

**THE RELATIONSHIP BETWEEN CAPITAL FINANCING AND
GROWTH OF SMALL AND MEDIUM ENTERPRISES IN THE
AGRIBUSINESS SECTOR**

BY

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DECLARATION

This research report is my original work and has never been presented for a degree in any other university.

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This research report has been submitted for examination with our approval as the University Supervisors.

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DEDICATION

This work is dedicated to my Family members for their un-relentless support, encouragement and patience with me as I spent time away from them to work on this project, without which I would not have been able to complete this challenging task.

ABSTRACT

Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan agribusiness SMEs rely more on self-financing in terms of retained earnings. The implication, therefore, is that SMEs do not have adequate credit to meet the needs at different levels of growth. The objective of the study was to assess the nature of relationship between capital financing and growth of SMEs in the agribusiness sector in Kenya. The population of this study comprised of 138 SMEs currently engaging in agribusiness activities, specifically in the horticulture, dairy, and poultry products sub-sectors. Sampling was performed in two stages. In the first stage, purposive sampling technique was applied to select specific firms that had been continuously operating for the five year period 2008 – 2012. In the second stage, a representative sample of firms was drawn from each of the sub-sectors through probability sampling techniques. Simple random sampling was used to select 30% of firms dealing in production and export of fruits and vegetables while a sample proportion of 50% was applied each for the flowers Fresh Flowers Growers & Exporters and the Dairy, Poultry Producers and Processors sub-sectors. The study applied data from secondary sources. The data for the companies was extracted from the annual reports and financial statements for the five-year period 2008-2012. These were obtained from the administrative and finance departments of the respective companies. The data was collected using a structured data observation sheet. A multiple regression model was used to establish the relationship between capital financing option and firm-level growth indicators. A response rate of 79.2% was achieved. The findings showed that there is a positive correlation between the growth of agribusiness SME and choice of capital financing option. The findings showed that external capital financing options are key drivers of growth for the sampled agribusiness SMEs. The five growth attributes namely: the number of employees at the end of the year; number of strategic business units (branches); profit before taxation; total asset base; and total turnover; were all found to have a significant positive correlation to the choice of external capital financing index. The findings further showed that the combined effect of internal and external capital financing options has significant impact on growth in profitability and total turnover. The study recommends ways to enhance factor finance and government assistance as ways of support SMEs to raise capital.

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LIST OF ABBREVIATIONS AND ACRONYMS

AIMS	:	Alternative Investment Markets Segment
ASCU	:	Agricultural Sector Coordination Unit
CMA	:	Capital Markets Authority
GDP	:	Gross Domestic Product
GEMS	:	Growth Enterprise Market Segment
ICT	:	Information and Communication Technology
IFC	:	International Finance Corporation
K-REP	:	Kenya Rural Enterprise Program
MFI	:	Micro-Finance Institutions
NIE	:	New Institutional Economics
NSE	:	Nairobi Securities Exchange
POT	:	Pecking Order Theory
SMEs	:	Small and Medium Enterprises
SMEX	:	Small and Medium Enterprise Exchange

CHAPTER ONE: INTRODUCTION

1.1. Background

In both developing and developed countries, small and medium-scale enterprises (SMEs) play important roles in the process of industrialization and economic growth. Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization considered critical to engineering economic development and growth (Ogujiuba and Adenuga, 2004).

Small and Medium Enterprises (SMEs) are defined differently between countries and within sectors. Definitions differ in the break points they employ, and also in the underlying basis used for classification (Ayyagari, Beck and Demirguc-Kunt, 2003). Some of these definitions are based on quantitative measures such as staffing levels and turnover or assets, while others employ a qualitative approach (Meredith, 1994). Not only do the definitions of SME vary, but there are wide-ranging views on the characteristics of SMEs. There have been many studies in the literature that have attempted to define the characteristics of SMEs. Central to all of these studies is the underlying realization that many of the processes and techniques that have been successfully applied in large businesses do not necessarily provide similar outcomes when applied to SMEs. This is perhaps best summed up by Barnett and Mackness (1983) and Westhead and Storey (1996) who state that SMEs are not 'small large businesses' but are a separate and distinct group of organizations compared to large businesses.

According to the International Finance Corporation [IFC] (2013), SMEs comprise a dominant share of private sector activity in most countries, especially in the lower income countries. They also provide over half of formal employment worldwide. Small companies tend to have much higher rates of job growth but also are more likely to go out of business or remain stunted due to institutional and financial constraints. Based on enterprise survey data analysis, access to finance is a particular problem for SME's. Hence creating and expanding SME financing can deepen financial markets which mean more finance at lower costs. Part of the financial deepening results from demonstration effects of viability of lending to the SME sector which crowds in other lenders. This can result in increased in SME activity, their growth and achieving an optimal size for business. Growth and expansion in turn will impact SME income and job creation, which are powerful paths out of poverty. Research also points to the need for a holistic approach to providing optimal financial outreach which would encompass addressing demand side constraints such as financial illiteracy and supply side constraints such as inefficient financial systems and inadequate regulatory policy.

The three main challenges that Small to medium size business owners face are financial support, business opportunities to be able to grow, businesses diversification and good business practices. Without enough and sustainable financial capital SME will not realize full growth (SME-RC, 2012). Small Medium Enterprises select capital structure depending on attributes that determine the various costs and benefits associated with debt and equity financing. Capital Structure is defined as a specific mixture of debt and equity a firm uses to finance its operations (Joshua and Nicholas, 2009). The precarious employment situation in Kenya has given rise to public policies that aim at giving small and medium-sized enterprises (SMEs) better access to finance. SMEs

may face difficulties in raising this much-needed finance due to information asymmetry and other inefficiencies in loan markets. Inevitably, this has a serious impact on their capital structure (Kinyua, 2005).

1.1.1. Capital Financing

SME capital structure behaviour is found typically to follow pecking order behaviour. However, the theoretical underpinnings of the pecking order theory are doubted in the case of SMEs as SME managers highly value financial freedom, independence, and control while the pecking order theory assumes firms desire financial wealth and suffer from severe adverse selection costs in accessing external finance (Bell and Vos, 2009). Alternatively, the contentment hypothesis of Vos, et al (2007) contends the reason SMEs exhibit pecking order behaviour is the aversion to loss of control to outside financiers and the preference for financial freedom.

Several studies have recognized that the SMEs founder's savings, as well as the assets of family and friends, are often the foundation of seed capital (Roberts, 1991). While financing requirements do vary by sector (Mason and Harrison, 1994), for the majority of SMEs internal equity and profits alone are insufficient to meet the high capital requirements for development and progression to the next growth stage. Therefore, while they are still in the very early stages of development many SMEs are forced to seek external investment capital (Oakey, 1984). Not surprisingly, the firms which seek external capital most vigorously tend to be growth-oriented companies (Oakey, 1984).

SMEs could opt to raise capital through venture capitalists injections. Risk capital (or venture capital) is different from a bank loan. It is an equity investment, and as such typically involves

higher risk potentially rewarded by higher returns. It is crucial to allow the up-take for potentially high growth companies, and is particularly important for a company during its early growth stages (start-up and development). It covers three sorts of financing: informal investments by private individuals (business angels); venture capital; and stock markets specialized in SMEs and high growth companies. Together these make up the risk capital market (European Union, 2006).

1.1.2. Growth of SMEs

Business growth can be measured in many ways such as sales turnover, profits, and number of people employed and in market and technology domain (Marc, 2000). O’Gormoma (2001) found out that there is no one single measure of growth. Growth can be measured in many ways such as turnover, profits, and number of people employed and in market and technology domain. He asserts that no one of these options presents itself as the most appropriate measure. The performance of an enterprise, according to (Adler and Izareli, 1994), is a function of its ability to reach and maintain equilibrium with its environment. They assert that an organization can adapt to changes in its internal and external environment or maintain or enhance its performance levels through innovation. According to Marry (2004), the growth of an enterprise is reflected in increased sales, new and improved products and increased market share. O’Gormoma (2001) asserts that women business performance is measured by investment in innovation that enables their businesses to successfully enter into new product market domains and consequently enhance their sales growth in the long run. The competitiveness literature links advantage or dominance and a business’s ability to compete over time to their innovation capabilities (McCarthy, 2000).

According to Brindley and Ritchie (1999), entrepreneurs are concerned with maximizing profits, growth and innovative behaviour. Still and Timms (2000), assert that business growth is a function of owner characteristics, behaviours such as business planning, and responses to elements in the community and industrial environments. It is further argued that the majority of those who pursue new businesses are unlikely to engage in long-term planning, with very few developing business plans beyond an initial twelve months period of trading (Katerina, 2004).

The growth literature is still characterized by a debate as to whether growth is a function of managerial choices or environmental forces (Ruth and Cathy, 2003). The assumption in the growth literature is that business growth is the outcome of managerial decisions and actions. The literature reveals a number of other theoretical perspectives, which may also have a bearing on the size and/or growth issue. For instance, some researchers have found that personal goals appear to have more dominant influence than business goals when it comes to expansion or non-expansion of Women Owned Businesses (WOBs) (Still and Timms, 2000). Riebe (2003), argue that while the use of growth and economic measures is appropriate given the entrepreneurial stage of growth the under-use of other measures, such as business performance and organizational effectiveness, raises the risk that there are some important insights into the contributions/success of business owners that are missing. The emphasis on financial outcomes and growth may indicate access to opportunities, suppliers, and occupational experience.

1.1.3. Capital Financing and Growth of SMEs

In a recent study to assess the impact of external funding on SME growth, the estimates showed that increasing the depth of credit pushes up the profit level of enterprise in all sample countries that were studied (significant at the 1% level). This showed that a firm's access to formal finance

is a factor in facilitating its business growth. The extent of sales value in SMEs was typically found to be smaller than in large firms, being attributed to their constrained levels of credit access (Shinozaki, 2012).

Access to finance for SMEs is an important factor in order for a company to experience continuous growth (Beck and Demirgüç-Kunt, 2006). The authors further argue that efforts targeted on the SME sector to improve the access to finance have so far been misguided. Access to finance for SMEs has in the past through targeted government policies been size oriented, not industry or market specific. Beck and Demirgüç-Kunt argue that SMEs benefit more from policies improving the playing field at large, i.e. the market. Through a country comparative study the authors established that entry barriers and low turnover, through obstacles of growth, impedes on the development of SMEs and SME industries. Consequently, if a market is characterized by low entry and turnover, this is an indicator to the fact that there are constraints in the market which are impeding on the growth and development of SMEs. In a study by Schiffer and Weder (2001) results point to the fact that small firms consistently report higher growth obstacles than medium-sized or large firms. Beck et al (2005) conducted a similar study where small, medium and large companies were analysed as to which extent external factors impeded on their growth possibilities. Results indicated, in correlation to Schiffer and Weder (2001), that small firms are consistently the most adversely affected by external obstacles in pursuance of growth. This is further backed by Beck et al (2006) who claim that the most consistent predictors of a firm's financing obstacles are size, age and ownership.

1.1.4. SMEs in the Agribusiness Sector in Kenya

Kenya Vision 2030 identifies agriculture as a key sector through which annual economic growth rates of 10 percent can be achieved. Under the Vision, smallholder agriculture will be transformed from subsistence activities, marked by low productivity and value addition, to ‘an innovative, commercially-oriented, internationally competitive and modern agricultural sector’. One of the key drivers for this transformation is agribusiness, which is defined as including all businesses involved in agricultural production, including farming and contract farming, seed supply, agrichemicals, farm machinery, wholesale and distribution, processing, marketing and retail sales. The Kenya National Agribusiness Strategy has been developed by a National Agribusiness Task Force. This is made up of private agribusiness practitioners and the public sector, and supported by the Agricultural Sector Coordination Unit (ASCU) (Republic of Kenya, 2012). With 75 percent of the 9.2 million person labor force engaged in farming, the agricultural sector is the mainstay of the Kenyan economy. The sector contributes an estimated 26 percent of GDP, and generates 60 percent of the total foreign exchange earnings (2008 estimates.). The major agricultural products in Kenya include tea, coffee, horticulture, corn, wheat, sugarcane, dairy products, beef, pork, poultry, and eggs.

1.2. Research Problem

The long-term growth and competitiveness of SMEs are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. Limited access of SMEs to credit and financial services has been identified as one of the most important supply constraints confronting the sector in Kenya (Soderbom 2001). As a result, SMEs' share of financing resources is disproportionately less than their relative importance in domestic employment and to the value added. This has often led to poor

maintenance or replacement of machinery, inability to purchase required materials and services, or to expand (Levitsky and Oyen, 1999). According to Evans and Carter (2000) and Whincop (2001), large firms benefit from established capital markets where small firms cannot raise funds. Owing to lack of well-developed finance information systems, the financial sector is the main source for SMEs' external funds (Darson 1995). SMEs therefore, cannot raise funds from other alternative sources. Lack of credit for SMEs' development is a cardinal problem to SME development in developing countries.

The situation is not any different for agribusiness SMEs operating in Kenya. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan agribusiness SMEs rely more on self-financing in terms of retained earnings. The implication, therefore, is that SMEs do not have adequate credit to meet the needs at different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand. How then is the source of capital financing related to future firm's growth prospects? This could be achieved by understanding the determinants of capital structure for agribusiness SMEs in the Kenyan context and their fulfillment.

Empirical literature in this regard has not been systematically researched or documented. In his recent study, Kinyua (2005) had sought to determine the factors that influence the capital structure composition of SMEs in Kenya. Using regression analysis, the study revealed that the most influential factors of SME capital structure as profitability, collateral, size and growth rate. Lack of finance has been regarded as one of the major problems contributing to slow development and high mortality rates of small businesses in Kenya (Muteti, 2005). The World

Bank report (2003:32) states that SMEs do not experience greater difficulty than other emerging countries (surveyed by world bank) in obtaining finance and argues instead that in Kenya, lack of adequate financial management support is the second biggest weakness in the national environment for entrepreneurial activity. The precarious nature of many SMEs is borne out by a statistic quoted by Karungu (2002): of all the jobs created in the SME sector, up to 75% are lost within a year. This study was concerned with how capital financing would influence growth prospects for SMEs in the agribusiness sector. The study hypothesized that if the SMEs managers are able to get their capital structure right, then it would be able to overcome financing challenges that face a majority of SMEs during their formative or growth phases. The study thus posed the following research question: “what is the nature of relationship between capital financing and growth of SMEs in the agribusiness sector in Kenya?”

1.3. Research Objectives

The objective of the study was to assess the nature of relationship between capital financing and growth of SMEs in the agribusiness sector in Kenya.

1.4. Value of the Study

The study will be of value to the owners of SMEs in making their decisions on expanding their businesses. The findings of this study had credible information that managers and owners can rely on to make better choices that can facilitate the growth of their firms.

This study would give insights to potential financiers on how they can form a foundation for helping or enhancing the growth of SMEs. It would act as a guide to the financiers can offer affordable services to those SMEs which have challenges acquiring their services to facilitate their growth

The study will be of importance to the management of the Nairobi Securities Exchange (NSE) and the Capital Markets Authority (CMA) by providing guidelines on how the equity financing option influences growth of SMEs with the view of informing future policy changes.

The study will be a source of reference material for future researchers on other related topics; it will also help other academicians who undertake the same topic in their studies. The results of this study can be used by academics to enhance further studies on determinants of capital structure of small firms.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

The purpose of the literature review is to set the study subject in a broader context through investigation of the relevant literature and other sources. The review will cover the issues of capital structure, capital financing, and related issues affecting the growth of small and medium enterprises (SMEs). Key aspects and arguments in the literature will be identified and amplified with various commentators and academics opinions and interpretations. Any differences in approach as well as areas of consensus will be presented and weaknesses in arguments and potential criticism will be specified. The chapter is organized as follows: Section 2.2 provides a review of theories on SMEs capital structure; Section 2.3 provides empirical literature; and Section 2.4 is the Chapter Summary.

2.2. Theoretical Basis of the Study

Whilst most research on capital structure has focused on public, nonfinancial corporations with access to U.S. or other international capital markets (Myers, 2001), a belated realization of the importance of SMEs to national economies has resulted in a burgeoning policy and scholarly literature on the subject of SME financing in the past two decades. Studies on the capital structure of SMEs have tested hypotheses derived from capital structure theory developed in corporate finance, particularly agency, pecking order and trade-off theories. The method of analysis commonly employed in these studies is to test multivariate regression models on panel data. The increased availability of large panel datasets has resulted in studies in many countries, including the UK (Chittenden et al., 1996, Michaelas et al., 1999, Hall et al., 2000), US (Ou and Haynes, 2003), Spain (Sogorb Mira, 2005), Australia (Cassar and Holmes, 2003), Taiwan (Fu et al., 2002) and Portugal (Esperanca et al., 2003) to name but a few. Other studies have considered

cross-country comparisons (e.g. Peterson and Schulman, 1987, Hall et al., 2004). The dependent variables in these regression models are usually short-term, long-term and total debt ratios, and there is a paucity of studies examining sources of internal and external equity as a dependent variable. Theoretical discourse on the capital structure of the firm originates from the propositions of Modigliani and Miller (1958 and 1963), often referred to as the ‘seminal’ work of Modigliani and Miller. Subsequent approaches based on information asymmetries, potential agency problems and signaling effects have given rise to a large volume of theoretical and empirical studies on the financing decision in publicly quoted companies. Theoretical approaches based on information asymmetries and potential agency costs are particularly relevant for SME financing.

2.2.1. The Pecking Order Theory

Adherence of SMEs to a pecking order of finance is dependent on the sources of finance available at the time of the investment decision, which is typically dependent on the age and stage of development of the firm. Therefore, it is necessary to incorporate the financial growth lifecycle approach into consideration of agency and pecking order theories (POT hereafter). Myers (1984) and Myers and Majluf (1984) proposed the POT based on the premise that ‘inside’ management are better informed of the true value of the firm than ‘outside’ investors. When financing investment projects, firms seek to use sources of funds least susceptible to undervaluation due to information asymmetries. Thus, the POT predicts that firms have a preference to finance investment projects with internal equity. When internal equity is exhausted, firms use debt financing before resorting to external equity. The relatively greater information asymmetries and the higher cost of external equity for SMEs (Ibbotson et al., 2001) suggest that the POT is an appropriate theoretical approach for the sector. Empirical evidence suggests that

SME owners source their capital as follows: SME owners try to meet their financing needs from a pecking order of, first, their "own" money (personal savings and retained earnings); second, short-term borrowings; third, longer term debt; and, least preferred of all, from the introduction of new equity investors, which represents the maximum intrusion (Cosh and Hughes, 1994).

Studies that have provided empirical support for the POT in explaining capital structure choice in SMEs include Holmes and Kent (1991), Reid (1996), Zoppa and McMahon (2002), Watson and Wilson (2002) and Berggren et al. (2000). The primary explanatory factor for the adherence of SMEs to the POT of financing is the desire of the firm owner to retain control of the firm and maintain independence (Jordan et al., 1998). Adherence to the POT is not only dependent on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, including the stage of development or life cycle of the firm. Sources of internal equity for start-up and nascent firms typically consist of the personal funds of the firm owner, and funding from friends and family (or 'F-connections', Ang (1992).

The pecking order framework illustrates how companies choose their form of financing in a certain order - a pecking order. According to Myers (2001), the corporate management choice of action is a consequence of information asymmetry. In other words, the financiers get inadequate information concerning the various projects leading to a decreased interest in the project and the portfolio company's assets and securities are at risk of being undervalued. Further, if information asymmetry is large for certain firms, the difference in the cost of capital for various financing choices should widen which results in the pecking order of a firm becoming more prominent

(Cassar and Holmes, 2003). Further, the pecking order relies to a certain extent on the same premises as the financial gap, whereby the both notions are intertwined.

One does not exist fully without the other. Cassar and Holmes (2003) studied a number of Australian SMEs and determined a set of variables that effects a firms capital structure and pecking order; size, asset structure, profitability, risk and growth. In regard to size, they established that smaller firms find it relatively harder to access finance and more costly to resolve information asymmetries with lenders and financiers. Transaction costs are seen as a declining effect on financing where small scale financing bring larger transaction costs. In regard to asset structure, they established that asset structure is seen as an important determinant of the capital structure in a firm. Firms with a higher degree of tangible assets are associated with a higher liquidation value. Further, firms that have a large amount of fixed assets and a high liquidation value will have easier access to finance and lower cost of financing. In regard to profitability, they established that firms that have access to retained earnings will have a larger incentive, given the pecking order, to use these for financing rather than accessing external sources. In regard to risk, they asserted that a firm that has a high exposure towards agency and bankruptcy cost should be averse to having high levels of debt in their financing structure. Consequently, the more exposed a firm is to these risks; the lower their debt level will be in the capital structure. Finally, in terms of growth, they were of the view that firms with a higher growth place a greater demand on the internally generated funds. As a consequence, firms that are experiencing high growth will tend to look to a larger extent for external financing for further growth (Cassar and Holmes, 2003).

In their recent study, Bhaired and Lucey (2008) empirically tested hypotheses formulated from theories of capital structure by investigating the influence of a number of firm characteristic determinants on SME financing. Results from multivariate models tested on survey data supported a number of the propositions of agency and pecking order theories, confirming a number of findings of previous studies, albeit with a smaller sample. The results of the study emphasized that: the increased use of internal equity as the firm develops over time; the importance of the provision of collateral in alleviating information asymmetries and securing debt finance; and, the significant contribution of the firm owner through the contribution of equity and pledging personal assets as collateral for business loans.

Bhaired and Lucey (2008) further established that the positive relationship between the use of retained profits and the age and size of the firm indicates that surviving firms are increasingly reliant on internal equity as accumulated profits are reinvested. This suggests a tendency to use capital which minimizes intrusion into the business, and is consistent with the POT. Another important source of internal equity noted in the study is the personal funds of the firm owner, and funds of friends and family which are most important in firms with low turnover. Furthermore, the results indicated that the firm owner contributes 'quasi-equity' in the form of the provision of personal assets as collateral for firm loans. These contributions emphasize the importance of the personal wealth of the firm owner in SME financing (Evans and Jovanovic, 1989), and indicate the significance of the risk taking propensity of the firm owner in the financing decision.

2.2.2. The Agency Theory

The agency theory provides a different perspective. Jensen and Meckling (1976) outlined a number of potentially costly principal agent relationships in publicly quoted corporations that

may arise because the agent does not always conduct business in a way that is consistent with the best interest of the principals. The firm's security holders (debt holders and stockholders) are seen as principals and the firm's management as the agent, managing the principals' assets. Whilst a number of these relationships are relevant for SMEs, the primary agency conflict in small firms is generally not between owners and managers, but between inside and outside contributors of capital (Hand et al., 1982: 27).

Potential agency problems in SMEs are exacerbated by information asymmetries resulting from the lack of uniform, publicly available detailed accounting information. The primary concern for outside contributors of capital arises from moral hazard, or the possibility of the SME owner changing his behavior to the detriment of the capital provider after credit has been granted. This is because the firm owner has an incentive to alter his behavior ex post to favor projects with higher returns and greater risk. Debt providers seek to minimize agency costs arising from these relationships by employing a number of lending techniques. Baas and Schrooten (2006) proposed a classification of 4 lending techniques – transactions-based or ‘hard’ techniques include asset-based lending, financial statement lending, small business credit scoring lending and the ‘soft’ technique of relationship lending. Asset-based lending and relationship lending dominate the literature. In practice, lending to SMEs by banks is frequently collateral-based (Kon and Storey, 2003). The pervasiveness of the use of collateral is confirmed by a number of studies, for example; Black et al. (1996) find that the ratio of loan size to collateral exceeds unity for 85 percent of small business loans in the UK, Berger and Udell (1990) report that over 70 percent of all loans to SMEs are collateralized. Even for firms with positive cash flow financial institutions typically require collateral (Manove et al., 2001).

The use of debt finance is positively related with the provision of collateral. Potential agency problems are not constant over the life cycle of the firm. Firms at the start-up stage typically experience the greatest informational opacity problems, and may not have access to debt financing. As a firm becomes established and develops a trading and credit history, reputation effects alleviate the problem of moral hazard, facilitating borrowing capacity (Diamond, 1991). Additionally, as the firm grows it will have accumulated assets as debt collateral in the form of inventory, accounts receivable and equipment (Berger and Udell, 1998). The firm may also have increased fixed assets in the form of land and buildings on which it may secure mortgage finance. Long term debt is typically secured on collateralizable fixed assets, and consequently its maturity matches the maturity of the pledged asset. Therefore, the use of long term debt is expected to increase initially, and decrease at a later stage as the long term debt is retired and the firm can rely increasingly on accumulated retained profits.

Agency theory is pertinent due to the potential for moral hazard that arises between ‘outside’ suppliers of capital and the owners of the firm. The potential for agency problems is exacerbated by the increased information asymmetries in the SME sector. Information asymmetries are the basis for the pecking order of financing (Myers, 1984, Myers and Majluf, 1984) whereby firms seek to use sources of finance that are least subject to the information asymmetry problem.

2.2.3. The Capital Channel Model

The bank capital channel model considers the lending behaviors of bank to SMES to be affected by a capital adequacy requirement. According to Obamuyi (2007), the bank capital channel views a change in interest rate as affecting lending through bank’s capital, particularly when banks’ lending is constrained by a capital adequacy requirement. Thus, an increase in interest

rates will raise the cost of banks' external funding, but reduce banks' profits and capital. The tendency is for the banks to reduce their supply of loans if the capital constraint becomes binding. However, banks could also become more willing to lend during certain periods because of an improvement in their underlying financial condition. This condition as purported by this model, is seen clearly seen in the relationship between banks and SMEs as the SMEs suffers through a lack of financial assistance as a result of this situation.

The "bank capital channel" is based on three hypotheses: 1) an imperfect market for bank equity (Myers and Majluf, 1984; Stein, 1998; Calomiris and Hubbard, 1995; Cornett and Tehranian, 1994); 2) a maturity mismatching between assets and liabilities that exposes banks to interest rate risk; 3) a "direct" influence of regulatory capital requirements on the supply of credit. The "bank capital channel" works in the following way. After an increase in market interest rates, a lower fraction of loans can be renegotiated with respect to deposits (loans are mainly long-term, while deposits are typically short-term): banks therefore bear a cost due to the maturity transformation performed that reduce profits and then capital. If equity is sufficiently low (and it is too costly to issue new shares), banks reduce lending because prudential regulations establish that capital has to be at least a minimum percentage of loans (Bolton and Freixas, 2001; Van den Heuvel, 2001).

2.2.4. The Capital Constraint Model

The capital constraint model describes the behavior of banks restrain to gives out loans to SMEs because of the limitation of available financial recourses banks. According to Obamuyi (2007), banks are subjected to both market- and regulator –imposed capital requirements. For prudential purposes, banks regulators generally require banks to maintain capital at not less than a stated fraction of the bank's total assets. For instance, banks are expected to meet the capital adequacy

requirement of the Basel Accord of ten per cent. Early empirical work on financial constraints explored the investment behavior of firms and its sensitivity to changes in internally generated funds. Fazzari, Hubbard, and Petersen (1988) found that firms with low or no dividend payout ratios were more likely to have investment that was sensitive to changes in free cash flow. The authors interpret their results as demonstrating that capital constraints likely affect companies that do not pay dividends as they forego investment when internal cash is not available. Costly external finance has been explored in multi-divisional firms and has been shown to play an important role as well. Lamont (1997) looks at companies that have oil related production and non-oil related businesses. He finds that investment in the non-oil related businesses are dramatically affected by swings in the world price of oil. This is true despite the fact that the firm's non-oil businesses were largely uncorrelated with the prospects for their oil businesses. Similarly, Shin and Stulz (1998) show that the investment in minor divisions of multi-segment firms is affected by the operating performance of the larger divisions even if the investment opportunity sets in each division are unrelated to each other.

2.2.5. The Lifecycle Approach

The lifecycle approach, as described by Weston and Brigham (1981), was conceived on the premise of rapid growth and lack of access to the capital market. Small firms were seen as starting out by using only the owners' resources. If these firms survived, the dangers of undercapitalization would soon appear, and they would then be likely to make use of other sources of funds, such as trade credit and short-term loans from banks. Rapid growth could lead to the problem of illiquidity. The dynamic small firm would therefore have to choose between reducing its growth to keep pace with its internally generated funds, acquire a costly stock market quotation, or seek that most elusive form of finance – venture capital (Weston and

Brigham, 1981) thereby indicating a trend in SMES that expanding small firms are likely to experience rising short-term debt and use little or no long-term debt.

The financial life cycle model incorporates elements of trade-off, agency, and pecking order theories, and describes sources of finance typically advanced by funders at each stage of a firm's development. At start-up, the commonly held view is that firms have difficulty accessing external finance due to information opacity (Huyghebaert and Van de Gucht, 2007). The most important and commonly-used sources of finance at this stage are personal savings of the firm owner, and finance from friends and family members (Ullah and Taylor, 2007). The contribution of the firm owner in nascent firms is not confined to equity, but commonly includes the provision of quasi-equity in the form of personal assets used as collateral to secure business debt (Basu and Parker, 2001). Whilst a firm may obtain sufficient capital to initiate trading, a lack of planning may lead to problems of under-capitalization in the earliest stages. In extreme cases, particularly in the face of competition, the firm may not be able to continue in business (Cressy 2006).

As successful firms survive nascent and start-up phases, and mature through growth stages, personal funding becomes relatively less important as investment finance is increasingly sourced from retained profits. Furthermore, accumulation of a trading history facilitates access to increased sources and amounts of external financing, particularly bank financing and trade credit. Rapidly expanding firms lacking adequate working capital to meet increased costs may experience liquidity problems at this stage (Bates and Bell 1973). Firms faced with the problem of overtrading often seek to alleviate these liquidity problems by increasing their overdraft

facility. Thus, it is common for SMEs to have high levels of short-term debt (Michaelas et al. 1999; Ayadi 2008). Short-term debt is neither sufficient nor appropriate for firms requiring large amounts of additional external finance for investment, however. These requirements are more suitably fulfilled by long-term debt, or by raising external equity through a private placement or an initial public offering of common stock.

2.3. Empirical Studies

Existing literature on SMEs indicate that lack of capital is a strong constraint to growth (National Baseline Surveys, 1993; 1995; 1999; Stone, Levy and Paredes, 1992). According to these studies, most SMEs rely mainly on own savings and reinvested profits to finance their business. Comparison of results of the three baseline studies of 1993, 1995 and 1999 show minor improvements in the situation-from 9 percent of SMEs accessing credit in 1993 to 10.8 percent in 1999. This research suggests that availability of credit is no longer as bad as it used to be judging from the previous findings on credit and small scale businesses. Different SMEs meet the above mentioned challenges in different ways. Strategies used included fair pricing, discounts and special offers, offering a variety of services and products, superior customer service and continuously improving quality of service delivery. Clearly there is no magic bullet in achieving success. Business success is a consequence of embracing the whole package of strategies in order to succeed. Selling a variety of products or offering a variety of services is just as important as embracing prudent financial management systems (Bowen, Morara and Mureithi, 2009).

In their study, Mboniyane and Ladzani (2011) sought to determine factors that hinder the growth of small businesses in South African townships, to create awareness of these factors and to

develop guidelines for small business owners to promote successful business enterprises. The study found that the slow growth rate can be attributed partly to the lack of support that small, medium and micro-enterprises receive from support institutions, and partly to their own internal weaknesses. The findings furthermore revealed that the most common causes impeding business growth are a lack of legal knowledge, a lack of funding and a general lack of business acumen.

One of the major difficulties SMEs come across, however, is the issue of access to finance. SMEs, especially in developing countries, suffer from lack of access to appropriate (term and cost) funds from both the money and capital markets. This is due in part to the perception of higher risks resulting in high mortality rate of the business, information asymmetry, poorly prepared project proposals, inadequate collateral, absence of, or unverifiable history of past credit(s) obtained and lack of adequate historical records of the company's transaction (Oteh, 2010). SMEs in Ghana and other countries try to finance their fixed assets with long-term debt, and their current assets with short-term debt. Since SMEs with low asset structure have greater difficulty accessing long-term debt, the only option is to fall on short-term debt finance. In several countries, long term finance providers typically require landed property as collateral in granting credit (Mwarari and Ngugi, 2013). In Kenya according to a survey of the top 100 SMEs, most SMEs rely heavily on savings or bank loans for expansion capital (KPMG, 2011). Such challenges are not unique to Kenya and Ghana but also they are prevalent across the Southern African region member countries. The three main challenges that Small to medium size business owners face are financial support, business opportunities to be able to grow, businesses diversification and good business practices. Without enough and sustainable financial capital SME will not realize full growth (SME-RC, 2012). Small Medium Enterprises select capital

structure depending on attributes that determine the various costs and benefits associated with debt and equity financing. Capital Structure is defined as a specific mixture of debt and equity a firm uses to finance its operations (Mwarari and Ngugi, 2013).

According to Akinboade and Kinpack (2012), there are identifiable reasons why regulation hits small businesses hard. They have higher compliance costs than large businesses; they are less resilient to regulatory shocks, miscalculations and uncertainties; they lack regulation specialists; their need to grow can be badly affected by regulation; they face large costs of administration (e.g. of taxes) as well as regulatory burdens; and they often need the assistance of government to comply with regulation. Regulatory requirements affect small enterprises disproportionately, mainly because: small firms with one to two employees spend nearly five times as many hours per person dealing with regulation than firms with 50 or more employees. They spend over 4 percent of annual turnover on compliance and businesses with fewer than 20 employees incur 35 percent higher compliance costs than firms with over 50 staff (Akinboade and Kinpack, 2012).

Theoretically, seven modes of finance can be employed - but all have some degree of problem associated with them in providing capital to SMEs. Banks are invariably restrictive in lending to SMEs. Early stage ventures often have a low equity base and lack a visibility in cash flow, which can sustain debt finance (Capital Markets Authority [CMA], 2010). Further, the loans are collateralized, high cost and often are bundled with a delay in receivables. The high informational asymmetry makes it difficult for the debt finance to thrive. With the banks increasingly being in the public eye, there is an increased element of risk averseness. The course of debt financing from a development finance institution has not been a runaway success. Bond

finance as an option is as good as negligible even for larger corporates in Kenya, let alone being workable for an SME. The micro-financing sector is growing but not rapidly enough and certainly not large and structured enough to provide the required capital. The same may be said of the Venture Capital industry, which has stagnated over time and will have to attain greater significance for Kenya to achieve breakaway growth. A large part of the capital required by SMEs still comes from lending by Non-Bank Financial Institutions (NBFIs) and through informal finance – wherein the cost of borrowing is significantly high. Thus, the situation is complicated by the fact that the preferred mode of finance is self – largely due to associated high interest rates (CMA, 2010).

A recent study by Memba, Gakure and Karanja (2012) sought to assess the impact of venture capital on growth of small and medium enterprises in Kenya. The study showed that the impact of venture capital on growth of SME is real and practical. The study demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate. The impact touches on both economic and social-economic factors. The economic impact of venture capital was found to be realized by SME in sales growth, profit, asset and improvement in management of finance and other resources. The social impact from venture capital perspective include the employment opportunities created which in turn improves the lives of people and those of employees. It is common sense that the employees have joined cooperatives which help them to alleviate cash flow problems. The increased profits imply revenue collection for government expenditure through collection of tax. Also, Memba et al., (2012) were able to establish that venture capitalists do not just provide funds but add value to

SME, that is, they are not only involved in financing but also spur entrepreneurs who are responsible for economic growth.

Separately, Memba (2011) conducted a study to establish the impact of venture capital on performance of SMEs in Kenya. The research employed a case study method of utilizing a sample of 100 SMEs that have been financed by venture capitalist in the major towns of Kenya (Nairobi, Kisumu, Nakuru & Mombasa). The findings in this study revealed that venture capital has an impact on performance of SMEs they finance. Upon use of venture capital average profits doubled (Ksh 12,202,775), value of assets improved drastically (Ksh 102,547,692) as funds were available for expansion or for diversification. Sales on average also doubled (Ksh 139, 043,076) as was employment in the firms where a total of 24,802 workers were absorbed. On assessing whether firms that use venture capital attract other sources of finance, the findings indicated that 100% confirmed that other sources of finance were willing to provide funding including banks which were initially difficult to consider SMEs for funding.

A study by Simiyu (2012) sought to assess the extent of adoption of the pecking order theory in small and medium enterprises sector in Kenya. In addition the study sought to identify challenges and reasons as to why different sources of finance have been opted for SMEs in Kenya. The research involved data collection from 54 SMEs through the use of questionnaires. The SMEs were drawn from manufacturing, Service, Commerce and trade and other industries. The results of the research showed that SMEs practice pecking order theory with skewness towards cheaper funds, that is: first, internal equity and donations, then secondly, friends contribution before opting for the third option of debts. The reasons found ranged from high

interest rates offered by financial institutions to default procedures employed by the same institutions. Simiyu (2012) recommended the need to inform the SME sector of the benefits of debts as a source of capital.

Mugori (2012) sought to determine the effects of access to microfinance on the financial performance of small and medium enterprises owned by youths in Nairobi Kenya. A sample of 100 youths' owned SMEs was selected from a population of over 235,000 SMEs using a simple random sampling technique. The study found that most SMEs borrow investment capital with few inheriting their business from their parents or guardians. The empirical results further revealed that loan had the largest significant effect on the financial performance of small and medium enterprises with a beta coefficient of 0.309 followed by savings mobilization with a beta coefficient of 0.210 and training in micro enterprise investment had the least but significant effect with a beta coefficient of 0.048. Based on the findings, the study concluded that provision of microfinance services has a significant effect on the financial performance of the youths' owned enterprises in Kenya.

A study by Wachira (2011) sought to determine the factors influencing the use of microcredit amongst the small and medium size enterprises a case of the small and medium size enterprises at Mutindwa Market of Buruburu estate Nairobi Kenya. Through a descriptive survey approach, primary data was collected through administration of a questionnaire to the SMEs. The study found out that there is a strong relationship between micro-finance loan use and the loan terms and conditions. MFIs loans were noted to be popular because of their group lending model where security was by group guarantee demonstrating the fact that a majority of the loan consumers

who are commonly women lacked tangible collateral. Skills' training as one of the side benefits offered by MFIs was also noted to have a strong influence on the consumption of these loans. The study concluded that improving the lending terms and conditions especially through exploring a wide range of security, pursuing a gender parity client-base and offering diversified business knowledge in favor of small-scale enterprises would provide an important avenue for facilitating their access to credit and accelerate the use of MF loans and the subsequent enterprises.

2.4. Summary of Literature Review

More than 99% of all enterprises in the world are SMEs. SMEs consist of firms varying widely in size and characteristics - namely from very small start-up firms in an infant stage of development to established SMEs already listed on the stock market. It is agreed that most SMEs heavily depend upon bank loans and generally experience a 'financing gap,' even in developed countries. This financing gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Research suggests that the fundamental reasons behind SMEs' lack of access to funds can be found in their peculiar characteristics, in addition to the fact that SMEs suffer from financing gaps because of market imperfections on the supply side. In reality, SMEs face capital financing gaps probably because of a combination of reasons originating from both the supply and demand sides. This capital financing gap for SMEs is most prominent in capital market financing and most countries, including developed ones, have problems in SME financing through capital markets. Agribusiness SMEs in Kenya have not been spared from this predicament either. This study sought to establish the nature of relationship between the choice of capital financing option and growth of SMEs in the agribusiness sector in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

According to Kothari (2003), research methodology gives details regarding procedures used in conducting the study. This chapter presents the research methodology to be used in this study. Section 3.2 describes the study population; Section 3.3 describes the sample; Section 3.4 outlines the data collection procedures and sources; and Section 3.5 describes the data analysis tools and the research model applied.

3.2. Population

The population of this study comprised of 138 SMEs currently engaging in agribusiness activities, specifically in the horticulture, dairy, and poultry products sub-sectors. This covered firms that had been actively trading between years 2008 and 2012 (both inclusive). The firms were classified into the three major sub-sectors namely horticulture, dairy, and poultry products sub-sectors (See Appendix II).

3.3. Sample

Sampling was performed in two stages. In the first stage, purposive sampling technique was applied to select specific firms that had been continuously operating for the five year period 2008 – 2012 (See Appendix II). Purposive sampling allows the researcher to pick subjects that meet a pre-defined selection criterion (Kothari, 2003). In the second stage, a representative sample of firms was drawn from each of the sub-sectors through probability sampling techniques. Simple random sampling was used to select 30% of firms dealing in production and export of fruits and vegetables while a sample proportion of 50% was applied each for the flowers Fresh Flowers Growers & Exporters and the Dairy, Poultry Producers and Processors sub-sectors. The main

advantage of simple random sampling is that it eliminates bias by giving each subject equal chance of being selected (Kothari, 2003). Table 3.1 below presents the breakdown of the sample by the three sub-sectors. Total sample size was 48 firms.

Table 3.1: The Sample Design

Agribusiness Sub-sector	Number Of Target Firms	Sample %	Sample Size
Fruits and Vegetables Growers and Exporters	101	30%	30
Fresh Flowers Growers and Exporters	25	50%	12
Dairy and Poultry Producers and Processors	12	50%	6
Total	138		48

3.4. Data Collection

The study applied data from secondary sources. The data for the companies was extracted from the annual reports and financial statements for the five-year period 2008-2012. These were obtained from the administrative and finance departments of the respective companies. The data sourced included the following: the number of employees at the end of the year; total annual turnover; total asset base; sources of capital financing; number of branch outlets (stations); amount of financing from each source; and profit before tax. The data was collected using the data observation sheet shown in Appendix II which was replicated for different sub-sectors.

3.5. Data Analysis

3.5.1. The Analytical Model

The study applied the multiple regression model of equation (1) to establish the relationship between capital financing option and firm-level growth indicators.

$$(GROWTH_{ij}) = \alpha_0 + \alpha_1(INTERNAL)_{ij} + \alpha_2(EXTERNAL)_{ij} + \varepsilon_{ij} \dots\dots\dots(1)$$

Where:

- $GROWTH_{ij}$ = The growth measure index of the i^{th} firm in the j^{th} year
- $INTERNAL_{ij}$ = The internal financing measures index of the i^{th} firm in the j^{th} year
- $EXTERNAL_{ij}$ = The external financing measures index of the i^{th} firm in the j^{th} year
- $\alpha_0, \alpha_1,$ and α_2 = regression constants;
- ε_{ij} = the error term.

Equation (2) specifies two independent variables: the internal sources of capital finance {Use of purchase order; Factoring finance; Advances from customers; Trade Credit; Sale of assets; Retained profits} denoted as (INTERNAL); and external sources of finance {Venture Capital; Government Assistance; Business Angels; Loan Stock; Debentures; and Franchising} denoted as (EXTERNAL). Equation (2) was estimated five times: once each for the five indicators of growth namely: number of employees at the end of the year; number of strategic business units (branches); profit before taxation; total asset base; and total turnover. The results for all these equations were divided into two types, descriptive results and those to be obtained from the regression analysis. The Statistical Package for Social Sciences, SPSS, was used for both types of analysis. The findings were presented using tables.

3.5.2 Diagnostic Tests

3.5.2.1. T-test

The t-test was used to test the hypothesis that a particular coefficient is significantly different from zero or whether the estimated coefficient value occurred by chance in equation (2). The tests were performed at both 95% and 99% levels of confidence.

3.5.2.2. F-test

The F-statistic is important to test the hypothesis that the whole relationship provided by the equation (2) is significantly different from zero, i.e. whether the independent variables' characteristics scores explain the variation in growth indicators for each of the individual firms.

The test were performed at both 95% and 99% levels of confidence.

3.5.2.3. R² - Change

The R-squared (R²) value ranging from '0' to '1' or the 'corrected R-squared' (R²) which is adjusted for degrees of freedom indicates the explanatory power (goodness of fit) of the model.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter provides an analysis of data collected from the sampled agribusiness firms. The results are presented in tables to highlight the major findings. They are also presented sequentially on the relationship between capital financing option and growth of agribusiness SMEs in Kenya. This chapter provides various sections. Section 4.2 provides the descriptive statistic for the sampled firms, Section 4.3 presents the extent of adoption of internal and external capital financing options, Section 4.4 presents diagnostic tests on the analytical model, Section 4.5 provides the results from the regression analysis, and section 4.5 presents a summary and interpretation of findings. The study achieved a response rate of 79.2% since 38 of the targeted 48 firms were able to satisfactorily respond as requested. The remaining 10 firms became unresponsive either due to internal bureaucratic procedures requiring approvals before the data could be released; or had no sufficient documented data to provide as requested.

4.2. Descriptive Profile of the Sample

The sample comprised of 38 firms that were considered to be adequately responsive as requested (see appendix). They comprised of 22 firms from the Fruits and Vegetables Growers and Exporters subsector; 10 firms from the Fresh Flowers Growers and Exporters sub-sector; and 6 firms from the Dairy and Poultry Producers and Processors sub-sectors. The sampled firms had between 25 and 150 permanent employees (sample mean = 34). This excluded non-permanent casuals working in the farms. As shown in Table 4.1, a majority of the sampled firms experienced over 10% increase in staff numbers between 2008 and 2012. Table 4.1 provides a summary of the other descriptive statistics for the sampled firms.

Table 4.1: Descriptive Profile of the Sample

Category	Firm	% growth in staff numbers (2008 - 2012)	Number of new SBUs (2008 - 2012)	% growth in PBT (2008 - 2012)	% growth in Assets (2008 - 2012)	% growth in turnover (2008 - 2012)	Total 5 yr financing in Millions Kshs. (INTERNAL)	Total 5yr financing in Million Kshs. (EXTERNAL)
1	Kenya Horticultural Exporters	12.2%	2	114.4%	163.4%	249.0%	120	516
1	East African Growers Ltd	26.0%	3	133.3%	203.3%	324.0%	140	424
1	Woni Veg-Fru	44.2%	0	121.8%	154.0%	136.0%	180	243
1	Wamu Investments Ltd	15.1%	2	116.4%	176.6%	234.0%	98	316
1	Vegpro Kenya Ltd	53.2%	2	142.6%	222.6%	316.0%	246	402
1	Mboga Tuu Ltd	40.0%	2	156.3%	163.3%	289.0%	144	444
1	AAA Growers Ltd	16.4%	3	162.3%	312.3%	306.0%	66	322
1	Finlays Horticulture Kenya Ltd	44.6%	1	83.6%	283.6%	300.0%	133	514
1	Avenue Fresh Produce Ltd	23.5%	1	118.5%	189.5%	154.0%	46	312
1	Kakuzi Ltd	22.6%	0	120.0%	204.0%	226.0%	54	244
1	Greenlands Agro Producers Ltd	14.4%	1	93.5%	130.0%	152.0%	120	169
1	Homegrown Kenya Ltd	43.6%	1	104.0%	144.0%	298.0%	146	154
1	Makindu Growers & Packers Ltd	8.4%	0	116.3%	156.0%	342.0%	77	389
1	Sunripe (1976) Ltd	25.0%	1	127.4%	212.0%	201.0%	54	114
1	Signet Fruit and Vegetable	56.2%	0	85.2%	98.0%	250.0%	56	134
1	Best Grown Produce (K) Ltd	14.6%	0	76.0%	96.0%	143.0%	28	163
1	Athi Farm Exporters Ltd	48.4%	0	115.0%	125.0%	214.0%	43	278
1	Sacco Fresh Ltd	12.0%	1	123.6%	154.0%	250.0%	106	154
1	Everest Enterprises Ltd	26.0%	2	68.4%	76.0%	114.0%	98	189
1	Fresco Produce Ltd	32.9%	2	140.0%	186.0%	340.0%	43	402
1	Avoripe International Ltd	56.4%	3	124.2%	203.0%	304.0%	64	456
1	Samawati Fresh Produce (K) Ltd	15.3%	1	156.0%	246.0%	312.0%	114	554
2	Doralco Kenya Ltd	6.3%	0	125.0%	143.0%	162.0%	103	213
2	Everflora Ltd	9.4%	0	136.0%	154.0%	136.0%	54	117
2	Gatoka Ltd	3.0%	0	144.6%	203.0%	300.0%	23	169
2	K-Net Flowers Ltd	3.0%	0	127.3%	289.0%	127.3%	52	89
2	Karen Roses Ltd	14.0%	1	84.2%	114.0%	310.0%	33	106
2	Fontana Ltd	10.0%	0	86.0%	106.0%	212.0%	64	120
2	Sote Flowers Ltd	14.0%	1	77.6%	92.0%	146.0%	89	243
2	Subati Flowers Ltd	6.3%	1	104.3%	124.0%	167.0%	108	316
2	PJ Flowers Ltd	4.4%	0	82.6%	102.0%	150.0%	104	189
2	Tropiflora Ltd	11.8%	2	96.0%	113.0%	226.0%	56	106
3	Githunguri Dairy Co-operative	7.2%	0	162.3%	224.0%	176.0%	67	354
3	Buzeki Dairy processors	16.3%	1	144.4%	162.0%	154.0%	24	116
3	Delamere farms	8.2%	1	99.8%	108.0%	200.0%	36	96
3	Brade Gate poultry industries	5.0%	0	76.3%	85.0%	110.0%	16	69
3	Daily Chick Supplies	7.6%	1	65.3%	74.0%	204.0%	24	56
3	Ecostat Incubators	3.8%	0	114.4%	131.0%	310.0%	12	36

* Category: 1 = Fruits & vegetable exporters; 2 = Fresh Flower Growers & Exporters; 3 = Dairy & Poultry Producers

The sampled firms had between 3 and 8 strategic business units across the country of East African region where they mainly operate. However, as shown in Table 4.1, only a few firms experienced increase in the number of new strategic business units over the sample period. This is because much of the operations are farms-based hence the need for few satellite strategic business centres for administrative purposes, marketing development, and clients' relations management. A majority of the sampled firms reported improved productivity between years 2008 and 2012. This was in regard to staff numbers, sales turnover, total asset base, and branch network expansion. Growth in profitability exhibited mixed results across the three sub-sectors under study mainly due to their diversity and a multiplicity of factors such as cost of production and purchasing power of the target markets. Table 4.1 shows that a majority of the sampled firms doubled or tripled growth in profitability, total assets, and turnover over the sample period 2008 to 2012.

4.3. Extent of Adoption of Internal and External Financing Options

The findings also showed that the sampled firms adopt a mix of both the internal and external sources of finance. Table 4.2 below provides a summary showing how the adoption of both internal and external measures was split across the sampled firms. The findings in Table 4.2 below indicate that proceeds from sale of assets, trade credit, and use of retained earnings were cited among the sampled firms as the most popular internal options of financing capital. On the other hand, venture capital financing, angel investors financing, and loan stocks were identified as the most popular external financing options for capital. Government assistance, factor finance, and franchising were found not to be in application among the sample firms over the five-year sample period.

Table 4.2: Extent of Adoption of Internal and External Capital Financing Options

Internal Finance Options	Number of Firms (out of 38)	% of the Total
Purchase orders	12	31.6%
Factoring Finance	0	0.0%
Advances from Customers	16	42.1%
Trade Credit	36	94.7%
Sale of Assets	38	100.0%
Retained Earnings	38	100.0%
External Finance Options	Number of Firms (out of 38)	% of the Total
Venture Capital	32	84.2%
Government assistance	0	0.0%
Angel investors	34	89.5%
Loan stocks	38	100.0%
Debentures	12	31.6%
Franchising	0	0.0%

Source: Survey Data (2013)

4.4. Diagnostic Tests on the Analytical Model

Indices for internal and external capital financing options were first computed based on the extent to which the individual firms had adopted each of the two options. These indices were then regressed against each of the five growth measures applied. The multiple regression model of Equation (1) was thereby subjected to F-tests to establish the existence of a significance linear relationship(s) between the dependent variables (growth) and the independent variables (internal and external capital financing options). The null hypothesis for the test was that there existed no

significant linear relationship between the dependent and the independent variables. The test was performed for each of the five dependent variables on growth. The tests were performed at both 95% and 99% levels of confidence. The findings are presented in Table 4.3 below.

The findings indicate that the null hypotheses were rejected at both 95% and 99% levels of confidence. This indicates that the regression model of equation (1) was significant for all the five dependent variables on growth. It further implies that there is a significance linear relationship between the dependent and the independent variables. This formed the basis on which the tests of relationship between growth attributes and capital financing options were performed.

Table 4.3: F-test Analysis of Significance of the Analytical Model

$(GROWTH_{ij}) = \alpha_0 + \alpha_1 (INTERNAL)_{ij} + \alpha_2 (EXTERNAL)_{ij} + \epsilon_{ij}$		
Dependent variable on Growth	F-statistics	Decision
Total Turnover	$F_{(2,187)} = 3.7699^{**}$	Reject H_0
Profit Before Tax	$F_{(2,187)} = 6.9375^{**}$	Reject H_0
Total Assets Base	$F_{(2,187)} = 7.4865^{**}$	Reject H_0
Number of SBUs (Branches)	$F_{(2,187)} = 12.0211^{**}$	Reject H_0
Number of Employees	$F_{(2,187)} = 9.4271^{**}$	Reject H_0

* Denotes Significance at 5% level (P-values < 0.05)

** Denotes Significance at both 5% and 1% level (P-values < 0.01)

H_0 : There is no significant linear relationship between the dependent and the independent variables

H_1 : There is a significance linear relationship between the dependent and the independent variables

4.5. Capital Financing Option and Growth of Agribusiness SMEs

As stated earlier, Equation (1) was estimated five times: once each for the growth attributes namely: number of employees at the end of the year; number of strategic business units (branches); profit before taxation; total asset base; and total turnover. The findings are presented in the sub-sections below. Parametric T-tests were performed on the coefficients derived from the regression analysis of equation (1) to ascertain significance of the relationship between each of the five growth indicators and the choice of capital financing options. The null for this test was that there is no significant decision between the growth attribute at year end and choices of either internal or external capital finance options. The decision rule for the tests was based on rejecting the null hypotheses if the absolute values of the computed t-statistics are greater than critical values of a standard student-t distribution at 95% and 99% levels of confidence. The findings are presented in Table 4.4 below.

As pertains to growth in staff numbers, the findings in Table 4.4 indicate that the null hypotheses were rejected in regard to external capital financing options. This indicates that there exists a relationship between the number of staff at year end and the external choices of capital financing applied over the sample period. The test against internal financing options led to acceptance of the null, indicating that choice of internal financing options by the sampled firms did not significantly contribute to growth in their work force size. Hence, firms choosing external sources of capital finance are likely to see growth in the size of their workforce.

As pertains to branch network expansion, the findings in Table 4.4 indicate that the null hypotheses were rejected in regard to external capital financing options. This indicates that there exists a relationship between the change in number of SBUs at year end and the external choices

of capital financing applied over the sample period. The test against internal financing options led to acceptance of the null, indicating that choice of internal financing options by the sampled firms did not significantly contribute to growth in their branch networks. Hence, firms choosing external sources of capital finance are likely to see growth in the size of their branch network (or number of SBUs).

Table 4.4: Relating Capital Financing Option to Growth Indicators

$(GROWTH_{ij}) = \alpha_0 + \alpha_1(INTERNAD)_{ij} + \alpha_2(EXTERNAD)_{ij} + \varepsilon_{ij}$				
Dependent Variable	Independent Variables	Regression Coefficients	T-statistic	Decision
Number of Employees at Year End	Internal Index	$\alpha_1 = 420,422,357.14$	0.5974	Accept H_0
	External Index	$\alpha_2 = 1,087,446,809.4059$	3.0899**	Reject H_0
Number of Strategic Business Units (Branches)	Internal Index	$\alpha_1 = 321,002,905.041$	0.9192	Accept H_0
	External Index	$\alpha_2 = 730,701,650.775$	3.4530**	Reject H_0
Profit Before Taxation	Internal Index	$\alpha_1 = 357,189,659.634$	2.172*	Reject H_0
	External Index	$\alpha_2 = 707,832,901.0752$	2.707**	Reject H_0
Total Asset Base	Internal Index	$\alpha_1 = 391,197,971.013$	1.179	Accept H_0
	External Index	$\alpha_2 = 1,119,757,405.719$	3.378**	Reject H_0
Total Turnover	Internal Index	$\alpha_1 = 391,197,971.013$	1.179	Reject H_0
	External Index	$\alpha_2 = 1,119,757,405.719$	3.378**	Reject H_0

* Denotes Significance at 5% level (P-values < 0.05)

** Denotes Significance at both 5% and 1% level (P-values < 0.01) Critical values = 2.57 (at 1% significance level) and 1.96 (at 5% significance level)

H_0 : There is no significant relationship between the growth attribute and choice of internal/external financing option

H_1 : Firms' choice of internal/external financing option significantly affects changes in the respective growth attribute

As pertains to growth in profitability, the findings in Table 4.4 indicate that the null hypotheses were rejected in regard to both external and internal capital financing options. This indicates that there exists a relationship between the profitability levels and the choices of capital financing

applied over the sample period. Hence, the results imply that firms choosing a mix of both internal and external sources of capital finance are likely to see growth in the profitability levels. This is attributed to the fact that internal capital financing options come about with less administrative costs hence the likely impact on profitability where combined with external financing options.

Total assets were used as measure of growth. Liao, et al (2001) defined enterprise growth as a unidimensional construct operationalized by a variety of growth measures which include sales, value of net assets, profit, number of workers, and market share among others. Barmes (1990) also observed that assets are particularly useful indicator of impact because their level does not fluctuate as greatly as others. Thus total assets are indicators of growth. As pertains to total assets, the findings in Table 4.4 indicate that the null hypotheses were rejected in regard to external capital financing options. This indicates that there exists a relationship between the change in total assets value at year end and the external choices of capital financing applied over the sample period. The test against internal financing options led to acceptance of the null, indicating that choice of internal financing options by the sampled firms did not significantly contribute to growth in their assets base value. Hence, firms choosing external sources of capital finance are likely to see growth in the size of their assets base. This concurs to findings on branch network growth which showed that firms adopting external capital financing options are likely to experience growth in the number of SBUs (or branch network), meaning improved assets investments as well.

Finally, as pertains to total turnover, the findings in Table 4.4 indicate that the null hypotheses were rejected in regard to both external and internal capital financing options. This indicates that there exists a relationship between the sales levels and the choices of capital financing applied over the sample period. Hence, the results imply that firms choosing a mix of both internal and external sources of capital finance are likely to see growth in the total turnover levels. This is attributed to the fact that some internal capital financing options (purchase order; factoring finance; advances from customers; trade credit; sale of assets) are somewhat related to customer relationship management hence the likely impact on sales. External financing options on the other hand bring in new expertise and new target market networks. The increased capital boost brings about increased productivity at farm level (outputs) hence increase in total turnover. This finding also concurs to findings on profitability growth which showed that firms choosing a mix of both internal and external sources of capital finance are likely to see growth in the profitability levels.

4.5. Summary and Interpretation of Findings

The aim of the study was to assess the nature of relationship between capital financing and growth of SMEs in the agribusiness sector in Kenya. Table 4.1 indicated that proceeds from sale of assets, trade credit, and use of retained earnings were cited among the sampled firms as the most popular internal options of financing capital. On the other hand, venture capital financing, angel investors financing, and loan stocks were identified as the most popular external financing options for capital. Government assistance, factor finance, and franchising were found not to be in application among the sample firms over the five-year sample period.

The key findings of the study are twofold. First, the findings showed that external capital financing options are key drivers of growth for the sampled agribusiness SMEs. The five growth attributes namely: the number of employees at the end of the year; number of strategic business units (branches); profit before taxation; total asset base; and total turnover; were all found to have a significant positive correlation to the choice of external capital financing index. The sampled agribusiness SMEs seem to prefer angel investors and venture capitalists for capital financing due to stringent lending requirements provided by conventional lenders such as commercial banks. The other reason that makes angel investors and venture capitalist attractive is the fact that most agribusiness SMEs in Kenya produce for export markets hence they are able to be easily profile by such lenders since most of them are foreign based.

Secondly, the findings of the study have shown that the combined effect of internal and external capital financing options has significant impact on growth in profitability and total turnover. Internal capital financing options come about with less administrative costs hence the likely impact on profitability where combined with external financing options. Empirical evidence (Brav and Gompers, 1997) confirms that increase in profit by equity capital-backed firms is often attributed to better management teams and corporate governance structures that help these companies to perform better in the long run. Table 4.4 showed that internal capital financing options (purchase order; factoring finance; advances from customers; trade credit; sale of assets) are somewhat related to customer relationship management hence the likely impact on sales. External financing options on the other hand bring in new expertise and new target market networks. The increased capital boost brings about increased productivity at farm level (outputs) hence increase in total turnover.

Businesses rely on two main forms of financing: credit and equity. Banks are institutions that provide credit financing to businesses. That is lending out funds with the promise to repay at a later time. When it comes to business credit, there are two main types of loans. One is secured loans, where the business puts up collateral such as a building or a machine tool as a guarantee. This is similar to a mortgage. The other type of loan is operating capital, where the bank lends money based on expected cash flow or income. The difficulty is that companies that are just starting out have no assets, and often no income, to borrow against. That, unfortunately, means that a bank that would lend to that company would take on essentially the same risk as the equity financiers, with little of the same upside reward of equity investments. Equity financing essentially provides investors with the opportunity to provide funds to a business in exchange for an ownership stake and a chance for that upside reward. The findings have shown that agribusiness SMEs in Kenya would prefer equity financing as opposed to credit finance. Their produce has guaranteed market either locally or internationally. However, credit lenders in Kenya regard agricultural investments as “high risk”. Banks use depositors’ money and hence keep risks low. Equity finance firms employ shareholder funds and hence can take bigger risks.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

This chapter presents conclusions and recommendations based on the findings. The aim of the study was to assess the nature of relationship between capital financing and growth of SMEs in the agribusiness sector in Kenya. The chapter is organized as follows: Section 5.2 presents the conclusions; and Section 5.3 presents recommendations for policy and further research.

5.2. Conclusions

The study concludes that there is a positive correlation between the growth of agribusiness SME and choice of capital financing option. The findings showed that external capital financing options are key drivers of growth for the sampled agribusiness SMEs. The five growth attributes namely: the number of employees at the end of the year; number of strategic business units (branches); profit before taxation; total asset base; and total turnover; were all found to have a significant positive correlation to the choice of external capital financing index. The findings further showed that the combined effect of internal and external capital financing options has significant impact on growth in profitability and total turnover. The economic impact of external and internal capital finance options has been realized by SME in sales growth, profit, asset and improvement in management of finance and other resources. The social impacts include the employment opportunities created which is evidenced by growth in number of employees from one year to the next.

Having compared this study's results to other findings in SME financing, mainly in developed countries, it is evident that the study concurs to past studies (Mason and Harrison, 1994; Oakey,

1984), who showed that access to finance for SMEs is an important factor in order for a company to experience continuous growth. Beck and Demirgüç-Kunt (2006) and Schiffer and Weder, (2001) both argued that majority of SMEs find internal equity and profits insufficient to meet the high capital requirements for development and progression to the next growth stage, a finding which has been scored in the present study. Finally, the study concurs to findings of Oakey (1984) that SMEs which are still in the very early stages of development are forced to seek external investment capital and such firms which seek external capital most vigorously tend to be growth-oriented companies.

5.3. Recommendations

Governments throughout the world are nowadays turning their attention to small-scale enterprises. This is because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the populations concerned. In light of the study's findings, access to equity financing option is critical for growth of agribusiness SMEs. The study concluded that SME that use a mix of internal and external capital financing options experience improved growth and thus more SMEs should be encouraged to use these forms of finance if the country has to achieve its vision 2030. The study also found that factor finance, franchising, and government assistance are disregarded as financing options by the sampled agribusiness SMEs. In light of this, the government ought to formulate a policy to define nature of financial guarantees that can be provided to agribusiness SMEs by both the national and county governments since their operational sectors are regarded as "high risk" by conventional lenders.

5.4. Limitations for the Study

The study was limited to agribusiness SMEs operating in three agricultural subsectors namely: fruits and vegetables growers and exporters; fresh flowers growers and exporters; and dairy and poultry producers and processors. The selection of these three sub-sectors was purposive and hence limiting considering that the agricultural sector is rather expansive beyond the three sub-sectors. The sampling frame comprised of firms that are registered with their respective associations hence a number of agribusiness firms could have been left due to lack of subscriptions to their respective associations. The data for the study was limited to a five-year period of 2008 to 2012. The financing options were also limited to the few listed in the data sheet in the appendix. Finally, some of the sampled firms became non-responsive due to internal non-disclosure policies since the financial data sought was regarded as confidential information.

5.5. Suggestions for Further Research

The study scope was limited to SMEs dealing in agribusiness related activities. Further studies can be done to broaden the scope to non-agricultural SMEs with the view of filtering any diversity in growth attributes that may exist. The study was limited to analysis of financial data, which is derived from secondary sources. Further research may seek to triangulate financial data with primary data, probably with interviews being conducted with SMEs' owners or managers of lending institutions or state agencies involved in supervising operations of SMEs. Future research in this field should be carried out to gauge the extent to which owner managers of SMEs are aware of other capital financing options available other than the ones explored by the present study.

Long-term growth and competitiveness of SMEs are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. Further research may be done to gauge the relationship between capital financing options (internal and external) and competitiveness of SMEs in both local and foreign markets. Limited access of SMEs to credit and financial services has been identified as one of the most important supply constraints confronting the sector in Kenya. Further research may be conducted to determine how well to manage financing constraints experienced by both state-owned and private-owned SMEs' financiers. Owing to the problems associated with accessing alternative credit facilities, a large proportion of Kenyan SMEs rely more on self-financing in terms of retained earnings. The implication, therefore, is that SMEs do not have adequate credit to meet the needs at different levels of growth. Therefore, a finance gap exists for firms starting or wishing to expand. How then can the financing gap or finance information need be bridged in order to reduce the ambiguity in the financing environment? This could be achieved by understanding the information needs of SMEs in the Kenyan context and their fulfillment through furthering on the findings of the current study.

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APPENDIX I: LETTER OF INTRODUCTION

Ann Muli
University of Nairobi
Faculty of Commerce
School of Business
P.O. BOX 30197 – 00100
Nairobi

August 30, 2013

Dear Respondent,

REF: INTRODUCTION AS A RESEARCH STUDENT

I am a postgraduate student at University of Nairobi pursuing a Masters of Business Administration Degree. As part of partial fulfillment I am conducting a project paper on: “**THE RELATIONSHIP BETWEEN CAPITAL FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE OF THE AGRIBUSINESS SECTOR**”. For this reason I would appreciate if you would kindly spare a few minutes of your time to fill in for me the attached data sheet as pertains to your organization from 2008 to date. The information provided will be treated with confidentiality and in no instance will your firm’s name be mentioned in this research. In addition, the information will not be used for any other purpose other than for this research. Your assistance in facilitating the same will be highly appreciated.

Thank you in advance.

Yours Faithfully

ANN MULI (MBA Student)

APPENDIX II: THE SAMPLING FRAME

Fruits and Vegetables Exporters 2012	
1. AAA Growers Ltd	2. Agrifresh Kenya Ltd
3. Avo-Health (EPZ) ltd	4. Avenue Fresh Produce Ltd
5. Belt Cargo Services Export Ltd	6. Dominion Vegfruits Ltd
7. East African Growers Ltd	8. Everest Enterprises Ltd
9. Famas Growers & Exporters Ltd	10. Fresh An Juici Ltd
11. Frigoken Ltd	12. Global Fresh Ltd
13. Greenlands Agro Producers Ltd	14. Hillside Green Growers &
15. Homegrown Kenya Ltd	16. Indu farm EPZ Ltd
17. Kakuzi Ltd	18. Kandia Fresh Produce Suppliers Ltd
19. Keitt Ltd	20. Kenya Horticultural Exporters (1977) Ltd
21. Makindu Growers & Packers Ltd	22. Mboga Tuu Ltd
23. Migotiyo Plantations Ltd	24. Global earthgate ltd
25. Nicola Farms Ltd	26. Sacco Fresh Ltd
27. Samawati Fresh Produce (K) Ltd	28. Shree Ganesh Fruits & Vegetables Ltd
29. Sian Exports Kenya Ltd	30. Sunripe (1976) Ltd
31. Value Pak Foods Ltd	32. Vegpro Kenya Ltd
33. Wamu Investments Ltd	34. Key Export Co. ltd
35. Samah Ltd	36. Myner Exports Ltd
37. Six Square ltd	38. Marsil fresh export
39. Goshen Farm Exporters ltd	40. signum fresh fruit Exporters
41. Phyma fresh Produce ltd	42. African quality group
43. Tyrobel Fresh Produce and exporters	44. Jade Fresh Ltd
45. Mofarm Fresh Fruit Exporters	46. Marja General co. ltd
47. Spring fresh growers and exporters Ltd	48. Greenpoint Exporters Ltd
49. Afya Fresh Produce ltd	50. Imenti Farmfresh Ltd
51. Premier Fresh Ltd	52. Ruguru Hort Export co. ltd
53. Lipicorn Investment ltd	54. Garden veg Agencies
55. Freshpak Horticultures Ltd	56. Emax fresh fruit Ltd
57. Africana Fruit and Veg ltd	58. Prime Fruits Distributors Ltd
59. Frank Fresh Fruit Ltd	60. Adonai fresh Fruits
61. Hemo Logistics Ltd	62. Alve Enterprise
63. Ibnu-Haret trading Company	64. Scan African Exporters (k) Ltd
65. Reap Horticulture Exporters Ltd	66. Wintechs Merchants Ltd
67. Nice Exporters Ltd	68. Fair Farm Exporters Ltd
69. Fresh & Easy (K) Ltd	70. Mavuno Exports Ltd
71. Athi Farm Exporters ltd	72. Kenya Fresh Produce Exporters
73. Finlays Horticulture Kenya Ltd	74. Freshome Alchemy Ltd
75. Lycan (EPZ) Enterprises Ltd	76. Danka Investments
77. Vert Ltd	78. Superfresh Kenya Ltd
79. Ausmond Farm Fresh Exporter Ltd	80. Signet FRuit and Vegitable Exporters Ltd
81. Chriven Enterprises	82. Fresh Approach Ltd
83. Interveg exports ltd	84. Muzuri Growers Ltd
85. Green Gold Enterprises Ltd	86. Continental fresh produce Ltd
87. Nyakisma General Agencies	88. Veg Centre Ltd
89. Karende Greena and fruits	90. Extropica Food Ltd
91. Avoripe International Ltd	92. Best Grown Produce (K) Ltd
93. Ever Green Crops Ltd	94. Fresco Produce Ltd
95. From Eden ltd	96. Namelok Exotics (K) Ltd
97. Woni Veg-Fru Importers and Exporters Ltd	98. The African Herb Co. Ltd
99. African Fruits & Veg Ltd	100. Batian Horticulture Agencies

101. Wilham Kenya Ltd	
FRESH FLOWERS GROWERS AND EXPORTERS 2012	
1. Carnation Plants Ltd	2. Doralco Kenya Ltd
3. Everflora Ltd	4. Gatoka Ltd
5. K-Net Flowers Ltd	6. Karen Roses Ltd
7. Fides Kenya Ltd	8. Fontana Ltd
9. Lauren International Flowers Ltd	10. Loeland Ltd
11. Magana Flowers Ltd	12. Mahee Flowers Ltd
13. Nature Grown Flowers Ltd	14. Ngong Roses Ltd
15. Panocal International Ltd	16. Shalimar Flowers (K) Ltd
17. Karuturi Ltd	18. Sote Flowers Ltd
19. Subati Flowers Ltd	20. PJ Flowers Ltd
21. Tropiflora Ltd	22. Valentine Flower Growers Co. Ltd
23. Wilmar Agro Ltd	24. Zedgee Ltd
25. Wilfay Investments Ltd	
DAIRY AND POULTRY PRODUCERS AND PROCESSORS	
1. Brookside Dairies Limited	2. Githunguri Dairy Co-operative
3. Buzeki Dairy processors	4. Delamere farms
5. Brade Gate poultry industries	6. Kenchic Limited
7. Daily Chick Supplies	8. Ecostat Incubators
9. Gatare Gardens Produce - Kitisuru	10. Kenbrid Farms
11. Lake Chic Hatcheries	12. Kim's Poultry Farm Ltd

APPENDIX III: THE DATA SHEET

Name of Firm _____

Sub- Sector:

Fruits and Vegetables Growers and Exporters Fresh Flowers Growers and Exporters Dairy and Poultry Producers and Processors

	2008	2009	2010	2011	2012
Number of employees at the end of the year					
Number of strategic business units (branches)					
Profit before taxation					
Total asset base					
Total turnover (sales)					
How much of the finances were realized from the following sources?					
	2008	2009	2010	2011	2012
Purchase orders					
Factoring finance					
Advances from customers					
Trade Credit					
Sale of assets					
Retained earnings					
How much of the finances were realized from the following sources?					
Venture Capital					
Government Assistance					
Business Angels					
Loan Stock					
Debentures					
Franchising					

APPENDIX IV: LIST OF SAMPLED FIRMS

a) Fruits and Vegetables Growers and Exporters

1. Kenya Horticultural Exporters (1977) Ltd
2. East African Growers Ltd
3. Woni Veg-Fru Importers and Exporters Ltd
4. Wamu Investments Ltd
5. Vegpro Kenya Ltd
6. Mboga Tuu Ltd
7. AAA Growers Ltd
8. Finlays Horticulture Kenya Ltd
9. Avenue Fresh Produce Ltd
10. Kakuzi Ltd
11. Greenlands Agro Producers Ltd
12. Homegrown Kenya Ltd
13. Makindu Growers & Packers Ltd
14. Sunripe (1976) Ltd
15. Signet Fruit and Vegetable Exporters Ltd
16. Best Grown Produce (K) Ltd
17. Athi Farm Exporters Ltd
18. Sacco Fresh Ltd
19. Everest Enterprises Ltd
20. Fresco Produce Ltd
21. Avoripe International Ltd
22. Samawati Fresh Produce (K) Ltd

b) Fresh Flowers Growers and Exporters

23. Doralco Kenya Ltd
24. Everflora Ltd
25. Gatoka Ltd
26. K-Net Flowers Ltd

- 27. Karen Roses Ltd
- 28. Fontana Ltd
- 29. Sote Flowers Ltd
- 30. Subati Flowers Ltd
- 31. PJ Flowers Ltd
- 32. Tropiflora Ltd

c) Dairy and Poultry Producers and Processors

- 33. Githunguri Dairy Co-operative
- 34. Buzeki Dairy processors
- 35. Delamere farms
- 36. Brade Gate poultry industries
- 37. Daily Chick Supplies
- 38. Ecostat Incubators