Challenges facing venture capitalists in developing economies

An empirical study about venture capital industry in Ghana

Author: Stephen Kwaning Agyeman
Supervisor: Dr. Anders Isaksson
Acknowledgements

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Summary

It is widely believed that economic developments of many advanced countries were propelled through vigorous entrepreneurial stimulation by policy makers. Economic success of the US and other western countries for instance, are believed to have begun with painstaking entrepreneurial developmental programs. Key among these programs is the creation of enabling environment for effective development of a venture capital market to provide financial support for entrepreneurial propensity (Schwartz (1994, p.14). However, replications of these developmental programs in many developing countries have come with many challenges due to differences in cultural, economic and legal systems (Dossani & Kenney, 2002; Ribeiro & Carvalho, 2008). This has led to unrealized developmental goals of governments in these countries and ever widening financing gaps for Small and Medium Enterprises (SMEs). Venture Capitalists in Brazil for example, are said to have adapted the use of arbitration for Venture Capital (VC) related dispute resolutions due to the inefficient legal environment (Ribeiro & Carvalho, 2008, p.124).

The purpose of this thesis is to investigate main challenges facing VC firms in developing countries with particular emphasis on environmental and governmental policy framework factors that may be impeding the operations of venture capitalist in Ghana. To be able have deeper understanding of the experiences of VC operators in Ghana, I adopted qualitative method research with inductive approach for this thesis. This research method afforded me the opportunity to have an open interaction with VC players in Ghana. Semi-structured interview, document survey and direct observation were the main methods used in collecting data for this thesis. Respondents on the other hand were selected from five (5) VC firms in Ghana with seven (7) interviewees involved in the data collection process from both public and private sector firms. Academic literature about VC concept which are relevant for effective formulation of VC policies have been sourced from the university library database and systematically analyzed in identifying knowledge gaps.

Findings from this thesis are that VC industry in Ghana is beset with numerous challenges from three perspectives; the environment, VC firms and the investee firms. However, key among the challenges identified are: lack of exit opportunities due to inactive Initial Public Offering (IPO) environment, lack of industry policies and regulatory framework, lack of research support for the industry and poor record keeping of SMEs in Ghana. For instance, VCs expressed worry about apparent lack of reliable industry data for VC investment valuation. These findings however responded positively to the research question of whether policy directions and regulatory environment are hindering or supporting VCs in Ghana.

Finally, findings from this thesis would contribute to the VC industry academically. Concerns about one size fits all policy for the industry and fly-in and fly-out operations adopted by some private VCs in Ghana would help enrich academic literature on VC. Apparently, this is the first time such challenges have been expressed in an academic literature on VC.

Key words: Venture capital, Ghana, Developing countries, Challenges.
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<tr>
<td>AAF</td>
<td>Aureos Africa Fund</td>
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<td>ADB</td>
<td>Agricultural Development Bank (GH)</td>
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<td>ARD</td>
<td>America Research and Development</td>
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<td>AWAF</td>
<td>Aureos West Africa Fund</td>
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<td>BVCFC</td>
<td>Bedrock Venture Capital Finance Company</td>
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<td>CDC</td>
<td>Commonwealth Development Corporation</td>
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<td>CPII</td>
<td>Commonwealth Private Investment Initiative</td>
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<td>C-T-R</td>
<td>Computing Tabulating and Recording Company</td>
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<td>DFI</td>
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<td>EBSCO</td>
<td>Business Source Premier</td>
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<td>EED</td>
<td>European Enterprises Development</td>
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<td>EU</td>
<td>European Union</td>
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<td>FCPL</td>
<td>Fidelity Capital Partners Limited</td>
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<td>FEF</td>
<td>Fidelity Equity Fund</td>
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<td>FINNFUND</td>
<td>Finish Fund for Industrial Corporation</td>
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<td>FINSAP</td>
<td>Financial Sector Adjustment Program</td>
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<td>FMO</td>
<td>The Netherlands Development Finance Company</td>
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<td>GCB</td>
<td>Ghana Commercial Bank</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>Ghana Stock Exchange</td>
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<td>GVCF</td>
<td>Ghana Venture Capital Fund</td>
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<td>IBM</td>
<td>International Business Machines Corporation</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<td>IFC</td>
<td>International Financial Corporation</td>
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<td>IPO</td>
<td>Initial Public Offering</td>
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<td>IRR</td>
<td>Internal Rate of Return</td>
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<td>MBO</td>
<td>Management Buyout</td>
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<td>PE</td>
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<td>PP&amp;E</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>SBIC</td>
<td>Small Business Investment Company</td>
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<td>SEC (GH)</td>
<td>Security &amp; Exchange Commission of Ghana</td>
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<td>SIC</td>
<td>State Insurance Company</td>
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<td>SIC-FSL</td>
<td>SIC Financial Services limited</td>
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<td>SIFEM</td>
<td>Swiss Investment Fund for Emerging Markets</td>
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<td>SMEs</td>
<td>Small and Medium-term Enterprise</td>
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<td>SOVEC</td>
<td>Social Venture Capital Fund</td>
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<td>SPV</td>
<td>Special Purpose Vehicle Financing</td>
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<td>SSNIT</td>
<td>Social Security and National Insurance Trust</td>
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<tr>
<td>TDC</td>
<td>Technical Development Corporation</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>VFMC</td>
<td>Venture Fund Management Company</td>
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Chapter 1: Introduction

1.1 Background of the study
Venture capital (VC) operation has evolved from being a novelty to a level where it is now considered as a pivotal for economic development. Development of VC industry in various countries has taken different shapes and forms due to different scales of economic development and the premise upon which each industry has been fashioned. Notwithstanding, institutional transformation in any economy is essential to the formation of a VC industry (Karaömerlioglu and Jacobsson, 2000, p. 63).

Early history of a more informal venture capitalist could be traced back to the effort of Queen Elizabeth of Spain in 1642 when she provided funds for Christopher Columbus for an exploration mission in the continent of America (EVC, 2003). Again, the formation of Computing Tabulating and Recording Co., Ltd. (CTR), which was later changed to International Business Machines Corporation (IBM) by three wealthy individuals, could also be considered as part of informal capital venturing (IBM, 2010). Cornelius (2005, p.599) revealed that the history and the word ‘Venture Capital’ emanated from a discussion between J.H Whitney and Benno Schmidt where Whitney had set up an investment development fund to fill in the financing gap of those who could not access capital from banks and lending institutions. However, formalization of the industry took place in 1946 when the first venture capital company (American Research & Development (ARD)) was formed in the US and later Technical Development Corporation (TDC) in 1962 and then European Enterprises Development (EED) in 1965 established in London and Paris respectively (Baygan, 2003 p.13; EVC, 2003). The experiences of the US, the UK, Germany, Japan and other European countries, for example, are a case study for academic and socio-economic reference (Plagge, 2004; Nishisawa, 1999; Bliss, 1999; Upton & Petty 2000). Critical analysis of Swedish VC industry also revealed that the industry was set up to deal with the economic stagnation in the 1970s through central and regional arms of the Swedish government, although there had been an earlier establishment of a semi-private firm in 1973 (Karaömerlioglu and Jacobsson, 2000, p. 68).

Over the years, the industry has seen a lot of changes where early venture capitalist, which is widely described in the academia as traditional has evolved to our modern day capital venturing (Cornelius, 2005). Current efforts in explaining the institutional changes that have occurred between the developmental points in the industry would help deepen the knowledge base in the industry. Cornelius explained that the more traditional venture capital operations were more inclined with “speculation or risk taking with emphasis on new ventures, often technological ones. It was private money, professionally managed, always growth oriented and always providing management assistance” (pp.599). Other studies and commissioned reports such as OECD (2003); Ogden et al. (2003, p. 386) have also revealed that modern day venture capitalists are more interested in the expansion and later stage investments. These current trends defeat the ideological pull factors which attracted private investors such as Whitney because small firms are still trapped in the same financing gap that gave birth to VC (Cornelius, 2005). Two key characteristics are very synonymous with VC operations since its inceptions; Entrepreneurial stimulation and conversion of science and technology into marketable products/services. Vibrant entrepreneurial spirit in the US and the Information Communication Technology (ICT) boom in India (Dossani & Kenney, 2002) are two examples of reference. Moreover, the industry has also aided in the creation of jobs and
stimulation of innovative spirit, competitive vibrancy and dissemination of entrepreneurial spirit (Biedermann, 2004; Dushnitsky & Lenox, 2005).

Ghana’s venture capital industry started with an informal style of operations in the early 2000 by private firms. Pieces of information about the industry also revealed that Private Equity (PE) style of operations had taken place in the early 1990s through the collaborating efforts between the United States Agency for Development (USAID) and the Commonwealth Development Cooperation (CDC) of the European Union (EU). Their focus was to support Ghana’s economic reform Program called Financial Sector Adjustment Program (FINSAP) (Vettivetpillai, 2008, p.1; Chatman, Morse & Plange, 1996, p.4). However, formalization of the industry came about in 2004 when the government set up a Venture Capital Trust Fund (VCTF) after the enactment of Act 680 through the parliament of Ghana. The essence of Act 680 was to provide the legal and the regulatory framework for the establishment of VCTF. The scheme was set up to perform two main tasks: to ensure effective partnership with private firms for the provision of investment capital to Small and Medium Term Enterprises (SMEs) (Frimpong & Opoku 2009, p.2; VCTF 2010), and also to provide the enabling environment to develop and promote a viable venture capital industry in Ghana (VCTF report, 2008, p.2).

1.2 Research problem
As an industry operating in a developing economy such as Ghana, various challenges abound both from within and outside the industry. For that matter, it is imperative to investigate these challenges and suggest appropriate recommendations that would help the development of VC industry in such economies. Authors including Schwartz (1994); Ribeiro & Carvalho (2008); Banerjee, (2008); Dossani & Kenney (2002); Scheela & Jittrapanun (2008); Frimpong & Poku (2009) and Agundu & Dagogo (2009) have all probed into the operations of VCs in similar developing countries and revealed various challenges that are making operations in these countries very difficult. These challenges identified are ineffective legal environment, bureaucratic tendencies, lack of research support among others.

Frimpong & Poku (2009), for instance, explored the activities of VC finance in Ghana in relation to how SMEs perceive the prospect of VC finance being able bridge the financing gaps facing SMEs in Ghana. The authors generally described VC industry in Ghana as very infant but with prospects of providing the needed financial inputs for economic development based on views from SMEs. Notwithstanding these prospects, the authors reported few challenges which require immediate attention to ensure realization of the expectant gains from VC investment. First, entrepreneurs in Ghana were said to be cash-strapped but are reluctant to seek VC financing because of possible ownership dilution. Ownership dilution problems in business control and other agency problems are more associated with entrepreneurial VC financing where investee firms cede part of business ownership to VCs. Second, VC operations in Ghana were reported to be urban concentrated and therefore needed urgent governmental policy to motivate the spread of VC investment operations to reach out to SMEs in the sub-urban centers to correct the imbalance. Third, VC investment was reported to be mainly for few industries and therefore lacked the needed spread across all industries that would propel the much needed economic development in Ghana. Fourth, VC-SME relationship was also reported to be very poor because SMEs lack understanding of operational and financial requirements for VC investment. Fifth, identification of highly profitable investment opportunities were said to be very difficult because the expectant corroboration between the academic researchers and VC firms were absent.
Ribeiro & Carvalho (2008) on the other hand revealed various challenges from their studies into the VC industry in Brazil. Key challenges among them are issues of inefficient legal environment and unfavorable economic indices. A study into the SMEs performances in Nigeria also revealed the importance of VCs in addressing many constraints in their business endeavors (Agundu & Dagogo, 2009). This study compared the performances of VC backed SMEs and non-VC backed SMEs in Nigeria and concluded that SMEs with support from by VC perform relatively better than their counterpart without VC support. This clearly underscores the importance of VC investment in the development of economies in similar countries.

However, these authors and many others have failed to identify key challenges out of the generic lot that needed to be addressed for efficient capital venturing in these countries. Apparently, capital venturing is a cost conscious investment operation and therefore investors would usually welcome research inputs that would directly help reduce their cost of investments. The need to explore key industrial challenges of VCs in Ghana is justified due to its expectant academic and professional implications. First, professionals in the industry and policy makers in Ghana could find results from this thesis very helpful in their quest to develop a viable VC in industry. Indeed, identification of these challenges would be helpful for VC policy makers in Ghana because the industry has been generally described as ‘infant’ (Frimpong & Opoku, 2009), and therefore its effective development would however require academic inputs such as results from this thesis. Second, contribution to the knowledge building process of capital venturing is a prerequisite for writing this thesis and therefore my ability to identify key challenges facing Ghana’s industry would help fill in the gaps identified in the academic literature on capital venturing.

1.3 Research question

Taking into consideration the research problem presented above, the following question is postulated to guide the research process:

In what way are environmental factors and regulatory framework supporting or hindering the development of a venture capital industry in Ghana?

Many challenges have been revealed from research findings about VC operators in the developing countries. Policy framework and environmental factors could be key challenges that hamper effective operations of VC companies in developing countries. Therefore, it is important to investigate the cause of these challenges in order to devise mitigating factors to address them.

1.4 Research objective/purpose

The overall objective of this thesis is to investigate the main challenges facing VC firms in developing countries with particular emphasis on environmental and governmental policy framework factors that are inhibiting progress of venture capitalist in Ghana. The study will also investigate why industries in similar economic environments such as Ghana find it very difficult to replicate the success story of the US model. Finally, I would want to provide very meaningful contribution to the academic literature on capital venturing since knowledge gaps have been proven to exist in the theoretical framework part of this thesis.

1.5 Delimitation

For the purposes of avoiding overly generalization of the results of this thesis, it is imperative to state the boundaries of my thesis. This study is based on an empirical study on a particular
industry within the developing markets of VC and therefore results and recommendations from thesis could not be overly applied to operators outside the geographical location of the case study. This is also because, Ghana’s legal and regulatory framework are different from other operators in different countries and therefore it is prudent not to replicate views sought from analyst in the case study elsewhere.

1.6 Structure of the report
The rest of the thesis is made of five main chapters with other subchapters within. Figure 1 below presents the synopsis of the ensuing chapters of the thesis.

CHAPTER TWO: RESEARCH METHODOLOGY
This chapter explains the research methodology used. Here, the chapter talks about the research philosophy design & approach and ethical considerations in conducting research of this kind.

CHAPTER THREE: THE CONCEPT OF VENTURE CAPITAL
This chapter provides detailed explanation about the VC concept. Its highlights characteristics of VC, VC investment process, development & finance stages of a venture and characteristics of PE.

CHAPTER FOUR: THEORETICAL FRAMEWORK
Chapter four also deals with a critical review of the various literature that are related to the venture capital industry in general and the developing market in particular with particular emphasis on finding knowledge gaps.

CHAPTER FIVE: DATA COLLECTION
Chapter five also provides detailed explanation of the data collection model used for the thesis. It begins with profile of participating companies, data collection methods used and detailed explanations of data collection process.

CHAPTER SIX: PRESENTATION AND ANALYSIS OF DATA
Chapter six also handles the presentation and analysis of the empirical evidence collected. The chapter also discusses the implications of the findings on venture capitalist in Ghana.

CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS
This chapter deals with the general conclusions drawn from the study, recommendation for the industry and policy makers and possible areas for future studies.

Figure 1-1 Structure of the thesis.

The next chapter will discuss the research methodology aspect of the work.
Chapter 2: Research Methodology

2.1 Introduction
The purpose of this chapter is to present and explain the research methodology used for this thesis. Thus research philosophy, approach, design and the method of data analysis used. This study has been carried out based on qualitative method of data gathering and analysis with inductive approach. After going through this chapter, readers would understand the methodological approach underpinning this research and the reason why I adopted this particular method.

2.2 Choice of subject
The idea to investigate the activities of venture capitalist came about when I studied Entrepreneurial Financial Management and Corporate Finance during the core and the elective modules at USBE respectively. Fortunately for me, both courses were taught by lecturers who were active researchers in the field of VC and therefore they brought their experiences to bear on the courses. This classroom experience however ignited my quest to actively explore the dynamics of VC operations. Being a Ghanaian student, my interest was further heightened when I read news items and articles about the development of VC industry in Ghana and how SMEs view the prospect of the industry (Frimpong & Opoku, 2009). However, the apparent questions were how, what and which aspect of industry demanded research attention? Answers to these questions came about when I sought advice from Professor Barbara Cornelius concerning possible VC thesis topics I had in mind, and she recommended an article published about challenges facing the Brazilian VC industry (Ribeiro & Carvalho, 2007). Apparently, I had proposed to write my thesis on general challenges facing VC firms in developing countries. Further reading lists by my supervisor, Dr. Anders Isaksson regarding policy guidelines of the Silicon Valley model in the US and other articles regarding recommended VC development policy guidelines (OECD, 2004, Dossani & Kenney, 2002) were very instrumental in my choice of subject for this thesis. Finally, my choice to investigate key challenges facing Ghana’s VC industry came about after realizing that, legal and other institutional challenges were prevalent in the Brazilian industry and for that reason, I felt the need to probe further from where those authors ended to find out whether environmental and policy framework are supporting or hindering VC investment operations in Ghana. The subsection below explains the philosophical underpinnings of this study.

2.3 Research philosophy
Saunders, Lewis and Thornhill, (2003) developed what they called a research ‘onion’ which depict various layers in the entire research process. I consider this piece of graphical presentation as very essential in explaining the entire body of my thesis because it captures and explains different types of research approaches and the path they should take. Figure 2.1 below represent the whole research process as was likened to the layers of an onion by Saunders et al. (2003, p.83)
For a detailed study of this nature it is very important as a researcher to establish a clear statement of intent that would help readers have an understanding of the underpinning knowledge path and focus of the work. The general description of a research philosophy ignites deductive thinking where readers would have to follow through the writer’s planned agenda. Various writers have argued on different research ideologies known as the paradigm argument that have shaped knowledge development over the years (Alzheimer, 2009). However, Easterby-Smith, Thorpe & Lowe (2002, p.27) explained with three reason why there is the need for researchers to have understanding of an underlying philosophy. First, they stressed that it could help the researcher choose an appropriate research methods for the study. In other words, understanding of an underlying philosophy would help the researcher

Figure 1-1: Research onion. Materials and original design adapted from Saunders et al., 2003.
effectively decide on the overall research strategy. This includes the type of evidence gathered and its origin, the way in which the collected evidence will be analyzed and interpreted, and how it will help the researcher answer the research questions. Second, knowledge of research philosophy will enable and assist the researcher to evaluate different research methods and avoid inappropriate use and unnecessary work. This is achieved through the identification of the limitations of available research approaches at an early stage of the study. Third, it may also help the researcher to be creative and innovative by either choosing or adapting research methods that are outside the field of the researcher.

There are many philosophical considerations in scientific research and the choice of a particular philosophy represents the intuition of the researcher. Thus, the researcher’s understanding and viewing posture in the world will to larger extent influence his or her choice of philosophy, strategy and methods Saunders et al. (2007, p.101-102). However, the philosophical thinking of any researcher could be viewed from three main ways: Epistemology, ontology and axiology (Ibid). Cohen, Manion & Morrison (2000, p.5) described these as the implicit and the explicit philosophical assumptions underlying social science research. Remenyi, Williams, Money & Swartz (1998, p. 202) referred to epistemology “as the study or a theory of the nature and grounds of knowledge especially with reference to its limits and validity”. This however implies that epistemological thinking relate more with the ability of the researcher to understand the realities and the grounding process of knowledge (Ritchie & Lewis 2003, p.13). An ontological philosophy relates more with the dynamics of social beings. Bryman & Bell (2007, p. 22) and Saunders et al. (2007, p.108) explained that the assumptions of ontological philosophy are that social beings are considered as objective to the social actors and also societal changes are influenced by perceptions and the results of societal actors. Axiology, according Saunders et al. (2007, p.110) concerns more with the perception being held by the researcher about the value of the research results. Therefore, the researcher’s judgments about the state of the results from the research will influence the approach and the methods to be used. Obviously, ontological and axiological mode of thinking explained above have little relationship with the knowledge grounding process of this thesis and therefore the next paragraph would be used to elaborate more on epistemological consideration of this thesis and how it could help achieve the objective of this study.

Epistemology concept has different underlying philosophies which guides researchers in the knowledge grounding process. As explained in my earlier submission, the choice of a particular philosophy is based on the beliefs of the researcher and how the selected philosophy could help the course of achieving the research objective. For instance, Saunders et al., (2007, p. 102) explained that the beliefs of many researchers are grounded in different ways with different posited views about the way knowledge should be developed. However, there are two main viewpoints dominating literature on scientific research. These are positivism and phenomenology otherwise known as non-positivism or interpretivism. These two philosophies are distinct in their knowledge path because of the approaches and the methods used. They are often regarded by researchers as an acceptable method of contributing to the knowledge building process Remenyi et al., (1998, p. 31). It is also believed that the two philosophies are closely related in their application (Paul, 2005; Bryman & Bell 2007; Easterby-Smith et al., 1991, Gratton and Jones, 2010). Perhaps a more convenient approach in understanding the application these two philosophies is to view them as playing complementary functions in the field of scientific research because their roles could be interrelated. For instance, “It is not possible to be an empiricist without having a thorough understanding of the theoretical issues surrounding the subject which will be
studied and about which evidence will be collected” (Remenyi et al., 1998, p.32). Detailed explanation for the two philosophies could be found in the next sub sections (2.2.1 and 2.2.2).

The epistemological consideration for this thesis is phenomenological philosophy (also known as interpretivism or anti-positivism), using qualitative method with inductive approach. The choice of this research conduit invariable is due to the fact that it would help appropriately answer the research question of whether environmental factors and policy framework are supporting or hindering VC investment operations in developing countries with particular emphasis on Ghana’s industry. I am inclined to believe that to provide answer to this question in an industry such as VC will require direct and active interactions with the phenomenon being studied. Therefore, the use of interview and other related pure qualitative data collection methods seems to be the appropriate choice for this thesis. This would also help in understanding the experiences of practitioners in the industry, hence the use of qualitative method with inductive approach for this thesis. The next sub sections would be used to explain the two main philosophies underlying the process of grounding knowledge.

2.3.1 Positivism

Research that deals more with units which could be observed and tested is said to be using a positivist approach. Bryman and Bell (2007: 16) defined positivism in a more technical term as “an epistemological position that advocates the application of the methods of the natural science to the study of social reality and beyond”. In a more general definition, Remenyi et al., (1998. pp.32) stated that “a positivist approach to research implies that the researcher is working with an observable social reality, for which the end product of such research could be the derivation of laws or law-like generalizations. Results from such research philosophy are usually similar to those produce by the physical and natural scientist. They further explained that the underlying effect of positivism is the assumption that the researcher is independent of the subject being studied and therefore has minimal influence on the research results. Here, the implication of this expression is that the researcher will have the freedom to use observable data through a standard procedure to achieve results without personally influencing the result or expressing his biases on the outcome. Positivist approach to research is more inclined with quantifiable measurements through statistical analysis of data.

Saunders et al. (2007, p.103) on the other hand referred to positivism as a research paradigm that could be likened to an objective analyst who makes interpretations about data that have been collected without adding value to its outcome. Clearly speaking, the connotation of this assertion clearly confirms that the positivist mindset to scientific research is more about data that are measurable and observable. Trochim (2006) also deepened this philosophy by expressing that it is the type that rejects ‘metaphysics’. In other word, positivism philosophy rejects any position that holds that the goal of knowledge seeking is simply to describe the phenomena that are experienced without any scientific observations and measurements. One other important aspect of positivism according to Remenyi et al (1998, p.33) is that, there is a higher tendency of falsification of ideas. They pointed out that the focal believe of positivism is the idea of falsification which according them was first introduced by Karl Popper. It however implies that, it is very difficult to determine the amount of evidence deemed to be relevant to draw a possible logical conclusion. Therefore, it is a theory that thrives on proposition which is based on inconclusive evidence that is prone to rejections due to the deducibility possibilities. I found this assertion very contentious and contradictory because positivism has always been touted as having the strength in objective and non-bias interpretation of research findings. This philosophical underpinning does not fit well with this study apparently due its testing and mathematical inclinations.
2.3.2 Phenomenology

The philosophy of phenomenology runs contrary to the positivism that thrives mainly on observable and measurable data in knowledge grounding process. For the phenomenologist, scientific research is simply to describe the phenomenon through experience without any quantifiable observations and measurements (Trochim, 2006). Cohen and Manion (1987 as cited by Remenyi et al., 1998, p. 286) defined the philosophy of phenomenology as “a theoretical point of view that advocates the study of direct experience taken at face value; and one which sees behavior as determined by the phenomena of experience rather by external objective and physically described reality”. The underlying principle of the phenomenology philosophy in research is the utilization of the researcher’s unique experience about the research subject without necessarily applying stringent measurable laws (Remenyi et al., 1998, p. 97). In reality, personal experiences and feelings are considered more reliable in the expression of ideas than mere explanations and interpretations of the observer’s understanding. The complex and unique nature of today’s business environment (e.g., the operations of VCs) makes it extremely difficult to reduce the process of responding to business concerns to a stringent law-like approach. It is the phenomenologist belief that there no ‘fast and hard’ approach in the knowledge grounding process because the world is socially described as constructive and subjective (Ibid).

It is also imperative to explain that phenomenological approach to research comes in different forms and the choice of a particular form will largely depends on the intuition of the researcher. Also, the choice could also be as a result of the social development of the researcher. Thus, where the researcher’s learning experiences are drawn from. These learning experiences are shown in Figure 2.3 representing Kolb’s learning cycle (Kolb & Kolb 2005; Gill & Johnson, 1991).

![Kolb's Learning cycle](image-url)

Figure 1-2: Kolb's Learning cycle. *Source: Atherton (2010)*
Atherton (2010) used the above cycle to suggest that, there are four stages in the learning process of human life and they are presented in a sequential form. The process starts with concrete experience gained through active involvement of an activity followed by reflection on that experience on a personal basis. After reflecting on those experiences, the individual would usually make an abstract conceptualization by derivation of general rules that describes the experience and or the application of known theories to the experience. The final stage of the learning process is the active experimentation of the experience gained by actively designing of ways of transforming the next occurrence of the experience, leading to the next concrete experience. As explained earlier, this process of learning suits phenomenological philosophy due to the active involvement of the researcher in the knowledge acquisition process.

Contributing to this philosophy, Forbes et al. (1999) expressed that the phenomenologist is concerned with establishing and searching for a ‘warranted assertibility’, which has been explained by other authors (Letourneau & Allen, 1999; Philips, 1990 and Crossan, 2003) as evidence with rooted validity and sound proof for the existence of phenomena. Proctor 1998 as cited by Crossan Frank, 2003, suggested that gender and cultural beliefs are the most significant factors that influences reality construction. They recognize the intricate relationship between individual behavior, attitudes, external structures, and socio-cultural issues. Differences between the two philosophies are explained by Easterby-Smith, (2002) in Table 2.1 below.

<table>
<thead>
<tr>
<th>Basic beliefs</th>
<th>Positivist Paradigm</th>
<th>Phenomenological Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The world is external and objective. Observer is independent. Science is value-free.</td>
<td>The world is socially constructed and subjective. Observer is part of what Observed. Science is driven by Human interests.</td>
</tr>
<tr>
<td>Researcher should</td>
<td>Focus on facts. Look for causality and fundamental laws. Reduce phenomenon to simplest elements. Formulate hypotheses and then test them.</td>
<td>Focus on meanings. Try to understand what is happening. Look at the totality of each Situation. Develop ideas through induction from data.</td>
</tr>
<tr>
<td>Preferred methods Include</td>
<td>Develop ideas through induction from data</td>
<td>Using multiple methods to establish different views of phenomena</td>
</tr>
<tr>
<td>Taking large samples</td>
<td></td>
<td>Small samples investigated in depth or over time</td>
</tr>
</tbody>
</table>

Table 2-1 Differences between positivist and phenomenological paradigm. *Source: Easterby-smith et al., 2002.*

**2.4 Research design and method of reasoning**

After careful philosophical setting of this thesis, there is the need to spell out the itinerary for the entire thesis, hence research design. According to Saunders et al., (2000, pp.87), the
theory of any research may not be too prominent in its design but the extent to which the researcher makes his or her intentions known from the beginning of the research. Understandably, effective design of a research process is very paramount to the success of the research. With regards to this thesis, I used qualitative method of data gathering and analysis with inductive approach. The reason for the selection of this research method as explained in the philosophy section, stem from the fact that it provides me the opportunity to have deeper experience and understanding of the challenges facing venture capitalist in Ghana.

2.4.1 Deductive and inductive reasoning

There are two main methods of reasoning: inductive and inductive approach. It is important as a researcher to explain the distinction between these reasoning approaches and the reason for the choice of a particular approach in research at a point in time. However, whichever reasoning approach adopted in research, it is equally reasonable to have a clear conceptual framework upon which the research ideas would be developed. The inductive approach of logical reasoning according to Trochim (2006) begins with a specific observation and measurement of units leading to a broader generalization of ideas and theories. It is an approach of theorizing that generalizes research ideas from the experience of the researcher rather than reflection on theories and concepts (Remenyi et al., 1998 p.105). Gould (1988, p. 22) on the other hand explained that because scientific research is a socially oriented activity, they are usually grounded based on the researcher’s vision and intuition which could be likened to inductive method of reasoning. A contrasting presentation of the two process of reasoning could be found in Figure 2.3 below.

![Diagram of Deductive and Inductive Process of Reasoning](image)

Figure 1-3: Deductive and inductive process of reasoning. *Materials from Trochim, 2006.*

Inductive reasoning by its nature as presented in Figure 2.3 begins with a wider approach where theorizing skills, data collections and analysis techniques allow the researcher to have
a personal experience of the problem area. Indeed, it allows for effective theorizing of ideas after data collection. The main strength of inductive research over deductive according to Saunders et al. (2000, p. 89) is that, it allows for better understanding of the way in which humans interpret their social world.

Deductive reasoning on the other hand approaches knowledge building from a generalization point of view through hypothetical inferences to a more specific theory. It is a counter approach to inductive type of reasoning and it is more associated with positivist philosophy of research. It draws its research approach from the natural sciences where rigorous scientific testing is involved. Hussey and Hussey (1997, p. 52) explained that deductive approach is very popular with research in the natural sciences because “laws are usually the basis of explanations, which permits the anticipation of phenomena, predict their occurrences and therefore allow them to be controlled”. In consonance with the positivist philosophy, deductive style of research advocate for the researcher to be wholly independent of all observations leading to the specific theory. This implies that events leading to the realization of a specific theory could be described as structured (Saunders et al., 2003, p.88). Table 2.2 below lists the main differences deductive and inductive approach.

<table>
<thead>
<tr>
<th>Deductive</th>
<th>Inductive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Need to explain causal relationships between variables</strong></td>
<td>Gaining an understanding of the meanings humans attach to events</td>
</tr>
<tr>
<td><strong>The operationalisation of concepts to ensure clarity of definition</strong></td>
<td>A Close understanding of the research context</td>
</tr>
<tr>
<td><strong>The Collection of quantitative data</strong></td>
<td>The Collection of qualitative data</td>
</tr>
<tr>
<td><strong>Moving from theory to data</strong></td>
<td>Begins from broader observation</td>
</tr>
<tr>
<td><strong>Application of controls to ensure validity of data</strong></td>
<td>The need for trustworthiness</td>
</tr>
<tr>
<td><strong>Highly structured approach</strong></td>
<td>A More flexible structure to permit changes of research emphasis as the research progresses</td>
</tr>
<tr>
<td><strong>Researcher is independence of what is being researched</strong></td>
<td>A Realization that the researcher is part of the research process</td>
</tr>
<tr>
<td><strong>The Necessity to select samples of sufficient size in order to generalize conclusions</strong></td>
<td>Less concern with the need to generalize</td>
</tr>
</tbody>
</table>

Table 2-2: Differences between deductive and inductive approach. *Source: Sounder et al., 2003, p.89*

The choice of inductive approach for this thesis is mainly because it present an appropriate approach in explaining my experience and understanding of the challenges facing VC operators in Ghana. To better explain the challenges of a group such as VC industry would require the expression of personal experiences of the researcher than a mere stringent interpretation of observed data. The use of inductive for thesis is also due to the non-positivist philosophy underpinning this thesis. The next sub section explains the difference between qualitative and quantitative methods in research.
2.5 Differentiating qualitative and quantitative

Although this thesis is based on qualitative research approach, it is academically prudent to put into context the stand points of both approaches. Qualitative research usually adopts the phenomenological approach in conducting research because of its subjectivity in nature whiles quantitative research follows the path of a positivist mindset. Researcher’s choice of any of these approaches could largely be attributed to the knowledge intuition of the researcher. Quantitative research deals with numerical deductions whiles qualitative research approach is usually inclined with open-ended process (Bryman & Bell (2007, p.83)

Bryman and Bell (2007, p. 28) defined quantitative research “as a research strategy that emphasizes quantification in the collection and analysis of data, that entails a deductive approach to the relationship between theory and research, for which the accent is placed on the testing of theories”. Quantitative research could also be referred to as an approach that uses the practices and norms of the natural scientific model with positivist inclination. Qualitative research on the other hand is regarded as a type of scientific research that thrives on facts that could not be easily reduced to numbers (Remenyi et al., 1998, p. 288). Apparently, the process of gathering evidence in qualitative research requires active interaction with the phenomenon and therefore any attempt to reduce its process to numbers will fail. For that reason, the use of qualitative method for this thesis suggests to be an obvious choice due to the possibility of having deeper understanding of the challenges facing VCs in Ghana. Quantitative research method on the other hand was ignored for this thesis due to its mathematical inclinations and rigid measure and interpretations of research evidence. Obviously, this research method would not have given me the opportunity to have deeper interactions with venture capitalist in Ghana because of its rigid application in evidence collection and analysis. It is also worth pointing out that both research methods could be mixed in their application. According to Polgar & Thomas (1995); Fryer (1991), the use of qualitative method in research comes with two advantages especially when dealing with non-numerical data collection and analysis. First, qualitative research approach generates verbal information rather than numerical value. For example, the advantage of hearing the account of venture capitalist in Ghana makes the use of qualitative approach for this thesis a preferable option. Second, qualitative researchers have the benefits to decode, describe, analyze and interpret accurately the phenomena in their natural social form. Because this thesis is qualitative bias, I will use the next sub section to explain available research approaches for qualitative method and the reasons for my choice of a particular approach.

2.6 Qualitative research approaches

For the purpose of establishing clear research strategy for this thesis, I will want to explain in detail available research approaches under qualitative method. Although there are many research approaches under both quantitative and qualitative the choice of a particular strategy will largely depend on the problem area of the research, the research question and the aim of the research (Poggenpoel, Myburgh & Van DerLinde, 1999, p. 308; Saunders et al., 2007, p.135). It is also important to emphasize that among the driving factors enumerated above most researchers would usually consider a research approach that has the ability to answer the research question(s). Qualitative research could take any of the following main approaches: case study, ethnography, grounded theory, Phenomenology and narrative research Creswell (2003, p.14)
2.6.1 Ethnography

This type of qualitative research has the life of a group as the focal point and usually requires the active association of the researcher with the group being studied for a long period of time to have the experience and understanding of the phenomenon (Ritchie & Lewis, 2003, p.8; Remenyi et al., 1998, p.51). Data for ethnographic research are usually by observation with subjective interpretations (Creswell, 1994, p.11). It has the advantage of giving the researcher the needed flexibility to change due to the peculiarity of the subject area. It is also highly impossible to replicate findings from ethnographic research because of the uniqueness of the phenomenon being studied. I did not consider ethnographic research approach for this thesis due to its excessive time demands and non-replicability in nature.

2.6.2 Grounded theory

Grounded theory is a qualitative research approach where the researcher uses interactive processes to develop new theory (Strauss and Corbin, 1990, p.24) defined it as “a qualitative method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon”. It concerns more with the development of an idea or a concept that has not been discovered by any author. The process involves meticulous approach to research where constant interactions and comparison of research data with changes in the subject area of the research. Obviously, because the purpose of this thesis is to contribute to existing theories of VC, I declined using grounded theory.

2.6.3 Phenomenology

Phenomenology as a qualitative research approach thrives on human experiences and therefore the process requires a careful identification and selection of respondents who have lived the experience (Creswell, 2003, p.15). With this approach, it is usually important for the researcher to be fully involved in the activities of the research subjects in order to have full understanding of their experiences. An example of phenomenology approach is a research about war crimes where victims are interviewed and asked to narrate their experiences. Although this research approach is similar to case study, it is not suitable for this thesis because the time frame for this thesis would not allow for my full involvement of the activities of VCs in Ghana for a long period.

2.6.4 Narrative

This approach relates more to the study about the lives of individuals to get detailed insight into events that have characterized their personal development. This research approach requires representation rather than reproduction which is synonymous with other approaches because presentation of fact is done in a form of storytelling. As Creswell (2003, p. 15) put it “the information is retold or restoried by the researcher into a narrative chronology”. Some of the difficulties with this approach are that the researcher is required to have broader and historical knowledge about the subject area to be able represent accurate findings. Again, this approach is not suitable for my thesis because I intent to investigate activities of an industry for which I have never being part of its development.

2.6.5 Case study

Gillham (2000, p.1) broadly defined case study research as the “one which investigate an individual, a group, an institution or a community to answer specific research question(s) and which seek a different kinds of evidence, evidence which is there in the case setting, and
which has to be abstracted and collated to get the best possible answers to the research questions”. To achieve appropriate result for a case study, it is important for the researcher to have a focus on a single entity to avoid dilution problems with multiple cases of study. The benefit of flexibility in the research process and the opportunity to have detailed interaction of the subject area makes the use of case study in qualitative research more advantageous over other approaches (Remenyi et al., 1998, p. 51). A case study about a community could also mean a study about a town or an industry because the entities within them share common similarities. This thesis uses a single case study approach of qualitative research because the phenomenon being studied share common peculiarities. It would also help limit the research question to the challenges in Ghana’s VC industry and therefore the problem of possible dilution as explained earlier is properly addressed.

2.7 Research process

Research process represents various stages and activities which are on the research path. In other words, it represents the outline of the whole research from the statement of the problem to the conclusion. However, the process may differ depending on the method adopted for each qualitative study. In relation to the method adopted for this thesis, I will place more emphasis on explaining the process of qualitative method with single case study approach. Figure 2.5 below shows the processes of qualitative research as adopted from Bryman & Bell (2007). It is also important for readers to understand that the process may differ depending on the approach used.

Figure 1-4 Modified qualitative research process. Source: Bryman & Bell, 2007.
With qualitative research, the first stage is to translate concepts and ideas conceived into research question(s) with subsequent stages that continues to the final stage where conclusions are drawn from the evidence collected. The first stage could be described as the focal point because it is very critical to the entire research process. Stating a clear research question will help in better development of the whole research process and also help in setting out the research goal. Marion (2004) explained that a research question depicts progression from the known to the unknown destination. Other qualitative research may differ depending on the subject area because this process was designed based on a specific case study. Apparently, the processes shown in Figure 2.4 represent the research path of this thesis. The subsequent sub section would explain the literature review process and available sources of literature.

2.8 Literature review process

Levy and Ellis (2006, p.2) defined literature review as “sequential steps to collect, know, comprehend, apply, analyze, synthesize, and evaluate quality literature in order to provide a firm foundation to a research”. They further described effective literature review as a three-fold step that involves input, processing and output (see Figure 3.1 below).

![Figure 1-5 Stages of effective literature review process. Source: Levy & Ellis, 2006, p. 182.](image)

The input stage relates to the process of gathering relevant literature that will appropriately answer the research question(s). For that matter, when discussing the inputs part of a literature review process, it is very important to know the choice of a literature source. Literature could be sourced from three main areas: primary, secondary and tertiary. Saunders et al. (2007, p.64) explained that these three sources represent the flow of information from the original source (primary) through to the tertiary source where information becomes less detail and authoritative but more accessible (pp.64). These three sources of literature and their detailed inputs are presented in Figure 2.6. The primary source represents both published and unpublished materials. They could also be referred to as materials used in preparing these published and unpublished documents. Saunders et al.(2007) referred to primary sources as the grey literature because they are the untapped source of any piece of work. Secondary source on the other hand represent published materials that relied on primary sources. Per their usage, they are easier to locate than the primary source because of its availability. Lastly, tertiary source refers to materials that aid in finding primary and secondary materials.
Literature for this thesis were sourced from secondary sources. The use of books and academic journals through the Umea University library database constituted two main secondary literature sources for thesis. More specifically, I sourced most academic articles through database such as Business Source Premier (EBSCO), Emerald Fulltext, ScienceDirect Economics, Informaworld SSH and Wiley Interscience provided by Umea University Library.

The processing part of an effective literature review (see Figure 2.5) could be referred as the ‘operation room’ of the process. After literature have been identified and selected from the sources mentioned, the next stage is to process them through analytical review to produce data that could be relied on by other researchers. Levy and Ellis (2006) explained that, the exercise of processing literature is a cognitive one and therefore requires thorough reading to understand the stance of the author. Adequate knowledge in the said literature under review would also help the reviewer’s ability to comprehend the logic put forward by the writer. After painstaking comprehension and subsequent evaluation to know the strengths and weaknesses, then comes the output stage where findings of critically analyzed literature are produced.

**Figure 1-6 Sources of literature.**  
*Source: Sounders et al., 2007.*
Chapter 3: The Concept of Venture Capital

3.1 Introduction
This chapter is specifically for providing basic explanation on the concept of VC. It is segmented into four main subsections; meaning of VC, explanations on VC characteristics, VC investment process and investment & financing stages of a venture. The difference between VC and PE is briefly explained with more emphasis on PE qualities.

3.2 Meaning of Venture Capital
Definitions for VC abound due to the surging public interest in the industry. It is important to emphasize that differences in definitions represent the investment posture of authors and to a larger extent their economic orientations. The following definitions represent view points of two authors:

Wright & Robbie (1997, p. xiii) broadly defined the concept of VC “as the investment by professional investors of long-term, risk equity finance where the primary reward is the eventual gain, rather than interest income or dividend yield”. On the other hand, Cumming & MacIntosh (2001, p. 1), defined VC as “financial intermediaries (in essence a kind of specialized mutual fund) which receive capital contributions from institutional investors or high net worth individuals across the economic spectrum, and invest the pooled deposits in small, private and mainly high technology businesses or entrepreneurial firms with potentially high growth”. Although these authors view the concept of VC from different perspectives, their definitions points to a common investment orientation; equity investments in growth potential but highly risky firms. In short, the concept thrives on investors desire to assume higher degree of risk in anticipation of a higher investment returns (Hill & Power, 2001, p.1). Venture capitalist usually operate as financial intermediary between investors who are suppliers of capital on one hand, and investee companies who are recipients of risk capital on another hand(Coyle, 2000, p. 14).

Given the above definitions, VC organization could be grouped into three main categories, although other authors (e.g., Coyle, 2000) suggested it to be five. These are: independents, captives and semi-captives. Independent VC organizations represent firms with diluted ownership making no single investor a majority shareholder (EVCA, 2007, p. 12; Coyle, 2000, p.15). With this type of VC organization, investment resources are usually sourced from varied investors and it stands out as the most popular among all VC organizations. Captive VC organizations are firms that are established by parent company and also draw its investment resources from that organization (Isaksson, 2006, p. 22). Semi-captive VC organizations are firms wholly established by a single company but with significant amount of its funds being sourced through third part investors (EVCA, 2007, p.12). Subsequent subsection explains the characteristics of VC concept.

3.3 Characteristics of venture capital concept
The above definitions and organizational characteristics apparently confirm my earlier assertion that differences in the understanding of VC concept could either be the result of author’s investment mindset or economic environment influence. However, they all reveal
key characteristics of VCs that need to be carefully discussed. Accordingly, VC investments are usually in a highly potential growth firms; the firms are highly risky type; most of the investee firms are unquoted; assist management with expertise and strategic guidance; a class of investment with a finite life; anticipation of annualized returns (Pike & Neale (2003)). Below are explanations to key characteristics of the concept of VC investment.

3.3.1 Finance of risky ventures and higher investment returns
As widely explained by various authors, VC investments are usually into highly risky business ventures due to their preference for small cap and unquoted firms. It is a general conception that investments into such ventures have the possibility of recording 100% investment loss. Understandably, targeted firms for VC investment are usually ventures without significant operational history. For that reason, VC investors unlike other traditional investors have higher expectant investment returns in capital gains as compensation for the risk assumed (Fuerst & Geiger, 2003, p. 194). The average VC investment has the potential of reaping investment returns of between 25 to 35 percent (Randjelovic, 2001, p.17).

3.3.2 Provision of equity capital and minority interest
Investments from VCs are usually in a form of an equity or quasi-equity capital to investee firms. Unlike traditional investors such as debt financiers, investments from venture capitalists are usually in a form of ordinary or preference share with convertibility options attached (Fuerst & Geiger, 2003, p. 194). Although venture capitalists provide the needed financial and management resources for value added investment, the independence of their investee firms are always maintained (Duffner, 2003, p.18). For that matter, venture capitalists usually remain minority shareholders in all respective investee firms.

3.3.3 Management support and monitoring
The nature of VC concept could easily be likened to the operations of any financial institution (e.g., bank). However, Gladstone & Gladstone (2002) in their VC handbook pointed out that the uniqueness of VC companies from other financial institutions is the provision of management support to investee firms. VC companies are more involved in the operations of their investee firms and therefore the whole VC concept dwells more on provision of financial and managerial support. Investee firms are usually supported in areas such as structures for modern business practices, key personnel recruitment and training services to ensure efficient investment thereby increasing the value of investee firms. In reality, venture capitalist could be described as active investors who ensure that their investee firms operate according to agreed investment plans through effective monitoring.

3.3.4 Limited time horizon and longer Investment process
VC investment has a unique characteristic of a definite investment time horizon usually longer period. In essence, venture capitalists have a predetermined time of investment exit. The average periods of VC investments usually last between 5 to 10 years after which they harvest their investment through convenient exit routes (Cardis, Kirschner, Richelson, Kirschner & Richelson, 2001, p. 14). This delimits VC investment from normal equity financing where investment periods are unlimited. The investment process for VCs also takes a longer period compared with other financiers due to the unique scrutiny of the process for risk reduction purposes (Fuerst & Geiger, 2003, p. 194).
3.4 Venture capital investment process

Venture capital process refers to the investment process of a given VC company. It starts from the fund raising stage to the points where investments are harvested. This subsection would be mainly used for providing brief explanation on the investment process of the VC. A standard venture capital process (see Figure 3.1) usually follows a sequential five (5) step approach (Tyebjee and Bruno, 1984; Isaksson, 2006). These are:

*Fund establishment* represent a stage where the venture capitalist set out the firm’s investment objectives with clear-cut potential investment activity path and finally gather the needed funds to see through those objectives.

*Deal flow* also represents a stage where VC firms uses various prospecting tools to identify and select firms with higher growth potential.

<table>
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<tr>
<th>1. Establish fund</th>
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<tr>
<td>• Determine investment objectives</td>
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<td>• Raise capital for investment</td>
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<td>2. Deal flow</td>
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<td>• Opportunity creating activities (venture base)</td>
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<td>• Recognise and Identify entrepreneurial opportunities</td>
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<td>3. Investment decision</td>
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<td>• Screen and evaluate deals</td>
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<td>• Select/ deselect deals</td>
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<td>• Valuate and negotiate structure deals</td>
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<tr>
<td>4. Monitoring/ value adding</td>
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<tr>
<td>• Strategy development</td>
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<tr>
<td>• Active board membership</td>
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<tr>
<td>• Outside expertise</td>
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<tr>
<td>• Other stake holders, management</td>
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<tr>
<td>• Contact and access to info, people, institutions</td>
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<tr>
<td>• Staging and syndicating investment</td>
</tr>
<tr>
<td>5. Craft and executing exit strategies</td>
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Figure 3-1 Venture capital Investment process. *Source: Isaksson, 2006, p.43*

*Investment decision stage* consists of activities such as evaluations of investment deals received through screening, valuation, contracting issues and financial structuring. According to Tyebjee and Bruno, (1984), activities at this stage require more time and industry experience to reduce the risk associated with VC investments.

*Monitoring and value adding* stage relates to activities and programs that ensure that the investee firm’s business operations are run in line with the investment objective and the activity path set out by the VC firm.
Crafting and execution of exit strategies are done at the final stage to ensure that venture capitalists conveniently utilize available exit options such as issuing of initial public offering (IPOs) to harvest their investment in the investee firm (see figure 3-2). Crafting and executing successful exit strategies requires meticulous investment planning before exit date.

3.5 Venture capital financing stages

There are various developmental stages of an investee firms that a VC firm may choose to invest. Authors on this subject vary in opinion which might be as a result of differences in economic environment. For example Cowie (1999, p. 9) stated that VCs in USA does not include buy out deals. He emphasized that VC financing comprises of four main stages: early stage, expansion, replacement and buy-out. Contrary, other authors (e.g., Sahlman, 1990, Ogden et al., 2003, p.360) believe that the financing stages are more than those expressed by the earlier author. Appendix 2 presents elaborate developmental and financing stages that are available for VC investment. The appendix also list activities, duration and the type of funding an entrepreneur will seek at each stage. It is also important to emphasis that the choice of a particular stage for investment by VCs may be due to so many factors. One of such factors for staging decision (Gompers and Lerner 1999, p.; Li, 2008) is the agency cost of their investment. This is largely due to the fact that VCs are said be more concerned with the excessive private benefits of entrepreneurs as against shareholders (Gompers and Lerner (1999, p.139). The subsequent paragraphs provide brief explanations for the developmental and financing stages available for VC investments (see Appendix 2 detailed explanation).

Seed stage is where the entrepreneur conceptualizes and develops his or her vision for the venture. As presented by Ogden et al. (2003) in Appendix 2, the entrepreneurs expend a great deal of time at this stage but with less capital injection because actual business production

![Figure 3-2 Venture capital possible exit routes. Source: Coyle, 2000, p. 22.](image-url)
does not take place at this stage. Financing is mainly supported by the entrepreneur and other business angels.

Start-up stage begins only when the seed stage has been successful. Main activities at this stage include prototype testing; assemble of management team, and the development of the business vision conceived at the seed stage among others (Sahlman (1990). Commercial manufacturing does not start at this stage and funds needed at this stage are much deeper than the seed stage due to much heavier work load. Financing usually comes from business angels and VC companies.

Early development stage has been described as the first stage of investment because it follows after various product development, market testing and prototype have all been proven successful (Sahlman 1990). More funds are needed at this stage because the venture needs adequate capital injections to secure Property Plant & Equipments (PP&E) for the commencement of commercial manufacturing of products for onwards sale. Providers of capital at this are usually Business angels, VCs and government according to Ogden et al. (2003).

Expansion stage is also referred to as the second stage of the development of a venture where products have proven to be viable as results of positive feedback from customers. As results, more working capital is needed to see through the expansion of more product lines. Stillman, (2006) also intimated that the venture at this stage has not made profit yet but mainly adopt effective cost minimization operations to brake-even. Financiers at this stage are usually banks, VCs and government. Business angels are usually not tasked at this stage due to the quantum of capital requirement.

Profitable but cash poor stage represents the third level where the venture has seen tremendous growth in sale values and these values have been translated into huge profit margins. However, the venture at this stage is regarded as cash poor because cash flow generated from operations could not satisfy huge capital requirement for rapid expansion (Sahlman, 1990). Financiers at this stage are VCs, banks and to a small extent, retained earnings.

Rapid growth stage is the fourth on the investment and financing ladder where the venture’s marketing strategy is redefined because substantial growth have been achieved. The venture’s default risk is regarded to be much reduced because of sustainable growth and higher profit margin achieved at this stage. The venture would still require funds to maintain the growth levels form usually VCs and banks.

Mezzanine or bridge stage is explained to be a point where the venture’s exit timing is known and therefore any funding at this stage are strategically assumed to ensure successful exiting where proceeds from it could be used to pay back loan (Stillman, 2006). Outside sources of funding at this stage usually come from VCs and banks.

Harvest or exit stage is the point in the life of a venture where venture capitalists finally liquidate their investments in the investee firm for cash. The process could take a form of the venture issuing an IPO, acquisition, and leverage buyouts (Sahlman, 1990)
3.6 Venture capital versus private equity

It has become very common to read in many literature the interchanging use of the word VC and PE and therefore it is imperative to explain the concept of PE investment because distinction between the two concepts is blurry according to Arnold (2008, p. G23). Arnold simply defined PE “as a share capital invested in companies not quoted on an exchange”. Others (EVCA, 2007, p.; Isaksson, 2006, p.) have all described VC as a subset of PE and this leaves the distinction between the two more muddled. However, Mardle (2009) used the following three parameters to distinguish between the two:

3.6.1 Type of investee firm

He explained that, PEs will be attracted to invest in firms that would afford them the opportunity to leverage their investments with the intention to use the cash flow generated by the investee firm to deleverage the investment. Therefore, PE investors’ choice of an investee firm is strongly motivated by the firm’s ability generate enough cash flow whiles VC firms will invest in firms that holds potential for rapid growth in their business operations.

3.6.2 Use of proceeds by investee firms

Another trait that distinguishes the two is the usage of investment returns. He explained that, PE investment returns are usually paid back to the owners of the investee firms in a form of share purchase reward. On the other hand, investment proceed from VC investment are retained by the investee firms because of constant demand for working capital which makes excess liquidity in investee firms very scarce.

3.6.3 Type of risk

Finally, although they all assume an amount of risk, the level of risk facing each investor is very different. The risk associated with PE investment is comparatively higher than VC investment. Apparently, VC investors adopt more risk mitigating policies to protect their expected investment returns than the PE investor.

Myatt (2006) also explained that the differences between the two could be technically correct due to historical perspective of the two concepts. However, the current trends of ever present competition in the financial markets and more active capital markets have made the operations of the two converge. It is believed that the current state of capital is such that, there is excess supply of capital relative to its demand for equity. This therefore put undue pressure on the limited equity deals available. For this thesis, the same meaning would be applied to two concepts.
Chapter 4: Theoretical Framework

4.1 Introduction
This exercise however requires careful selection and analysis of literature that would help answer the research question of finding out whether environmental and policy framework are supporting or hindering investment operations of venture capitalists in Ghana. Authors including Saunders et al., 2007; Bourner, 1996; Bryman & Bell, 2007 have all expressed the importance of empirical review in the entire research process. Bryman and Bell (2007, p. 94) for example, expressed that the exercise of reviewing literature provides the grounds for justifying the researcher's questions and building the research design. This subsequently sets the stage for effective data collection process. Saunders et al., (2007, p. 57) also explained that literature review helps build the researchers understanding and insight into relevant previous studies and the trend that has emerged. The main goal of reviewing past literature is to identify knowledge gaps, which will form the basis for collecting relevant data that will respond very well to the appropriate research question(s). This chapter is segmented into three main subsections. The first subsection below provides basic understanding about the developing economy market, the second follows with the main literature review modeled for designing questions for data collections, and the chapter ends with a summary of the literature reviewed.

4.2 Developing economy
World Bank classified developing economies as countries with low and middle income levels. Thus countries with Gross National Income (GNI) of $995 or less are generally classified as low income economies (World Bank, 2010). This clearly shows that the base performance measure of any economy is the general economic output of the country. The levels of economic output within a country are partly influenced by general indices such as inflationary rate, unemployment rate, stock market prices, and money market changes. However, in a more practical perspective, developing economies are more associated with poor standard of living. Standard of living for developing nations is relatively lower compared with the developed world. Below are general indicators of standard of living among developing nations:

**Gross Domestic Product - Per Capita Income (GDP-PCI)** - GDP-PCI signifies income per each individual within a particular country. It is measured based on economic wealth spread over population in a particular country. For developing economies, GDP-PCI is usually low due to low economic productivity and relatively higher population. According to an IMF report (2009), per capita income in developing countries is very low despite improvements in macroeconomic fronts. Low GDP-PCI usually translates into poor standard of living among citizens in developing countries due to their inability to earn sustainable income.

**High levels of poverty** - World Bank (2010b) categorized people living in extreme poverty as those with an average daily consumption of $1.25 or less. People in this category are more dominant in developing economies than the developed world. It is estimated that more than one billion people in developing countries are living in abject poverty (World Bank, 1990, p.1). Interestingly, majority of these countries could be found in Sub-Sahara Africa and Southern Asia (World Bank, 2001, p.4), and this seriously affect the living standards of individuals caught in this menace.
Life expectancy- It is another form of assessing the living standards of a particular group of people. The average life span of a new born child is usually used as the base measure of life expectancy. For example, life expectancy for individuals in the US is estimated to be 77.9 years while that of Ghana considered being 58 years (Xu, Kochanek, Murphy & Tejada-Vera, 2010, p.1). Issues such as child mortality diseases and poor health care are key factors that reduce life expectancy (Rosenberg, 2010). A report by UNIEF (2010) indicated that child birth deaths are much higher in the developing countries than the developed world, and this is mainly due to poor health care and child birth-diseases. The culminating effect of higher mortality rate among children is that it reduces the standard of living for such countries.

High rates of unemployment- Higher rate of unemployment also contributes to lower standards of living among developing countries. Unemployment simply represents total number of employable people who could not find jobs. Developing nations do suffer higher unemployment rates partly due to their over reliance on imported technology from developed world and low productivity. Jobs creations in developing countries are usually low due to limited support for entrepreneurial activities hence low economic productivity. More so, higher unemployment in developing nations could also be as a results low literacy among citizenry and to a larger extent over-population.

3.2.1 Performance of venture capitalist in developing economies
Venture capitalists operating within political boundaries with unfavorable economic indices aforementioned are deemed to be operating in developing economy and are considered in the larger frame of this thesis. Literature about the development of VC market in developing economies speaks of direct involvement of government and other developing partners such as IMF and the World Bank (Dossani & Kenney, 2002; Avnimelech & Teubal, 2002). Latest industry report about the performance of market in these economies speaks of increasing market yields despite recent financial crisis experienced (Johnson, 2010). His report revealed interesting statistics about a record high of VC (PE) investments representing 26% of the total investment in developing market funds in 2009. A survey by Coller Capital in collaboration with Emerging Market Private Equity Association (Coller/EMPEA 2010) also points to a heartwarming statistics about growing investors’ confidence in the activities of VC (PEs) in developing markets. For instance, highlights of the survey explains that about 70% of investors are either satisfied or very satisfied with the performance of their emerging market PE portfolio relative to their listed equities in these markets (Coller/EMPEA 2010, p.3). The survey again pointed to an overwhelming investors’ growth expectations of 11-12% which is far higher that their current expectation. Furthermore, performances of VC-backed ventures are reported to be performing better than non-VC-backed firms in Nigeria (Dagogo & Ollor, 2009, p.37). These statistics point to nothing but an obvious positive prospect of VC investment in developing economies. Despite these interesting statistics, challenges such as ineffective legal environment and lack of institutional support for VCs still exist in the developing world (Ribeiro & Carvalho, 2008; Scheela & Dinh, 2004). Challenges of these kinds are what policy makers urgently need to address the aforementioned prospects. The next subsection is the main literature review of this thesis with seven key policy factors.

4.3 Review of selected literature
The nagging question facing many development economies is how to develop alternative financing to provide financial backbone for entrepreneurial and industrial activities.
Answers to this question could be found in factors that promotes effective development of a VC industry. These factors are: efficient legal systems in a given environment, clear-cut policy and regulatory framework from policy makers, tax incentive schemes, less bureaucratic business environment, adequate funding, better entrepreneurial orientation and academic support for research activities. A systematic review of relevant literature on these factors is what this subsection all about. These policy factors represent the main model for data collection and analysis in answering the research question of thesis. Below are systematic reviews of relevant literature on all the seven policy factors.

4.3.1 Entrepreneur orientation and risk taking attitude

Evidence of positive relationship between entrepreneurial propensity and economic development abound in various literature (Wennekers, van Stel, Carree & Thurik, 2010, p. 3; Sobel, Clark & Lee, 2007; Koellinger 2008). The need to stimulate entrepreneurial risk taking instincts for economic development has also received extensive research coverage. One way of stimulating entrepreneurial risk-taking attitude is through creation of enabling environment by policy-makers. It is generally believed that environmental and culture context within which entrepreneurs initiate and implement their business concepts are very crucial for the success or otherwise of their business (Thompson, 2010, p. 60; Shane, 2003). The apparent motivation being that, entrepreneurs are widely considered as the driving force for economic development through job and wealth creation. Therefore, it is imperative to understand their orientation because entrepreneurial risk-taking instincts could be partly influenced by their orientation.

The process of entrepreneurial orientation could be viewed from different perspectives. Risk-taking instincts, innovative intuition and proactiveness are widely regarded by authors as the main grounds through which entrepreneurs are oriented (Lindsay, 2004, p.197; Krauss, Frese, Friedrich, & Unger, 2005, p. 317; Covin & Slevin, 1991). For instance, Krauss et al. (2005, p. 321) explained that business creation which is the hallmark of entrepreneurs requires daring into unknown business fields which comes with errors and the risk of failure. Therefore, it would take entrepreneurs who are positively oriented towards risks to be successful in such challenging and inevitable business environment. They further stressed that the relationship between risk-taking and success is not yet established but successful entrepreneurs are deemed to have taken calculated risks. Examples of such class of people are business angels and venture capitalist who invest in highly risky enterprises with no operational history (Parhankangas & Hellström, 2007, p.183). Lindsay (2004, p. 200) defined proactive entrepreneurial orientation as any business activity which “is an opportunity seeking, forward-looking perspective that involves introducing new products/services and acting in anticipation of future demand”. Here, entrepreneurial success presumably hinges on their ability to take personal initiatives that sometimes depart from the normal construct of societal settings. Success in business adventures however requires persevering and ‘beyond obstacle’ entrepreneurs, therefore, proactiveness is critical for entrepreneurial orientation. Finally, innovative entrepreneurial orientation refers to the development of creative and initiative intuitions to be able to explore new business opportunities. (Rauch, Wiklund, Lumpkin & Frese, (2009, p. 763). An entrepreneur’s ability to create or initiate business product/service is a partial guarantee for business success. Apparently, an innovative orientation prepares an entrepreneur to positive approach in the development of business ideas which usually lead to business success.

All these entrepreneurial orientation components are intuitively interconnected for greater entrepreneurial activities (Krauss et al., p.322). Being innovative requires some amount of
risk-taking instincts, whiles to be proactive in business also requires innovative thinking and risk-taking attitude. They all work for an effective entrepreneurial construct which leads to positive firm performance (Rauch, et al., p.778), hence overall economic growth. What is important here is the creation of the needed enabling environment for the three orientation components to converge for greater entrepreneurial propensity to provide investment market for capital venturing.

4.3.2 Tax incentive schemes

Provision of attractive policies for effective capital venturing has become an issue of necessity for the development of viable VC industry. Tax incentive for investors, VC firms and investee firms has become a major pull policy for the development of the industry in many countries. Tax incentive could be for the reduction of R&D cost for VCs (Freed, 1997), tax breaks for Investors and total reliefs for new firms in the industry for specific period of time. It has also been argued that tax incentive has become very important tool to overcome barriers to unquoted firms financing (Mason & Harrison, 2002, p.272). It is therefore imperative to critically review the need for this policy and how effectively it could be designed and applied for greater benefit of key stakeholders in the VC industry. Mason (2009) assessed changes that have occurred to government policy interventions and how their effectiveness in addressing investment concerns of VCs. Key policy intervention according to the author is tax incentive for investors and business angels. Tax incentive for VC investment are usually designed to cater for various activities which includes: tax relief on the amount invested, exemption of capital gains from tax, tax deduction for losses, and writing-off or rolling-over capital losses(Mason 2009, p. 541). However, the causal effect of this incentive on the investment decisions of traditional investors and business angels is mixed. While traditional investors view the tax incentives as having significant influence on their investment decisions, business angels view it to the contrary. For instance, Mason, 2009, p.541), stated that “Business angels claim not to take the availability of tax incentives into account when evaluating specific investments. Rather, the effect of tax incentives influences the proportion of their overall investment portfolio that are allocated to investments in unquoted companies”. This clearly underscores the need to carefully structure these incentives in order not to attract ‘dump money’ (Ibid) from investors since most investors are ‘passive’ who do not take keen interest in the management of their investee firms. Another study by (Månsson, & Landström (2006) intimated the need for tax related policies to create conducive investment atmosphere for investors in Sweden. According the authors, although there were no specific tax incentive schemes for investors, various forms of changes in taxations by the Swedish government within the period of their study significantly influenced equity financing (Månsson & Landström, 2006 p. 284).

Specific government policy intervention in different countries concerning tax incentive for VC investment speaks of a very encouraging trend. The Chinese government, for example, is reported to have instituted a complete tax incentive package to boost VC investment in the High-Tech sector (Qingsong, Orrick, & Sutcliffe, 2007). This policy, according to the authors was aimed at propelling the Chinese economy through innovation and technology. The Australian government reported to have used tax related policies as an incentive for the support of investment activities in the country (Freed, 1997). The scheme, according Freed was designed specifically to reduce investment cost in industrial R&D in order to identify profitable investment opportunities for VC and other likewise investments. Similar policy intervention by the Canadian government for the support capital venturing makes the list endless. A report on entrepreneur financing in Canada by Cumming (2007) reveals deliberate
effort by the Canadian government to induce retail investment (individual investment) to government backed VC investment fund. This policy was initiated at the expense of institutional investors and private VC firms to create wealth for local individual investors and also to reduce excessive control over fund managers which is synonymous with institutional investors (Cumming, 2007, p. 3). The success or otherwise of these policies are not issues for review at this moment, but the intent of governments to encourage VC investments through tax schemes is the focus of my analysis. Obviously, the influence of these aforementioned policy interventions underpins the importance of tax incentives for effective capital venturing.

4.3.3 Support from research institutions
The importance of Research and Development (R&D) for economic development is a widely held belief among framers of economic policies. Support for R&D activities is believed to be a recipe for economic development through stimulation of innovation spirit among entrepreneurs. Matured economies in the world are credited with active supports by their respective government in creating enthusiastic spirit in R&D. The need for government to energize R&D atmosphere for greater VC propensity has also received extensive research by authors in the VC industry. A study into the upsurge of business innovation in China by Zhang, Cooke and Wu (2010) revealed concerted effort by the Chinese government to stimulate R&D activities in the area of bio-technology. The Chinese government is reported to have spent over $136 billion in R&D activities during 2006 fiscal year which is second to the US in R&D investment in the world (Zhang, et al., (2010, p. 5). The benefits of this effort according to the authors are: first, the Chinese economy has grown from being a simple labor-intensive economy to knowledge base investment economy. Second, China is gradually becoming major exporter of product and services in the world due to the ever increasing demand for Chinese product in the world market. Hearn, Cunningham & Ordoñez, (2004) also explored the ever increasing need for academic research due to dynamic business factors. The surge for utilization of research products by business and social entities has called for the commercialization of output from the universities according to the authors. The thought of research commercialization would however require financial resources from government and allied institutions due to its capital intensive in nature. The far-reaching benefits from the commercialization of these products according to the authors, far outweighs its associated costs. They enumerated the following benefit: first, it would enhance the possibility of creating the enabling structures for firms to attract external funding from investors, second, the risk associated with SMEs would be much reduced due to the expert inputs from universities; third, it would lead to the creation of jobs in the economy through stimulation of entrepreneurial activities by research activities, finally, the benefits of generating wealth for the economy through taxes would revitalize entrepreneurial activities. The essence of analyzing these benefits from commercialized outputs of universities is to clamor the need for government funded research support for entrepreneurial propensity.

Contrary to the aforementioned benefits of R&D programs, there are also many misguided public support for R&D activities that have turned up to be counterproductive for their intended purpose. Freed (1997) studied the causal relationship between generic financial supports for industrial R&D and the levels of economic activities (to larger extent activities of venture capitalist) in Australia. The Australian government’s financial support for research activities was described by Freed as generic tax incentives for enterprises that make investments in R&D. Besides generic government support for industrial R&D, the author reported rising corporate funded industrial R&D activities (Freed 1997, p. 211). However, the
program failed to have the desired impact on VCs and other private enterprises because it lacked focus in its application. The author identified two problems with the designing and implementation of the R&D support program. First, the Australian R&D program was said to be more focused on the public sector as against private enterprises more especially VC firms. Second, the expected benefits of the industrial R&D support to VCs in Australia were reported negligible due to the non-industry specific nature of the policy. Due to these challenges with the generic R&D support for enterprises in Australia, it is suggested that R&D support for economic development must be industry specific to enhance easy identification of investment potentials VC firms and alike.

4.3.4 Bureaucracy

The negative effects of bureaucratic tendencies on economic development are enormous. Undue delays in the registration of businesses and widespread operational bottlenecks are believed to be synonymous with business operations in developing countries. However, the effect of these bureaucratic practices on VC investments is twofold; positives and negatives. It is believed that bureaucracy in VC investment process allows for the reduction of inherent risks through due diligence which could be considered as part of the positives. Negative effects could be found in higher costs in VCs entry and exit, higher cost through corrupt practices and other indirect cost. Review for this subsection will focus on negative effects of bureaucracy on VC investments. A study by Ribeiro & Carvalho, (2008) into the Brazilian VC industry revealed examples of bureaucratic effects on VC Investment. According the authors, the Brazilian business environment is endemic with severe bureaucratic obstacles in the areas of: opening a business, obtaining construction licenses, filling of tax returns as well as exporting and importing of goods are severely delayed by bureaucratic obstacles. It is important to understand that excessive delays in business processes breeds to corruption and stagnation of economic development. It is a common knowledge that countries where corruption is very high, cost of business operation invariably becomes very high. The effect of these bureaucratic costs to SMEs is that they become non-attractive for VC investment because of direct and indirect cost to their operations (Ribeiro & Carvalho, 2008, p. 114). VC investment in general is a cost conscious investment operation and therefore investors would always want to avoid business environment where cost driven tendencies such as bureaucracy are rampant.

It is also important to explain that bureaucratic problems in VC investment are as not only restricted to the developing world. Advanced economies do have their share of the problem in excessive regulations. A report by Stodell (2009, p.28) on VC industry in the UK reveals incessant complaints from players in the industry about excessive regulation introduced by the UK government. According to the report, VC firms in UK view this form of bureaucratic tendencies in government regulations as making investors in the UK less competitive in the regional VC market. This obviously demonstrates that, when dealing with concerns about bureaucratic challenges on VC investment, the focal point should be on policies and regulations prevailing in a particular industry rather than economic development perspective. The difference with regards to bureaucracy in advanced and developing economies is that, whiles VC firms in the developed economies are confronted with bureaucratic tendencies in excessive regulations (Stodell (2009, p.28), investments in the developing world on the other hand are faced with bureaucratic costs in corruption and other indirect costs (Ribeiro & Carvalho, 2008, p. 114).
Another aspect of the problem of bureaucracy is its effect on effective grooming of entrepreneurs. A survey by Sørensen (2005) into entrepreneurial transition in Denmark revealed strong effect of large firms on entrepreneurial grooming. He emphasized that, individuals whose career orientation begins with large firms where bureaucracy is prevalent usually ends up not being entrepreneurs due to limited exposure to entrepreneurial opportunities (Sørensen 2005, p 43). According to him, employees in such business environments are more consumed with many bureaucratic processes such that, they have less time to explore other opportunities to develop their entrepreneurial skills. In my opinion, this survey provides another twist to the theory of ‘stimulating entrepreneurial environment’ for economic development especially creating entrepreneurial environment for VC investments. It is however important for policy makers to critical consider the effects of bureaucracy on entrepreneurial propensity.

4.3.5 Venture capital funding

Active government involvement as a key financier in the early stages of the development of VC industry is synonymous with many matured market. Mention could be made of the US and the UK VC industries and the critical financing roles played by respective governments. The need for adequate provision of funding by government and quasi government institutions has become very topical in many academic literatures and therefore requires critical review to understand how VC developing markets could emulate such gesture. A study by Dossani & Kenney (2002) into the development and subsequent nurturing of the VC industry in India revealed strong collaboration between the India government and the World Bank in the funding process. The World Bank is said to have provided seed capital for the formation of four VC firms upon the request of the Indian government. The capital provided by World Bank according to the authors, was being used to set up a funding scheme where the initial four VC firms sourced their funding. This Collaboration between World Bank and the Indian government provided adequate funding for the smooth take-off of VC industry in India. Today, VC market in India is generally remembered for the financial contribution made by the World Bank at the initial stage. This funding strategy could be very beneficial for governments in the developing countries in their pursuit of viable VC market for economic development.

Direct government funding on the other hand, has also received mixed comments from authors in the industry. Views of authors are divided on whether government should actively provide funding to the industry or not. For instance, Murray (2007, p.17) argued that governments in developing countries should channel their limited resources in the creation of enabling environment that could attract investors because they lack the capacity to compete. He also revealed some challenges that are associated with the state performing active role as a direct investor. First, he questioned whether governments in developing economies have qualified personnel capable of carrying out such commercially sophisticated activities as equity investment. He believes persons with technical expertise needed to manage such ventures are unlikely to be found in the civil service because of the enormous task of keeping main stream government business. Second, the size of the state and its influence would inevitably create either positive or negative impact. Third, the suggestion that the state has to assume the role of as a direct investor may be misconstrue  as a consequence of its failure to provide the needed incentives to stimulate business environment for entrepreneurial activity (pp.17). Notwithstanding his strong opinion against active funding from government, Murray enumerated instances that might call for government’s interventions: first, where supply of appropriate finance is insufficient; second, where material economic and benefits from
entrepreneurial actions such as economic stimulation are being lost to the domestic economy; and third, where private investors are not willing to independently increase the supply of risk capital. These conditions clearly show that government interventions in various countries are indications of insufficient responses from private capital markets.

Different authors on the other hand have posited differently from the view point of Murray. They are of the opinion that government’s active involvement might serve as a demonstration of trust in the industry to attract investors especially at the early stage (Heger, Fier & Murray, 2005; Bozkaya & De La Potterie, 2008). Heger et al. (2005) for instance, reviewed funding policies of the VC industry in Germany and the UK. Results from the review indicated that, VC industry in Germany was financially grounded by public banks in support of German government’s developmental program for the VC industry. The UK VC industry on the other hand is said to have been developed by the UK government through pool of investment capital established specifically for VC firms. Another study into the capital structure of start-up firms in Belgium by Bozkaya & De La Potterie (2008) also revealed active financial support to the development of these firms by the Belgian government. The Belgian government is reported to have supported VC firms through special loans schemes and grants (Bozkaya & De La Potterie, 2008, p. 109). Analysis of these funding policies by respective countries aforementioned obviously underscores the importance of early stage funding by governments and their allied institutions for the survival of capital venturing in many countries. I believe initial financial support from government to ground VC firms financially is a worthy course and I therefore share the view point of authors who champion initial financial support from governments in the development of a viable VC industry. It is important for readers to understand that argument for financial support from government is restricted to the early development of VC industry.

4.3.6 Clear-cut policy and regulatory framework

Any business institution requires policy framework as a guiding principle for the operations of such institution. VC investment being such a specialized investment class requires clear-cut industry specific policies and regulatory framework for efficient investment operation. The emerging trends of the creation of a viable VC industry in developing countries has called for a critical analysis of policy and regulatory framework needed to steer firms in these business environments. Murray (2007) in one of his publications in the handbook of venture capital probed into various probable policy directions that could be formulated to support the establishment of VC in developing markets. The focus of his study was to suggest governmental policies that could be applicable for the creation of a viable VC industry. Murray’s policy recommendations were in reference with the success story of the Silicon Valley in the US for countries willing to develop and establish a viable VC industry to carefully understudy. The Silicon Valley model according to Murray was created based on active involvement of the US government in formulating clear-cut policies and regulatory framework for guidance and control. Key policy guidelines that could be useful for a viable VC industry in developing economies according to Murray (2007) are: institutional legal and fiscal frameworks, an incentive structure of personal and corporate tax systems, the regulatory regime’s impact on business, and the efficiency of the market for corporate control.

Notwithstanding, Murray (2007, p.121) questioned the possibility of wholly imitating the US approach by other VC developing markets. Developing unique sets of policies and regulatory framework by respective countries should perhaps be the best approach because of unique
environmental and institutional framework prevailing in each country. Gilson (2003, p. 3) supported the idea of formulating unique set of policies and regulations for VC firms with the suggestion that developing countries could use any public policy measure that suits their economic development agenda. Another study by Dossani & Kenney (2002) examined policies that were instituted in establishing the India’s venture capital industry. They discussed the possibility of cross-national institutional transfer of VC models such as the Silicon Valley approach in the US. The general conclusion was that cross-country institutional transfer is not a feasible option due to numerous institutional factors. These forces according the authors includes: cultural factors, legal systems, entrenched institutions and lack of adequately trained personnel. However, given that these forces makes it extremely difficult for institutional transfer of any kind in the advanced countries, it is apparent that replication of any models such as the silicon valley’s in a developing country like Ghana would be equally difficult. Additionally, Schwartz (1994, p.14) emphasized that an important aspect in developing a viable VC industry, is the creation of enabling environment with legislative and non-legislative policies. These policies apparently could only be formulated by people in responsible positions such as government officials and quasi government institutions in respective countries.

The need for clear-cut policy framework is echoed by Ribeiro & Carvalho (2008) in their investigation into how venture capital firm could adapt in emerging economies with particular emphasis on the VC market in Brazil. The authors revealed that Brazilian business environment just like any other developing economy lacks basic policy directions. Especially, in the areas of business structuring, entrepreneurial culture, the stock market, corporate governance traditions, legal system efficiency and rights of enforcement. Business opportunities in economies such as Brazil are generally few due to high cost of economic indices and non competitive nature of the business climate. Shane (2003) also supported the need for a clear-cut policy framework for economic development through stimulation of capital venturing. He expressed similar view that, effective capital venturing requires embedded policies as expressed by Murray (2007). Therefore, it is important for government to legitimized policies that are conducive for entrepreneurial propensity (Shane, 2003, p.15). With the hindsight of the above contributions of various authors, it would be prudent for policy makers in similar economies willing to develop a viable VC market to formulate clear-cut policies and regulatory framework that would stimulate investment opportunities for VC investors and other investors alike.

4.3.7 Legal system

Extensive research has been done on the activities of VCs in the advanced economies such as the US and the UK. Studies have focused on various legal framework and infrastructure that contributed to successful development of VC industry in these countries. A study by Megginson (2004) for instance revealed that varied VC successes in those countries were largely due to differences in the design and the degree of pre-VC industry development activities. To a larger extent, successes in these countries could also be attributed to institutional factors such country's legal system. It is widely believed that investor confidence in an economy is much enhanced when there is an assurance of efficient legal framework. VC investment is no exception to this requirement due to various contractual issues involved. Inefficient legal system has been reported to be prevalent in many developing markets and also hamper efficient operations of firms in these markets. A study by Ribeiro & Carvalho, (2008) into VC investment operations in Brazil pointed to a consequential effect of inefficient legal system. According to the authors, VC investment
disputes are usually resolved through arbitration instead of the usual court systems (pp.124). Understandably, the use of arbitration settlement is largely due to the undue delays in enforcing contractual issues through the court systems in Brazil. The effect of this challenge is that cost of VC operations in these environments becomes unnecessarily expensive. The need for efficient legal system for VC investments is supported by Lerner & Schoar (2005). They explored the effect of legal system on the VC valuation results. Findings from the study were that, VC firms operating in countries with quick dispute resolution have higher valuations results. “The type of a country’s legal system does have effect on not just the structure of transactions, but also have real effects on firms’ valuations” (Lerner & Schoar, 2005, p. 240). Contributing to the importance of an efficient legal system for VC operations, Murray (2007) expressed that efficient legal system in a given country contribute in creating the needed enabling environment for effective capital venturing. Understandably, investors would be much concerned about the security of their investment and would therefore be willing to invest in business environment where legal protection of investments is prevalent.

4.4 Summary

Based on the above literature reviewed, from the US experience through Israel to India and some other developing economies such as Brazil seems to suggest that, there are many problem areas in the development of VC markets. Policy direction and basic business infrastructure seems to be the driving force for the success stories of VCs in the aforementioned countries. The following seven policy areas reviewed in this chapter would form the basis for data collections and analysis alongside specific industry concerns. First, the need for policy makers to institute tax incentive schemes for key stakeholders in VC investment. Literature on this policy supports tax related incentives for R&D and other VC investment boosting activities (Freed, 1997; Mason, 2009). Second, policy makers need to formulate clear-cut policy and regulatory framework for VC investment due to the specialized nature of the industry (Gilson, 2003; Murray, 2007). Third, the need for the provision of adequate funding from government and allied institutions for initial development of the industry (Dossani & Kenney, 2002). Fourth, policy makers must ensure efficient legal system that guarantees fast and minimal cost of legal enforcement for the protection of investors’ worth (Lerner and Schoar, 2005; Ribeiro & Carvalho, 2008). Fifth, literature reviewed in this chapter also support government incentives for R&D activities that identify profitable investment opportunities for VC investments and economic development (Freed, 1997; Zhang, Cooke & Wu, 2010). Sixth, the need for effective entrepreneurial orientation for greater entrepreneurial propensity would ensure profitable deals for VC investment. Finally, policy makers would need to institute policies that would reduce excessive regulations and other bureaucratic cost to VC investments (Ribeiro et al., 2008; Stodell, 2009). Data collection part for this thesis is explained in the ensuing chapter.
Chapter 5: Data Collection

5.1 Introduction

This chapter discusses the main data collection model for the thesis. It is segmented into three main parts. The first part presents profile of participating firms with background description and special coding system for the identities of all interviewees. The second and the final parts follow with detailed discussion on the data collection methods and process.

5.2 Data collection methods

Data collection method for qualitative research usually takes many forms. Common among these methods are: Direct observation, interview, document survey and focus group (Elmendorf & Luloff, 2001, p.139; Remeniyi et al., 1998, p.110). A researcher’s preference for a particular method is largely due to its ability to collected relevant and sufficient evidence to answer the research question(s). Data collected for this thesis was done by a field study I embarked in Ghana for a period of one month. I used semi-structured face-to-face interview, document survey, and direct observations of operations of respective firms. The next sub sections will be used to explain each data collection methods used and their importance to this thesis.

5.2.1 Interview method

It is important to explain to readers the main forms of interviewing although this thesis adopted semi-structured form of interviewing. As explained by Remeniyi et al. (1998, p.110); Elmendorf & Luloff (2001); Bryman & Bell, (2007), interviewing could be categorized into three main types: open-ended (unstructured), structured and semi-structured interviews (Saunders, et al., 2009, p.320).

With open-ended interviews, there are no predefined questions for respondents. Respondents are usually asked questions in broad areas with the freedom to express their opinions and also with no strict order of questions (Ritchie & Lewis, 2003, p.111). It is believed that this form of interviewing is frequently used in exploratory studies to provide initial understanding of the phenomenon being studied (Saunders et al., 2009, p.323; Ritchie & Lewis 2003, p.111). Table 4.5 presents each interview method and the type of research commonly used.

Semi-structured interview is the type that could be described as mixture of both structured and unstructured interview. With this type of interviewing, predefined questions in an interview guide are presented to the respondents with active participation of the researcher. Unlike structured interview, respondents in this type of interview have the freedom to provide open answers that may not follow strict interview patterns (Flick, 2002, p.74; Saunders et al. 2009, p. 320). They are mostly used in explanatory research categories where the researcher has the freedom to express his or her opinion with possibility of a research bias (see Table 4.5). The use of semi-structured interview in research afford researchers the opportunity to probe for more information on responses that lacks clarity (Ritchie & Lewis 2003, p.111).

Finally, a structured interview is the type where the researcher provides standard questions for all respondents to ensure easy comparison of responses during the analysis part (Remeniyi et al., 1998, p.111). The use of questionnaires with usually close-ended questions is
very common with structured interview. They are widely used in descriptive type of research where results are presented with less opinion. It has the potential of reducing the perceived bias with the use of interview in data collection due to the minimal interaction of the researcher (Saunders et al., 2009, p.320).

<table>
<thead>
<tr>
<th>Exploratory</th>
<th>Descriptive</th>
<th>Explanatory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured</td>
<td>II</td>
<td>I</td>
</tr>
<tr>
<td>Semi-structured</td>
<td>I</td>
<td>II</td>
</tr>
<tr>
<td>Open-ended (Unstructured)</td>
<td>II</td>
<td></td>
</tr>
</tbody>
</table>

II = more frequent ; I = less frequent

Table 5-1 Uses of interview types in each research categories. Source: Saunders et al., 2009, p.323.

The choice of any of these interviewing methods is usually rested on the purview of the researcher. However, researchers’ choices regarding any of these interviewing types should be guided by the main objective of the study. For instance, as posited by Saunders et al., 2009), “the key point for you to consider is the consistency with your research questions and objectives, the strategy you will employ and the method of data collection you will use - fitting the purpose”(pp.323).

**Why Semi-Structured Interview?**

Semi-structured interview was mostly used in collecting data for this thesis because I considered it as most appropriate channel in understanding the experiences and the challenges facing industry practitioners (VCs) in Ghana. Semi-structured interviewing also afforded me the opportunity of having personal encounter with personnel who were actively involved in the day to day investment activities of respondents for this thesis. Rubin and Rubin (1995, p.1) expressed the importance of doing qualitative interviewing with the assertion that “through qualitative interview you can understand experiences and reconstruct events in which you did not participate”. This is however true because it provides the researcher the opportunity to have a deeper understanding of the personal description of the interviewee’s own accounts. Saunders et al. (2000, p.242) on the other hand expressed similar sentiment about the use of semi-structured interview in research by stating that, “the use of interview can help the researcher gather valid and reliable data that are relevant to the research questions and the objective”. Because interview process involves personal interactions and active involvement of all parties, the interviewee is able express his or her opinion outside the interview domain to enrich the responses. Personally, this type of semi-structured face to face interview gave me the opportunity to probe further responses that lacked clearer understanding. There were instances where answers provided by interviewees demanded further probing questions for the purposes of seeking clarification and also enriching the data being collected. Remenyi et al. (1998, p.176) also explained that this type of interview affords the researcher the opportunity to effectively standardize the data collection process and also to allows for comparison where different companies with competing goals are involved such as the subject of this thesis.

**5.2.2 Document survey and direct observation methods**

According to Remenyi et al. (1998, p. 175), document study as a data collection tool is very helpful because it serves as a back-up support system in verifying spellings, titles and more
importantly, providing print support system for specific details of oral accounts of respondents. The use of direct observation for collecting primary data has also become very common with qualitative studies due to the benefits of giving the researcher deeper understanding of the phenomenon being studied. Remenyi et al. (1998, p.100), for example, explained that the use of direct observation provides researchers the opportunity to have real understanding of both context and process of the subject under study. Ghauri & Grønhaug (2002, p. 90) also emphasized that observation as a data collection method helps the researcher have a first-hand information of events in a natural settings and therefore allows for a more accurate interpretation. Indeed, direct observation gives the researcher the opportunity to be part of the events as and when they occur. The next sub sections would be used to explain the data collection process for this thesis.

5.3. Data collection process

5.3.1 Interview process: semi-structured

Data collection for this research was mainly done through semi structured face-to-face interviews with the help of a sound recorder for transcription and documentation. Interviews constituted major part of the entire data collection process. I interviewed five (5) firms in all through their representatives (senior investment analyst and portfolio managers). Four (4) of these firms were selected from very active VC firms in Ghana, with both private and public sector representations. The other firm represented the scheme manager of the government backed VC trust. These firms were selected based on their active operations in the industry, track records, availability of data and their willingness to grant interview. Active operation simply refers to VC firms who have been in consistent investment operations for a minimum of three years. The interview sessions took a form of group and personal. Preparations for interviews were very formal and simple. I usually send interview sheets to the interviewee(s) before the interview date in order to give them enough time to prepare for the relevant answers to the questions. Respondents were also given the opportunity to seek clarification of questions before the interview session. This approach helped in deepening the responses I received from interviewees. Details of questions asked during the interview could be found in Appendix 1. Questions asked during the interview sessions centered on: general background of selected companies, specific challenges facing respective companies, and predefined general questions concerning challenges facing VC industry in Ghana.

Questions bothering on the general background of selected companies sought to find out operation history, main financiers, their investment model & focus, and theirs investee companies. Responses to these questions are captured in the ‘participating company profile’ section of this chapter (4.2). With regards to questions on specific company challenges, the aim was to understand individual company’s challenges that might not be captured in the predefined sets of questions presented in the interview sheet. This style of questioning gave respondents the flexibility and the freedom to explain their challenges better. As an interviewer, it also afforded me the opportunity to capture responses that might have been elusive with my predefined sets of questions. Apparently, this however confirms the benefit of using semi-structured interview over structured and unstructured types of interviewing. Responses about specific company challenges could be found in chapter five (5.2). Finally, questions bothering on general challenges facing VC industry in Ghana were framed after empirical review of relevant literature in the field of VC. They centered on: clear-cut policy and regulatory framework, legal system, tax incentive schemes, bureaucracy, entrepreneurial orientation and risk attitudes and finally support from research institutions. These questions mentioned in the final part of the interview sheet are the main interview questions that sought
to generate responses for the purpose of answering the research question of this thesis. The next sub sections would be used to explain minor contributions of document survey and direct observation methods to the data collected for this thesis.

5.3.2 Document survey and direct observation process

Document studies and direct observation of events and operations played very minor roles in the entire data collection process. Documents relating to the activities of various entities involved in this thesis were studied. Mention could be made of the operational manual of VCTF, Venture Capital Act of Ghana (Act 680), training manuals for subsidiary firms and operational manual of all firms interviewed. For example, the Operational manual of VCTF explains the operational activities of the trust company, its investments relations with subsidiary firms and the funds provided to each subsidiary. The venture capital Act on the other hand spells out the legal and the regulatory framework for PPP firms. Direct observation on the other hand, was used as a back-up data collection tool for the purpose of confirming responses generated during the interview sessions. This was done by a personal visit to the respective respondents’ offices to observe VC investment and deal structuring processes with clients. A practical example is my encounter with an entrepreneur I met on my observation mission at one of the participant’s office. Apparently, the entrepreneur had come to the venture capitalist to solicit ideas about possible VC investment eligibility. The use of these data collection methods were mainly for clarification and confirmation of interview responses.

5.4 Profile of participating companies

As stated earlier in the methodology part of this work, data was collected from five (5) companies with seven (7) personnel in all for the interview sessions. These companies are made up of the scheme manager (VCTF), three (3) fund managers under VCTF and a private VC firm. Details of interviewees and their coded identities could be found in Table 4.1. The names of the interviewees have been coded (anonymous) in line with the ethical considerations for this thesis which is aimed at securing the identities of the interviewees. These coded identities would be used in the analysis section with regards to direct statements from interviewees. For the purpose of standardization, values quoted by participating firms in local currency (Ghana cedi - GH¢) would be converted to US dollar value with a conversion rate of US$ 1 to GH¢ 1.3. The subsections after the table provides detail explanations of the participating firms and information found in there are excerpts from the interview.

<table>
<thead>
<tr>
<th>Codes /Identity</th>
<th>No. Interviewees</th>
<th>Of VC Fund</th>
<th>Name of VC</th>
<th>Sector</th>
<th>Date</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>AKS, FD, DS</td>
<td>3</td>
<td>VCTF</td>
<td>Public</td>
<td>2010-03-29</td>
<td>09-10:45am</td>
<td></td>
</tr>
<tr>
<td>AB</td>
<td>1</td>
<td>BVCFC</td>
<td>Public/PPP</td>
<td>2010-04-05</td>
<td>13-14pm</td>
<td></td>
</tr>
<tr>
<td>AAG</td>
<td>1</td>
<td>AVCF</td>
<td>Public/PPP</td>
<td>2010-04-08</td>
<td>14-15pm</td>
<td></td>
</tr>
<tr>
<td>SAZ</td>
<td>1</td>
<td>FEFII</td>
<td>Public/PPP</td>
<td>2010-04-09</td>
<td>11-12:30pm</td>
<td></td>
</tr>
<tr>
<td>OAI</td>
<td>1</td>
<td>AAF</td>
<td>Private</td>
<td>2010-04-12</td>
<td>10-11:30am</td>
<td></td>
</tr>
</tbody>
</table>

Table 5-2 Participants and their respective companies and sectors.

5.4.1 Venture capital trust fund (VCTF)

VCTF is a public investment scheme set up by the government of Ghana through a legislative instrument (Venture Capital Trust Fund Act 680) in 2004. The scheme was set up with two mandates: one, to provide finance for SMEs to help stimulate the economy through job and wealth creation; two, to set up and develop a vibrant venture capital industry in Ghana. These
mandates of VCTF are carried through by the establishment of fund managers called Venture Capital Finance Companies (VCFC) that work directly with investee firms (SMEs) through Public Private Partnership (PPP). Per the operational approach of the scheme, it could be explained that they operate as a fund of funds. The scheme was set up with a government’s endowment fund of $13.08 million (GH c 17 million) to partner with other private investors with a Board of Trustees as administrators. As a result of the PPP initiative, reports from the scheme shows an increase in the fund size from $13.08 to $44.23 million representing an impressive increment of about 154%. Detailed analysis of disbursement of the funds from the PPP initiative could be found in Table 4.2. VCTF currently has five (5) subsidiary firms (fund managers) namely, Fidelity Fund II, Bedrock Venture Capital Finance Company (BVCFC), Activity Venture Finance company (AVFC), Gold Venture Capital Limited (GVCL) and Ebankese Venture Capital Fund.

<table>
<thead>
<tr>
<th>VC Fund Manager</th>
<th>VCTF’s Contribution (US $ Million)</th>
<th>Private Investors (US $ Million)</th>
<th>Total Contribution Million</th>
<th>PPP (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold Venture Capital Limited</td>
<td>1.54</td>
<td>1.54</td>
<td>3.08</td>
<td></td>
</tr>
<tr>
<td>Ebankese Venture Capital Fund</td>
<td>3.08</td>
<td>4.61</td>
<td>7.69</td>
<td></td>
</tr>
<tr>
<td>Activity Venture Company</td>
<td>3.08</td>
<td>4.61</td>
<td>7.69</td>
<td></td>
</tr>
<tr>
<td>Bedrock Capital Finance Co</td>
<td>3.08</td>
<td>4.61</td>
<td>7.69</td>
<td></td>
</tr>
<tr>
<td>Fidelity Fund II Limited</td>
<td>2.30</td>
<td>15.77</td>
<td>18.08</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fund Contribution</strong></td>
<td><strong>13.08</strong></td>
<td><strong>31.44</strong></td>
<td><strong>44.23</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 5-3 Analysis of PPP Fund Disbursement. *Source: VCTF, 2010.*

**Special Purpose Vehicle (SPV) Financing**  
Despite the scheme being managed as a fund of funds where investment operations are carried out through their established fund managers, the scheme also engages in direct investment with financing partners to ensure the realization of the vision of government. This program is called Special Purpose Vehicle (SPV) financing. They are currently in partnership with financing partners to promote an import substitution program of the government. According to them, the Program seeks to employ traditional group of farmers in selected regions in Ghana with the of producing Sorghum as an import substitution product for the breweries industry. The Program has contributed to the creation of 3,500 and 25,000 direct and indirect jobs respectively. The program also has added benefits in modern farming mechanizations where farming machinery such as tractors, trailers, harrows and ploughs are provided to farmers (VCTF Report, 2008, p.9). The farmers also enjoy the benefits of wealth creation which is one of the core values of the VCTF scheme. According to the report, the program has provided direct income to farmers to the tune of US$ 78,462 and $285,576 in the 2006 and 2007 farming seasons respectively (VCTF Report, 2007, p. 10). The farming communities have also had their fair share of the benefits in the provision of borehole water according to the report.
Technical Assistance (TA) Program
Although VCTF does not directly engage itself in the investment process of the investee firms, they however offer technical support to investee SMEs when the need arises. These services are offered to them in a form of either subsidized or at a free cost in some specialized areas of their operations. According to VCTF, the TA program adopts a strategic approach in the provision of services in the areas of; management training and capacity building for staffs of investee companies; corporate matching and mentoring through an executive program and technical services provided to SMEs. VCTF annual report (2008, p.10) also revealed that the scheme embarked on a capacity building Program in an areas of: basic accounting skills; financial reporting; management and entrepreneurship skills and good corporate governance with the aim of empowering them with best business and professional practices in their operations.

5.4.2 Fidelity equity fund II (fidelity capital partners ltd)
Fidelity Capital Partners Limited is the management company of FEFII. The company was established in 1997 and commenced business in 1999. However, it was until 2001 that they were able to raise their first fund called Fidelity equity fund I (FEFI) with a committed capital of eight million dollars which was fully invested in about ten portfolio companies. In 2007, they raised their second and current fund called FEFII with a committed capital of about 18.08 million dollars for which they are currently investing in six (6) portfolios with up to 2011 to exhaust the fund period.

In terms of focus, they consider themselves as a generalist fund because they do not have strict industry preference for investment unlike other competing firms. They believe their diversified industry operations afford them the opportunity to reduce the impact of industry risks on their portfolios. However, in their attempt to support the economic agenda of government (stimulating the economy through job and wealth creation) they usually pursue business interests that would directly lead to the creation of jobs and wealth. Although they are a subsidiary of VCTF, they do not have any direct restriction on their investment choices because VCTF’s contribution to their fund is very small and invariably do not wield much influence on their operations as a fund manager (see Table 4.1). Their current investee firms span across various industries from Pharmaceuticals to financial services (see Figure 4.1) with most of their investments from FEFI currently going to the health care services. However, analysis from FEFI explains that they invested more in the food and Beverages industry representing 36% of their total capital commitments. It is too early to preempt how FEFII will fare because they still have huge proportions of 63% as not invested funds.
Their investments are not restricted to Ghana alone, they also have other business operations in countries such as Liberia and Sierra Leone. Main financiers (Investor/shareholders) to their fund are: The Netherlands Development Finance Company (FMO - A Dutch DFI), Finish fund for Industrial Cooperation limited (FINNFUND), Social Venture Capital Fund.
(SOVEC), Social Security and National Insurance Trust, Ghana (SSNIT), Swiss Investment Fund for Emerging Markets(SIFEM), VCTF and OIKOCREDIT International, another Dutch Finance Cooperative. Together with the management of FCPL sums up the power block of shareholders. A critically review of their financiers clearly shows that direct government support is very minimal as compared with other VCFCs.

5.4.3 Bedrock venture capital finance company (SIC financial services ltd)

Bedrock Venture Capital Finance Company (BVCFC) was set up through a partnership between three quasi public institutions in Ghana. These are: VCTF, State Insurance Company (SIC), National Investment Bank of (NIB) with an aggregate committed capital of US$ 7.69 Million (see Table 4.3). Figure 4.3 also shows percentage contributions of each investor. SIC Financial services limited (SIC-FSL) is the management company of BVCFC. The focus of BVCFC is to provide financial assistance to SMEs with industrial preference in Information Communication Technology (ICT), Education, Agro processing, Tourism and Pharmaceutical. According to an investment analyst of the company, they do not operate in the Real Estate and business of import for reselling but was quick to add that they welcome any deal that will help create jobs and wealth.

<table>
<thead>
<tr>
<th>Investors</th>
<th>Amount (US $)</th>
<th>Percentage Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>VCTF</td>
<td>3.09 Million</td>
<td>40</td>
</tr>
<tr>
<td>NIB</td>
<td>2.30 Million</td>
<td>30</td>
</tr>
<tr>
<td>SIC</td>
<td>2.30 Million</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td><strong>7.69 Million</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 5-4 Analysis of capital commitments of BCVFC’s investors. Materials from BVCFC.

![Capital Commitments](image)

Figure 5-3 Percentage contribution of BVCFC's Investors. *Material from BVCFC.*
5.4.4 Activity venture finance company (Black star advisors)

Activity venture finance company (AVFC) was set up by another three quasi public institution (Investors) namely, Ghana Commercial Bank (GCB), Agricultural Development Bank, (ADB) and VCTF in 2006 with a total capital commitment of $7.69 million. The focus of the company as stipulated by the Act (Act 680) is to provide equity or quasi equity finance to SMEs with capital ranging from 25,000 to 500,000 dollars. They have priority areas of investment in Agriculture, ICT, Pharmaceutical, Education and Tourism. BVFC’s investment focus is tailored towards the directive of Act 680 which restricts VCFCs from investing in real estate and import for reselling. They currently have six (6) portfolios (investee firms) spanning across six industries. Detailed analysis of these portfolios represents a very impressive geographical balance of investments in Ghana (see table 4.4).

<table>
<thead>
<tr>
<th>Description of portfolio</th>
<th>Industry</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>A poultry farm</td>
<td>Agriculture</td>
<td>Brong Ahafo</td>
</tr>
<tr>
<td>A Savings and Loans Company</td>
<td>Financial services</td>
<td>Greater Accra</td>
</tr>
<tr>
<td>An Information Technology company</td>
<td>ICT</td>
<td>Ashanti</td>
</tr>
<tr>
<td>A Fruit Juice Manufacturing Company</td>
<td>Manufacturing</td>
<td>Eastern</td>
</tr>
<tr>
<td>An educational set-up</td>
<td>Education</td>
<td>Greater Accra</td>
</tr>
<tr>
<td>A Garment Manufacturing Company</td>
<td>Manufacturing</td>
<td>Ashanti</td>
</tr>
</tbody>
</table>

Table 5-5 Products and industry analysis of AVFC’s Investee firms. By Author

Black Star Fund Limited is the management company of the fund. Similar to their competitors in the industry, they do not interfere in the daily administration of their investee firms. However, they do collaborate with their investee firms in hiring qualified personnel to carry through the overall objective of the company. They also pride themselves to be the first subsidiary company under VCTF to satisfy all conditions under the Act (680) to qualify for funds from the scheme (Gatsi & Nsenkyire, 2010, p.24).

5.4.5 Aureos Africa fund (Aureos capital limited)

Aureos capital limited is a private global investment firm. As a group they have 1.2 billion dollars with twenty-nine (29) offices in all emerging market in Africa, Asia and other Latin American countries. Their strong presence in Africa and Asia confirm their geographical focus on emerging/developing markets. Africa and Asia are the most invested markets continentally. Aureos is widely reputed for starting VC investment operations in Ghana through CDC in the early 1990s. CDC collaborated with other development partners to implement what was then called Commonwealth Private Investment Initiative (CPII). It was through the CPII initiative that the first VC company in Ghana called Ghana Venture Capital Fund (GVCF) was established in1991(Vettivetpillai, 2008 p. 1; Chatman et al., 1996, p. 4).

The current phase of Aureos (Aureos Africa Fund) came about as results of reorganizations of operations by CDC. According to them, they refocused on regional funds instead of country funds with three regional funds in Africa. These funds are, Aureos West Africa Fund (AWAF), Aureos East Africa Fund (AEAF) and Aureos South Africa Fund (ASAF) with 50 40 and 50 million dollars respectively (see Table 4.5 below). These regional funds were dully capitalized in 2003 with an eight-year life span on each and expansion clauses on all
funds. These funds have been fully invested with a new fund called Aureos African fund (AAF) that takes care of all markets in Africa with 381 million dollars fund size out of original target size of 400 million dollars.

Table 5-6 Fund history of Aureos in Africa. *Materials from Aureos, 2009.*

<table>
<thead>
<tr>
<th>Funds</th>
<th>Phase I</th>
<th>Phase II</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AWAF($ m)</td>
<td>AEAF($ m)</td>
</tr>
<tr>
<td>Initial fund size</td>
<td>50.00</td>
<td>40.00</td>
</tr>
<tr>
<td>Initial investment</td>
<td>52.20</td>
<td>42.00</td>
</tr>
<tr>
<td>Added investment</td>
<td>2.10</td>
<td>0.40</td>
</tr>
<tr>
<td>Total investments</td>
<td>54.30</td>
<td>42.40</td>
</tr>
<tr>
<td>Number of investments</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>% Committed Capital</td>
<td>109</td>
<td>106</td>
</tr>
</tbody>
</table>

In terms of business focus, they also have their focus on the unlisted SMEs with more priorities on mid cap firms. Mid caps are firms which are above the early stage but also below mezzanine stage in development. They usually target firms with operating history of between three years and seven years with an internal rate of return (IRR) target of 15 percent to over 20 percent. Their focus is to invest in change-of-control transactions, management buyouts, expansions, pre-IPO, and acquisition transactions. They currently have funding size of between 2 to 10 million dollars for their investee firms with no sector preference for investment. Notwithstanding, they do not operate in the health sector because they have another fund called Africa health fund (HFUND) that operates in the health services. Even though they are not sector specific, they tend to employ convenient business operation which focuses on sectorial drivers of each country to ensure maximum returns and value for money investment. They usually focus more on firms that have potentials and capable management with weak financial base. For that matter, usually provide the needed financial support and also use their business networks to support the operations of investee firms. A classical example is Voltic Ghana limited which is now a success story as a portfolio.

Investors of AAF over the years comprises of CDC Group plc, Norwegian Investment Fund for Developing (NORFUND), FMO, the Dutch Development Bank and management of AAF. Finally, Aureos Capital is current wholly owned by staffs through a successful Management Buyout (MBO) process in December 2008 (Aureos, 2009).

5.5 Ethical consideration in research

As a researcher, it is always important to guide your research within the laid down ethics in the area of study. Saunders et al. (2000, p.130) defined ethics in the context of research “as the appropriateness of your behavior in relation to the rights of those who become the subject of your work, or are affected by it”. Here, considerations must be given to suitable data collection methods and the respect of privacy of respondents in relations to the analysis of data and reporting of research findings. Generally, it is unethical to reveal raw data to competing firms when dealing with firms within the same industry.
With regards to my work as stated in the data collection methods section, I established contact (through telephone and e-mails) with the appropriate VC firms to inform them about the purpose of my study and also to seek their consent for interviewing. After agreeing on the modalities for the interview process, I usually send interview sheets to all interviewees prior to the interview date to give them time to prepare for the interview questions. Respondents’ permission are also sought for audio recordings and also copies are sent back to them for records. Although probing questions are always considered healthy for research, I respected the privacy of interviewees by not pressing on to questions interviewees were reluctant to answer. For instance, question that were regarded too private for their employers were left unanswered. Also, because my respondents were competitors in the VC industry, I ensured that responses that related to the competitive advantage of all interviewees were kept with utmost secrecy. Data reporting and analysis have also been handled with utmost care to avoid ‘unnecessary disclosures’ that would breach the trust they posed in me. For example the secret coding system for the identity of all interviewees is a clear demonstration of my respect for respondents’ privacy (see Table 4.1).

5.6 Limitations

Due to the difficulty in getting information from VCs in Ghana, I was limited in collecting data from all parties in the industry, more especially, from private VC firms. Most private VC operators adopted the model of ‘fly-in and fly-out system’ which limited the possibility of having more private sector representation for this thesis. Their operating model also meant that they operate in Ghana without permanent offices and therefore locating such firms for face to face interviews were very difficult. The industry also lacked database which is common in other countries and therefore accurate data about the total number of VC was not known despite persistent efforts to responsible institutions. There were other venture capitalists considered not too appropriate for the study based on their operations and their years in VC business. For example, within the public sector, there were two VC firms I considered not appropriate for this thesis due to their inactivity and lack of industry experience.

Again, the results and the recommendations should not be considered as an expert advice but just a mere academic exercise to bring to the fore the challenges that are facing VC operators in Ghana. This is due to the fact that my analysis and the recommendations lack needed specialist and professional eye.

5.7 Quality criteria for the study

Quality criteria for qualitative research are quite different from that of quantitative research. While quality of qualitative research are mainly assessed based on its validity and reliability as discussed above, qualitative studies on the other hand are reviewed with different set of criteria. Authors including Guba & Lincoln (1994) and Marshal& Rossman (2006) have been vociferous for different quality criteria for qualitative studies apparently due to the testing and the mathematical inclination of both validity and reliability criteria. They suggested the use of research trustworthiness and authenticity as more receptive quality criteria for qualitative studies. Marshal & Rossman (2006, p. 201) further explained that for a qualitative research to be considered as trustworthy, it should have the characteristics of credibility, transferability, confirmability and replicability (dependability). For the purposes of maintaining consistency with this thesis, I will use the next subsections to explain the trustworthiness of this thesis.
5.7.1 Credibility

For a qualitative research to be seen as credible, it is essential for the researcher to demonstrate to that the research findings relates very well to intended purpose of the study (Bryman & Bell, 2007, p. 411; Remenyi et al., 1998, p. 116). The research must be conducted in a manner that the results will be as credible as what actually pertains in the subject of the study. Therefore, to attain this higher credibility standard, it is prudent for the researcher to present accurate report of the internal processes used in getting the findings and also the use of best research practices that considers the interest of the studied phenomenon (Lee, 1999, p.163). The essence of this is to establish a clear correlation between the studied transcript and the research results ensure structural corroboration (Guba & Lincoln 1981, p. 106). Findings from this thesis is credible because the processes of getting data as stated in the data collection section is real with documentary evidence and also respondents were accorded the due ethical respect. For instance, permissions were sought from respondents for audio recordings prior to the interview sessions and copies of the recordings were duly sent them for confirmation and documentation. This clearly shows how respectfully interviewees were treated. Again, although locating VC firms in Ghana proved quite a challenge, I was able to identify and select very active VCs through the support network of VCTF. Because respondents are considered in Ghana as top of the range VC firm, their inputs into the thesis findings very credible.

5.7.2 Transferability

The key requirement for a transferable qualitative research is its ability to be replicated outside the studied phenomenon. Emphasis here is on whether the findings from the research could be applied to the larger domain outside the research population. This criterion is likened to external validity in quantitative research which similarly refers to the degree to which the researcher’s findings could be generalized beyond the immediate confines of the researched domain into the wider populations (Remenyi et al., 1998, p.180). Although data for this thesis are solely drawn from VCs in Ghana, its findings could be replicated in the West African sub region because of socio-economic similarities among member countries. Business and political environment in the sub region are quite similar. For instance, limited exit options, corrupt tendencies, exchange and currency rate instabilities are issues of commonality in the sub regions if not all developing countries. However, overly generalization of findings from this thesis is sternly cautioned due to peculiar nature of Ghana as sovereign nation with unique sets of legal and regulatory environment. Again, the use of case study method in qualitative research makes it quite difficult for the findings to be overly generalized beyond the subject area.

5.7.3 Confirmability

Research findings are supposed to be without prejudice or subjective influence of the researcher. A confirmability criterion requires that the construct of the research process must gear towards the reduction of overbearing influences of the researcher to guarantee objective research findings. This is however due to the widely held perception that individual thought and concerns are virtually difficult to confirm (Guba & Lincoln 1981, p. 125). Although many researchers struggle to measure up fully to this criterion, findings for this thesis are factual and could stand the test of any third party confirmation. Thesis respondents are VC professionals who are actively involved in the development of the industry in Ghana and therefore their inputs could not be easily influenced. The use of semi-structured interview
allowed for less influence on the responses from interviewees because they answered the questions based on their operational experiences. Their willingness to deepen evidence collected is shown in their responses to the interview questions. For instance, data on specific company challenges (6.2) were generated based on respondent’s own evolution. Finally, copies of data used for this thesis (recorded interviews) were duly sent to interviewees for authentication and documentation. These processes clearly explain that findings from this thesis are without researcher’s bias or prejudice and therefore third party confirmation is assured.

5.7.4 Replicability

Lee (1999, p. 165) explained that qualitative research is said to be replicable and dependable if the researcher could provide detailed explanation of the significant changes that may occur in the subject domain of the research. This criterion counteracts credibility criterion in quantitative research which assumes that the domain of the entire research process must remain unchanged. Qualitative research is generally regarded as having the strength to respond very well to changes in the research process due to its dynamic social environment (Marshall & Rossman, 2006, p. 203). Two significant events that have characterized this thesis have been well illuminated, particularly changes that have occurred to the data collection aspect. First, the expected responses from interviewees changed due to wider view of the challenges facing VCs in Ghana. For example, specific company challenges part (subsection 6.2) is a significant change to the data collection process. The initial plan was to generate data based on stated interview questions but responses from interviewees changed due to the broader view of the challenges facing VCs in Ghana. Second, the initial plan of using telephone interview and online questionnaires was changed to semi-structured face to face interview. This change is due to the apparent benefit of having deeper experience and understanding of the challenges facing venture capitalist in Ghana.
Chapter 6: Presentation of Data and Analysis

6.1 Introduction
This chapter of the thesis is solely for the presentation and analysis of the data collected from industry practitioners in Ghana. Presentation of data is segmented into two parts: specific company’s challenges, and main responses from the interview questions. The analysis part concludes the chapter concentrating on the impact of these challenges on VC investment in Ghana.

6.2 Specific company challenges
The industry is beset with numerous challenges and this subsection will discuss company related challenges facing VC practitioners in Ghana. These are specific concerns raised by industry representative during the interview session. The concerns cut-across all venture capitalist in Ghana. They have been categorized into challenges on: micro environmental challenges, the venture capitalist (Fund managers) and the entrepreneurs or the end product (Investee firms).

6.2.1 Micro environmental challenges
Industry practitioners raised concerns about general micro economic indices and systemic challenges in the business environment in Ghana. They believe VC investment as a specialized industry becomes heavily affected when general economic indices are not favorable. Key indices that mostly affect VC investment are the instability in the exchange and interest rates in Ghana. These unfavorable micro economic indices heavily affect VC firms with investment operations outside Ghana. They become less competitive with their counterpart in the sub-region who have better micro economic environment. Also, investee firms in Ghana are affected with unfavorable exchange rate conditions. Apparently, they have their business operations in local currency whiles their investment funding are mostly received from investors in dollar value. For that matter, if there happens to be an unfavorable exchange rate in a particular period of repayment, they become very disadvantaged because they would need to commit more funds in local value to pay back their investors in dollar value. In respect of interest rate they believe their instability do affect the operational levels of practitioners because they become less competitive mainly as a result of unstable economic data for future planning.

Regulatory environment is one area that respondents across all divide (both private and public) widely complained about. It seems to be the main challenge facing the industry now. VC as a specialized industry will equally require a specialized body with keen interest in the concept of VC to regulate the affairs of the industry as it is the case in many emerging and matured market in world. However, that is not the case with Ghana’s VC industry. The industry is currently being regulated by the Security and Exchange Commission of Ghana (SEC) which is also responsible for all financial institutions in Ghana. Respondents complained that they do not have independent body where their grievances could be heard. They believe the development of a viable VC industry in Ghana would require an
independent regulatory body for effective policy formulation, implementation and control. Below is a comment from one of the respondents:

“we have what we call one size fits all regulations where VC in Ghana is still being regulated by the same SEC that governs all financial institutions whiles other industries such as insurance have their independent regulatory body. You do not expect any development that affects investment banking would also affect us, but here is the case that we are all being governed by one regulator. So as it stands now, there is a big void in which institution take oversight responsibility” (SAZ).

6.2.2 Challenges within VC firms

With respect to the firm as the fund manager, there are a lot of inherent challenges within it. The first challenge according to respondents is how to attract qualified personnel with requisite industry knowledge and experience to help in deal structuring. Finding people with VC experience is a challenge to fund managers in the industry according to a portfolio manager from FCPL. According to him this is partly so because the concept of VC has not sunk well with the Ghanaian business community. He further stated that:

“Most of the people will come with generic investment banking experience which takes longer time for them to get the job experience. If we are able to get the right personnel with VC experience then it will help us shorten the turnaround time for deal structuring which is good for operational efficiency” (SAZ).

Again, VCs in Ghana have a challenge in the area of their investee companies. Most SMEs in Ghana lack basic governance structures and for that matter they (VC firms) become technically challenged in helping them raise their operational level. They complained that some of their investee firms would resist any attempt to institute the needed structures for efficient business operation. The reasons for their resistance are the suspected loss of business control and lack of trust for VC firms. Below is a statement from a respondent:

“a typical Ghanaian entrepreneur will leave for funeral on Thursday and will call his son who is the accountant of his company to withdraw funds from the coffers of the company without any documentation and also of which it will not bring direct returns or impact to the operations of the business. They would also try to employ family cronies into the business. So basically if they see VC coming in to close all those gaps, they would resist any and that is a key challenge for us” (SAZ)

Another important challenge on the side of private VC operators is apparent lack of active private firms in the market. According to them they do not have enough local private operators in the market. However, with the few international operators in Ghana, most of them do not have permanent offices in Ghana. Below is another statement from an investment officer from the private sector:

“Most of these private VC firms you see here do not have their permanent local offices here, all that they do is what we call ‘fly-in and fly-out’ business. They get the deal and then fly in to execute it and then leave the country” (OAI).

According to him most of the multinational VC operators do not have real presence in Ghana to support the agenda of developing a viable VC industry. He further explained that the practice of ‘fly-in-and-out’ by most private firms gives them an unfair competitive advantage
in investment cost over few companies with permanent offices in Ghana. Obviously, they do incur lower cost of business operations as against very few firms who have incurred structural cost of office maintenance and cost of hiring permanent local personnel. He further explained that, the practice is all because these ‘fly-in and fly-out’ firms have different investment model and these models are usually geared towards cost reduction. He however conceded that minimal cost of operations is synonymous with the VC concept however was quick to ask for an industry regulations from government to ensure competitive VC operations and sustainable growth in the industry.

Another specific problem with VCs in Ghana is the exit options. It is a general practice that VC companies would usually structure their investment operations in a manner that they could exit at a specific time to reap their investment benefits. However, VC exit environment in Ghana is beset with challenges. According to respondents, VCs face the challenge of successful investment exit due to limited exit options. This is partly due to the non- vibrant nature of the IPO environment in Ghana. Also, pre-IPO structural requirements by Ghana Stock Exchange (GSE) deter the use of IPO exiting. Respondents view the stock market in Ghana as not vibrant and therefore using IPO as an exit option is not a viable option due to associated costs and excessive delay. The effect of this challenge to VC investment in Ghana is lost of investment return because it stifles their returns.

Another aspect of VC exit challenge in Ghana is from the side of the entrepreneurs which is more concerned with business culture in Ghana. According to respondents, most entrepreneurs in Ghana view business exiting as culturally bad and for those reason entrepreneurs would usually employ various tactics to resist any attempt for VC exit. There are also other instruments such as Put option where VC firms have the right to sell their investments to entrepreneurs (investee firms). However, put option also comes with much difficulty because most of the investee firms lack the needed resource to buy back the shares of VC firms in their business. Lack of exit options were generally described by respondents as one of the main challenges facing their operations. Below are comments from respondents on VC investment exit in Ghana:

“...for us too another important challenge is with exit. ...so what it means is that we could find all profitable deals in the world but we will not be in investment forever. When our time is due and the IPO environment is not favorable for us to leave as we have now, it affects our IRR. Again, we usually have financial instruments such as Put Options but in most cases our investee firms lack the needed financial resources to buy our stake in their business”(SAZ).

“You plan your exit on the first day you enter into a partnership with client but the opportunities in Ghana are not that bright because SMEs are not that viable for us to plan our exit and actually go out as per our investment program”(OAI).

6.2.3 Challenges with investee firms
Lack of record keeping and reliable data
Throughout the interview session, respondents from all sectors repeatedly mentioned lack of reliable data for deal valuation as one of their main challenges. They believe lack of record keeping and availability of reliable data for valuation has been unduly slowing down their investment process. Understandably, this problem is a societal issue with SMEs in Ghana because they have the culture of not keeping reliable data for effective deal valuation. Below is a statement by one of the respondents:
“sometimes there is this perception that company ‘A’ is doing very well but when you sit down with them, you then realize that they do not have data at all or the data available cannot be relied to empirically assess their business potential and this is hurting our operations” (OAI).

There is also another problem with data gathering in Ghana where persons in responsible positions are not willing to provide VC firms with required information that would aid operational efficiency. It is a general practice with VC that, they usually depend on third party information for verification of claims by prospective client. According to them, it is very difficult to verifying background of their investment partners and investee firms. It is either people do not keep accurate data or are not prepared to release information. An example is a statement by a respondent below:

“...a typical example is where we were looking for student population for a public school, the figures given to us from two responsible institutions in education were very conflicting and in such a situation, it will be difficult for us to use such information for valuation purposes. ...verification of information is very challenging in Ghana” (AB).

This problem of lack of data keeping attitude in Ghana affects all facet of business operations and not a specific problem within investees of VCs.

Another aspect of data gathering difficulty is the work of professional like auditors and accountant. According to respondent, the work these professionals are gradually becoming a challenge to the smooth application of the concept VC in Ghana. Some of these professionals collaborate with owners of investee firms to concoct figures in their financial statements which seriously distorts valuation results. Below is a statement from an investment manager in the industry:

“These professionals do this with the common reason that they did not have enough records and it was based on what the client gave them and to the best of knowledge it’s a fair representation of the operations of the company. However, these documents mostly turn-out to be fictitious when due diligent is done on the prospective client” (AAG).

He further emphasized that, this practice unduly slow down their investment process because they spend longer time than expected on their investment process and it adds more cost to their operations. According to him, these professional usually mix-up personal finance and assets of owners of investee firms with the finances and assets of their business just to present a good picture for their client. These practices are done since an audited account from certified accountant is a prerequisite for VC investment qualification. They emphasized that the practice does not allow VCs to have a true view about their investee firms before valuation and therefore most of their valuation figures are inaccurate.

Entrepreneur’s Attitude concerning control of business

Owners of investee firms in Ghana also have an attitude problem in business control. According respondents, because most SMEs in Ghana started as a sole proprietorship, they are sometimes consumed with the usual mantra of ‘this business is mine’ attitude in their business operations. They expressed that, owners of investee firms usually do not understand the need to structure their businesses professionally. According to them, it becomes more challenging when entrepreneurs start thinking about possible share of control and power with
VCs. Owners of SMEs in Ghana fail to appreciate the benefits of leveraging their control in their business. Below are statements from two respondents:

“Owners of family-own business do not want to give up control. So it is always challenges to convince them to give up their control and appreciate the contributions VC bring to their business. What they do not recognize is that 5% of a bigger pie is obviously better than 100% of nothing” (OAI).

“Ghanaian entrepreneurs are very fixated on ownership so he will prefer to have 100% ownership in a company that is worth 1 dollar than to have 10% in a company that worth 100 dollars” (SAZ).

Threshold limitations on investments in investee firms
Some VCFCs also had issues with the threshold limit set out by the scheme managers (VCTF). The threshold limit simple means that VCFCs’ investment in a single investee firm should not exceed 49% of the total investment of that particular firm. This directive, according to them is a challenge to their operations because it does not allow for flexibility and also the opportunity to support their investee firm to their full potential. According to them, there are occasions where their investment in a particular firm may be nearing the threshold limit whiles additional funds may be required to complete an ongoing deal. In such a scenario, they become very helpless and allow the deal to fall through due to the threshold restriction on their operations. They also expressed that there are cases where the threshold limit would debar them from securing a very profitable deal. This happens where the financial demands of a prospective client would automatically make them majority shareholder which is contrary to the policy guidelines of their operations.

Public perception and lack of education about VC concept
Perception about government business in Ghana is another deterrent to VC investment. Generally, people see VC as free source of finance especially funds from the scheme (VCTF) is regarded as government fund and therefore there is this notion that anything government is free in Ghana. Due to this perception, VC firms under the scheme always use much of their investment hours in explaining the concept of the scheme to dispel negative public perception about the scheme. Apparently, the investment community in Ghana has not realized benefits of VC investments. According to them, they sometimes find it difficult to align their interest with other investors who will be looking for some sort of profit in return due to lack of VC education.

Another area of great concern to industry practitioners in Ghana is the apparent lack of public knowledge about the concept of VC more especially the business community. Respondents expressed worry about an indifferent attitude towards their operations for which they believe has contributed to the negative perception about the concept of VC in Ghana. According to them, most entrepreneurs they interact with are more occupied with the mentality of debt borrowing and therefore anything about equity finance is irrelevant to them. Below is a comment by a respondent:

“They usually ask questions such as how much is it going to cost me for this loan? I need a loan facility?... how much do you charge as interest? When we start hearing these comments then it gives us the signal that education about VC concept has not gone down with the business community in Ghana” (AB).
According respondents, they usually spend most of their business meetings on educating clients about the concept of VC and also try to differentiate VC from normal debt finance. Responses from the main interview questions are found in the next sub section.

6.3 Main interview questions on industry challenges

The following responses were received based on main interview questions to respondent. The questions were framed after empirical review of relevant literature (Freed, 1997; Schwartz, 1994; Avnimelech & Teubal 2002; Ribeiro & Carvalho, 2008; Dossani and Kenney 2002; Benerjee, 2008). The purpose of these questions was to ascertain from industry practitioners in Ghana whether they have similar challenges in these policy areas.

6.3.1 Responses on legal system

Inefficient legal system was one of the difficulties with venture capitalist in Brazil (Ribeiro & Carvalho, 2008). VCs in Brazil complained of the slow nature of the court process and that has compelled them to resort to arbitration when contractual disputes arise. Respondents of this research were similarly asked about their opinion on the legal system in Ghana and the responses received were varied. Few respondents were of the opinion that the industry has not grown to the level where the opportunity to seek legal redress on contractual issues arises. For that reason, they declined to express an opinion whether the legal system is effective or not. Others were also of the opinion that, although they have not had the opportunity to test the system to determine its weaknesses or otherwise, however their experience with various forms of business regulations in Ghana gives them very positive indications that the system is good for business. For instance, a respondent from the scheme managers (VCTF) was emphatic that the legal system does not pose any challenge to their operations because they have a Legislation Instrument (LI) from Parliament supporting their activities coupled with good governance system and also a very efficient regulatory systems with institutions like the SEC, the registrar general office, Ghana Stock Exchange(GSE) and Ghana companies act that regulates the operation of businesses. Below is statement from respondent on legal system in Ghana:

“...more especially, SEC ensures that the funds that we set up are licensed fund managers with requisite skill, the ability and the right professionals in place and their operation must be in line their regulations. SEC monitors the activities of the funds we set up. So in the nutshell, yes, we have perfect, strong and efficient legal and regulatory system” (AKS).

On the contrary, majority of the respondents are of the opinion that the system does not seems to be efficient judging from the slow nature of the general court processes although they have not had the chance to test the system. They believe the general legal system is not perfect but could be better. This is because it takes longer time to exhaust legal processes in Ghana for cases that could be settled within days in some advanced business environment. Moreover, legal cost in Ghana is general regarded as very expensive and legal redress is not attractive to VC investors. Respondents requested for the establishment of more commercial courts to support few in operation. According to them, this will ensure early adjudication of business related cases for efficient investment in Ghana. Below is another opinion on the state of legal system in Ghana:
“you see, the legal system, my perception is that the structures are there but the problem is that it takes so long to exhaust the process for a simple case which indirectly makes it very expensive. We have not encountered any challenge with the legal system because we structure our business operation on strong relationships with client” (OAI)

6.3.2 Responses on clear-cut policy and regulatory framework

Responses to the question on whether VC industry is being regulated with a clear-cut policy were also varied with majority being negative. Only one interviewee out of the total seven expressed optimism about the current state of policies for VCs and this was because of the enactment of Act 680. For instance, a respondent from the trust fund (VCTF) emphatically stated that:

“the enactment of Act 680 and subsequent establishment of the VCTF alone is a good policy direction so I will say it’s pretty clear-cut” (AKS).

It is important for readers to understand that Act 680 was specifically passed to provide for legal support for the establishing of the Scheme (VCTF) but not for the regulation of the entire VC industry in Ghana.

However, majority of respondents expressed worry about the apparent lack of clear-cut policy guidelines for the industry in Ghana. They are of the expectation that government would formulate clear cut policy guidelines to address numerous challenges within the industry. This is because, there have been some attempts by government to provide policies such as better tax environment for operators but those policies are not sufficient for a vibrant VC industry. Others attributed their lack of clear cut policy to the current state of the industry where VCs are being regulated by SEC. A respondent emphasized that VC is a specialized industry and therefore there is the need for a specialized body such as that of insurance industry in Ghana.

“The current practice where VC is being regulated by SEC is not good for the industry at all. We do not have any governing body to channel our grievances. ...why is SEC not exercising oversight responsibility over insurance companies? We also need a special body excising oversight responsibility over us (SAZ). The above statement on lack clear-cut policy clearly explains VC investors’ frustrations on regulations in Ghana.

A proportion of VCFCs were equally critical about this challenge. They also believe the industry is ‘sick’ of this challenge because Act 680 lacks the mandate to regulate the entire VC industry. The act was enacted to regulate VCFCs on threshold limits and priority areas of investments. According to a respondent, “operators in the private sector are not governed by this act and therefore they have the freedom to decide where and how much to invest based on their own business intuitions” (AAG).

These respondents believe the Act is more restrictive to the operations of VCFCs because they are usually less usually less competitive in the VC market due to threshold and industrial operation limitations. They however requested for a more effective policy and regulatory framework to would help harmonize the industry for the much needed economic development.
6.3.3 Responses on support from research institutions

On issues relating to the work of research institutions in support of the industry, participants unanimously responded in the negative. There were concerns about the apparent lack of support from these institutions and the reasons were many. These respondents believe that either research institutions in Ghana are not active or do not take particular interest in issues relating to VC operations. Others were also of the opinion that apparent lack of research activities in Ghana is a general problem for all industries and not a specific problem with VC industry. It is generally understood that, the needed governmental support for the creation of enabling environment in the areas of vibrant research activities is lacking in Ghana. The work of research institutions is very critical for the growth of not only VC industry but the entire economy. Other reason assigned to this challenge is that, there are relatively very few research institutions in Ghana and their priority areas are different from VC industry.

The following statements from respondents summarize the general frustrations about apparent lack of research support for VCs in Ghana:

“For instance, we are not asking for free research inputs from government and other research institutions. If data is available and reliable, we are prepared to pay for such data. ... but the challenge has always been that such data are not available due to lack of support for their activities” (OAI).

“There is a very big difference between Town and Gown in Ghana. Gown is the academia and town is the work centre. Research people see themselves as the academic centre and do not care about events in our industry. We in the industry too do not know much about what they do and I think a better mix will be good for all” (SAZ).

“I have not seen so far any research findings on venture capital operation. ...aside that, there are not many research institutions here and the few institutions we have here in Ghana have their priorities in different sectors of the economy” (AAG).

6.3.4 Responses on tax incentive schemes

General answers to the question on taxation were in the affirmative. There is this general impression from respondents that government of Ghana has the intent to attract investors into the VC industry through tax incentive schemes. For example VCTF Act allows investors of VCFCs to maximum levels of tax reliefs on their capital invested and also returns on investments. VCFCs also enjoy a 5-year full tax exemption on any form of VC investment operations in Ghana. Below are two respondent’s view on support of tax schemes for VCs in Ghana:

“I think the tax system is very supportive for local VC firms and investors and i will say the environment now is very commendable” (OAI).

“Yes, the government has a lot of tax exemptions and breaks for both inventors who invest their funds and the returns from those investments. There are also tax reliefs for VTFCs operation” (AKS).

Nevertheless, some of fund managers were critical about the levels of these reliefs for VCs in Ghana. They questioned the levels of the reliefs because it is not having the desired impact on their operations. Others also questioned the current tax scheme as being bias for only investors. They believe the current tax system as not perfect because its only tilted towards the benefits of VCFCs without any motivation for investee firms and investors. According
to them, the current tax system does not motivate perspective investors to support the industry for the expected development. A respondent from FCPL queried the system by saying that they (VCFCs) operate with inputs and outputs and therefore there is the need for the system to consider key players in the investment process of VC. He further explained that for them to operate as VCFCs and enjoy the reliefs set out by government, they would heavily rely on inputs from financiers.

“Our investee firms will not be interested in VC money if the tax system cannot shield their operations. In a likewise manner, our investors will also not commit to us their funds for us to enjoy the tax holiday that are enshrined in the Act. So therefore, there is the need now for the system to consider reliefs in an area of capital gain for our investors” (SAZ).

### 6.3.5 Responses on bureaucracy

The question on bureaucracy and its effect on the operations of VC in Ghana were also answered with varied responses. Some believe bureaucracy could not be a challenge to their operations because the VC investment process is a highly specialized business operation and therefore it is surrounded with a lot of documentations. From the process of conceptualizing the fund to the time of getting other investors on board involves due process and a lot of documentations. For example the signing of investors’ agreement, shareholders agreement and term sheets are all processes that require careful analysis and due care. Again, the process of appointing a fund manager with requisite skills and experiences requires extensive background investigation. Respondents also stressed that the process of thinking through various investment decisions in other companies requires much time and documentation. Indeed, the benefit of all these due processes to all stakeholders is the reduction of perceived risks associated with VC investments. They also emphasized that due processes with VC investment helps protect both investors and the investee companies. A respondent from VCTF admitted that the process of VC is quite bureaucratic and that could be described as a strength rather than a challenge to VC investment in general. Below is a statement in support of the perceived positive impact of bureaucracy in VC investment:

“Bureaucracy? Yes, this a highly specialized investment field and the whole processes are bureaucratic and that’s the way it should be. That’s not a challenge at all, it’s more of a strength to this industry, that things are done in a certain manner so as to reduce the amount of risks involved for both investors and investee firms”(AKS).

The sum of their arguments suggests that equity financing takes time and a lot of documentations. They believe bureaucracy rather helps the process because it allows for careful assessment and reduction of VC investment risks. It is widely believed that VC investment is a highly risky investment activity and therefore requires due diligence to ensure value for money investment. Obviously, this group of respondents strongly believes that bureaucracy in VC investments is good for all stakeholders in the industry in order to reduce its associated risks.

Notwithstanding the aforementioned positives about bureaucracy, other minority respondents questioned the general business environment in Ghana which is quite similar to any third world country. Business processes in these countries are usually engulfed with bottlenecks and corruption. For that reason they explained that bureaucracy do affect the operations of VCs due to these inherent challenge in the country. They explained that the process of business registration and submission of various annual returns in Ghana could be described as
very slow, cumbersome and deterrent. This is because the process involves a lot of
documentations and the waiting periods at each stage of the process is very long. These
eventually slow down business operations in general. Their concerns are not about the
documentations of VC investment process but the overbearing slowness of business
environment in Ghana. There also concerns about the possible effect of bureaucracy on
successful exit of VCs in Ghana. Below is a counter statement on bureaucratic effects on
VC investments in Ghana:

“Yes, bureaucracy is an issue with our operation because we don’t operate in a vacuum. For
instance, verification of documents from investee firms at the registrar general’s office, filling
of tax returns, the process importing goods in the country etc., all these slow process that
affect our investee firms indirectly affect our operations too” (SAZ).

6.3.6 Responses on entrepreneur orientation and risk attitude

The question to participants about entrepreneurial orientation and its effects on finding good
deals in Ghana received interesting responses. General deductions from their answers
suggested that, VCs in Ghana are not much concern about orientation and risk attitude of
entrepreneurs. This implies that orientation and risk attitude of entrepreneurs in Ghana does
not have major effects on VC investments and their choice of investee firms. This is based on
the believe that entrepreneurs in general would only take calculated risks and therefore
would only invest in business ventures that seems profitable to them. Others also argued that
risk attitude of entrepreneurs could best be assessed based on the individual entrepreneurs’
risk appetite and the levels they are ready to assume rather that the generalization of the
entirety. Below are respondents’ comments on entrepreneurial orientation and risk attitude in
Ghana:

“We are not much concerned with orientation and risk attitude of entrepreneurs because we
know any decision taken by an entrepreneur is a well calculated business decision” (AKS).

“Entrepreneurs would always take calculated risks and therefore we cannot consider their
business decisions as a challenge to our investments” (SAZ).

According to them, their experiences with investee firms have shown that some are really
daring and ready to ‘push to the limit’ whiles others are very reserve which could be due to
cultural factor in Ghana. The general conclusion on the subject on general orientation and
risk attitude of entrepreneurs does not affect the operations of VC in Ghana because
entrepreneurs’ decision to set up businesses is a risk taking venture.

6.3.7 Responses on funding

Responses to the question on financial supports to VCs in the industry were very positive
from all sectors (quasi-government and private firms). This could be due to the fact that the
industry is considered as emerging and therefore do not attract heavy investment demands.
For instance, responses from interviewees from VCTF explained that the scheme has been
well resourced financially by government for the support of VCFCs. This fund, according to
them is still under investment with adequate reserves to cater for future funding request from
VCFCs. They also explained that government and its allied partners have given their full
commitments to additional funding when the need arises.
Quasi-governmental firms also responded in the same manner that funding does not pose a challenge to their operations because initial investment requirements have been provided by government (PPP). As explained earlier, VC firms in the public sector are partially supported with government funding scheme (VCTF). Besides, VCFCs also have the right under the agreement with VCTF to seek additional private capital when the need arises. They further expressed that their current capital committed from the scheme and other funding partners through the PPP initiative have not been exhausted and therefore funding could not be considered as a challenge at all.

On the other hand, responses from VCs in the private sector suggested that they have adequate funding for their investment requirements. They further explained that funding for their operations are usually sourced from Development Finance Institutions (DFIs) and other multinational financial institutions and for that matter do no face inadequate funding problems. They clearly stated their stand on staying away from government funding because of the likely overbearing influence from state arms.

6.4 Analysis of Industry challenges

The effects of these challenges on the operations of VCs in Ghana were described as countless and severe. They enumerated various impacts these that these challenges have had on their operations and its recommended solutions.

On perceived bureaucratic business environment in Ghana for example, they explained that it delays exit time schedule and eventually stifles expected returns on VC investments. A respondent narrated a practical experience about the frustrations they are enduring in trying to sell their investments in one of the investee firms. According to him, the process has been hanging for close to two years now as a result of general bureaucratic system in Ghana. This challenge clearly supports similar concerns from other industries in developing nations such as Brazil (Ribeiro & Carvalho, 2008). The culminating effect of corruption and other direct and indirect costs are what policy makers urgently need to address for VCs in Ghana. Industry practitioners however requested for a critical review of the works of governmental agencies that are responsible for the registration and sale of business to reduce the bottlenecks.

Another environmental challenge such as the instability in the microeconomic indices do affect their chances of putting in place effective investment models to capitalize on investment opportunities. This however makes VCs in Ghana less competitive to their regional competitors. Perhaps the tearing effect is their inability to take calculated investment risks when the need arises due to the fluctuating economic indices. Apparently, this concern comes as no surprise because developing economies are prone to weak microeconomic indices according to reports from development partners (World Bank, 2009 & IMF, 2009). These reported microeconomic challenges do affect the willingness of cresting the enabling environment advocated by Schwartz (1994). Reflecting on the experience of Israel (Avnimelech & Teubal, 2002) would be a good example to follow. Development of VC industry in Israel is reported to have started when conducive internal and external policies existed (pp.1). It is therefore imperative on the part policy frontiers in Ghana to assiduously work in strengthening the weakened microeconomic environment for efficient capital venturing.
Concerns of lack of clear-cut policy direction retards real growth of the industry. Lack of clear-cut policies has led to the situation where they do not have recognized body with oversight responsibilities for the industry. Obviously, the development of VC industry in countries such as the US, India and Israel speaks of concerted efforts in drafting effective policies in respective countries (Dossani & Kenney, 2002; Avnimelech & Teubal, 2002 & Murray, 2007). The attempt in development a viable industry in Ghana will come to nothing if clear-cut policies are not designed. An example is the Small Business Investment Company (SBIC) program that contributed to the Silicon Valley model in the US (Baygan, 2003, p.5).

Respondents’ description of the current regulatory body (SEC) as a misfit is reasonable because VC is generally regarded as a specialized investment class that requires special policies and regulations.

Assessing the value of an SME would usually require quality information and therefore in an environment where record keeping is a problem demonstrates how frustrating client valuation could be. The effects of this challenge are that VC investments are unduly delayed whiles values for investments are lost. Again, poor record keeping could lead to bureaucratic tendencies and indirect costs in corruption similar to the Brazilian industry (Ribeiro & Carvalho, 2008). Lack of record keeping suggest to be a problem with developing world because the experiences from developed countries such as the US, Sweden and Israel suggests something to the contrary. They also described the effect of lack of research support for their operations as very hurting and inimical to the development of a vibrant VC industry. This is due to the fact that VCs would usually need to commission private research about a particular industry before simple client’s valuation could take place. A recommendation by Schwartz (1994, p. 17) for the creation of a synergetic relationship among government, academic institutions, entrepreneurs and venture capitalists could help in providing reliable data for the industry. For that reason, respondents’ request for government support for research activities in Ghana is a call in the right directions that could help improve VC valuation processes and other business activities.

The effects of exit challenges on the operations of VC in Ghana were generally described as very severe. Exit issues seem to be synonymous with VCs in the developing world with similar exit problems reported to be affecting VCs in Brazil (Ribeiro & Carvalho, 2008 p. 122). The obvious effect of this challenge is that their investments become stacked for far too long in a single portfolio and usually ends up eroding real investment value. Again, lack of exit opportunities does affect the expected investments returns due to undue delays in harvesting investment harvest. Perhaps the ultimate effect of persistent VC exit problems is the apparent lack of adequate funding for VCs in developing economies due to its disincentive factor for investors. It is incumbent on venture capitalists in the developing world to devise alternative exit opportunities beyond the traditional IPO and buyout exit routes. They could also adopt the Indian approach where corporate laws allow for flexible exit arrangements between financiers and management of VC firms in a form of equity reward system for employees (Dossani & Kenney 2002, p. 247). Respondents’ requests for creation of more exit opportunities like MBOs and restructuring of the SME sector with modern business practices is a timely call. Policy makers could also critically review the IPO (stock exchange) environment in Ghana to make it more profitable options.
Chapter 7: Conclusions and Recommendations

7.1 Introduction
The purpose of this study was to investigate challenges facing VC firms in Ghana as a developing market with particular emphasis on environmental and policy framework challenges. This chapter is mainly focus on the general conclusions drawn from the study, recommendations for policy makers in the industry, practical and academic implications and possible areas for future studies.

7.2 Conclusions
The development of VC market in a developing economy comes with peculiar set of challenges both from within the industry and the economic environment. Therefore, there is the need to do careful analyses of the challenges in order to find possible solutions to address them. Thorough analysis of the data collected from venture capitalist in Ghana suggested that lack of policy and regulatory framework for industry are very inimical to their operations. For instance, private firms were said to be operating at their own dictates due to lack of governmental policies and regulatory framework binding their operations. Clearly, these findings run contrary to the recommended VC policies by Schwartz (1994 p.17). These two responses from interviewees below support this assertion:

“Most of these private VC firms you hear do not have their permanent local offices here; all they do is what we call ‘fly-in and fly-out’ business. They would fly in when they get a deal to execute it and then leave the country as soon as they are through with the deal” (OAI).

“The current practice where VC is being regulated by SEC is not good for the industry at all. We do not have any governing body to channel our grievances. …why is SEC not exercising oversight responsibility over insurance companies? We also need a special body excising oversight responsibility over us” (SAZ)

Environmental challenges such as exit limitations and weak microeconomic environment were also very deterring to capital venturing in Ghana. For example, the IPO environment in Ghana was unanimously described as not active. These findings do not support evidence from the industry in India and Israel where the IPO environment was reported to be very active (Dossani & Kenny, 2002; Banerjee, 2008; Avnimelech & Teubal, 2002). However, the findings support that of Brazil where IPO exit was reported to be engulfed with many difficulties (Ribeiro & Carvalho, 2008). Below is another statement from a respondent on exit challenge in Ghana:

“…for us too another important challenge is with exit. …so what it means is that we could find all profitable deals in the world but we will not be in investment forever. When our time is due and the IPO environment is not favorable for us to leave as we have now, it affects our IRR. Again, we usually have financial instruments such as Put Options but in most cases, our investee firms lack the needed financial resources to buy our stake in their business”(SAZ).

These findings clearly suggest that key among the challenges facing venture capitalist in Ghana are lack of clear-cut policies and environment concerns. These findings also answer
The research question of “whether environmental factors and policy framework are supporting are hindering the operations of venture capitalist in Ghana”? The purpose of this thesis has been achieved because general conclusions of this thesis below points to varied challenges facing VC operators in Ghana.

The following are the general conclusion drawn out from my study:

There are environmental challenges in areas of instability in microeconomic indices, non-vibrant IPO environment and weak regulatory environment are seriously inimical to the development of a viable Venture Capital industry in Ghana.

Key micro economic indicators such as interest rate and exchanges rate do not allow for effective investment planning and strategic geographical diversification. It also leaves them to be less competitive in the global VC market. Also, investee firms in Ghana are very much disadvantaged due to the current unfavorable exchange rate. This is because they have their business operations in local currency and receive most of their funding in dollar value and therefore if there are unfavorable exchange rate in a particular period, they become very disadvantaged because they will have to commit more local cedi to pay back their investors in foreign exchange value.

The industry is faced with exit concerns due to limited harvesting opportunities. The local stock exchange is not as vibrant as in the case of other developing markets such as India and that poses a great challenge in the use of IPO exiting. Majority shareholder Buy back exit option is also not a workable preference with venture capitalist at the moment because owners of SMEs who are the majority shareholders in this case do not have the needed financial capacity to exercise that option. The above challenges leave VC practitioners with scarce opportunity to exit successfully to reap the expected returns on their investments.

Lack of clear of clear cut policy direction and effective regulations has also been confirmed as very detrimental to the operations of VC in Ghana. Currently, the industry does not have a well established regulatory body with sole responsibility of VC operations. The industry is generally being regulated by SEC Ghana which also has an oversight responsibility of the entire financial sector which generally regarded as too broad for a specialized body such as VC. Lack of clear cut policy direction for the industry has allowed some private operators to adopt what is called ‘fly in and fly out’ business strategies where they avoid the cost of maintain a permanent office in Ghana.

The legal environment in Ghana has been described by industry players as very slow and expensive. Some basic legal structures have been put in place but the problem is the capacity to enforce the law and therefore it takes longer time processing time for a simple case which would have been processed in more developed economies. The business community is more disadvantaged due the limited number of commercial courts. Due to this challenge, VC practitioners have resorted to building strong client relations and arbitration clauses to resolve contractual disputes. This however supports findings by Ribeiro & Carvalho (2008) about the Brazilian legal environment. VCs in Brazil were said use arbitration in resolving contractual disputes and also deals were structured on structured on trust.

The industry also faces a challenge with reliable data about activities of SMEs for valuation of deals. This is due to lack of record keeping culture of most SMEs in Ghana. The nature of SMEs is such that they either do not keep reliable data or are not willing to share key
information about their businesses. There is also problem with some professionals like
accountants and auditors because team up with owners of investee firms to prepare fictitious
documents as part of the mandatory supporting documents. Data like this do not promote
effective deal valuation. Much of this challenge is also due to lack industry data from
research institutions. Support from research institutions for VC operators in Ghana is totally
absent.

General public knowledge about the concept of VC is very poor because the concept is new
in the Ghanaian business environment. Scarce knowledge about the concept of VC has given
way for negative perception in the minds of entrepreneurs that, they stand losing control of
their business if financing is sought from Venture capitalist. It is also because most
entrepreneurs are preoccupied with the concept of debt borrowing and do not see the need in
sharing ownership with a financier. This has become a big challenge to their operations
because they spend much of their business time explaining the concept of VC to
entrepreneurs and also the benefit that are likely to accrue to them. The main effect of this is
that it prolongs the deal structuring time of their investments.

Lack of tax incentives for investors and investee firms is another great concern for VC firms
in Ghana. The current tax incentives are only applicable to the operations of VC firms with
no regards to suppliers of funds(investors) and the final recipient these funds(SMEs) in the
VC process. Development of the industry will come to nothing if these key stakeholders are
not considered in any incentive package for the industry.

There are also inherent challenges within VC companies with respect to attracting the right
caliber of personnel with requisite level of experience and the know how to help in
structuring deals. Finding people with PE experience has been a challenge to firms in the
industry has been very challenging which is partly due the fact that VC concept in very new
in the Ghanaian business vocabulary. Most personnel in the industry are people with generic
investment banking experience and therefore it takes longer time for them to get the job
experience for them to apply themselves to the concept of EVC. The effect of this challenge
is that it prolong the turnaround time for deal structuring which is not good for operational
efficiency.

Most private firms in the industry do not have permanent office accommodation in the
country and that is a great concern for few firms who have opted to legitimate their presence
in the country. Their business strategy is to fly into the country when there is a deal and leave
the country as soon as they particular deal. This is very bad for an developing industry like
Ghana because it takes collective will of all stakeholders to develop a specialized industry
like VC.

Bureaucracy has been generally described by industry practitioners as been good for the
industry because it helps reduce the associated risk with VC investment. The process of fund
conceptualization and other deal processes are associated with a lot of documentations and
due process. Apparently, bureaucratic processes with VC operation helps to protect all parties
involved in the investment process against fraud, and misstatements and therefore it is a
strength rather than challenge.

Finally, the prospect of the industry is very bright considering the caliber of investors and the
zeal of young professionals manning various respective portfolios. Again the introduction of
the new pension scheme is exciting news to venture capitalist because it would help enlarge
the funding options. What is also important with Ghana’s industry is that there is intent from government to create the enabling environment but the problem is how to translate the intention of policy makers into workable policies and regulations.

7.3 Recommendations

I would want to recommend the following to policy makers and VC practitioners in Ghana:

That the government should take a holistic view on the entire VC industry with the aim of designing a clear-cut policy and regulatory framework that will work in the interest of public and private operators alike. For that matter, government should establish a body that will seek to the promotion of the entire VC industry unlike VCTF which is solely for PPP companies. This, I believe will help to reduce the current environmental challenges in the industry.

The existing legal system must be critically overhauled to include more commercial courts to ease the pressure on the exiting few ones in operation. By so doing, it will help to reduce the time and cost on seeking legal redress hence restoring the lost confidence in the legal and encourage the use of the court system by venture capitalist and other businessmen alike

Government must work to the strengthening of the micro economic environment to make it more business friendly and also create competitive environment for VC investments. This will help attract more foreign direct inflows into the industry and also help create more exit avenues in strategic buyers.

Venture capitalist in Ghana should as a matter of urgency work to the challenge of winning public confidence in their operations by ensuring that all transactions with investee firms are done in a more transparent manner. They should also design strategies to create more public awareness about the concept of VC since it is a new investment class in Ghana. This will help solve the challenge of negative public perception about VC within the business community in Ghana.

Venture capitalist should structure their investment deals in a manner that entrepreneurs will see the values in selling their business when harvesting time is due. This could be done by ensuring that personal benefits to the entrepreneurs are pushed to the tail end of the investment process. This will serve as a tonic for them to sell and it will as well help ease the exit pressure on venture capitalist in Ghana.

Government should work to the support of successful IPO exiting by reducing the bureaucratic processes and barriers in the registrations at the stock market.

Again, to help address the exit problems, VCs should use their network with multinational investors to bring on board strategic buyers and they must be part of the later stages of the investment process. This would help provide them with a natural and successful exit. This will also help ease pressure on IPO exit in Ghana.

Government should create the enabling environment for research activities to flourish. This would help ignite researcher’s interest in the operations of VC and could also help solve the challenge of lack industry data for effective VC investment decisions.

To ensure total realization of the intended benefit of the tax incentive package, government should think through the possibility of widening the scope of beneficiaries to include key
stakeholders like investors and investee firms. This will motivate them to see the need to be keenly involved in the operations of venture capitalist.

VC firms under the ambit of VCTF should endeavor to win itself from the total influence of government as in the case of FCLP to provide them with the needed space to enhance efficiency in operation by attracting investments from multinational firms. This will also help attract more experienced personnel into their folds and eventually creating value for the development of the entire industry in general.

Government could set up centers for the training of generic professionals who have the interest of working in VC firms. This will serve as a support for venture capitalist because it will save them the time and cost of training raw talents. This will also help win public interest to the activities of VCs.

7.4 Theoretical and practical implications of the study

This study has contributed to the knowledge base of already existed challenges of VCs in developing markets. More especially, the ‘one size fits all regulations’ and ‘fly-in and fly-out’ concerns raised by interviewees. To the best of my knowledge, I have never come across any of these challenges in any academic literature read so far and therefore these two challenges identified would enrich academic literature on VC. Again, the issue of inefficient legal environment reported in academic literature as being a major challenge to VC investment in other countries (Ribeiro & Carvalho, 2008), were not exactly the case for VCs in Ghana. It has also emerged from this thesis that legal enforcements are very low when the VC industry development is at the emerging state and this is good for academic literature on VC. Key challenges about lack of policies and environmental factors revealed by this thesis would also contribute to the academic knowledge on VC because most research findings on VC challenges have been very generic. Professionals in the industry would also benefits from the key challenges identified in this thesis. Especially, policy makers in Ghana would be able to develop the industry better after providing solutions to the challenges identified. This would help in dealing with some of the basic challenges inhibiting the successful development of a viable industry. The recommendation in the area of drafting in strategic partners in the investment process and subsequently serving as buyers would be very beneficial for VCs in finding alternative exit routes.

7.5 Suggestions for future studies

There have been various studies about relating to the operations of VCs in developing market. Mention could be made of Ribeiro & Carvalho, (2008), Gatsi and Nsenkyire (2008), Benerjee, (2008) among others. However, there are still areas of research interest that could be looked at in the future for academic and professional benefits. The following areas could be of interest to future researchers:

Study into the survival rudiments of VC in developing markets might be of immense importance to the academic world and professionals who finds themselves in such market. Here, researchers will look at what it takes for VC to survive in trying markets like Ghana where challenges abound in number. This would however serve as a guiding principle for prospective VC operators in such markets. It will also bring to the attention of policy makers in such markets the teething problems of practitioners.
A study into how generic professionals apply themselves to the concepts of VC would be of great benefit to the VC world. Generic professionals are practitioners who have found themselves in the VC world without basic academic background. This study when conducted will serve as a benchmark for industry practitioners in the developing markets where professionals are in scarce supply.

A full-scale study into how arbitration works in place of a workable legal system in developing economies would also be good for the legal environment of VCs. This would help VCs in developing markets where legal environment is not effective.


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Date accessed 03-09-2010.


Date accessed: 03-09-2010.


Date accessed 12-07-2010.


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Appendixes

Appendix 1: Interview Sheet

1. General background and the focus of your company.

2. What are the main challenges facing your company? (Specific company challenge)

3. Challenges facing the Venture Capital industry in general?

4. What are the frequently reported challenges from your clients?

5. How would you consider the following VC development factors in Ghana (These questions are drawn from the experience of India, Brazil, Israel and other western countries). Are they hindering or supporting your investment operations?
   
   I. Entrepreneur Orientation and risk attitude
   
   II. Support from research institutions
   
   III. Legal System
   
   IV. Bureaucracy
   
   V. Taxation Incentives
   
   VI. Initial funding
   
   VII. Clear-cut policies direction and regulatory framework

6. In general terms what are the effects of these challenges in the operations of your firm?

7. How will you assess the effort of Ghana government in coordinating all stakeholders in the industry?

8. How do you think government can ensure the right balance of collaboration between research institutions and the venture capital industry?

9. Where do you suggest that government should be more focused in developing the VC industry bearing in mind that it is still an infant industry in Ghana?

10. Which area of the industry do you think research institutions should focus more in their attempt to support the growth of the industry?

11. How do you foresee the future of venture capital industry in Ghana?
## Appendix 2: Development and Financing Stages of a Venture.

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<th>Activity</th>
<th>Seed</th>
<th>Start-up</th>
<th>Early Development</th>
<th>Expansion</th>
<th>Profitable But Cash poor</th>
<th>But Rapid Growth</th>
<th>Bridge or Mezzanine</th>
<th>Harvest</th>
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<td>Concept Development; Basic Business plan;</td>
<td>Detail business</td>
<td>Securing initial PP&amp;E; Initial product sold</td>
<td>Secure additional PP&amp;E; Develop Marketing Strategy; Expand production capacity</td>
<td>Expand production capacity working; capital need; grow</td>
<td>Marketing strategies Refined</td>
<td>Marketing And R&amp;D</td>
<td>Recap; Buy outs; Sell to acquirer; Go public</td>
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<td>Assemble of Mgt. team; Product prototypes; Exploring market Potential</td>
<td>Plan; assemble mgt teams; Test prototypes; Finalise Product/service Lines</td>
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<td>$0-1 million</td>
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<tr>
<td>Capital required</td>
<td>$0-1 million</td>
<td>$1-5million</td>
<td>$5-10 million</td>
<td>$5-10million</td>
<td>$5-10million</td>
<td>$5-10million</td>
<td>$10+ million</td>
<td>Bootstrap, Business Angel</td>
</tr>
<tr>
<td>Source of Financing</td>
<td>Angels; corporation; University</td>
<td>VC; government</td>
<td>VC; Government; bank</td>
<td>VC; bank; Retained earnings</td>
<td>VC; bank; Retained earnings</td>
<td>VC; bank; Retained earnings</td>
<td>VC; bank; Retained earnings</td>
<td></td>
</tr>
<tr>
<td>Security Typically Issued</td>
<td>Personal loans; Common Stocks</td>
<td>Guaranteed bonds; notes w/ warrants; conv. preferred stock; partnership</td>
<td>Guaranteed bonds; conv. bonds; conv. preferred stock; common stock</td>
<td>Secured debt; conv. bonds; conv. preferred stock; common stock</td>
<td>Secured debt; conv. bonds; conv. preferred stock; common stock</td>
<td>Secured debt; conv. bonds; conv. preferred stock; common stock</td>
<td>Secured debt; conv. bonds; conv. preferred stock; common stock</td>
<td></td>
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<td>Source: Ogden et al., 2003, p.361.</td>
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