ensure industry resilience.

The institutional theory takes into account the broader cultural, social, and regulatory environment that shapes venture capital practices around the world (Grilli, Latifi and Mrkajic, 2019). It provides insights on how the industry stakeholders respond, adapt, resist or conform to institutional pressures, in order to minimize risks and uncertainties in an effort to gain legitimacy and access available resources. In the context of South Africa, defining the rules of the game in terms of regulations, to ensure optimal performance of the venture capital industry is paramount (Grilli, Latifi and Mrkajic, 2019). For example, in 1978 “The prudent man rule” and the tax reforms in the USA brought changes that motivated pension funds and other investors to invest in the venture capital ecosystem, resulting in an exponential growth of the industry and the emergence of tech giants like Microsoft, Apple, and Amazon in the 1980s. The American success story led to the replication of similar policies, institutional, and regulatory frameworks within and outside America, to facilitate venture capital activities. According to Cumming et al. (2010), economies with well-structured and efficient formal institutions, such as strong judiciary systems, accompanied by transparent regulations and sound financial regulatory systems, like in the USA (Grilli, Latifi and Mrkajic, 2019), reduce venture capital operational costs (Guill'en, 2010) and attract investors. These systems guarantee investors' rights, whereas countries with loose regulations and inefficient institutional frameworks reduce investors' appetites (Depperu, Galavotti, and Baraldi, 2024).

In the case of South Africa, the expectation is that institutional guidelines and regulatory reforms should be considered to ensure an investment-friendly environment that attracts both local and international investors, as the current regulatory environment is hamstringing the flow of funds into the industry (Faku, 2022; Mateko, 2024). Besides the acute shortage of funding, lack of incentives, and an unfriendly regulatory environment marked by stiff exchange control regulations, inflexible intellectual property regulations and challenging labour laws, the market in South Africa remains small, with an unfavourable political environment (Sutherland, 2020), though with amazing technology (Mateko, 2024). In an effort to cope with the challenges and continue supporting the emerging technology, venture capitalists have adopted conservative funding. Funding is mostly available to the expansion stages, with little or no funding allocated to the pre-seeds and seeds stages. This leaves the

industry with a void in early stage financing, which is critical to spur innovation and realise the dream of the digital economy (Bamata et al., 2019; Gqoboka et al, 2022). Further to this, the study's findings indicate that large corporates are not funding early stage innovation but are acquiring startups that are disruptive to their operations in order to consolidate their market share. Despite the odds, investment exit duration in South Africa is approximately 8 years, with an average internal rate of return of 15.12%, with the majority of the exits being in mergers and acquisition, followed by trade sales. Practitioners are forced by the unfriendly regulatory and political environment (Faku, 2022; Sutherland, 2020) to position investments outside Africa, to prevent investment from being affected by the unfriendly economic and regulatory environment in South Africa (Sutherland, 2020).

To address these concerns, the venture capitalists highlighted the need for collaboration between stakeholders of the industry to co-create an enabling regulatory framework that is investment friendly. Key stakeholders in the collaborative arrangement include the government, the venture capital practitioners, and industry facilitators such as SiMODISA, SAVCA and AVCA. This leads to a Public Private Partnership Arrangement (PPPA), with each participant having a defined role to play in the partnership arrangement. In this partnership arrangement, the government's role should be that of policy formulation, as evidenced in America, China, India, and Brazil. Creating an environment for collaboration and alliances with foreign countries and trade blocs is vital as the role of government. While the industry participants are expected to leverage their operations in compliance with the co-created frameworks, it is important that they provide guidance on the industry challenges while submitting compliance reports to industry facilitators, who then report publicly on the performance of the industry. This ensures transparency of activities carried out in the industry, and provides investors and prospective investors valuable information to make investment decisions. It also provides the opportunity for all stakeholders to understand the market and challenges therein, in order to continuously collaborate and come up with effective and efficient solutions to enhance the venture capital industry performance.

In conclusion, the study aim of developing an early exit framework for venture capital investment in South Africa was met, as the Public Private Partnership Arrangement would provide an opportunity for stakeholders to collaborate and co-create an investment-friendly environment with insightful incentives, regulations and strategies that would enhance the

performance of the South African venture capital ecosystem, and improve the investment exit rate.

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Appendices

Appendix 1A: Quantitative data collection instrument: Questionnaire (survey) for venture capital practitioners and employees of venture capital firms

RESEARCH QUESTIONNAIRE

BY

BERNARD AYUK OBASI

The following questionnaire is intended to collect data to develop a framework for an early exit of venture investment in South Africa as part of the requirement for the award of a Doctor of Philosophy in Economics and Management Sciences (PhD in Economics and Management with Business Administration) at the North West University.

INSTRUCTIONS:

1. The questionnaire is organised in three comprehensive sections (**SECTIONS ONE – THREE**); each section is of equal importance. It is necessary that respondents complete all sections as neatly as possible using the appropriate columns and rows to provide the required answers.
2. Answering the questionnaire implies that the respondent has given his or her consent to participate in this study.
3. The respondent is not required to write his or her name on the questionnaire or disclose his or her identity in any form. All information collected is strictly confidential and treated on an anonymous basis.

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QUESTIONNAIRE

To be completed by venture capital practitioners and employees of venture capital firms.

SECTION ONE: FACTORS RATING

1 **Financing activities**

To what extent would you agree or disagree that the following financing factors facilitate venture capital activities and exit rate in South Africa? Rate your answer on a scale ranging from 5 = strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

1.1	High amount of investment	1	2	3	4	5
1.2	Stage financing / funding stage	1	2	3	4	5
1.3	Investee performance	1	2	3	4	5

2 **Deal sourcing**

To what extent would you agree or disagree that the following factors are evidenced in South Africa and assist in South Africa venture capital deal sourcing process? Rate your answer on a scale ranging from 5 = strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

2.1	Entrepreneurial exhibition platforms	1	2	3	4	5
2.2	Multiple entrepreneurial ventures for selection	1	2	3	4	5
2.3	Entrepreneurial selection platforms	1	2	3	4	5

3 **Regulatory activities**

To what extent would you agree or disagree that the following regulatory factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

3.1	Investment incentives (e.g. tax & R&D)	1	2	3	4	5
3.2	General Stock market regulations	1	2	3	4	5
3.3	Merger and acquisition laws	1	2	3	4	5
3.4	Management buyout arrangements	1	2	3	4	5
3.5	Emerging companies alternative listing arrangements	1	2	3	4	5

4 **Economic activities**

To what extent would you agree or disagree that the following economic factors encourage venture capital activities resulting in better performance and increased exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

4.1	Growth rate	1	2	3	4	5
4.2	Good Corporate governance practices	1	2	3	4	5

4.3	State of technology advancement	1	2	3	4	5		
4.4	Government policies	1	2	3	4	5		
4.5	Current state of entrepreneurial based education	1	2	3	4	5		
5	Performance activities							
<i>To what extent would you agree or disagree that the following factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree</i>								
5.1	Entrepreneurial skill set in SA	1	2	3	4	5		
5.2	Profitability of investment	1	2	3	4	5		
5.3	Managerial performance	1	2	3	4	5		
6	Industry related factors							
<i>To what extent would you agree or disagree that the following industry factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.</i>								
6.1	Investee experience	1	2	3	4	5		
6.2	Industry type (e.g. telecom, technology, energy)	1	2	3	4	5		
6.3	State of technological advancement	1	2	3	4	5		
6.4	Investment stage	1	2	3	4	5		
SECTION TWO: EXIT MANAGEMENT								
Exit duration								
Please tick the appropriate column								
7	Pease indicate your current estimated average investment exit duration SA	1 1-3 yrs.	2 4-6 yrs.	3 7- 9 yrs.	4 10-12yrs.	5 13-15yrs.	6 16 – 18yrs	7 19 – 21yrs
8	Please indicate your preferred estimated average investment exit period SA	1 1 - 3 yrs.	2 4 - 6 yrs.	3 7-9- yrs.	4 10-12yrs.	5 13-15yrs.	6 16 -18yrs	7 19 – 21yrs
9	<i>To what extent would you agree or disagree with the following statements? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.</i>							
9.1	Venture capital investment in South Africa can be exited within 10 years or less given the present market and economic conditions.	1	2	3	4	5		
9.2.	Venture capital investment in South Africa can be exited in 10 years or less given stable economic conditions with high skills, strong entrepreneurial	1	2	3	4	5		

	ventures, political stability, good stock market regulations, more investment and tax incentives					
10	Exit performance by industry sector					
<i>Please rank your venture capital investment exit performance in South Africa by industry sector ranging from 5 = Most exit, 4 = Fair exits 3 = Average exits, 2 = Few exits and 1 = No exits</i>						
Please tick the appropriate columns		Exit performance Ranking				
		1	2	3	4	5
10.1	Information and communication technology	1	2	3	4	5
10.2	Education	1	2	3	4	5
10.3	Energy	1	2	3	4	5
10.4	Electronics	1	2	3	4	5
10.5	Financial services	1	2	3	4	5
10.6	Manufacturing	1	2	3	4	5
10.7	Mining	1	2	3	4	5
10.8	Others	1	2	3	4	5
	If others, please specify					
11.	Investment preference by sector					
<i>Please rank venture capitalists' investment preference in South Africa by industry sector ranging from 1 = Not preferred, 2 = Low preferred, 3 = Average preferred, 4 = Preferred and 5 = Most preferred</i>						
Please tick the appropriate column		Investment preference Ranking				
		1	2	3	4	5
11.1	Information and communication technology	1	2	3	4	5
11.2	Education	1	2	3	4	5
11.3	Energy	1	2	3	4	5
11.4	Electronics	1	2	3	4	5
11.5	Financial services	1	2	3	4	5
11.6	Manufacturing	1	2	3	4	5
11.7	Mining	1	2	3	4	5
11.8	Others	1	2	3	4	5
12	Investment preference by stages					
Please rank venture capitalists' investment preference in South Africa by stages						
Please tick the appropriate column		Ranking				
		1 st choice	2 nd choice	3 rd choice	4 th choice	
	Seed stage					
	Start-up stage					

	Expansion stage								
	Mezzanine								
13	What is your current exit profit/loss ratio on exited investment (estimate) Please tick appropriate value								
		loss	0- 5%	6 - 10%	11-15%	16-20%	21-25%	25-30%	Above 30%
14	What is your target (preferred) profit ratio for investment to be exited successfully (estimate) Please tick appropriate column								
			0- 5%	6 - 10%	11-15%	16-20%	21-25%	26- 30%	Above 30%
SECTION THREE: GENERAL ANALYSIS									
15	Are there venture capital fund mobilising institutions such as pension funds, saving schemes etc.?					1 None	2 Few	3 Adequate	4 More than enough
16	Are there venture capital research institutions such as university venture capital intuitions					1 None	2 Few	3 Adequate	4 More than adequate
17	Are there government venture capital funding institutions?					1 None	2 Few	3 Adequate	4 More than adequate
18	Are there government policies in place that favour venture capital activities in South Africa					1 None	2 Few	3 Adequate	4 More than adequate
19	Are there investment incentives motivating/facilitating venture capital investment in South Africa such as tax free investment, low capital gain tax, tax breaks, R&D incentives, etc					1 None	2 Few	3 Adequate	4 More than adequate
20	Does the present school curriculum facilitate the acquisition of entrepreneurial skillsets that attract venture capital investments?							1 Yes	2 No
21	Are the platforms for selecting prospective investees by venture capitalists?							1 Yes	2 No
22	Do listing regulations facilitate venture capital exit through IPO?							1 Yes	2 No
23	Does the current political position of South Africa positively influence venture capital performance?							1 Yes	2 No
24	Are there alternative listing routes for emerging companies to go public?							1 Yes	2 No
25	Do the alternative listing arrangements (if any) facilitate listing of emerging companies?							1 Yes	2 No
26	Are VC companies represented in the investees' board of directors?							1 Yes	2 No

27	Do foreign venture capital firms and local (indigenous) venture capital firms collaborate in funding entrepreneurial ventures in South Africa?					1 Yes	2 No		
28	Tick the exit routes currently utilised in South Africa?	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidation	6 Management buy out		
29	Which investment stage is mostly financed by VCs in South Africa?			1 Seed stage	2 Start-up	3 Expansion	4 Mezzanine		
30	Which investment stage do entrepreneurs often solicit funding in South Africa?			1 Seed stage	2 Start-up	3 Expansion	4 Mezzanine		
31	What factors contribute to low VC exit in South Africa?	1 Govt regulations	2 Information asymmetry	3 Contractual arrangements	4 Stage of investment	5 Low investment amount	6 Stiff stock market regulations	7 Poor investment decisions	8 Lack of commitment from investee
32	Please write your comments or any suggestions to improve venture capital exit in South Africa								

End of survey

Thank you for participating in this survey

RESEARCH QUESTIONNAIRE

BY

BERNARD AYUK OBASI

The following questionnaire is intended to collect data to develop a framework for an early exit of venture investment in South Africa as part of the requirement for the award of a Doctor of Philosophy in Economics and Management Sciences (PhD in Economics and Management with Business Administration) at the North-West University.

INSTRUCTIONS:

4. The questionnaire is organised in three comprehensive sections (**SECTIONS ONE – THREE**); each section is of equal importance. It is necessary that respondents complete all sections as neatly as possible using the appropriate columns and rows to provide the required answers.
5. Answering the questionnaire implies that the respondent has given his or her consent to participate in this study.
6. The respondent is not required to write his or her name on the questionnaire or disclose his or her identity in any form. All information collected is strictly confidential and treated on an anonymous basis.

CONTACT DETAILS

Bernard Ayuk Obasi: b_ayuk2001@yahoo.com; **Mobile +27 71993 9206 (Researcher)**

Professor W. Musvoto: musvosw@unisa.ac.za; **Mobile +27 60356 0137(Promoter)**

QUESTIONNAIRE

To be completed by venture capital investees.

SECTION ONE: FACTORS RATING

1 **Financing activities**

To what extent would you agree or disagree that the following financing factors facilitate venture capital activities and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

1.1	High amount of investment	1	2	3	4	5
1.2	Stage financing / funding stage	1	2	3	4	5
1.3	Investee performance	1	2	3	4	5

2 **Deal sourcing**

To what extent would you agree or disagree that the following factors are evidenced in South Africa and assist in South Africa venture capital deal sourcing process? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree

2.1	Entrepreneurial exhibition platforms;	1	2	3	4	5
2.2	Multiple entrepreneurial ventures for selection;	1	2	3	4	5
2.3	Entrepreneurial selection platforms;	1	2	3	4	5

3 **Regulatory activities**

To what extent would you agree or disagree that the following regulatory factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

3.1	Investment incentives (e.g. tax & R & D)	1	2	3	4	5
3.2	General Stock market regulations	1	2	3	4	5
3.3	Merger and acquisition laws	1	2	3	4	5
3.4	Management buyout arrangements	1	2	3	4	5
3.5	Emerging companies alternative listing arrangements	1	2	3	4	5

4 **Economic activities**

To what extent would you agree or disagree that the following economic factors encourage venture capital activities resulting in better performance and increased exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.

4.1	Growth rate	1	2	3	4	5
4.2	Good Corporate governance practices	1	2	3	4	5

4.3	State of technological advancement	1	2	3	4	5		
4.4	Government policies	1	2	3	4	5		
4.5	Current state of entrepreneurial based education	1	2	3	4	5		
5	Performance activities							
<i>To what extent would you agree or disagree that the following factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree</i>								
5.1	Entrepreneurial skill set in SA	1	2	3	4	5		
5.2	Profitability of investment	1	2	3	4	5		
5.3	Managerial performance (investee)	1	2	3	4	5		
5.4	Managerial performance (VC firm)	1	2	3	4	5		
6	Industry related factors							
<i>To what extent would you agree or disagree that the following industry factors increase venture capital performance and exit rate in South Africa? Rate your answer on a scale ranging from 5 = Strongly Agree, 4 = Agree, 3 = Neutral, 2 = Disagree and 1 = Strongly Disagree.</i>								
6.1	Venture capitalists experience	1	2	3	4	5		
6.2	Industry type (e.g. telecom, technology, energy)	1	2	3	4	5		
6.3	State of technological advancement	1	2	3	4	5		
6.4	Investment stage	1	2	3	4	5		
SECTION TWO: EXIT MANAGEMENT								
7	Current profit/loss ratio	Please rate your current business profit ratio (estimate)						
	Loss	0- 5%	6 - 10%	11-15%	16-20%	21-25%	26-30%	Above 30%
8	Target profit/loss ratio	Please rate your target profit ratio for investment to be exited						
		0- 5%	6 - 10%	11-15%	16-20%	21-25%	26-30%	Above 30%
SECTION THREE: GENERAL ANALYSIS								
9	Are there venture capital fund mobilising institutions such pension funds, saving schemes etc.in SA?	1 None	2 Few	3 adequate	4 More than enough			
10	Are there venture capital research institutions such as university venture capital intuitions in South Africa?	1 None	2 Few	3 Adequate	4 More than adequate			
11	Are there government venture capital funding institutions in South Africa?	1 None	2 Few	3 Adequate	4			

						More than adequate		
12	Are there government policies in place that favour venture capital activities in South Africa?	1 None	2 Few	3 Adequate	4 More than adequate			
13	Are there investment incentives motivating/facilitating venture capital investment in South Africa such as tax-free investment, low capital gain tax, tax breaks, R&D incentives, etc	1 None	2 Few	3 Adequate	4 More than adequate			
14	Does the present school curriculum facilitate entrepreneurial activities that attract venture capital investments in South Africa?				1 Yes	2 No		
15	Are there entrepreneurial platforms for VCs to select prospective investees?				1 Yes	2 No		
16	Do listing regulations facilitate venture capital exit through IPO in South Africa?				1 Yes	2 No		
17	Does the current political position of South Africa positively influence venture capital performance?				1 Yes	2 No		
18	Are there alternative listing routes for emerging companies to go public in South Africa?				1 Yes	2 No		
19	Do the alternatives listing arrangements (if any) facilitate listing of emerging companies?				1 Yes	2 No		
20	Does VC representation in the investees' board of directors add value to investees' performance that ensures early exit?				1 Yes	2 No		
21	Which exit route do you prefer VCs to use in exiting your investment?	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidation	6 Management buy out	
22	Which exit route did the VC exit your investment (if exited)	1 IPO	2 Trade sales	3 Secondary sales	4 Merger & Acquisition	5 Liquidation	6 Mgt buy out	N/A
23	At which investment stage did you receive financing from VCs?			1 Seed stage	2 Start-up	3 Expansion	4 Mezzanine	
24	Which investment stage do you think VCs prefer financing in South Africa?			1 Seed stage	2 Start-up	3 Expansion	4 Mezzanine	
25	Which investment stage do entrepreneurs often solicit funding in South Africa?			1 Seed stage	2 Start-up	3 Expansion	4 Mezzanine	

End of survey

Thank you for participating in this survey

Appendix 2.A: Research Interview guide for venture capital practitioners

BY

**BERNARD AYUK OBASI – DOCTOR OF PHILOSOPHY IN ECONOMICS AND
MANAGEMENT SCIENCES STUDENT (NORTH-WEST UNIVERSITY – MAFIKENG
CAMPUS)**

Practitioners' interview

The interview guide is part of the Doctor of Philosophy in Economic and Management Sciences study that seeks to develop a framework for the early Exit of Venture Capital Investment in South Africa

INSTRUCTIONS:

You are kindly requested to take 30 to 45 minutes of your time to answer questions in this face-to-face interview. Your responses during this interview will be treated with utmost confidentiality. The first questions will be related to demographic information, followed by core questions linked to investment exit in South Africa, exit challenges; approaches to overcome exit challenges; and thereafter your perception towards the adoption of an early exit framework for venture capital investment in South Africa.

SECTION 1: BUSINESS INVESTMENT AREAS (VCs ONLY) INFORMATION

1. What are your preferred and core areas of investment and how do they affect your exit timing?
2. What business operations do you currently finance that would result in early exit of investments?
3. What is your average expected lifetime to exit an investment in South Africa?
4. Please explain your investment exit strategy if any.
5. What factors account for any late exit from your existing investment portfolio? Please explain each factor briefly.
6. What factors, according to you, may account for early exit of your current or prospective investment portfolios? Please explain.
7. What in your opinion can be done to improve on the exit rate of venture capital investment in South Africa?

SECTION 2: KNOWLEDGE OF TARGET INVESTMENT

1. Prior to signing an investment deal, what background knowledge of the investment is considered more relevant for an early exit?
2. Do your prospective investees usually demonstrate a good mastery of their businesses?
3. What are the key factors that attracted you into the venture capital industry in South Africa? Please explain briefly.

SECTION 3: INVESTMENT SELECTION PROCESS

1. What factors do you consider as key in selecting your investee that would ensure early exit of investments?
2. At what stage is your company likely to finance an investment (e.g. seed stage, start-up, growth, mezzanine, buyout stage) and why?
3. Do the business performance, profitability, vision, and mission, as well as employees' skills account for the strength for an early exit of an investee? Explain.

SECTION 4: METHODS OF FINANCING CAPACITY BUILDING MECHANISM

1. Which investment support do you think is vital for the business continuity and possible early exit of venture capital investment?
2. Please explain whether or not your investment model is easily adaptable or adopted by the investees' companies' management and appreciated by them.

SECTION 5: CHALLENGES AND SOLUTIONS

1. What are the major challenges of the venture capital industry in South Africa?
2. In respect of exiting investments, what are the challenges faced in terms of the following:
 - a) Choice of investment
 - b) Nature of investment
 - c) Management and control of the investment
 - d) Investees' perception of venture capital investors.
 - e) Your stake in the investment.
 - f) The regulatory environment
3. What other challenges accounting for late exit of venture capital investments are worthy of notice? Please explain briefly.
4. What can be done to overcome exit challenges of venture capital investment in South Africa?
5. What is your personal view on the adoption of an early exit framework for venture capital investment for South Africa?

Appendix 2.B: Research Interview guide for venture capital investees

BY

**BERNARD AYUK OBASI – DOCTOR OF PHILOSOPHY IN ECONOMICS AND
MANAGEMENT SCIENCES STUDENT (NORTH-WEST UNIVERSITY – MAFIKENG
CAMPUS)**

Investees' interview

The interview guide is part of the Doctor of Philosophy in Economic and Management Sciences study that seeks to develop a framework for the early exit of venture capital investment in South Africa

INSTRUCTIONS:

You are kindly requested to take 30 to 45 minutes of your time to answer questions in this face-to-face interview. Your responses during this interview will be treated with utmost confidentiality. The first questions will be related to demographic information followed by core questions linked to investment exit in South Africa, exit challenges; approaches to overcome exit challenges, and thereafter your perception towards the adoption of an early exit framework for venture capital investment in South Africa.

SECTION 1: BUSINESS INVESTMENT AREAS INFORMATION

1. What is your principal area of business?
2. How long were you in business before contracting with VC investors and what were your expectations from the VC?
3. Did the investor and your company (investee) agree on any terms of exit?
Yes_____No_____. If yes, state the pre-planned exit duration (in years)?
4. In your opinion what factors accounted or would account for exit of your investment and why?
5. Did the VC engagement deal meet your expectations? Please provide reasons for your answer.
6. Explain briefly the impact of the following factors on the exit rate of VC investments
 - 10.1. Industry regulations
 - 10.2. Investors' behaviour
 - 10.3. Government policies
 - 10.4. Economic conditions
 - 10.5. Politics
 - 10.6. Management strategy
 - 10.7. VCs contractual arrangement with investees.

SECTION 2: KNOWLEDGE OF INVESTMENT

1. Please explain how you got the business concept mapping and strategy of your current business (If you had knowledge of your business prior to VC investors' funding).
2. Explain how the following factors contributed or are most likely to contribute to the investors exiting your investment?
 - a) Your prior knowledge
 - b) Experience gained from the VC investors
 - c) Finance invested by the VC

SECTION 3: INVESTMENT SELECTION PROCESS

1. What facilitated your selection as a VC investee?
2. If the VC have exited your business, please indicate exit time in years and explain how the VC selection process impacted the early or late exit of the VC investors' from your business.

SECTION 4: EFFICIENCY AND EFFECTIVENESS OF METHOD OF FINANCING AND SUPPORT MECHANISM RECEIVED FROM VCS

1. Was the assistance received from VCs good enough to facilitate business growth and early exit from investments? Please explain.
2. What form of assistance was not so vital, and its impact on business growth and possible late exit of the VC from the investment?
3. What, in your opinion, can be done to improve VC financing mechanism to ensure early exits from investment deals?

SECTION 5: CHALLENGES AND SOLUTIONS

1. What are the major challenges of venture capital investment in South Africa?
2. In respect of exiting investments, what are the challenges faced in terms of the following:
 - a) Choice of investors (VC)
 - b) Nature of investment
 - c) Management and control of the investment
 - d) Investors' perception of the investees (e.g. education, experience, behavioural pattern, skills and technical ability).
 - e) Your stake in the investment (Ownership).
 - f) The regulatory environment
 - g) What other challenges accounting for late exit of venture capital investments are worthy of notice? Please explain briefly.
3. Please provide any proposed solutions to the challenges of venture capital exit in South Africa.
4. Would you agree to any proposed framework for an early exit of venture capital investment in South Africa?

Appendix 3: Informed Consent

NORTH-WEST UNIVERSITY CONSENT TO PARTICIPATE IN RESEARCH

Developing a framework for the early exit of venture capital investment in South Africa

You are hereby requested to participate in research conducted by Bernard Ayuk Obasi, who is studying towards a Doctor of Philosophy in Economics and Management Sciences (PhD in Economics and Management Sciences with Business Administration) at the North-West University Graduate School of Business and Governance. The study results will be contained in a thesis. You were selected as a possible participant in this study because you are one of the senior management /owners of Venture Capital Investee Company/ Venture Capital practitioner who was randomly selected and therefore considered trustworthy in providing information on the venture capital exit in South Africa.

1. PURPOSE OF THE STUDY

The aim of this study is to develop a framework for an early exit of venture capital investment in South Africa. This framework will provide a guide on how South African venture capitalists can exit their investment portfolio early enough in order to attract more investment into the industry, thereby making it more relevant and profitable, as well as providing further investments funds to grow the South African economy.

2. PROCEDURES

You are kindly requested to participate in this study and are required to complete the questionnaire in the first phase of this study and return it to the investigator. You may also be requested to participate in the second phase of the study, where you will be interviewed. During the individual interviews, audio recording will be used.

3. POTENTIAL RISKS AND DISCOMFORTS

The results of the study will only be used for the purpose of this study. To prevent individuals from being identified, the participants will remain anonymous; hence the results will not be associated with any person or company's names. The researcher will use letters as pseudonyms.

4. POTENTIAL BENEFITS TO SUBJECTS AND / OR SOCIETY

The participants will benefit from this research, as the research outcomes will assist their companies in enhancing efficiency in the management of their investments for an early exit.

The research will also ensure overall improvement in the venture capital industry, as many lessons will be learned from other countries where venture capital performance and exits are high.

5. PAYMENT FOR PARTICIPATION

The participating parties in this research are not entitled to any form of payment. There is no intention to force participation to this research, as participation is voluntary.

6. CONFIDENTIALITY

Any information that is obtained in connection with this study will remain confidential and will be disclosed only with the participants' permission, or as may be required by law. Confidentiality will be maintained by means of signing of the voluntary informed consent form immediately before the study commences. In this study, individual confidentiality will be upheld through the use of unmarked questionnaire and interview schedules. Each participant will be assigned a code and then identified with that code. The data will be safeguarded on the investigator's personal laptop and the passwords to the laptop will be changed continually, in order to prevent unauthorised access to the research data. The research information will only be made available to the North-West University Graduate School of Business and Governance. The results will be published for educational purposes at the Graduate School of Business and Governance, North-West University, but names of participants will not be given in view of the requirement for anonymity in this study. This research will involve audio-recordings, and participants' consent (permission) will be necessary before any recording starts. Participants have the option to object to any recordings being made during the interview process.

7. PARTICIPATION AND WITHDRAWAL

Participants may withdraw from this study at any time. The researcher may withdraw you from this research if circumstances arise that warrant such a withdrawal.

8. IDENTIFICATION OF INVESTIGATOR

If you need to ask any questions about this study, please feel free to contact the research personnel at the Graduate School of Business and Governance, North-West University: Principal investigator, Promoter, Co-Investigator (s).

If you need to contact the researcher and the promoter, their details are as follows:

1) Principal investigator: Bernard Ayuk Obasi

Mobile number: +27 719 939 206

2) Promoter: Professor S. Wedzerai Musvoto

Mobile number: +27 603 560 137

9. RIGHTS OF RESEARCH SUBJECTS

Please note that you may withdraw your consent at any time and discontinue without being penalised. You are not waiving any legal claims, rights or remedies because of your participation in this research. If you have any questions regarding your rights as a research subject, contact Dr Lekunze (Research Manager) on 0027 18 3892437 / 2827 at the Graduate School of Business and Governance, North-West University.

SIGNATURE OF RESEARCH SUBJECT OR LEGAL REPRESENTATIVE

The information above was explained to me by Bernard Ayuk Obasi in English and I am in command of this language. I am willing to participate in this study.

I hereby consent voluntarily and am willing to participate in this study. I have been given a copy of this form.

Name of Subject / Participant: _____

Name of Legal Representative (if applicable): _____

Signature of Subject / Participant or Legal Representative: _____

Date: _____

SIGNATURE OF INVESTIGATOR

I declare that I have explained the information provided in this document to S/he was accorded enough time to ask questions related to the research and that our conversation was in English.

Signature of investigator: _____

Date: _____

Appendix 4: Request for Permission to conduct research

13 Botha Street,
Elsburg, Johannesburg,
1401.
1st August 2022

Dear Sir/Madam,

REQUEST TO CONDUCT RESEARCH ON VENTURE CAPITAL EXIT IN SOUTH AFRICA

I, Bernard **Ayuk Obasi**, a registered PhD student at the **North-West University** hereby solicit for permission to conduct research on Venture Capital Exit in South Africa.

My proposed PhD study is intended to develop a framework that would facilitate exit of venture capital investments in South Africa, as well provide valuable insights on managing venture capital investments in South Africa.

The data collection process will involve questionnaires (surveys) and interviews.

The questionnaires/survey will be completed on an anonymous basis, and participants are free to withdraw from the research process at any time. Target participants include venture capital practitioners, and current and exited investees. Interviews will be conducted after the surveys, with a selected few officials from the target population.

Any information gathered in the course of this research will be treated with utmost confidentiality, and participation to the research is completely anonymous. All information will be used for research purposes only.

Your assistance in the data collection process will be highly appreciated.

Yours faithfully,

Bernard Obasi

Student number 24376957

Appendix 5: Editing certificate

House 367

Hex River Lifestyle Estate

Waterkloof East Ext 12

Rustenburg 0299

29/07/2025

This is to certify that the thesis titled

**DEVELOPING A FRAMEWORK FOR THE EARLY EXIT OF
VENTURE CAPITAL INVESTMENT IN SOUTH AFRICA**

Submitted by **BA OBASI**



orcid.org/0000-0003-4895-3997

for the degree of

**DOCTOR OF PHILOSOPHY IN
ECONOMIC AND MANAGEMENT SCIENCES
WITH BUSINESS ADMINISTRATION**

at the

NORTH-WEST UNIVERSITY

Has been edited for language by

Mary Helen Thomas (B.Sc. Hons. PGCE)

A handwritten signature in black ink, appearing to read 'Mary Helen Thomas'.

Email: thomashelen212@gmail.com

Cell: 072 242 9066