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Venture capital funding in Africa: a mixed-methods study of evolving ecosystems and financial discrimination

Christian Kabengele¹ · Rüdiger Hahn²

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Abstract

Africa's startup ecosystem is growing rapidly, yet venture capital (VC) funding remains disproportionately allocated to non-African founders. This study investigates the factors driving this disparity, focusing on institutional voids – gaps in legal frameworks, financial infrastructure, and market-supporting institutions – and investors' perceptions of risk and financial discrimination. We conducted 37 interviews with investors and entrepreneurs to identify the determinants of VC funding, including startup location, founder origin, and international networks. Additionally, a qualitative comparative analysis of 335 African fintech startups revealed the factor configurations that enable startups to secure high levels of VC investment. Historically, the findings reveal that non-African founders have benefited from investor homophily, a preference for investing in individuals with similar backgrounds, to mitigate the perceived risks related to institutional voids. By contrast, African founders faced greater barriers to funding. However, as Africa's VC ecosystem has matured, local founders have begun to overcome these obstacles. By linking institutional voids to homophily and embedding a postcolonial perspective, acknowledging how historical power dynamics and colonial legacies shape investor perceptions and market structures, this study sheds light on the systemic biases that shape VC funding. These findings offer actionable insights for investors, policymakers, and entrepreneurs aiming to foster a more inclusive VC landscape.

Keywords Venture capital · Africa · Institutional theory · Homophily · Emerging markets · Mixed-methods approach · Qualitative comparative analysis

Introduction

Africa's startup landscape has rapidly evolved in recent years, indicating the economic empowerment of African entrepreneurs. Nevertheless, many well-funded African startups appear to have non-African founders (Madowo, 2020), hinting at potential financial discrimination against African founders. This issue is particularly relevant since African startups often depend on venture capital (VC) due

to significant funding constraints faced by firms on the continent (Harrison et al., 2014).

The African investment landscape presents various challenges for the relationship between non-African investors and African founders. African markets are considered relatively unfavorable business environments (Kamoche & Wood, 2023), characterized by significant institutional voids, gaps in legal frameworks, financial infrastructure, and market-supporting institutions (Bellavitis et al., 2019; Khanna & Palepu, 1997). These voids hamper information transfer to investors and contribute to information asymmetry (Akerlof, 1970). Thus, they make it particularly difficult for non-African investors to assess startup potential. This increases their uncertainty as they operate outside their familiar environment (Buchner et al., 2018; Wu & Salomon, 2017). Faced with uncertainty, investors tend to favor entrepreneurs who resemble them to reduce information asymmetry (Claes & Vissa, 2020). This phenomenon, known as homophily, refers to individuals' tendency to associate with others who share similar social characteristics (McPherson et al., 2001).

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Research indicates that in high-uncertainty environments, homophily becomes more pronounced, impacting investment decisions (e.g., Hegde & Tumlinson, 2014). Empirical evidence suggests that homophily can reinforce biases, leading to discrimination in VC markets, for example against women (Malmström et al., 2017) or ethnic minorities (Bengtsson & Hsu, 2015; Zhang et al., 2016).

This homophilic bias may be particularly relevant in the African VC landscape, which is dominated by non-African investors (AVCA, 2020). The literature on international VC investments highlights the importance of institutional distance in shaping investment outcomes, as investors from mature markets seek ways to mitigate risks when investing in less familiar environments. Research suggests that syndication between local and international VCs can help bridge this gap (Khurshed et al., 2020), as it can leverage home-country immigrant communities to facilitate deal flow (Balachandran & Hernandez, 2021). However, most studies have focused on investor perspectives, with limited research on the strategic options available to startups seeking VC funding. Studies suggest that startups can enhance their credibility through signaling mechanisms, such as associating with reputable investors (Alvarez-Garrido & Guler, 2018) or leveraging network referrals (Nai et al., 2022); however, these factors are often examined in isolation rather than as part of a broader set of interdependent conditions that influence funding success.

Recent literature on VC in emerging markets has begun addressing these gaps, particularly by highlighting the role of institutional voids (Ahlstrom & Bruton, 2006; Khavul & Deeds, 2016). However, much of this research focuses on Asia, with limited attention given to Africa-specific VC dynamics (Adongo, 2017; Jaoui et al., 2022). Consequently, little is known about how African startups navigate homophilic biases and institutional constraints to attract funding.

In a market marked by institutional voids, a high dependency on VC funding, and potentially homophilic external investors, African startups can adopt various strategies to increase their appeal to investors. Research indicates that startups can signal their quality through associations with esteemed third parties (Plummer et al., 2016) or by leveraging networks to attract investments and lower monitoring costs (Hsu, 2007). Investors in emerging markets often depend on founder characteristics, such as education and international experience (Bellavitis et al., 2019), and venture attributes, such as geographical location (Cumming & Dai, 2010), to make funding decisions.

However, given the complexity of these factors, understanding VC funding success in Africa requires an approach that accounts for how the different determinants interact. To explore these factor configurations, we applied a mixed-methods approach¹ (Venkatesh et al., 2013; Wellman et al., 2023) to develop an understanding of homophily and

institutional voids in Africa. Specifically, we addressed the following research questions:

Research Question 1: How do investors and startups perceive the factors influencing the attraction of VC investments in Africa?

Research Question 2: What combinations of factors do startups in Africa use to attract high levels of VC investment?

To answer RQ1, we conducted a qualitative study involving 37 interviews with investors and African entrepreneurs. The results indicate that various factors, such as startup location, founder origin, and international networks, influence the chances of securing VC funding. Non-African VC investors in our sample seemed to prefer non-African founders, and founders with strong international networks seem more successful in attracting investment. However, our findings suggest that Africa's VC ecosystem is evolving, offering more opportunities for local founders.

These results are the basis for a fuzzy-set qualitative comparative analysis (fsQCA) of 335 fintech startups active in Africa to address RQ2. This analysis explicitly captures the evolution of VC funding patterns over time and examines how founding team composition influences fundraising success.

Our findings show that, in its early stages, Africa's VC market favored startups led by non-Africans. However, this dynamic shifted over time, creating more opportunities for African-led startups to secure high funding, although they faced more stringent conditions than their non-African counterparts. Thus, this study provides empirical evidence of homophily among international VC investors in Africa and contributes to the broader literature by linking institutional voids and homophily to cross-regional investment patterns. By synthesizing the findings of our mixed-methods approach, we provide novel insights into the complex dynamics of VC funding and financial discrimination in Africa, surpassing what can be achieved using a single methodological approach (Venkatesh et al., 2013; Venkatesh et al., 2016).

Furthermore, we contribute to international business research by linking institutional voids in emerging markets (Bellavitis et al., 2019; Khanna & Palepu, 1997) with homophily in VC investments (e.g., Bengtsson & Hsu, 2015; Hegde & Tumlinson, 2014). By situating our analysis in Africa – an underexplored yet highly relevant context (Nachum et al., 2023) – we expand theories on institutional voids and homophily to environments of high uncertainty, illuminating financial discrimination, biases, and risk-mitigation strategies in international investment.

¹ See in detail in Appendix A.



Integrating a postcolonial perspective (e.g., Koddenbrock et al., 2022; Mbembe, 2001), we argue that colonial legacies and historical biases reinforce homophily among international investors, shaping modern African VC dynamics. This expands the theories of international business by linking historical narratives to contemporary behavior. Specifically, we reconceptualize institutional voids as socially and historically constructed phenomena, providing a nuanced lens for examining foreignness and investor behavior in emerging markets. Our work reframes the liability of foreignness (Wu & Salomon, 2017; Zaheer, 1995) as a dynamic, historically and institutionally embedded construct that facilitates stereotypes undervaluing local entrepreneurial talent. We also suggest strategies for African entrepreneurs to counter these biases through networks and signaling. By focusing on emerging market entrepreneurship, our study advances the mission of international business research by addressing challenges in globally interconnected yet institutionally diverse contexts.

Building on our mixed-methods approach, we now turn to the methods and findings of our qualitative interviews to examine investors' behavior and perceptions in Africa. These insights informed our fsQCA, which was the second stage of this study. This sequential approach allowed us to explore and expand on the key themes. The overarching discussion proposes a postcolonial model for raising VC in Africa and highlights its implications for theory and practice.

Study 1: Qualitative insights on determinants of VC funding in Africa

We conducted a qualitative study on VC funding in Africa to answer RQ1: *How do investors and startups perceive the factors influencing the attraction of VC investments in Africa?*

Method

Research context and sampling

Following previous management research (e.g., Butler et al., 2020; Thies et al., 2019), we used the Crunchbase database to construct a sample of African fintech companies (fintechs). We focused on the fintech industry as a research context, as this is Africa's largest startup sector and receives the largest fraction of VC funding on the continent (Partech, 2023). Focusing on a single industry enhances internal consistency, as the overarching business model—and consequently, the funding requirements—are more comparable than across sectors. Investors use Crunchbase to identify appropriate investment targets. Hence, many startups searching for external capital are registered and have strong

incentives to disclose recent and accurate information. We filtered all startups from the financial services industry headquartered in Africa that disclosed funding information, excluding non-startup firms (e.g., banks and development banks), and those without a clear fintech focus (i.e., no technology use), or undisclosed founder or investor information.

Considering that many fintechs operating in Africa are not headquartered on the continent, we cross-checked the Crunchbase data with that of Briter Bridges, a London-based data aggregator that specializes in startup ecosystems in emerging markets. This allowed users to filter the startup's main target market rather than the headquarters' location and add a number of startups that operate but are not headquartered in Africa. This approach yielded 335 fintech startups. Information on 482 VC investors in these startups was obtained from Crunchbase and Briter Bridges.

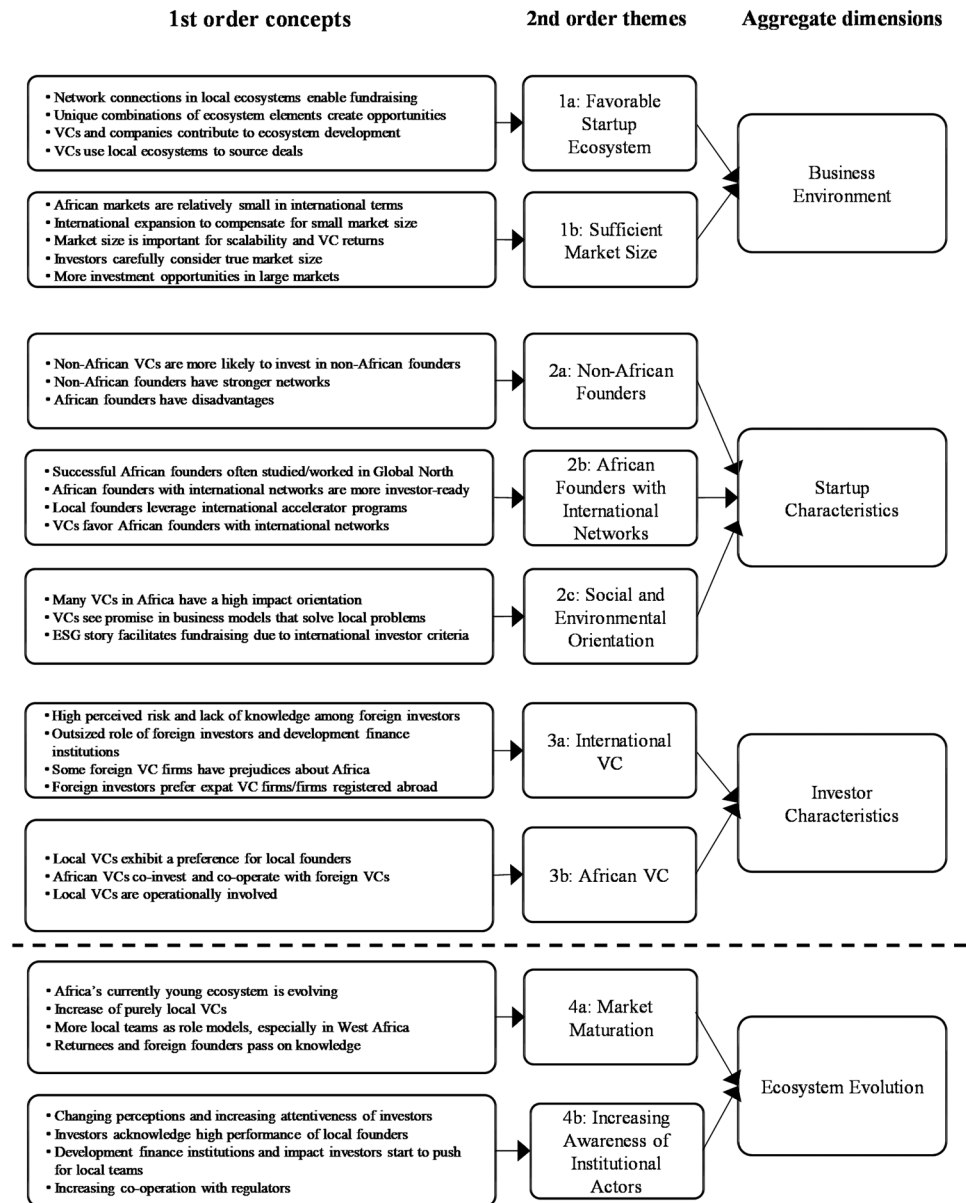
Data collection and analysis

For data collection, we contacted investors and entrepreneurs via e-mail using information from their Crunchbase profiles, company websites, and LinkedIn. Furthermore, we participated in a global investor conference on Africa, where we met additional investors. After conducting 37 interviews reflecting the geographical diversity of Africa and using a semi-structured interview guide (see Appendices B-1 and B-2; average length ~50 min, total material almost 29 h; see Appendix C), via video calls, we reached data saturation. Our sample included interviewees from most regions of the continent and international investors from Europe, Asia, and North America. While acknowledging the institutional and cultural diversity across Africa (Nachum et al., 2023), we posit that for VC, an integrated market perspective is appropriate as Africa-focused VC firms typically have a pan-African investment horizon due to the relatively small market sizes of individual countries. Furthermore, most Africa-focused VC investors draw from the same pool of international institutional investors, such as development finance institutions and our participants expressed perceptions of an integrated African VC market.

We analyzed the interview data inductively following a three-step process as suggested by Gioia et al. (2013), “looking for similarities and differences among emerging categories” (Gehman et al., 2018, p. 285). We openly coded our data to create a long list of first-order codes using informant-centric terms that addressed our research questions (see Corbin & Strauss, 2008). In the subsequent analyses, we revisited, compared, and classified the codes into second-order themes and aggregate dimensions as shown in Fig. 1.



Fig. 1 Data structure



Findings²

Business environment

Investors and investees suggested that the high quality of a startup's surrounding ecosystem increases its chances of raising VC funding in Africa (*Theme 1a*). The favorable ecosystem conditions include the presence of successful technology pioneers, numerous entrepreneurial support organizations, and many VC investors. The networks between these stakeholders provide startups with fundraising opportunities,

which VC firms in our sample leveraged to source attractive deals, as Interviewee 28 voiced "That's why you get to Lagos is just to build better networks." Other locations, such as Nairobi and Cape Town, were also repeatedly mentioned.

Beyond the startup ecosystem, market size appeared as an important element of a startup's business environment (*Theme 1b*), mentioned by almost all investors and entrepreneurs, as the exemplary illustrated by Interviewee 14: "Market size is really important for us because it kind of mirrors how large the opportunity is and the revenue." However, based on international comparisons, African markets are relatively small. VC investors emphasized the importance of market size in enabling portfolio companies to scale and realize VC returns. Some expected their startups to expand across Africa and beyond to compensate for their

² Appendix D provides proof quotes on all aspects described in this section.



small market size. Eventually, many investors in our sample primarily invested in three or four major markets: Nigeria, South Africa, Egypt, and Kenya.

Startup characteristics

Various startup characteristics influence their ability to raise VC funds in an African context. Interviewees frequently indicated that predominantly non-African founding teams were more likely to raise VC (*Theme 2a*). Our data indicate that non-African investors exhibit a preference to invest in founding teams who resemble them (“You have a tendency to basically, as an investor, invest in who looks like you,” Interviewee 22), potentially to reduce the perceived insecurity of operating in African countries. Furthermore, non-African founders may benefit from strong networks in their home countries, facilitating investor interest. However, many African founders do not benefit from these advantages, as they may lack the necessary investment readiness to talk to international investors due to gaps in educational opportunities.

African founders may be able to cope with such disadvantages if they build international networks (*Theme 2b*). Interviewees mentioned, for example, that a large fraction of successful African founders have studied or worked in the Global North, which increased their familiarity with international investors’ requirements, as Interviewee 12 mentioned “the second group [of entrepreneurs who successfully raise capital apart from expats] are African who studied in Europe or the US.” Alternatively, African-led startups could participate in international accelerator programs to improve their connections and prestige.

Startups’ social and environmental value orientation (SEVO) represents the third startup characteristic that emerged from our data (*Theme 2c*). This may be influenced by the presence of many impact-oriented investors active in Africa, possibly driven by the important role that development finance institutions play on the continent or by the fact that such investors “have their ... expectations around things like ESG [environmental, social and governance requirements].” (Interviewee 16).

Investor characteristics

Our interviewees confirmed that Africa’s VC market is dominated by international VCs (*Theme 3a*). These investors appear to perceive the African market as risky and possibly lack knowledge about the local environment: “after several weeks of talking, they were still mixing up Kenya and Nigeria [... and] this kind of knowledge gap ... creates some perceived risks” (Interviewee 22). Choosing founders from the Global North might thus be a risk-mitigation strategy.

Conversely, local VC firms (*Theme 3b*) often prioritized investing in local founders as interviewees indicated a commitment to empowering local founders (“our mission is to actually empower Africans,” Interviewee 4). They believed local founders possess deeper insight into the respective market environment. Local VC firms frequently co-operated with foreign counterparts, assuming an intermediary role to leverage their local expertise (“we do not ... encourage international investors to invest in Africa without local investors ... if you don’t have a local presence, you will lose your money”, Interviewee 27).

Evolution of Africa’s VC market

Our qualitative data suggests that the African investment ecosystem is maturing: “the ecosystem ... is accelerating really fast” (Interviewee 22) (*Theme 4a*). Although the early stages of Africa’s VC market may have been dominated by foreign investors and non-African founders, the interviewees expected an increasing prevalence of local VC firms over time. From the investee perspective, interviewees saw an increasing number of local role models of successfully funded firms. African founders returning from abroad pass on knowledge that may localize to future generations of entrepreneurs. Thus, some interviewees expected expanding prospects of raising funds for future African-led startups.

Along with the market maturation, our data suggest increasing awareness among institutional players (*Theme 4b*). Investors increasingly saw Africa as an appealing market opportunity and have gained increasing awareness of potential discrimination against local founders. Development finance institutions and other impact-oriented investors may steer toward investing into African-led startups, as their mandates require them to build local capacities and “focus on empowering those who actually are from the continent” (Interviewee 24). Furthermore, many investors in our sample remarked on the high performance of local teams due to their familiarity with local markets, which enhances investor confidence in supporting them. Finally, increasing cooperation between foreign investors and regulators may point toward more favorable regulatory environments for entrepreneurship.

Preliminary discussion

From an overarching perspective and to the best of our knowledge, this is the first study to shed light on the detailed rationale of investors in the African VC market and to provide insights into individual investment decisions, and startups’ strategic reactions. Regarding the evolution of Africa’s VC market (*Themes 4a and 4b*), we provide new insights into the dynamic nature of the African VC market, highlighting its maturation. The findings detail



a shift from predominantly foreign-led investments to a more balanced mix, where local VCs are starting to play a significant role, particularly in empowering local founders and navigating institutional environments. This evolving dynamic was not prominently featured in previous literature, which often viewed African markets as static and heavily dominated by foreign investors (Ezeoha & Cattaneo, 2012). Our qualitative insights also introduce the idea that development finance institutions and other impact investors are shifting toward investing in local teams to build local capacities, reflecting an increasing awareness of potential discrimination against local founders. This trend is relatively new and underexplored in the literature.

Furthermore, while SEVO (*Theme 2c*) as a concept is known in the literature, our qualitative study uniquely identifies its critical role in the African fintech context as a signal to attract VC investment. Prior studies meanwhile, have mainly focused on the role of SEVO for raising funds in international public markets, especially for multinational firms from emerging markets (e.g., Marano et al., 2017). The focus on the startup context is especially relevant in environments with high institutional uncertainty. The finding that startups with a high SEVO can attract international investors even in less favorable market conditions provides a novel understanding of how social and environmental commitments are leveraged in emerging markets like Africa.

For the other themes, our qualitative inquiry supports existing knowledge based on the mentioned (novel) empirical insights from an African startup and VC perspective. The importance of a favorable startup ecosystem (*Theme 1a*), such as the presence of networks and entrepreneurial support organizations, is well documented in literature (e.g., Audretsch et al., 2019; Cumming & Dai, 2010). Our study confirms the significance of these elements for venture success, especially in contexts where immediate connections help reduce information asymmetries. The significance of market size for scalability and VC returns (*Theme 1b*) is also widely acknowledged in developed and emerging markets (e.g., Bapna, 2019; Petty & Gruber, 2011). Our insights support the existing understanding that larger markets offer greater opportunities for scaling and, consequently, for attracting VC investment.

Turning to startup characteristics, the preference of international investors for non-African founders (*Theme 2a*) aligns with prior research on homophily and its role in reducing perceived risks in cross-border investments (e.g., Bengtsson & Hsu, 2015; Zhang et al., 2016). The advantage of having international networks for local entrepreneurs (*Theme 2b*) in attracting foreign investment is a concept that has been explored in previous international business studies (e.g., Khan et al., 2018). This confirms that international exposure and networks are critical for

mitigating the liabilities of foreignness and overcoming local disadvantages.

As demonstrated above, social networks seem to play a crucial role in successfully raising funds in Africa, both due to the potentially stronger networks of non-African founders and the significance of international connections for locals. Prior research shows that elite educational networks may be a crucial ingredient for fundraising in other emerging and even advanced countries (Fuchs et al., 2022; Milosevic, 2018). Nevertheless, our results suggest that this issue may be particularly salient in our context. Given Africa's historical dependency and peripheral position in the global economy (Kvangraven et al., 2021), such networks may be even harder to obtain for African founders, especially given the dearth of prestigious educational institutions on the continent.

When looking at international versus African VCs (*Themes 3a and 3b*), the dominance of international VCs in African markets and their reliance on African co-investors to mitigate risks is well documented. The differentiation between the risk perceptions and investment behaviors of international versus local VCs supports existing knowledge. These findings align with established concepts in the literature regarding the roles and behaviors of international versus local investors in emerging markets (e.g., Khurshed et al., 2020; Zhang et al., 2016).

Overall, our qualitative findings indicate that the funding success of African startups depends on various factors, including the configuration of characteristics in the business environment and those of startups and investors. Several authors have emphasized the value of considering how different startup signals can complement or substitute for each other and thus working out which configuration of signals helps to successfully secure funding (e.g., Bapna, 2019; Plummer et al., 2016).

Study 2: Configurations of (Un)successful VC funding in Africa: Qualitative comparative analysis

We conducted an fsQCA to understand how various determinants collectively influence the success of VC funding of Africa-focused startups to answer RQ2: *What combinations of factors do startups in Africa use to attract high levels of VC investment?* Furthermore, we seek to investigate the role that founding team composition plays in these combinations and how this role evolves as Africa's VC ecosystem matures.



Method

Research approach

Qualitative comparative analysis (QCA) is a set-theoretic method that identifies combinations of conditions (i.e., configurations) necessary or sufficient for a particular outcome (Schneider & Wagemann, 2012). QCA examines conjunctural causation, where outcomes are associated with multiple causal conditions, and equifinality, where different configurations may lead to the same outcome. This makes it ideal for our study, as startups can follow various paths (signal configurations) to obtain high funding amounts from VCs. We applied fsQCA to explore configurational phenomena and refine theoretical insights, rather than test theory statistically (for a similar approach in an African context, see Nason et al. 2024). Utilizing Boolean algebra, QCA minimizes truth tables³ to isolate configurations necessary or sufficient for an outcome (Greckhamer et al., 2018).

Combining QCA with a preceding qualitative interview analysis allowed us to identify the funding determinants perceived as crucial by the subjects operating in our market of interest. We considered it crucial to base our decision regarding which conditions to include in the QCA analysis on empirical evidence, given the limited number of conditions to include. Furthermore, our mixed-methods approach allowed us to follow the calls for more context-specific research (e.g., Bruton et al., 2022). Specifically, while some conditions from Study 1 find precedence in the literature, it was *ex ante* unclear which funding determinants are particularly relevant in the African setting. Hence, extending outside the insights generated through interviews to a broader sample using QCA, we move from the specific to the general (Nguyen & Tull, 2022).

Data

Based on Crunchbase and other sources, we gathered various information to be included in the fsQCA of all 335 African fintech startups in our sample. This included the total volume of VC funding raised by these companies and, based on the findings of our qualitative study, we collected data on the business environment, the startup characteristics, and investor characteristics, as described in Table 1. An important step in QCA is the assignment of membership scores to cases from 0 (full non-membership) and 1 (full membership) (Schneider & Wagemann, 2012). Empirical data for each case were translated into membership scores as outlined below.

³ Truth tables and the R syntax are included in the supplementary material.

Outcome

Startups typically go through various funding rounds (Claes & Vissa, 2020). However, neither the total number of funding rounds nor the volume of funding raised across rounds or the time passed between rounds are consistent across startups. Some startups raise high amounts early, while others do so later. We seek to explore how various conditions affect a startup's overall funding success across all rounds. Hence, as our QCA outcome we used the total US\$ amount of funding cumulatively raised by each startup across all funding rounds. Comparable outcome variables are used in previous studies on how signals affect startups' funding success (Gloor et al., 2020; Plummer et al., 2016). While this serves as a suitable proxy for funding success, potential age-related temporal effects on total funding are a limitation discussed below.

We used startups' relative funding performance compared to their peers, assuming that the capital requirements of fintech startups in Africa were similar. Funding amounts above the median were categorized as high and those below the median as low (e.g., Greckhamer et al., 2018). We used the median instead of the average because the distribution was significantly positively skewed. The thresholds for full exclusion and inclusion were 25th and 75th percentiles, respectively. To control for these choices, we also used different inclusion criteria to ensure robust results (Greckhamer et al., 2018).

Conditions

We derived conditions from the first three aggregate dimensions of the interview data structure (Fig. 1). To determine the favorability of the startup ecosystem, we used 2022 data from StartupBlink, a private research organization that releases annual reports on the world's most competitive startup ecosystems (StartupBlink, 2022). The scores rank from 0.1 to over 550 in the case of the most prominent ecosystem, San Francisco. With scores between 4.8 and 8.4, Nairobi, Cairo, Lagos, Cape Town, and Johannesburg are the only African startup ecosystems in our sample comparable to their international counterparts. We set the crossover point at three to include a few international ecosystems that host some of the startups in our sample, given their locations in the Global North and a significant break in our sample's distribution. The remaining ecosystems were located in the rest of Africa, with significantly lower scores than the top African and international ecosystems. As StartupBlink only ranks the top 1000 ecosystems globally, we assigned a score of 0 to non-listed ecosystems. We chose a score of 8 as the full membership threshold; that is, all ecosystems with a score equal to or higher than Lagos. We chose 1 as the full



Table 1 QCA outcome and conditions

Outcome	Measure	Fuzzy set calibration			
		Method of calibration	Fully out	Crossover	Fully in
Funding	<i>The total funding amount in US \$ a fintech has received throughout all funding rounds.</i>	Direct method	Early stage \$100,000 Later stage \$125,000	\$439,999 \$1,350,000	\$2,828,500 \$7,814,765
Conditions					
Startup ecosystem	<i>Used StartUpBlink (a data aggregator that ranks all global startup ecosystems according to their performance) ecosystem ranking, based on a score. All ecosystems whose ranking was lower than Bordeaux (3.7) were coded as rather out.</i>	Direct method	1	3	8
Market size	<i>World Bank data of purchasing power adjusted GDP in US \$ for each startup's target market. All markets that were smaller than South Africa were coded as rather out.</i>	Direct method	\$251 bn	\$700 bn	\$1,050 bn
Non-African	<i>Coded as in, if 50% or more of a startup's founding team are non-African.</i>	Crisp	0		1
International network	<i>Coded as in if at least one of the founding members has studied or worked outside of Africa, or was affiliated to a prestigious international organizations (e.g., World Bank)</i>	Crisp	0		1
SEVO	<i>Social and environmental value orientation of startup. Determined through CATA of each startup's website which yielded a score for website (%). The median, 85th and 15th percentiles are used as crossover, full membership and full non-membership thresholds.</i>	Direct method	Early stage 3.8 Later stage 4.2	6 6	8.7 8.45
African VC firm	<i>Was coded as in, if at least one of the startup's investors was headquartered on the African continent.</i>	Crisp	0		1
International VC firm	<i>Was coded as in, if at least one of the startups' investors was headquartered outside of the African continent.</i>	Crisp	0		1

non-membership threshold, covering all ecosystems with scores below that of Tunis.

To determine the market size, we used the purchasing power-adjusted GDP of each startup's target market from the World Bank database. If startups were active in multiple markets, we considered the combined size of the target markets. The crossover point was a GDP of US\$ 700 billion, classifying all cases in economies the size of South Africa or larger as located in large markets owing to a significant break in the data. The full membership and non-membership thresholds were US\$ 1050 billion (cases in Nigeria or Egypt) and US\$ 251 billion (cases in economies smaller than Kenya), respectively.

To collect data on the founding team characteristics, we used the founders' LinkedIn profiles and other available information (such as founders' bios on startup websites). This included their nationality and international experience as crisp conditions ("1" when the condition was met and "0" otherwise). Founders' international experience served as a proxy for the international networks they possessed from studying or working abroad.

We used computer-aided text analysis (CATA) to assess startup SEVO (McKenny et al., 2018). We web-scraped the "about," "how it works," "impact," and similar sections from all startups' websites in our sample. We used the dictionary for SEVO from Moss et al. (2018), complemented by an inductive list of terms specifically suited to indicate the SEVO of fintechs in Africa. Such terms include "financial inclusion" or "underbanked." We created a SEVO score for each startup in our sample based on the relative frequency of the respective phrases on the websites. There are no objective criteria to evaluate whether fintech is socially and environmentally oriented besides its performance relative to peers. Thus, we used the median as a crossover point, and the 75th and 25th percentiles as the thresholds for full membership and full non-membership, respectively. To ensure the robustness of our findings, we analyzed various crossover points and inclusion thresholds (see below). Detailed calibrations for each condition are listed in Table 1.

We used the VC investors' headquarters locations from Crunchbase to approximate their national origin and classify all investors headquartered outside Africa as international



Table 2 High funding amounts in Africa's early-stage VC market (until 2018)

Configurations	Non-African			
	N1	N2	N3	N4
Business environment				
Ecosystem	⊗	●	●	
Market size	⊗		●	⊗
Start-up characteristics				
Non-African	●	●	●	●
International networks	●	●	●	●
SEVO		⊗	●	●
Investor characteristics				
International	●	●	●	●
African	●	⊗		●
Consistency	0.87	0.94	0.88	0.93
PRI consistency	0.83	0.92	0.84	0.91
Raw coverage	0.10	0.07	0.09	0.12
Unique coverage	0.01	0.05	0.05	0.03
Overall solution consistency		0.90		
Overall solution coverage		0.26		

*N = Configurations of fintechs with high funding amount in the nascent ecosystem (until 2018). *Crossed-out circles* = low level of condition. *Black circles* = high level of conditions. Consistency threshold = 0.8. Frequency cut-off = 2. Consistency captures the fraction of cases that are both members in the configuration and the outcome (subset). Consistency takes on values between 0 and 1, higher values indicating a better fit with the model

investors and those with African headquarters as Africans. Thus, our model includes two crips conditions: one for each investor type. This differs from our approach for startups, which included a single condition (0 indicating predominantly African founders and 1 indicating non-African). Including distinct conditions for investors is empirically relevant because most startups have multiple investors and could have both international and African investors.

Analytical technique

We sought to uncover the configurations that are sufficient for VC firms to receive substantial funding. We applied a rigorous consistency⁴ threshold of 0.8 (e.g., Fiss, 2011; Greckhamer et al., 2018) and excluded configurations with less than three cases to avoid random configurations. We used the conservative (or complex) QCA solution (Schneider & Wagemann, 2012) for two reasons. First, both the parsimonious and intermediate solutions are not purely based on the empirical data as they include logical remainders and therefore rely on

Table 3 High funding amounts in Africa's later-stage VC market

Configurations	Non-African			African	All
	M1	M2	M3	M4	M5
Business environment					
Ecosystem	●	⊗		⊗	●
Market size	●	⊗	⊗	●	●
Startup characteristics					
Non-African	●	●	●	⊗	
International networks	●	●	●	●	●
SEVO		●	●	●	⊗
Investor characteristics					
International	●	●	●	●	●
African			●	●	●
Consistency	0.84	0.93	0.90	0.81	0.85
PRI consistency	0.81	0.91	0.89	0.71	0.81
Raw coverage	0.13	0.10	0.09	0.05	0.23
Unique coverage	0.05	0.04	0.03	0.03	0.16
Overall solution consistency			0.85		
Overall solution coverage			0.45		

*M = Configurations of fintechs with high funding amounts in the maturing ecosystem (until Q3 2022). *Crossed-out circles* = low level of condition. *Black circles* = high level of conditions. Consistency threshold = 0.8. Frequency cut-off = 4. Consistency captures the fraction of cases that are both members in the configuration and the outcome (subset). Consistency takes on values between 0 and 1, higher values indicating a better fit with the model

assumptions. Second, the intermediate solution in particular requires to use theoretical insights to make decisions about plausible remainders (Schneider & Wagemann, 2012). To stick to our exploratory approach, we chose to only consider the empirically based solution. Furthermore, given the novelty of our research context, we did not feel that theory was sufficiently developed to make assumptions about the plausibility of specific configurations. Hence, we operate within common practice in the QCA literature (Glaesser, 2023). Since the differentiation into core and peripheral conditions by Fiss (2011) is based on the consideration of parsimonious and intermediate solutions, they do not apply in the context of our study.

Additionally, we conducted a preliminary analysis of necessity to determine whether any single condition was necessary for receiving high VC funding. As suggested by Schneider and Wagemann (2012), we used a cut-off value of 0.9 for the consistency of the necessity statement. While the QCA conditions directly correspond to the first three aggregate dimensions of our qualitative data structure, the temporal aspect is captured by the fourth aggregate dimension, which stands slightly apart in Fig. 1. To address this, we followed Verweij and Vis (2021) by conducting multiple QCAs

⁴ See notes at Tables 1, 2, and 3 for explanations.



over different periods, and subsequently comparing the results. Changes in the configurations or measures of fit across different periods enable observations and theoretical interpretations of temporal effects.

The first QCA captures Africa's VC market at an early stage, considering the cumulative funds raised by 149 fintech firms up to 2018. We set the frequency cut-off at two for this model to include at least 80% of cases (Greckhamer et al., 2018). The second QCA captures all disclosed cumulative funding from its inception up to the third quarter of 2022. It encompasses not only the funds raised up to 2018 by the initial 149 fintech startups from the first QCA but also includes any additional funds they raised after 2018. Moreover, it covers all startups that secured funding after 2018, resulting in a total of 335 fintech startups. This decision is analytically sensible because a startup might have already raised significant amounts of funds initially and less in the second period. However, lower funding amounts in the second period might be because the respective startup has likely become self-sustaining or successfully completed an IPO, etc. Therefore, not considering early funds may create the wrong qualitative categorization of such startups (low instead of high funding amounts; for a robustness test, see Appendix F) (Online appendix). The decision to consider the periods before and after 2018 rests on the observation that data on VC funding in Africa have only been systematically reported since 2015 (Partech, 2023). Thus, this distinction splits our total observation period into two 4-year periods. For the second model, the frequency cut-off was set to four to include at least 80% of the cases.

QCAs for both the early- and late-stage VC markets are subject to model ambiguity. The early-stage solution yielded three models that could explain the high funding amounts, although two configurations were present in all three. In this case, the model with the highest inclusion scores was selected. Thus, it represents the third QCA model. All other models had inclusion scores well above 0.8 in consistency. Furthermore, other configurations did not substantively change the theoretical implications. The late-stage QCA yielded two possible models with approximately identical fit parameters. However, both models varied in only one configuration.⁵ We selected the most theoretically salient configuration (M3 in Table 3).

⁵ The alternative model can be replicated using the R script in the Supplementary Materials.

Findings

Descriptive statistics

Of the 335 fintechs, 207 (62%) were located in Africa's five leading startup ecosystems: Cairo, Cape Town, Johannesburg, Lagos, and Nairobi. Another 39 (11%) were headquartered outside Africa, for example in San Francisco, London, and Paris. Only 89 fintechs (27%) were headquartered elsewhere on the continent.

The mean funding amount was approximately US\$ 19 million (with a range from US\$ 1,104 to US\$ 570 million), while the median was approximately 1.3 million US\$, demonstrating the distribution's positive skewness. 73 fintechs (approximately 22%) had predominantly non-African teams (i.e., at least half of the founding team members were non-African). However, that fraction increased to 40.4% in the top quartile of the funding distribution, and to 50% in the top decile. This indicates that fintechs with predominantly non-African teams were overrepresented among those with the highest funding amounts. Among the predominantly African-led fintechs in the top funding quartile, 94% had founders who worked or studied abroad.

Analysis of sufficiency

Early-stage VC market

Table 2 includes configurations sufficient to receive high funding in the early stages of Africa's VC market (up to 2018). Black circles (●) indicate the presence of a condition, crossed-out circles (⊗) indicate its absence, and empty spaces indicate that the condition does not affect the outcome.

Table 2 shows the four configurations that were sufficient to attract high VC funding. All had a sufficiency well above the 0.8 consistency threshold and the overall solution consistency was 0.90, indicating an appropriate fit. We followed best practice by considering the proportional reduction in inconsistency (PRI) scores to avoid skewed results due to simultaneous subset relations of configurations in the presence and absence of the outcome (Greckhamer et al., 2018). All configurations exhibited PRI consistency above the minimum recommended threshold of 0.7 (Greckhamer et al., 2018). Considering the relatively high number of QCA cases, an overall solution coverage⁶ of 0.26 is substantial.

All configurations associated with high funding amounts in the early stages have predominantly non-African teams

⁶ This measure indicates the fraction of cases covered by each configuration and the model in general; akin to R-squared in regression analysis.



and no configurations are available for predominantly African teams. The truth table analysis shows very few outliers of predominantly African fintechs with high funding amounts. Their occurrence is not consistent enough to increase the consistency score of the configuration above the required threshold.

Configurations N1 and N4 cover fintechs with high VC funding outside large markets and outside or irrespective of prominent ecosystems. The fintechs in both configurations exhibit a syndicate of international and African VC investors. This suggests that African investors act as intermediaries, particularly in situations of institutional uncertainty. Startups in configurations N1 and N4 include several expat-led startups that operated in smaller markets such as Senegal, Uganda, and Togo. Conversely, configurations N2 and N3 are within prominent ecosystems or large markets, as exemplified by several startups that operate in large economies such as South Africa or in prominent entrepreneurial ecosystems such as Kenya. Fintechs with these two configurations managed to raise large amounts irrespective of African VC investors, suggesting that international investors may be more comfortable investing alone in a safer business environment.

Additionally, configuration N4 suggests that SEVO may have been crucial for fintechs to mitigate uncertain market environments, such as small markets or less-prominent ecosystems, to attract high funding. The relatively high raw coverage score of this configuration indicates its high empirical relevance.

Later-stage VC market

Table 3 shows all configurations with high funding amounts at a later stage in Africa's VC markets until October 2022. All configurations and the overall model exhibit consistency and PRI scores well above the recommended thresholds of 0.8 and 0.7, respectively. Considering the relatively large number of cases, the overall solution coverage of 0.45 is again substantial.

In addition to the earlier market stages, the later-stage solution contains two configurations that predominantly included African teams. Configuration M4 even contains predominantly African fintechs which managed to raise high funding amounts outside of prominent ecosystems if they operate in large markets and possess international networks, high SEVO, and a syndicate of African and international investors. However, the configuration's relatively low raw coverage indicates that it includes only a small set of firms; for example, a Nigerian health-oriented startup with a fintech element founded by an African founder educated in the Global North.

Configuration M5 is the most empirically relevant configuration indicated by its high raw and unique coverage scores.

This reveals that, in the later stages of the VC market, the ethnic composition of founding teams became irrelevant for raising high funding amounts as long as fintechs operated in prominent ecosystems and large markets. Furthermore, fintechs in this configuration exhibited a syndicate of national and international investors while possessing low SEVO. Most firms in this sample were large, purely commercially oriented fintechs with local and non-African founders. They were either based in Nigeria and South Africa or headquartered in Silicon Valley and operated across the continent. This suggests that African fintechs have more opportunities to raise funding as the VC market progresses.

Nevertheless, there were still more paths to high funding available to non-African startups than African ones, and African startups had to face more difficult conditions to obtain substantial funding. For example, they had to operate in large markets and exhibit syndicates of African and international investors (M4 and M5). Non-African startups secured funding in less prominent ecosystems (M2) and smaller markets (M2 and M3), irrespective of African investors (M1 and M2). Notably, all African startups that raised high amounts (either in configurations M4 or M5) possessed an international network. This suggests that even if African teams managed to raise substantial funding, they were typically part of a privileged group that studied or worked abroad.

Three configurations exhibited high SEVO in small markets (M2 and M3) and less prominent ecosystems (M2 and 4). This finding suggests that it is important for startups to signal a high SEVO to attract funds in more institutionally uncertain environments. However, in the most empirically relevant configuration (M5), SEVO is low. This could indicate a shift from impact-driven or development-finance investors to more conventional commercial VC firms in large markets and prominent ecosystems. Nevertheless, SEVO is particularly high in the context of African fintech, suggesting its ongoing value as a signal.

The fact that all configurations with African teams exhibit a syndicate of international and African VCs may indicate that local VC firms act as intermediaries for international investors due to their superior market knowledge, for example, by supporting them on due diligence. This, in turn, may lower international VC firms' perceived uncertainty and, therefore, their homophilic tendency. Meanwhile, configurations M1 and M2 reveal that non-African founding teams managed to raise high funding amounts, irrespective of the African VC's presence. Furthermore, all configurations involving African founding teams exhibited international network connections. An in-depth analysis of some underlying cases reveals that African fintechs with high funding were mostly founded by entrepreneurs who returned to their home countries and leveraged connections cultivated



Table 4 Low funding amounts

Configurations	African						
	L1	L2	L3	L4	L5	L6	L7
Business environment							
Ecosystem	⊗	⊗	⊗	●	●	●	●
Market size	⊗	⊗	⊗	●	●	⊗	●
Startup characteristics							
Non-African	⊗	⊗	⊗	⊗	⊗	⊗	⊗
International networks	⊗	⊗		⊗	⊗	●	●
SEVO		⊗	●	⊗	⊗	●	
Investor characteristics							
International	⊗	●	⊗	●	⊗	●	⊗
African	●	⊗	●		●	⊗	●
Consistency	0.89	0.93	0.92	0.89	0.81	0.83	0.87
PRI consistency	0.87	0.91	0.89	0.86	0.77	0.77	0.85
Raw coverage	0.07	0.04	0.07	0.05	0.06	0.03	0.10
Unique Coverage	0.03	0.03	0.03	0.02	0.03	0.03	0.04
Overall solution consistency				0.88			
Overall solution coverage				0.34			

*L = Configurations of fintechs with low funding amounts. *Crossed-out circles* = low level of condition. *Black circles* = high level of conditions. Consistency threshold = 0.8. Frequency cut-off = 4. Consistency captures the fraction of cases that are both members in the configuration and the outcome (subset). Consistency takes on values between 0 and 1, higher values indicating a better fit with the model

during their time in the Global North. In some cases, for example, fellow business school students or former colleagues were early angel investors.

Absence of the outcome

We adhered to best practice by conducting a QCA for the absence of the outcome (Greckhamer et al., 2018) to verify the conclusions drawn from the analysis of the outcome's presence (Schneider & Wagemann, 2012). The analysis covers the entire sample, as the results did not significantly differ when using a smaller early stage sample.⁷

Table 4 presents the findings from the sufficiency analysis in the absence of the outcome (low funding amounts). All configurations sufficient to raise low funding amounts include fintechs with predominantly African funding teams. African founding teams paired with a combination of other factors explain why these fintechs struggle to raise substantial funding. Some African fintechs lack international network connections (L1, L2, L4, and L5), hindering their ability to attract sufficient resources and reduce international investors' risk perceptions. Additionally, in two configurations (L6 and L7), fintechs failed to raise substantial funding

despite possessing international networks and operating in prominent ecosystems or large markets, potentially due to their inability to rally a syndicate of international and local VCs. While the analysis of the absence of an outcome in the early stages of Africa's VC market has six rather than seven conditions, it exhibits a comparable mix of exclusively African-led startups with either unfavorable environments, the absence of international network connections, or the inability to rally a syndicate of local and foreign investors.

In many configurations, fintechs operated within small markets or less favorable startup ecosystems (L1, L2, and L3), where SEVO is low or irrelevant. Additionally, none of the configurations with low funding amounts exhibited a syndicate of African and foreign VC firms. Overall, we observed that all configurations in this solution lacked sufficient favorable conditions, aligning with our earlier findings.

Analysis of necessity and robustness checks

An initial analysis of necessity, detailed in Appendix E-1 (Online appendix), identifies international investors as the only necessary factor for raising high VC funding. This underlines the capital scarcity on the African continent as purely African investors may possess insufficient funding required by fintechs. Nevertheless, we retained the condition in the sufficiency analysis owing to the theoretical salience of its combination with other

⁷ For reasons of transparency, readers can refer to Appendix F for the early-stage version.



conditions. We also analyzed the necessity of the absence of the outcome, as presented in Appendix E-2 (Online appendix), which revealed the presence of a predominantly African team as the only necessary condition for raising low funding amounts. This supports the findings of the sufficiency analysis. Furthermore, we followed best practices by performing various tests to investigate the robustness of our findings and interpretations concerning the aforementioned calibration judgments (Greckhamer et al., 2018). These tests revealed that a few individual configurations were modified depending on the severity of the changes. However, the overall interpretation remained substantively similar. Appendix F (Online appendix) presents the results.

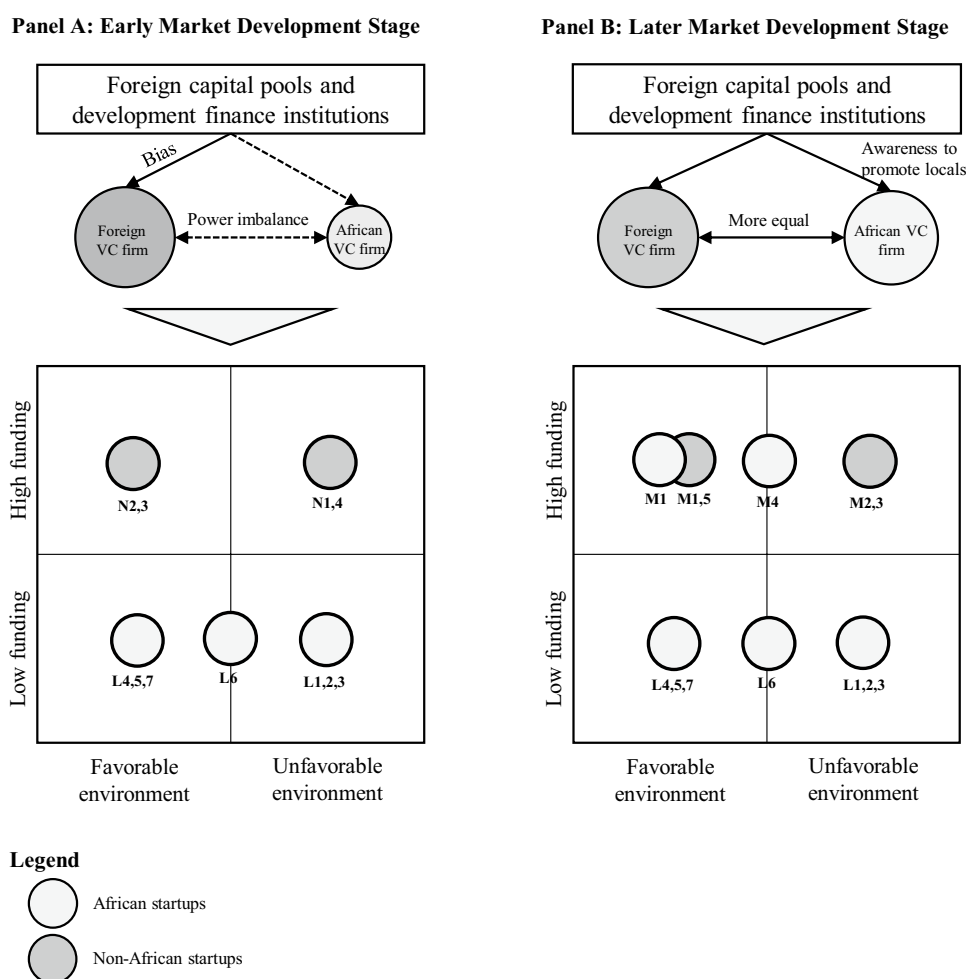
Toward a postcolonial model for raising venture capital in Africa

We propose that a key factor in Africa's financial subordination (e.g., Kvangraven et al., 2021) is the outsized role played by foreign capital pools – institutional investors who

allocate capital to VC firms – on the continent, as illustrated at the top of Fig. 2. VC investment in Africa predominantly involves development finance institutions, highlighting the continent's financial dependence on foreign capital. This financial dependence introduces potential biases at upstream points in the VC value chain. Our findings show that certain foreign capital pools perceive Africa's market environment as particularly risky, influenced by historical perceptions of Africa and unbalanced media representations (Nothias, 2020). Consequently, we argue that the homophilic preference for foreign capital pools is reinforced by real or perceived institutional voids. Thus, these pools seek to mitigate perceived risks by investing in VC firms that resemble them.

Particularly, in the early stages of the VC market, as illustrated in panel A of Fig. 2, the aforementioned biases cascade down the value chain. As a result of the homophilic preferences of foreign capital pools, they allocate more capital to foreign VC firms. Most VC investments are made through syndicates of foreign and African VC firms. However, given the difficulty African VC firms face in raising funds, foreign VC firms have the upper hand in these relationships. As the risk perception of

Fig. 2 Postcolonial model of raising VC in Africa



foreign VC firms was just as high as that of foreign capital pools, they tended to invest in non-African startups to reduce the perceived uncertainty stemming from the aforementioned institutional voids. African VC firms had to similarly adjust, given their smaller asset bases.

Consequently, only non-African startups are associated with substantial funding (Fig. 2, panel A, configurations N1–N4). In favorable business environments, they managed to raise substantial funding even without signaling social and environmental conformity to match the expectations of the institutional environment (configuration N2). Conversely, African fintechs did not achieve similar funding levels in the early stages of Africa's VC market, regardless of the business environment (panel A, bottom left and right). Thus, the structure and power relationships in the early stages of Africa's VC market, which were partially influenced by the continent's colonial experience, contributed to the financial discrimination against local founders.

These dynamics evolve in the later stages of the African VC market, as illustrated in panel B of Fig. 2. International investors and VC firms have gained increasing awareness about the discrimination against African founders. Development finance institutions, mandated to contribute to local structures, progressively allocated funds to African VC firms, increasing the existence of African VC firms with higher capital endowments. Consequently, this has led to a more balanced relationship between African and foreign VC firms, with African VC firms also exhibiting a preference for local founders. Furthermore, foreign VC firms have gained operational insight in Africa, reducing their perceived uncertainty from institutional voids. They may also have recognized that African teams were more suitable for operating in these complex institutions, given their superior market knowledge. These improved dynamics have resulted in funds being allocated to local founding teams (panel B, top-left and top-right, configurations M1 and M4). However, more routes to successful funding are still available to non-African startups (configurations M1, M2, M3, and M5).

Implications for theory and practice

Implications for theory

Following the recent call by Nachum et al. (2023) for more international business research in Africa, our study provides novel empirical insights into the financial discrimination faced by African founding teams, enriching the literature on homophilic preferences within VC markets (e.g., Claes & Vissa, 2020; Hegde & Tumlinson, 2014).

Our study extends the prevalent *within*-country focus on homophily (e.g., Bengtsson & Hsu, 2015; Zhang et al., 2016) to the cross-border investment context in international finance (Buchner et al., 2018).

While previous studies suggest that homophily is reinforced by uncertainty (Hegde & Tumlinson, 2014), the theoretical foundation of this effect remains limited. Studies on homophilic preferences have mainly considered the net effects of founder ethnicity on the likelihood of receiving funding from VC investors with similar ethnic backgrounds (Bengtsson & Hsu, 2015; Zhang et al., 2016). Our configurational approach additionally considers homophily with other theoretical concepts, such as institutional voids (Gao et al., 2017; Khanna & Palepu, 1997), enriching both literature streams. We argue that institutional voids provide an explanatory dimension for the homophily observed in VC decisions. Institutional voids potentially intensify homophilic preferences because they increase foreign investors' perceived uncertainty (He et al., 2022), whereas homophilic behavior has the opposite effect (Hegde & Tumlinson, 2014). Thus, investors' inert homophilic preference can be regarded as a strategy to reduce this perceived uncertainty by favoring investments in startups that resemble their characteristics. This helps explain why non-African fintech startups receive disproportionately high funding, reflecting Africa's predominance of non-African investors.

Integrating a postcolonial lens allows us to further investigate these institutional voids and homophilic tendencies by emphasizing how historical power dynamics and colonial legacies shape investors' perceptions of risk and familiarity (Mbembe, 2001; Nothias, 2020). While institutional theory traditionally focuses on the role of formal and informal rules in guiding organizational behavior (e.g., Ocasio et al., 2017), a postcolonial lens reveals how historical biases and power imbalances influence these rules. Our qualitative insights highlight how these dynamics manifest in practice, with interviewees referring to power imbalances through phrases like “the short end of the stick,” “racism,” and “prejudice.” These views align with the emerging literature on Africa's financial subordination, demonstrating how colonial legacies have entrenched subordinate financial systems that depend on outside capital (Koddenbrock et al., 2022; Kvangraven et al., 2021). These findings are reminiscent of the long tradition of postcolonial literature that has investigated the role of Africa in global power structures since colonization (e.g., Mbembe, 2001; Taylor, 2016). Such structures perpetuate negative views of Africa, including exaggerated perceptions of corruption, often reinforced by media representations rooted in colonial imagery (Apatu, 2019).

Nason and Bothello (2023) critique this fixation on deficiencies in non-Western markets, leading to the



homogeneous treatment of diverse economies. Their perspective aligns with our assertion that institutional voids are not merely absences but are constructed through historically rooted perceptions that devalue local practices and knowledge. For example, the preference for non-African founders among international VCs in Africa reflects not only perceived risks but also entrenched colonial biases that favor Western norms and actors. This insight challenges the conventional understanding of institutional voids as a mere absence of market-supporting institutions (Gao et al., 2017; Khanna & Palepu, 1997). Instead, we propose that perceived voids may result from historically rooted perceptions devaluing local practices and knowledge. Thus, this study contributes to a more nuanced understanding of how institutional contexts in emerging markets such as Africa offer critical insights that can inform theory and practice in international business.

Furthermore, the postcolonial perspective offers new perspectives on the liability of foreignness, a foundational concept in international business. Traditionally, the liability of foreignness has been understood in international business as the additional costs and challenges firms face when operating in foreign markets because of their unfamiliarity with local conditions (Wu & Salomon, 2017; Zaheer, 1995). However, these liabilities may not result from objective differences but are also constructed through historical narratives and stereotypes that favor Western norms and actors. For instance, international venture preference for non-African founders in African markets illustrates how the liability of foreignness is amplified by colonial bias, which devalues local entrepreneurs and their capabilities. This perspective extends the concept of the liability of foreignness within international business by incorporating cultural and historical contexts, showing that what is often perceived as a liability due to foreignness is also a liability due to the ingrained postcolonial mindsets that shape investor perceptions and decisions. We argue that such a mindset may unintentionally influence international capital pools. Consequently, when such mindsets are not critically reflected, international capital pools reproduce imbalances by favoring foreign VCs and non-African startups. This may further nudge international investors toward homophily. Consequently, our study contributes to the international business literature by inviting a reevaluation of the factors that drive the liability of foreignness in emerging markets and highlights the need for a critical reassessment of how historical contexts influence contemporary international business practices.

Managerial implications

Our findings have several implications for entrepreneurs, VCs, and policymakers in the African venture capital ecosystem. For entrepreneurs, especially those from African

countries, it is crucial to develop strong international networks and signal a high SEVO to attract venture capital from both local and international investors. VCs, particularly those outside Africa, can benefit from collaborating with local investors to navigate the unique institutional landscapes and reduce perceived risks. In addition, by understanding and actively mitigating their own homophilic biases, international investors can make informed investment decisions that contribute to a more equitable funding environment. Policymakers can play a vital role in fostering a supportive regulatory environment that encourages forming local VC firms and promotes investments in African-led startups. Policymakers can help level the playing field and stimulate inclusive growth within the African startup ecosystem by creating policies that bridge the gap between local entrepreneurs and international investors.

Limitations and future research directions

As dealing with time in QCA has not yet been fully resolved (Schneider & Wagemann, 2012), we may incorrectly attribute some variation in funding amounts to startup characteristics rather than the time since they were founded. QCA is vulnerable to omitted variable biases (Radaelli & Wagemann, 2019). Although consistency and coverage indicate a high fit between our model and empirical data, other sufficient configurations may exist. Furthermore, it is unclear to what degree the findings from our interviews can be generalized to the overall population of actors in Africa's VC ecosystems. Although extending the emergent concepts to a sample of 335 fintechs partly mitigates this concern, this study remains primarily explorative because it is not an inferential statistical method so that validating our insights using larger datasets is worthwhile.

Moreover, our focus on the fintech sector may limit a broader applicability of our findings. Although this sector represents the largest portion of VC activity in Africa (Partech, 2023), it may not fully reflect other industries. Future studies could thus extend this investigation to other industries, particularly high-growth sectors such as health-tech or agritech, to assess whether similar patterns of investor behavior and challenges persist and whether the trend toward a more level playing field continues.

Another promising research avenue involves the role of legal familiarity and conditions as factors in VC investment decisions in emerging markets, such as Africa. While our study concentrated on homophily and institutional voids, investors' legal frameworks and familiarity with these laws may also explain the observed funding patterns (Glaister et al., 2020). For instance, international investors may prefer markets with legal environments in which they are comfortable, potentially biasing their decisions toward startups that operate under familiar systems. Exploring how legal



conditions intersect with investor homophily and risk perceptions could provide a more nuanced understanding of cross-border investments. Moreover, African startups can benefit from strategies that navigate these legal preferences, attracting diverse funding sources and contributing to a more inclusive VC ecosystem.

Additionally, considering our Pan-African perspective, the theoretical implications of Africa's cultural and institutional diversity can be explored. A focused analysis of the specific impact of national policies on startup growth and VC activity could yield further insights for policymakers. A comparative study of cross-cultural investment patterns could enhance our understanding of how decision-making processes differ between local and international investors. Furthermore, by broadening the theme of homophily, future research could investigate the role of such networks and social capital, examining how these factors facilitate access to VC funding for African startups.

Finally, the VC literature has recently turned to the implications of investors' potential style drift in investment decisions (Koenig & Burghof, 2022). Whether any VC firms associated with the startups in our sample have experienced style drift could affect their investment decisions regarding the team composition of startups in Africa. Hence, once fund-level or longitudinal investor data on Africa are available, future research should focus on how potential VC investors' style drift interacts with homophily.

Conclusions

To determine the factors and combinations that allow startups in Africa to attract large amounts of VC investment, we applied a mixed-methods research approach, combining a qualitative study with fsQCA. In our qualitative data, we found that the factors perceived relevant by both parties to attract VC investments in Africa include the location of the startup, the origin of the investors, the presence of international networks, and non-African investors' preferences for non-African founders. The results of our fsQCA indicate that the combinations of factors that allow startups in Africa to attract large amounts of VC investment include (1) having non-African founding teams, (2) operating within large markets or prominent ecosystems, (3) possessing strong international networks, (4) exhibiting high social and environmental value orientation (SEVO), and (5) securing a syndicate of both international and African VC investors. Predominantly, African-led startups must fulfill more challenging conditions, including operating in large markets, having international networks, and securing mixed investor syndicates. However, we also found that the ecosystem evolved because the proportion of predominantly African startups with high funding increased. Hence, founders'

ethnic backgrounds become less relevant as the VC market matures. We combine the literature on institutional voids with the literature on investor homophily and insights from the postcolonial literature to explain these observations. We argue that deliberate discrimination is not the main cause of the disadvantages faced by African teams. Instead, they appear to result from the unique structure of the African VC market. Dependence on external capital and high institutional uncertainty reinforce foreign investors' homophilic tendencies as a risk-mitigation mechanism.

Supplementary Information The online version contains supplementary material available at <https://doi.org/10.1057/s41267-025-00788-w>.

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Data availability Truth tables and the R syntax for the QCA are available from the repository https://osf.io/rjb3u/?view_only=aa0fbe8621b748be9913383b92542356

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