

**EFFECT OF ACCESS TO PRIVATE EQUITY ON THE GROWTH OF SMALL AND  
MEDIUM ENTREPRISES IN KENYA**

**BY  
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## DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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This project has been submitted for examination with my approval as the University supervisor:

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## **DEDICATION**

I dedicate this project to my family especially my dad Salesio Kirima for his encouragement every day, my husband Joseph Macharia and my son Princeton Kihuro for their moral support, prayers and patience throughout my study period.

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## ABSTRACT

The main purpose of the study was to establish the effect of access to private equity on the growth of small and medium enterprises in Kenya. The study was guided by the following specific objectives: to establish the current status of private equity investment in the SMEs sector and to determine the effect of private equity on the financial performance of SMEs institutions. The study adopted a descriptive survey research design. The population in this study was all top 100 SMEs registered in Nairobi, acquired from the Nairobi County government records. 30% of the accessible population is enough for the sample size. Therefore, for the sake of this study 30 SMEs was studied. Semi-structured questionnaires were used to collect data at the premises of the participant SMEs using an administered questionnaire. The completed questionnaires were reviewed and edited for accuracy, consistency and completeness. The data was analyzed using descriptive statistics, such as mean scores, percentages and standard deviations. The results were presented in frequency tables, charts and graphs. Regression and correlation analysis was applied to show the relationship between variables. Various tables, charts and bar graphs and diagrams were used to present the data for easy interpretation. The study findings established that SMEs need all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries; lack of access to credit is a major constraint inhibiting the growth of SMEs sector; external borrowing of SMEs is considered to be the cheapest source of financing because of the tax benefits; the collateral requirement affects requirement of private equity on SMEs growth to a great extent and SMEs growth indicators identified in the study findings established an improvement in business efficiency, business costs, increase in sales volume, number of new customer and improvement on new customer satisfaction. The study recommends that SMEs should invest in the right model especially in the private equity space; SMEs should have an appropriate capital structure that generates the maximum profit; Microfinance should serve as a substitute and improve the living standard of the inhabitants and profitable SMEs, which have lot of tangible asset, should be offered as collateral for debt, may have a higher target debt ratio.

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## **LIST OF ABBREVIATIONS**

GDP	Gross Domestic Product
MFI	Microfinance Institutions
NGO	Non-Governmental Organizations
SMEs	Small and Medium Enterprises

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Firms' capital structure decisions are a puzzle not yet fully resolved. The choice between internal equity capital (retained earnings), external equity capital (e.g., private equity, VC, IPOs) and debt for financing positive-NPV investment projects has been widely investigated from a large firms' perspective, thus focusing on survey data from listed companies and neglecting smaller firms and their related databases. In this sense, optimal leverage may be explained by a number of market imperfections including: corporate taxation (Miller, 1958) via formation of debt-related interest tax shields; agency costs of equity and debt due to the monitoring activity performed by both new shareholders and debt holders against behaviors of wealth expropriation and/or maximization of current owners (Jensen and Meckling, 1976); transaction costs (e.g., bankruptcy or business disruption costs) (Altman, 1984; Leland, 1994); information asymmetries, which may trigger signaling mechanisms between owners/managers (insiders) and investors (outsiders) (Myers and Majluf, 1984).

Schreiner and Colombet (2001), contends that financial services that allow poor people to save in times of prosperity and borrow or collect insurance when necessary allow them to maintain a consistent level of consumption without selling off income-producing assets. Microfinance can also provide an opportunity for expanding or pursuing new business opportunities that allow poor people to increase or diversify the sources of their income. The attempt to improve access to small deposits and small loans for SMEs is neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Growth in the SMEs will be subject to majority of studies on growth which have been based on Law of Proportional Effects, or Gibrat's Law. Gibrat's law states that the firm growth rate is independent of the size. Obwogi (2006) noted that financial dimension of performance is critical for both large and small enterprises. The resource limitations associated with SMEs indicate that the dimension of quality and time are critical to ensure that waste levels are kept low and that high level of productivity performance is achieved.

### **1.1.1 Private Equity Firms**

Cendrowski (2007) defines private equity as a medium or long-term equity investment that is not publicly traded on an exchange. Private equity includes venture capital, buyout transactions as well as investments in hedge funds, funds of funds, private investment in public equity, distressed debt funds and other securities. It also includes angel financing or investments in very early stage companies. Hence a private equity firm makes and manages investments in the private equity of operating companies through investment strategies that include leverage buyout, venture capital, growth capital etc.

A private equity firm raises pools of capital that fund the equity contributions for these transactions and receive a periodic management fee as well as a share in the profits earned (usually called carried interest) from each private equity fund managed. The private equity firm itself may be publicly listed such as The Blackstone Group (Blackstone) and Kohlberg Kravis Roberts & Company (KKR). The focus of this project would be on private equity firms that partake in buy-outs (both leveraged and unleveraged), structured debt and strategic investing.

Finance has been viewed by both scholars and practitioners as a powerful tool to alleviate poverty. Microfinance can serve as a substitute and improve the living standard of the inhabitants, which is especially effective in the countries with dysfunctional traditional financial system. Microfinance has dramatically changed since 1990s, moving from a universe of donor-financed NGOs, donor-dependant and subsidized operations to commercial debt financing (Mersland, 2009).

The access of the poor to credit is recognized as an important strategy in achieving the Millennium Development Goals (MDGs) of promoting gender equality, women's empowerment and poverty reduction. Simultaneously, socially responsible investments have gained momentum on financial markets. The microfinance sector offers attractive opportunities to investors seeking to participate in alleviating poverty in developing countries. The World Development Report of 2000/2001 widely recommended the microcredit for poverty reduction and as a social safety net for the poor of the developing countries (World Development Report, 2001).

### **1.1.2 Growth of SME's**

SMEs play a major role in the economic growth of any country: they are the major source of entrepreneurial skills, innovation and employment. Promotional of the SMEs especially those in the informal sector form a suitable approach to development which can be sustained particularly with the resources in Africa. According to the Economic Survey (2006), the sector contributed to over 50 percent of new jobs created in the year 2005.

Growth performance measures are expressed in monetary units. The techniques widely used for analytical purposes include; ratio analysis, trend analysis and cross sectional analysis. The mind-set of an entrepreneur that guides all decision making for SMEs is a key factor in the extent and rate of growth of the business argues McGrath, (2001). This has been emphasized by Hashimoto (2011) who states that firms grow because they have resources which are not fully utilized within the firm and entrepreneurial motivation exists which is so profit seeking.

The three main challenges that SMEs business owners face are financial support for business opportunities to grow, business diversification and good business practices. Without enough and sustainable financial capital SMEs will not realize full growth SME-RC (2012). SMEs select capital structure depending on the attributes that determine the various costs and benefits associated with debt and equity financing. Capital structure is defined as a specific measure of debt and equity a firm uses to finance its operations Joshua & Nicholas (2009). SMEs growth as defined by Nichter and Goldmark (2005) as an increase in the number of employees over time because the owners are usually able to remember the number of employees over time, though they may not have maintained the written records which are reliable.

### **1.1.3 Private Equity Firms and Growth of SME's**

Private Equity is capital to enterprises not quoted on a stock market. Basically used to develop new products and technologies, to expand working capital, strengthen balance sheets and help resolve management ownership issues Sami (2002). High leverage or low equity/assets ratio reduces agency cost of equity from outside and high value of the firm and this renders the managers to be conscious of the shareholders interest.

The trade-off theories of financing are built around the concept of target capital structure which balances various costs and benefits of debt and equity, Modigliani and Miller (1963). The expected benefit of debt (tax benefit to be derived as a result of debt utilization and mitigation of agency conflicts between managers and shareholders) depends on whether there is an economic expansion or recession because it translates to cash flow implication.

The role of Private Equity firms has been viewed as a critical element for the growth of SMEs. Previous studies have highlighted the limited access to financial resources available to SMEs compared to larger organisation and the consequences of their growth and development Levy, (2003). Typically, SMEs have higher transaction costs than larger enterprises in obtaining credit Saito & Vulcanueva, (2001). Insufficient funding has been made available to finance working capital Peel & Kuson, (2006). Poor management and accounting practices have hampered the ability of SMEs to raise finance. Information asymmetries associated with lending to SMEs have restricted the flow of finance to them.

According to the Deloitte Private Equity survey 2013 on SME financing, it states that it is a segment where investors can and should make money, there is a lot of choice, valuations are lower and growth potential is enormous. But it is quite difficult to get SME investment model right especially in private equity space.

Further it gives a case of Jacana Partners who in 2012, merged with West Africa Fidelity Capital and in January 2013 they announced a similar merger with East African SME investor In Return. New Jacana Partners will begin raising a US 75M fund shortly to invest in about 15 SMEs across Africa. The value proposition is combining international PE expertise with local African knowledge.

Growth by the SMEs is not only dependent on the financing by the Private Equity firms but also influenced by the expertise the impact into business when they participate as the Equity partners. This reduces the effect of sole ownership and decision making processes are more streamlined due to the expertise they bring in. Business valuation helps in attaining the right value.

#### **1.1.4 PE and SME's in Kenya**

Private equity in Kenya has just made an entrant in Kenya. With virtually no private equity firm in Kenya two decades ago, a number have sprung up in this short duration. Namely, Actis Capital, TBL Mirror Fund, GroFin Kenya, Fusion Capital, Fanisi Venture Capital, Helios Investment Partners, Catalyst Africa Partners, Emerging Capital Partners. The private equity firms in Kenya are generally structured as partnerships and fund management firms domiciled in offshore tax havens such as the Cayman Islands and Jersey Island. The main investors in the funds are mostly foreign high net worth individuals and institutions as local investors still find the private equity concept difficult to understand. The private equity firms in Kenya are not engaged in bold attempts to takeover listed companies and delist them as its common in the developed world. The latest victim being Dell Incorporation (a listed computer hardware manufacturer) which on 5th February 2013 announced a USD 22 billion leveraged buyout by founder Michael Dell, Silver Lake Partners (a private equity firm), with additional funding from Microsoft. The local private equity scene is currently seeing entrant of local investment firms, insurance companies and fund management firms start private equity funds, namely Centum Investments and Britam Investments who are currently in the fund raising stage.

Small and Micro Enterprises in Kenya cut across all sectors of the economy and provide one of the main sources of employment and generate widespread economic benefits (GoK, 2005). According to Ocha (2011), In Kenya "Micro-enterprises" are those that comprise of 10 or less workers while Small enterprises comprise 11-50 workers. The 1999 National Micro and Small Enterprise Baseline Survey define MSEs as enterprises employing 1-50 workers (Republic of Kenya Sessional paper No.2, 2005). They have immense contributions in the economy and cuts across the manufacturing, agricultural, banking, transport, Building and construction wholesale and retail business of the sectors in Kenya.



## 1.2 Research Problem

Key to understanding the financing issues of small- and medium-sized firms is also the paradigm of the financial growth cycle proposed by Berger and Udell (1998). These authors argue that firms employ different types of funding across different stages of growth. In other words, optimal capital structure varies with the age and size of companies: because intermediate capital of external nature cannot be easily raised by start-up firms which are not informational transparent.

Private equity firms are praised at being catalyst of change in companies as well as industries by being able to bring about significant changes and value to a company as fast as possible bypassing too many long and expensive board meetings and annual general meetings that beguile many public companies. Their ability to make key decisions (whether controversial or not) quickly endears them to shareholders - apart from of course pay very good prices for shares in a company they have targeted. Their actions are generally viewed to be skewed in favour of shareholders at the expense of employees and sometimes managers. Private equity firms often invest in troubled firms, turn them around and sell them at a profit.

However, the contribution of private equity firms have been mixed and marred with controversies over the history of their existence. Controversies levelled on private equity firms include fuelling the existence of high yield junk bonds deemed risky to the economy, mass sackings in companies they acquire, focus on short term profits at the expense of long term health companies they acquire, tax avoidance more so in the manner they are structured, overcompensating managers at the expense of the acquired companies. The private equity industry has been well documented both on a global level and continent level. However, for the continent level, the main focus has been developed economies. In Africa, generally the private equity concept is relatively new except for the more advanced economies in the continent that are concentrated in Northern Africa and South Africa. In Kenya, over ten years ago there was virtually no private equity firm hence a lack of research focused on Kenya. This researcher believes this research would build to further research in the industry.

Empirical studies done in Kenya include Kibas (1995) to determine the impact of credit or financing to SME's development. He found that clients reported improvement in their sales, profits, assets. New Jobs linkages with other organisations have been created .This therefore demonstrates access to financial support influences performance of SMEs.

Locally, a number of related studies done in this area include Rukwaro (2000) studied influence of credit rationing by SMEs on the operation of SMEs. Mokogi (2003) studied the economic implication of lending of micro finance institutions to SMEs. Mutugi (2006) studied the responses of micro finance institutions in Kenya to the turbulent business environment. Muchiti (2009) studied risk management strategies adapted by commercial banks in financing SMEs. None of these foregone studies have undertaken to determine the effect of financing from Private Equity firms in Kenya on the growth of the SMEs in Kenya. In this study, the researcher seeks to fill the gap by carrying out a survey on the effect of the Private Equity firms in Kenya to the SMEs growth.

### **1.3 Research Objectives**

The study seeks to establish the effect of private equity on microfinance institutions performance in Kenya. The specific objectives of the study are to:

- i. Establish the current status of private equity investment in the Kenya's SMEs sector
- ii. Determine the effect of private equity on the financial performance of SMEs institutions

### **1.4 Value of the Study**

This study will enlighten sector players, policy and strategy makers SMEs and private equity firms on the impact of private equity in Kenya, various forms of private equity and how it could be embraced. It would help financiers and investors improve relations between each other and with the government.

The study will be very useful to private equity firms as it will provide them with insights on ways of addressing challenges currently facing them as well as for potential private equity firm entrants into Kenya, aiding them in making a smooth entry into Kenya.

Other researchers would benefit from this study by gaining knowledge on private equity as well as further the research to instigate deeper understanding of the industry.

This study is also very valuable to potential recipients of funds as it will enable them understand the private equity industry better and allow them to informatively decide whether to accept to private equity or not. The government could also use this study to determine or formulate laws governing the operations of private equity in order to safeguard the interests of all parties. The

international community such as World Bank and International Monetary Fund may also use this study to update their database and to formulate policies for Kenya.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter reviews selected theoretical and empirical literature relevant to the study. A discussion of the previous works on the study variables is presented. The section also presents research gaps and a summary of the literature review.

### **2.2 Theoretical Review**

#### **2.2.1 Trade-Off Theory**

The trade-off theory of capital structure refers to the idea that a firm chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. This theory goes back to Kraus and Litzenberger (1973) who considered a balance between the dead-weight costs of bankruptcy and the tax saving benefits of debt. The theory posits that there is an advantage to financing with debt, the tax benefits of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs e.g. staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting, etc. (Frank and Goyal, 2007).

The marginal benefit of further increases in debt declines as debt increases, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing. According to Myers and Majluf (1984), a firm that follows the trade-off theory sets a target debt-to-value ratio and then gradually moves towards the target. The target is determined by balancing debt tax shields against costs of bankruptcy.

When referring to microfinance, the trade-off theory postulated that there is a limit to debt financing and the target debt may vary from SMEs to SMEs depending on profitability, among other factors. This allows profitable SMEs, which have a lot of tangible assets that can be offered as collateral for debt, may have a higher target debt ratio. The alternative theory of capital structure is known as pecking order theory, the origin of which is asymmetric information where managers know more about a firm's prospect than the outside investors. According to Myers (1984) the theory is based on the premise that successful firms (zero debt firms) with high and consistent profitability rarely use debt financing.

The theory states that if the firm issues equity shares to finance a project it has to issue shares at less than the prevailing market price. This signals that the shares are overvalued and the management is not confident to serve the debt if the project is financed by debt. This means that issuing shares is bad news. On the other hand, the use of external borrowing in financing the project signals that the management is confident of the future prospect of serving debt. The theory suggests that in avoiding controversy the management may wish to finance project by internal fund generation, such as by retained earnings. Hence, the financing order goes in this way, first-retained earnings, then-debt and finally, equity when debt capacity gets exhausted, and explains why profitable firms use less debt.

### **2.2.2 Agency Cost Theory**

The other theory of capital structure lies in the agency cost theory. Agency cost theory explains the relationship between principals, such as a shareholders, and agents, such as a firm's executives. In this relationship the principal delegates or hires an agent to perform work and assumes both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Agency costs are inevitable within an organization whenever the principals are not completely in charge. Thus, agency cost is an economic concept concerning the cost to a principal, when the principal chooses or hires an agent to act on its behalf. Because the two parties have different interests and the agent has more information, the principal cannot directly ensure that its agent is always acting in its (the principal's) best interests.

The importance of the agency costs of equity in corporate finance arises from the separation of ownership and control of firms whereby managers tend to maximize their own utility rather than the value of the firm (Jensen and Meckling, 1976). Agency costs can also result from conflicts between debt and equity investors when there is a risk of default. The literature provided different solutions to address this issue. For instance, a higher level of leverage may be used as a disciplinary device to reduce managers' salaries, reputation, perquisites through the threat of liquidation (Grossman and Hart, 1982; Williams, 1987) or through pressure to generate cash flow to pay interest expenses (Jensen, 1986). In these situations, debt will have a positive effect on the value of the firm and profitability. Berger and Udell (2006) show that high leverage or low equity/asset ratio reduces agency cost of outside equity, thus increasing firm value by compelling managers to act more in the interest of

shareholders. Accordingly, capital structure is believed to have an impact on a firm performance.

Finance theory suggests that a major factor in firms' choice of capital structure is the reduction of the cost of contracting between firms and their capital providers. Myers (1977) shows that just as workers possess firm-specific capital, firms' owner/managers possess future investment opportunities. On the case of emerging market private equity funds, Leeds and Sunderland (2003) highlight that value created by management is the most important part of their business. In general, firms opting for long-term debt chose this means mainly for protecting themselves from liquidation by imperfectly informed creditors. Whereas, short-term debt allows to increase efficiency by allowing uneconomic projects to be terminated and gives manager/owners strong incentives to avoid unexpected default results.

### **2.2.3 Resource Based Theory**

Resource based theory view has become one of the most influential and cited theories in the history of the management theorizing. It aspires to explain the internal sources of a firm's sustained competitive advantage Kraaijenbrink, Spender & Groen (1997). Perriose first provides a logical explanation to the growth rate of the firm by clarifying the causal relationship among firm resources, production capability and performance. Her concern is mainly on efficient and innovative use of resources. She claimed that the bundles of productive resources controlled by firms could significantly improve by firms, that firms in these sense are fundamentally heterogeneous even, if they are in the same industry Barney & Clark (2007). Wernerfelt (1984) took a resource perspective to analyze antecedents of products and ultimately organizational performance and believed that resources and products are two sides of the same coin and firms diversify based on the available resources and continue to accumulate through acquisition behaviors.

The Knowledge based literature of the firm fosters and develops the resource based theory in that it considers knowledge to be the most complex of any resources Alari & Leidner (2001). The resource based theory states that a company's competitive advantage is derived from the company's ability to assemble and exploit an appropriate combination of resources. Such resources can be tangible or intangible and represent the inputs into a firm's production process such as capital, equipment, the skills of individual employee and patents. As a company's effectiveness and capabilities increase, the setoff available resources tends to become larger.

## **2.3 Determinants of SMEs' Financial Performance and Private Equity**

### **2.3.1 Private Equity**

Obtaining private equity funding on commercial terms along with competition for both funding and clients, requires on one hand, SMEs charging clients the full cost of the delivered services, while on the other hand managing cost structures to ensure sufficient returns to pay for the more expensive commercial funds. This includes effectively managing risks, having good corporate governance, and increasing the level of transparency in both individual SMEs and the industry as a whole. However, this is not easy even major banking corporations in developed economies have obvious difficulties achieving such goals, as shown by the global financial crisis. SMEs need the cooperation of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries (Reille and Forster, 2008).

Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs. Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SMEs continues to be a constraint in the growth and expansion of the sector.

Private Equity firms especially Venture Capital have been instrumental in organizing finances for winning but risky business proposals by Small and Medium enterprises that have promising but as yet unproven ideas. If the Venture capitalist is convinced that a business idea is promising, they will take up the ownership stake in the business and provide the needed fund while sharing the risk. It is expected that many of the country's small businesses whose growth has been constrained by shortage of capital or increased cost of borrowing will have another source of income.

A number of studies Onugu (2005), Wawire and Nafukho (2010), Frempong (2009) identifies a number of factors affecting the growth of the SMEs .This include lack of focus, over concentration on one or two markets for the finished products, lack of proper book keeping and records, lack of the succession plan, inadequate market research, lack of the business strategy, cut throat competition and concentration of decision making on one key person, usually the owner.

According to Heffernan (2006), SMEs face a range of risks that affect their choice of financing: credit risk (counterparty risk), liquidity risk (funding risk), settlement risk (payment risk), market risk (price risk), interest rate risk (duration mismatch risk), capital risk (gearing risk), operational risk (risk of financial losses brought on by e.g. failure of internal systems, fraud, or loss of key employees, etc.) and sovereign and political risks. With increased demand for funding and increased commercialization come new investment opportunities. The proposition of assisting in alleviating poverty in developing countries while also diversifying one's portfolio or making a profit is appealing to both asset managers and socially responsible investors public and retail sector alike (Reille and Glisovic-Mezieres, 2009).

### **2.3.2 Capital Structure**

Every industry requires a substantial amount of resources, whether it is land, labor or capital employment of all required finances. These finances can either be generated internally (retained earnings) or hired from outside sources (loans and bonds). The decision of selection of the source of finance is based on the cost associated with them and the capital structure of firm. These costs can be monetary or non-monetary. Capital structure is also an important factor that determines the performance of a firm. Capital structure refers to the ratio of debt and equity financing. In case if more debt financing the company has to face certain bankruptcy risk, but there are also some tax and monitoring benefits associated with debt financing (Su and Vo, 2010). It also mitigates the agency conflict by reducing the free cash flow of the firm. There should be an appropriate capital structure that generates the maximum profit for the organization, as too less equity financing increases the control of the owners to a large extent (Abu-Rub, 2012).

In case of internally generated finances, it is said that these have the highest opportunity cost (Lewellen and Lewellen, 2004) for the firm because retainment of profits can affect share holder trust, because it would otherwise have been distributed as dividend. Dividend announcements have a significant impact on share prices (Akbar and Baig, 2010). As far as external borrowings are concerned they are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.



### **2.3.3 Financial Efficiency and Operational Self-Sufficiency**

Private equity investments in financial institutions have long-term financial objectives often aimed at improving corporate governance and providing operational support. Indicators of financial performance used in the literature are portfolio-at-risk (PAR), operational self-sufficiency (OSS) and cost per borrower (Armendariz and Morduch, 2005). According to Rosenberg (2009) the portfolio quality (loan repayment) is an important indicator of the SMEs' performance, because high delinquency makes financial sustainability less attainable. The standard measure of loan delinquency is portfolio at risk beyond 30 days. Common profitability measures include the return on assets (ROA) and return on equity (ROE) indicators. Ayayi and Sene (2010) also investigate the most relevant factors that promote financial self-sufficiency of SMEs: a high quality credit portfolio, adequate interest rates, and effective management. The authors agree with the belief that financial sustainability is crucial under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SMEs affect it marginally.

### **2.4 Empirical Review**

Bogan (2011) and Kyereboah-Coleman (2007) empirically demonstrate the implications of the microfinance firm's capital structure for its operations and impacts on its performance. Bogan (2011) explores how changes in capital structure could improve the SMEs' efficiency and financial sustainability by looking at the existing sources of funding for SMEs by geographic region. To investigate the optimal capital structure for SMEs, the author utilizes panel data on SMEs in Africa, East Asia, Eastern Europe, Latin America, the Middle East and South Asia for the years 2003 and 2006 collected from individual institutions as reported to MIX Market.

The author argues that the life cycle theory is the most popular explanation of the link between capital structure, sustainability, efficiency, and outreach. However, the study shows that various factors other than life cycle stage seem to be associated with SMEs' performance. This is why the author turns also to the profit-incentive theory in her paper. Using an IV analysis Bogan (2011) finds evidence supporting the assertion that increased use of grants, rather than own capital by large SMEs decreases operational self-sufficiency in larger firms. This allows the author to argue that the long-term use of grants may be related to inefficient operations due to lack of competitive pressures associated with attracting market funding.

Another empirical study on the linkage between the capital structure and SMEs sustainability is Kyereboah-Coleman (2007) who investigates the impact of capital structure on SMEs performance within the sub-Saharan region. The study uses panel data from Ghana on 52 microfinance institutions covering the ten-year period 1995-2004. It shows that most of the SMEs, which have been operating for about 18 years have about 70 percent of their assets in current form, employ high leverage and finance their operations with long-term debt. The author uses panel data regressions to demonstrate that highly leveraged SMEs perform better by reaching out to more clientele and enjoy scale economies, which enables them to better deal with moral hazard and adverse selection and enhances their ability to deal with risk.

Meyer (2013) conducted a study on the financial and social returns on investment in SMEs. The study adopted an empirical studies review methodology whereby previous studies on the same were reviewed. The study data collected also included all SMEs or at least all funds willing to disclose information, quantitative measures are complemented with portfolio information (SMEs) such as legal status and regional distribution and the interaction between financial and social return. Besides, questionnaires were distributed to 104 fund managers in October 2011 on fund structures, portfolios and performance. The results show that the funds vary in their structure, their special characteristics and the underlying portfolios. Besides, interest rates paid to funders and investors rise with depth of outreach caused by the SMEs higher portfolio yield. Additionally, since operational expenses increase at the same time, the total influence on return measures (such as ROA, ROE and OSS) is very small and not statistically significant.

Lorenzo (2011) focuses on the performance of large public microfinance investment vehicle (MIVs). She avoids the difficult data situation by limiting the research to funds that publish data on Bloomberg. This approach, comparing the performance of Microfinance Investment Funds (SMEs) with other investments, while interesting and important, could nevertheless lead to a biased picture of the market as only the large and most established funds are included. She finds low but positive and stable returns (low standard deviation compared to benchmarks) of the 10 MIVs that she analyses. Furthermore, using beta values, she finds a low correlation between MIVs and the broader market, indicating the diversification possibilities of microfinance. Becker (2010) concentrates on investments in microfinance through MIVs and claims that applying a scenario methodology for the integration of the new microfinance asset class to an existing asset allocation framework is more useful than

quantitative approaches. Arguments made for the inefficiency of quantitative analyses of the microfinance market for asset allocation purposes include the short history, specific valuation concepts, and the absence of a liquid secondary market.

Cooper (2012) did a study on the impact of microfinance services on the growth of small and medium enterprises in Kenya. The study was done on the consisted of 50 SMEs operating in Nairobi. The results show that microfinance have enabled SMEs to thrive in business through increase their profitability through the provision of funds for expansion and growth purposes as well as the provision of the micro insurance of the SMEs against unpredictable future. Mugambi (2011) did a study on risk management practices of microfinance institutions. The study was conducted on the 52 SMEs that were members of the SMEs. Data analysis involved both descriptive and inferential analysis using multiple linear regression models. The study established that proper risk management does encourage SMEs to focus clearly on its objectives thus enhancing financial performance. These risks include: liquidity and credit risks.

Gatauwa and Mwithiga (2014) undertook a study on whether private equity affects economic growth of a region or the reverse effect. The study analyzed these interrelationships using a theoretical approach. It found that private equity tends to increase when there is economic growth in an economy as underpinned by the economic growth models; for economic growth to be sustainable there is need for continuous advancement in technical knowledge mainly in the form of new products, processes and markets. Furthermore, a well-developed legal and regulatory framework would lead to increased financial activities in a country hence facilitating exits which would result to a more favorable legal environment that induces venture capitalists and private equity funds to invest more often in the home country. Investors face principal-agent problems, and geographical distance between a principal and an agent do not alleviate this asymmetry. Consequently, the distance and information asymmetry between a shareholder and the management of any SMEs might be too large for direct investment, instead seeing the investor prefer a managed investment through a microfinance investment vehicle dedicated to and specialized in analyzing and managing risk exposures (Reille and Forster, 2008).

Kibas (1995) did a study to determine the impact of credit to SMEs development. He found that clients reported improvement in their sales and operations. Rukwaro (2000) carried out a study on the influence credit rationing by SMEs has on the operation of the SMEs. Mokogi (2003)

studied the economic implication arising from the financing activities of Micro finance institutions on SMEs. Oketch et al., (1995) conducted a study on 16 financial institutions to determine demand and supply of credit to the SME sector. The study revealed that the demand and supply of credit have been on the increase since 1991.

## **2.5 Chapter Summary**

In general the empirical on private equity suggests that developing countries and SMEs for that matter can benefit immensely from well-developed private equity investments in much the same way that other sectors of the economy have. Greater employment increased FDI, innovation and better corporate governance beckon at the end of the PE rainbow. Sadly, the literature provides no information on the extent to which SMEs in Kenya have benefitted from private equity. It is in providing this assessment that this paper seeks to make its greatest contribution to the body of knowledge on Kenya's private equity.

## **CHAPTER THREE:**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains how the research was conducted. It presents the research design, the population of interest, the sampling techniques to be used and the data collection and analysis methods.

#### **3.2 Research Design**

The study adopted a descriptive survey research design. Cooper and Schindler (2003), define descriptive survey as being concerned with finding out who, what, where, when and how variables. Descriptive approach was achieved at by describing the data and characteristics about the population of phenomenon being studied. This study was concerned with describing the effect of access to private equity to the growth of small and medium enterprises in Kenya.

#### **3.3 Population**

The population consists of the study's subjects, who were individuals, groups, organizations, humans, products, and events, or the conditions to which they are exposed (Welman et al, 2005). The units of analysis are the members or elements of the population. The population in this study was all top 100 SMEs registered in Nairobi, acquired from the Nairobi County government records.

#### **3.4 Sample**

A sample can be defined as a set of respondents (people or organizations) selected from a larger population for the purpose of a study; and sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population (Mugo, 2011). The purpose of sampling was to draw conclusions about populations from samples with a population's characteristics by directly observing only a portion (or sample) of the population, which was cheaper than observing the whole population (Mugo, 2011). At least 30% of the total population is representative (Borg and Gall, 2003). Thus, 30% of the accessible population is enough for the sample size. Therefore, for the sake of this study 30 SMEs was studied.

### **3.5 Data Collection**

Semi-structured questionnaires were used to collect data at the premises of the participant SMEs using an administered questionnaire. The questions were divided into sections, typically, and within each section, the opening question was followed by some probing. SMEs owners or managers were called to request an appointment for the data collection.

### **3.6 Data Analysis**

The completed questionnaires were reviewed and edited for accuracy, consistency and completeness. The responses were then coded and entries made into Statistical Package for Social Science (SPSS version 20). The data was analysed using descriptive statistics, such as mean scores, percentages and standard deviations. The results were presented in frequency tables, charts and graphs. Regression and correlation analysis was applied to show the relationship between variables. Various tables, charts and bar graphs and diagrams were used to present the data for easy interpretation.

Because of the qualitative and quantitative nature of the study and information sought, both descriptive and inferential analyses were used for data analysis. Descriptive analysis goes beyond merely counting words or extracting objective content from texts to examine meanings, themes and patterns that may be manifest or latent in a particular text. Qualitative content analysis is mainly inductive, grounding the examination of topics and themes, as well as the inferences drawn from them, in the data. In some cases, descriptive analysis attempts to generate theory (Zhang & Wildemuth, 2011).

Descriptive statistics was used to show central tendencies such as the mean and measures of dispersion such as the standard deviation. The inferential statistic was used to show the nature and magnitude of relationships established between the independent, intervening and dependent variable using regression analysis. This was done by using computer software referred to as "statistical package for the social sciences (SPSS)" version 17. This entails data cleaning and organization. Then the data was coded and classified as well as screened for accuracy. The data was then entered into the computer in order to perform descriptive and inferential statistic.

Descriptive statistics was performed in order to describe the data by showing measures of central tendencies (means) and measures of dispersion (standard deviation). This is for the

purpose of providing summaries concerning the sample population and the measurement thus describing what the data is and what it shows.

Then inferential statistics was done to show the nature and magnitude of relationships established between independent, intervening and the dependent variable using regression analysis to make inferences from the data collected to a more generalized conditions. Each inferential analysis was linked to specific research questions that were raised in the study.

Internal validity describes the degree to which changes in the dependant variable are indeed due to changes in the independent variable rather than to something else, and is concerned with experimental research. This study is an empirical study, therefore was concerned with external validity only. External validity is twofold:

Population validity which refers to the degree to which the findings obtained for a sample may be generalized to the total population to which the research hypothesis applies. As far as this study is concerned, population validity cannot be guaranteed, since the study cannot be generalized to the whole population of SMEs, because of the case study approach and method of sampling.

### **3.6.1 Analytical Model**

Multiple linear regression models using ordinary least square stepwise method was applied to determine the relative effect of private equity investment on growth of SMEs in Kenya. The regression model was of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where:

Y = Growth of SMEs

$\beta_0$  = Constant Term

$X_1$  = Private Equity

$X_2$  = Interest Charged

$X_3$  = Loan Size

$X_4$  = Collateral Requirement

$X_5$  = Product and Service range

$\epsilon$  = Constant error

**CHAPTER FOUR:  
DATA ANALYSIS AND PRESENTATION OF FINDINGS**

**4.1 Introduction**

This chapter presents the result of the analysis of data collected through questionnaires with the top level management and middle level managers based at the SMEs in Nairobi. The data was analysed using quantitative analysis based on meanings and implications emanating from respondents information and documented data. Specifically, it starts with the analysis of the background information of the respondent and their organization then proceeds to interpret results on the effect of choice of financial facilities on financial performance of top 100 SMEs.

**4.2 Response Rate**

Out of 30 questionnaires distributed to the respondents, 26 questionnaires were returned. This response rate was excellent and representative and conforms to Creswell (2009) stipulation that the key to accurately arguing that those responding are similar to those not responding is a high response rate of 70 percent to 80 percent. This response rate is considered accurate and it reflects its population. He further stipulates that a high response rate is mandatory for a survey sample. The response rate of the study was 86.7%.

This implies that based on this assertion; the response rate in this case of 86.7% is very good. This high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended survey, the questionnaire was self-administered the respondents completed them and these were picked shortly after.

**Table 4.1: Response Rate**

	<b>Questionnaires administered</b>	<b>Questionnaires filled &amp; returned</b>	<b>Percentage</b>
Respondents	30	26	86.7%

**Source: Author, 2014**

**4.3 Research Findings**

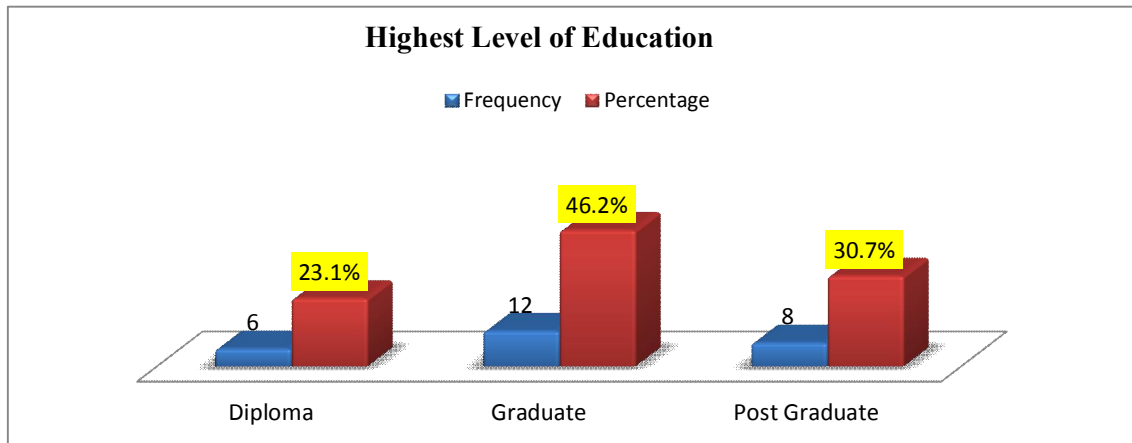
The study sought to determine the position of the respondents in the organization; the level of education and the number of years they have worked in the organization.



### 4.3.1 Highest Level of Education

The study sought to determine the highest level of education of the respondents. The findings were presented in the figure below.

**Figure 4.1: Highest Level of Education**



**Source: Author, 2014**

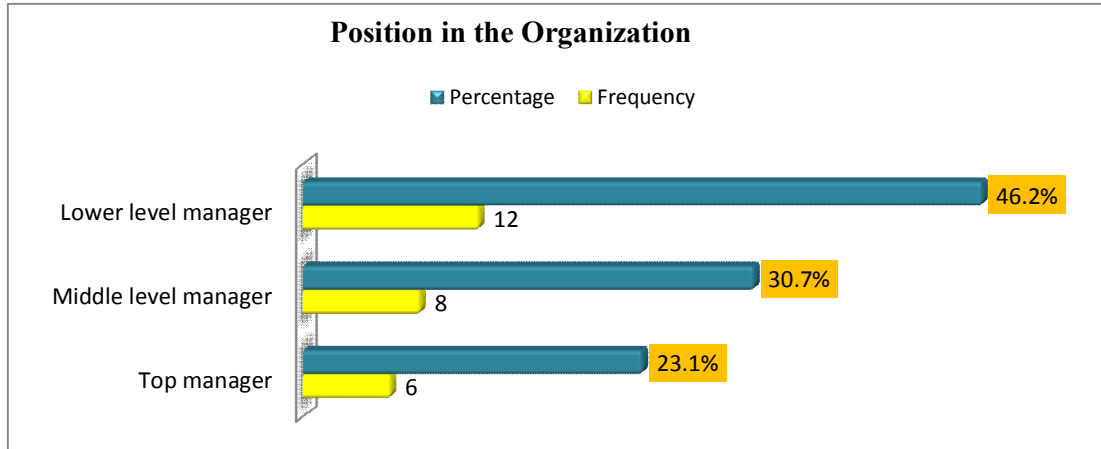
From the findings the study established that the majority of the respondents had graduate studies accounting for 12 (46.2%). The respondents indicated that they had attained post graduate studies 8 (30.7%) while 6 (23.1%) had attained diploma studies.

The study deduced that the respondents were knowledgeable on the effects of access to private equity to the growth of top SMEs in Kenya. The educational background of the respondents indicated that the respondents had knowledge of accessing private equity to the growth of SMEs.

### 4.3.2 Position in the organization

The study determined the position of the respondents in the organization as evident in the figure below.

**Figure 4.2: Position in the Organization**



**Source: Author, 2014**

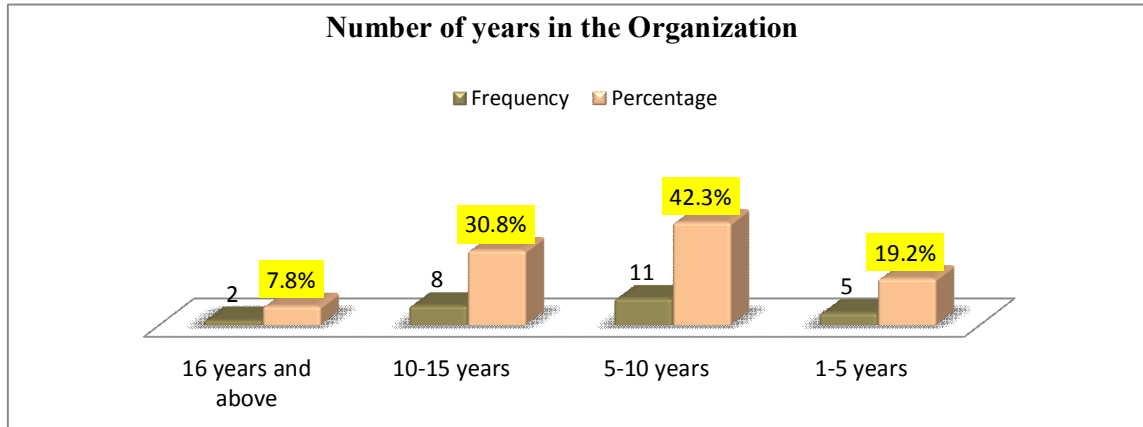
The study findings established that the majority of the respondents were in lower management accounting for 12 (46.2%). 8 (30.7%) of the respondents indicated that they were in middle level management while 6 (23.1%) were in top management level in the organization. The study deduced that the respondents were in a position to know of the effects of choice of financial facilities on financial performance and they were able to provide adequate information on the matter. The managers play a role in choosing financial facilities on financial performance of the SMEs.

The findings are in line with Dutta (1999) that managers have an ownership stake as they are most likely to maximize shareholder wealth. High leverage or low equity/assets ratio reduces agency cost of equity from outside and high value of the firm and this renders the managers to be conscious of the shareholders interest.

#### **4.3.3 Number of years in the Organization**

The study sought to determine how long the respondents have been in the organization. The findings were presented in the figure below.

**Figure 4.3: Number of years in the Organization**



**Source: Author, 2014**

The study found out that the majority of the respondents had been working in the organization for a period of 5-10 years. This accounted for 11 (42.3%). The respondents indicated that they had worked for a number of 10-15 years accounting for 8 (30.8%). The respondents indicated that they had worked for a number of 1-5 years accounting for 5 (19.2%) while 2 (7.8%) had worked for a number of 16 years and above in the organization. The study deduced that the respondents had experience enough in the organization to give effective and adequate responses on the effects of access to private equity to the growth of SMEs in Kenya.

#### **4.4 Interest Charged on Loan and Service**

The study sought to determine the extent to which aspects of interest charges on loan and service influence your firm's growth of Small and Medium Enterprises with respect to Private Equity Firms.

The respondents were asked to rate the aspects of interest charges on loan and service influence on the firm's financial performance in a five point Likert scale. The range was from very great extent (5) to no extent (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; (0 ≤ N.E/L.E < 2.4). The scores of to a moderate extent have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5 ≤ M.E. < 3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5 ≤

V.G.E/G.E <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

**Table 4.2: Aspects of Interest Charges on Loan and Service**

<b>Aspects of Interest Charges on Loan and Service</b>	<b>Mean</b>	<b>Std. Dev.</b>
Interest charges	3.65	.2432
Loan processing charges	3.52	.3865
Prepayment Charges	3.41	.2456
Charges for late payment	3.83	.1562
Service Tax	3.46	.6472
Fixed-rate loans	3.64	.1732
Adjustable-rate loans	3.32	.4874
Partially-fixed rate loans	3.21	.4653

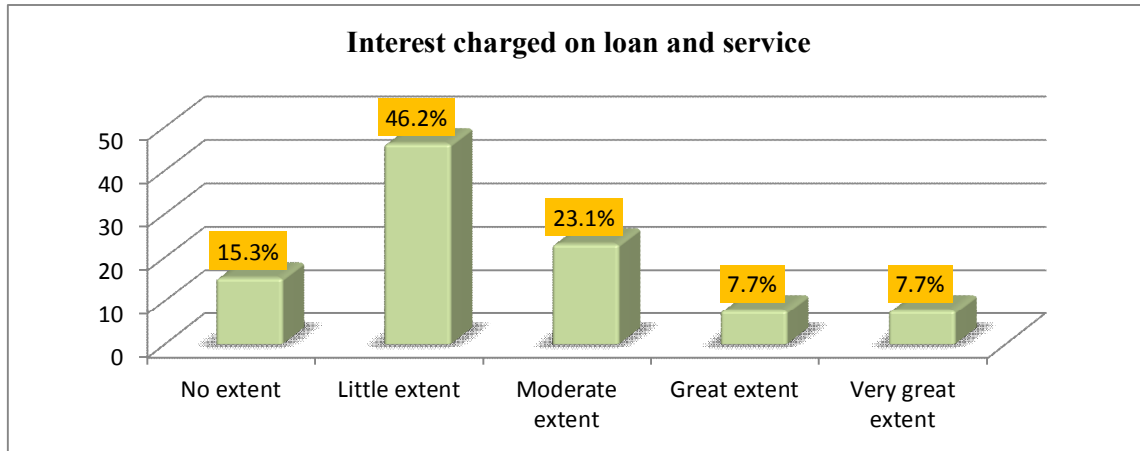
**Source: Author, 2014**

According to the findings, the respondents rated the aspects of interest charges on loan and service to show its influence in the firm's growth of Small and Medium Enterprises with respect to Private Equity Firms. The respondents rated interest charges to a great extent (mean 3.65); loan processing charges was rated to great extent (mean 3.52); prepayment charges was rated to a moderate extent (mean 3.41); charges for late payment was rated to a great extent (mean 3.83); service tax was rated to a moderate extent (mean 3.46); fixed-rate loans was rated to a great extent (mean 3.64); adjustable-rate loans was rated to a moderate extent (mean 3.32) and partially-fixed rate loans was rated to a moderate extent (mean 3.21).

The findings are in line with Reille and Forster (2008), SMEs need the cooperation of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries. Lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs.

#### Figure 4.4: Interest charged on loan and service affects Firm's growth

The study sought to determine the extent to which interest charged on loan and service in firm's growth of Small and Medium Enterprises with respect to Private Equity Firms. The findings were presented in the figure below.



Source: Author, 2014

The findings revealed that the majority of the respondents 46.2% indicated that the interest charged on loan and service on Private Equity Firms have little effect to the firm's growth of SMEs. 23.1% indicated that the interest charged on loan and service affects the growth of SMEs to a moderate extent. 15.3% indicated that the interest charged on loan and service affects growth of SMEs to no extent. 7.7% indicated that the interest loan on loan and service affects growth of SMEs to a great extent and very great extent respectively.

#### 4.5 Loan size

The study sought to determine the extent to which aspects of loan size influence the firm's growth of Small and Medium Enterprises with respect to Private Equity Firms.

The respondents were asked to rate the aspects of loan size influence on the firm's growth in a five point Likert scale. The range was from very great extent (5) to no extent (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; ( $0 \leq N.E/L.E < 2.4$ ). The scores of from a moderate extent have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale:  $2.5 \leq M.E < 3.4$ ). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0

on a continuous Likert scale; 3.5  $\leq$  V.G.E/G.E  $<$  5.0). A standard deviation of  $>$  1.5 implies a significant difference on the impact of the variable among respondents.

**Table 4.3: Aspects of Loan Size Influence the Firm’s Growth**

<b>Aspects of Loan Size</b>	<b>Mean</b>	<b>Std. Dev.</b>
Term to maturity	3.56	.1748
Uncertainty about loan amount	3.24	.2747
High interest rates	3.86	.1574
Mismatch of funds	3.21	.2115
Undue pressures for repayment	3.83	.2563

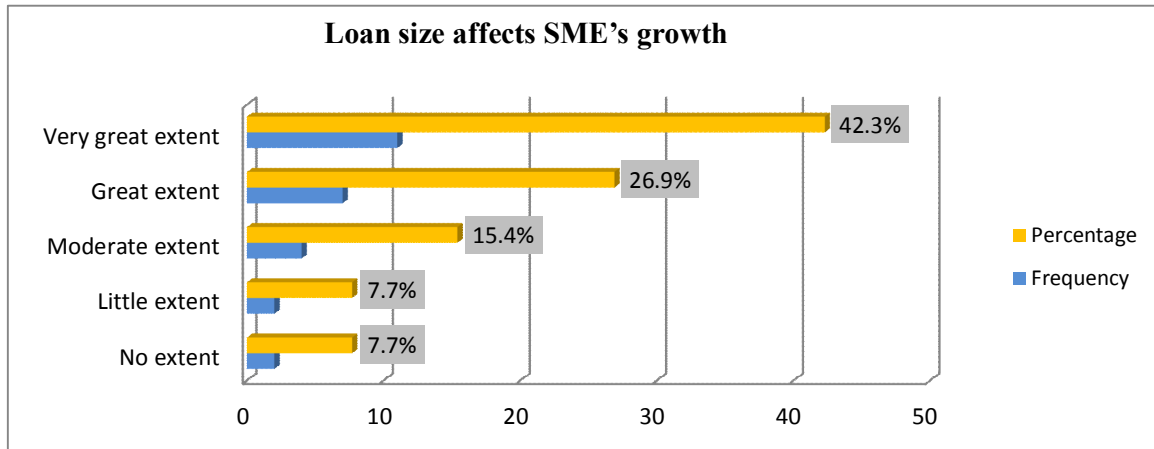
**Source: Author, 2014**

According to the findings, the findings established that the respondents agreed that the term to maturity of the loan influenced the firm’s growth to a great extent (mean 3.56). The respondents rated the uncertainty about loan amount affecting the firm’s growth to a moderate extent (mean 3.24). The respondents rated the high interest rates affecting the firm’s growth to a great extent (mean 3.86). The respondents rated mismatch of funds affecting the firm’s growth to a moderate extent (mean 3.21) while undue pressures for repayment affect the firm’s growth to a great extent (mean 3.83).

The findings are in line with Abu-Rub (2012), that there should be appropriate capital structure that generates the maximum profit for the organization, as too less equity financing increases the control of the owners to a large extent. Lewellen and Lewellen (2004) found out that in case of internally generated finances, it is said that these have the highest opportunity cost for the firm because detainment of profits can affect share holder trust, because it would otherwise have been distributed as dividend. As far as external borrowings are concerned they are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.

**Figure 4.5: Loan size affects SME’s growth**

The study sought to determine the extent to which loan size affects the access to private equity to the growth of SMEs in Kenya. The findings were presented in the figure below.



**Source: Author, 2014**

The findings revealed that the extent to which loan size on Private Equity has affected the firm's growth to a very great extent. This accounted for 42.3% of the respondents, hence the majority. This was followed by 26.9% who indicated to a great extent while 15.4% indicated that loan size on Private Equity has affected the firm's growth to a moderate extent.

#### **4.6 Collateral Requirement**

The study sought to determine the extent to which aspects of collateral requirement influence the firm's growth with respect to private equity firms.

The respondents were asked to rate the aspects of collateral requirement influence on the firm's growth in a five point Likert scale. The range was "to very great extent" (5) to "no extent" (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; ( $0 \leq N.E/L.E < 2.4$ ). The scores of "to a moderate extent" have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; ( $2.5 \leq M.E < 3.4$ ). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; ( $3.5 \leq V.G.E/G.E < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

**Table 4.4: Aspects of Collateral Requirement**

<b>Aspects of Collateral Requirement</b>	<b>Mean</b>	<b>Std. Dev.</b>
Credit history	4.21	.1274
Asset base	3.62	.7462
Availability of collateral	4.01	.3174
Delayed payments by debtors	4.23	.2859
Irregular cash flows	3.81	.4879

**Source: Author, 2014**

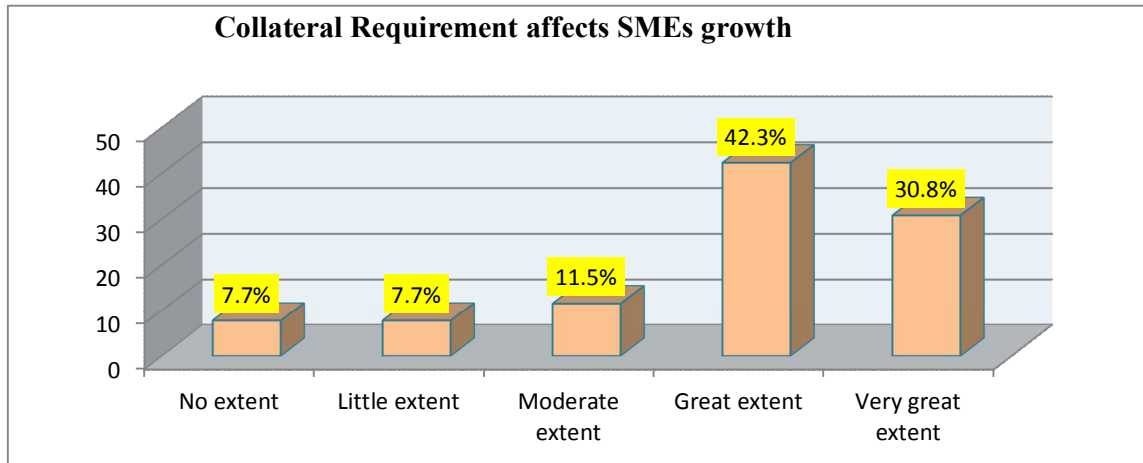
According to the findings, the respondents rated credit history; availability of collateral and delayed payments by debtors as aspects of collateral requirement that affect the firm's growth to a very great extent (mean 4.21, 4.01 and 4.23). Asset base and irregular cash flows debtors as aspects of collateral requirement affect the firm's growth to a great extent (mean 3.62 and 3.81).

The findings are in line with Armendariz and Morduch (2005), private equity investments in financial institutions have long-term financial objectives often aimed at improving corporate governance and providing operational support. Indicators financial performance used in the literature are portfolio-at-risk (PAR), operational self-sufficiency (OSS) and cost per borrower. According to Rosenberg (2009) the portfolio quality (loan repayment) is an important indicator of the SME's performance, because high delinquency makes financial sustainability less attainable. Ayayi and Sene (2010) also investigate the most relevant factors that promote financial self-sufficiency of SMEs: a high quality credit portfolio, adequate interest rates, and effective management. The authors agree with the belief that financial sustainability is crucial under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SMEs affect it marginally.

**Figure 4.6: Collateral Requirement affects SMEs growth**

The study sought to determine the extent to which loan size in private equity has affected the firm's growth. The findings were presented in the figure below.





**Source: Author, 2014**

The findings in the figure above, shows the extent to which the respondents have rated the effect of collateral requirement of private equity on SMEs growth. The respondents rated to a great extent that collateral requirement affect SMEs growth accounting for 42.3%. 30.8% indicated that collateral requirement affect SMEs growth to a great extent. 11.5% indicated that collateral requirement affect SMEs growth to a moderate extent.

#### **4.7 Product and Service Range**

The study sought to determine the extent to which aspects of product and service range influence firm's growth with respect to private equity firm.

The respondents were asked to rate the aspects of product and service range influence on the firm's growth in a five point Likert scale. The range was "to very great extent" (5) to "no extent" (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; ( $0 \leq N.E/L.E < 2.4$ ). The scores of "to a moderate extent" have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale; ( $2.5 \leq M.E < 3.4$ ). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; ( $3.5 \leq V.G.E/G.E < 5.0$ ). A standard deviation of  $>1.5$  implies a significant difference on the impact of the variable among respondents.

**Table 4.5: Product and Service Range**

<b>Product and Service Range</b>	<b>Mean</b>	<b>Std. Dev.</b>
Increase in sales	3.46	.1954
Increase in returns	3.59	.1574
Increase in stock levels	3.51	.1457
Increase in retained earnings	3.68	.1574
Increase in profitability	3.89	.1465

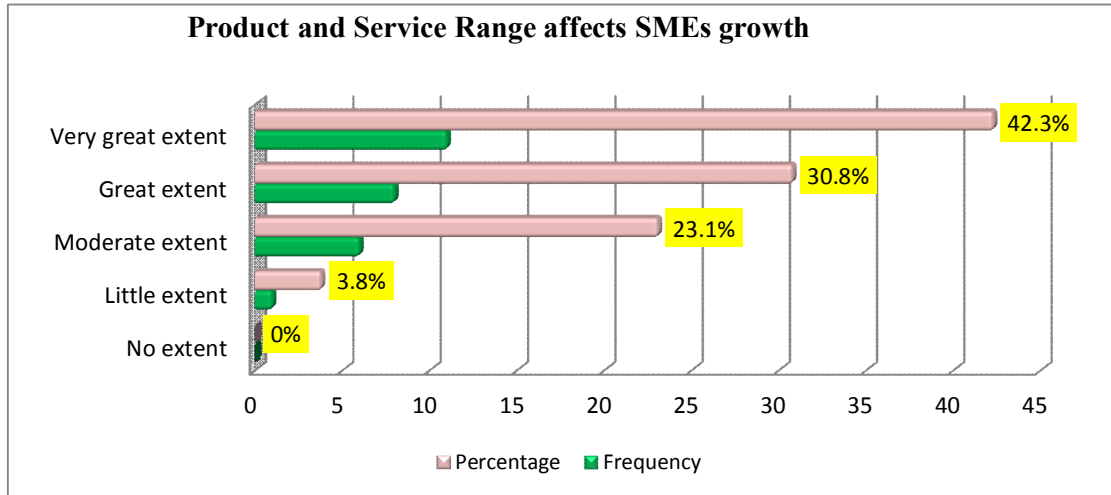
**Source: Author, 2014**

According to the findings, the respondents indicated that increase in sale was an aspect of product and service range that affects the firm's growth to a moderate extent (mean 3.46). The respondents also indicated that increase in returns; increase in stock levels; increase in retained earnings and increase in profitability (mean 3.59, 3.51, 3.68 and 3.89) affect access to private equity to growth of SMEs.

Bogan (2011) explores how changes in capital structure could improve the SMEs efficiency and financial sustainability by looking at the existing sources of funding for SMEs by geographic region. He further finds evidence supporting the assertion that increased use of grants, rather than own capital by large SMEs decreases operational self-sufficiency in larger firms. This allows the author to argue that the long-term use of grants may be related to inefficient operations due to lack of competitive pressures associated with attracting market funding.

Lorenzo (2011) focuses on the performance of large public microfinance investment vehicle (MIVs). She avoids the difficult data situation by limiting the research to funds that publish data on Bloomberg. This approach, comparing the performance of Microfinance Investment Funds (SMEs) with other investments, while interesting and important, could nevertheless lead to a biased picture of the market as only the large and most established funds are included.

**Figure 4.7: Product and Service Range affects SMEs growth**



**Source: Author, 2014**

According to the findings, the respondents indicated that to a very great extent that the current product and service range affects SMEs growth accounting for 42.3%. The respondents indicated that current product and service range affects SMEs growth to a great extent accounting for 30.8%; current product and service range affects SMEs growth to a moderate extent accounted for 23.1% while the current product and service range affects SMEs growth financial to little extent accounted for 3.8%.

#### **4.8 Growth of SME's**

The study sought to determine the growth of SMEs and the indicators that contribute to its growth. The findings were rated on a five point Likert scale showing the extent to which the responds agree or disagree.

The respondents were asked to rate the growth of SMEs and the indicators that contribute to its growth. The range was to very great extent (5) to no extent (1). The scores of no extent (N.E) and little extent (L.E) had an equivalent mean score of 0 to 2.4 on the continuous Likert scale; (0 < N.E/L.E < 2.4). The scores of to a moderate extent have been taken to represent a variable that had an impact to a moderate extent (M.E.) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5 < M.E < 3.4). The scores of very great extent (V.G.E) and great extent (G.E) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5 < V.G.E/G.E < 5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

**Table 4.6: Growth Indicators**

<b>Growth Indicators</b>	<b>Mean</b>	<b>Std. Dev.</b>
Improvement in business efficiency	4.26	.2536
Reduction in business costs	3.84	.4032
Increase in sales volume	4.35	.1455
Increase in the number of new customer	4.01	.1243
Improvement on the new customer satisfaction	3.68	.1574

**Source: Author, 2014**

According to the study findings, the respondents revealed that the growth indicators contribute to the growth of SMEs. Improvement in business efficiency, increase in sales volume and increase in the number of new customer was rated to a very great extent (mean 4.26, 4.35 and 4.01). The respondents also rated reduction in business costs and improvement on the new customer satisfaction to a great extent (mean 3.84 and 3.68).

The findings are in line with Armendariz and Morduch (2005) that indicators financial performance used in private equity investments in financial institutions are portfolio-at-risk (PAR), operational self-sufficiency (OSS) and cost per borrower. According to Rosenberg (2009) the portfolio quality (loan repayment) is an important indicator of the SMEs performance, because high delinquency makes financial sustainability less attainable. Financial self-sufficiency of SMEs is also a growth indicator, according to Ayayi and Sene (2010) they investigated the most relevant factors that promote financial self-sufficiency of SMEs: a high quality credit portfolio, adequate interest rates, and effective management. The authors agree with the belief that financial sustainability is crucial under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SMEs affect it marginally.

#### **4.9 Private Equity Firms and Growth of SME's**

The study sought to determine the private equity firms that contribute to the growth of SMEs. The findings were rated on a five point Likert scale showing the extent to which the responds agree or disagree.

The respondents were asked to rate the growth of SMEs and the indicators that contribute to its growth. The range was to very great extent (5) to no extent (1). The scores of strongly disagree (S.D) and disagree (D) had an equivalent mean score of 0 to 2.4 on the continuous

Likert scale; (0Ö S.D/D<2.4). The scores of neutral have been taken to represent a variable that had an impact to a neutral (N) had an equivalent mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5ÖN<3.4). The scores of strongly agree (S.A) and agree (A) had an equivalent mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5Ö S.A/A <5.0). A standard deviation of >1.5 implies a significant difference on the impact of the variable among respondents.

**Table 4.7: Private Equity Financing**

<b>Private Equity Financing</b>	<b>Mean</b>	<b>Std. Dev.</b>
Increase in number of employees	3.52	.1657
Improvement in the financial statements	3.25	.1783
Sales volumes will increase	3.54	.1418
Expansion in the business networks	3.68	.1574
Use of improved technology	3.54	.1855

**Source: Author, 2014**

The findings of the study sought to determine if the respondents made use of private equity financing in the business, what would be the effect of SME business. According to the findings the respondents agreed that an increase in number of employees, use of improved technology, sales volumes will increase and expansion in the business networks if they were made in use of Private Equity financing in the SMEs would affect the growth of business. These accounted for mean (3.52, 3.61, 3.54 and 3.68) while the respondents agreed moderately that improvement in the financial statements has affected the growth of SMEs to a great extent.

#### **4.10 Correlation Co-efficient**

Correlation analysis was used to determine both the significance and degree of association of the variables. The correlation technique is used to analyse the degree of relationship between two variables. It varies between -1 and + 1 with both ends of the continuum indicating perfect negative and perfect positive relationship between any two variables respectively. The results of the correlation analysis are summarized in Table 4.8

**Table 4.8: Pearson Correlation Matrix**

	PE	ICL	LS	CR	PR	GSME
PE	1.000					
ICL	-0.476	1.000				
LS	.027	-.172	1.000			
CR	.018	.315	-.838**	1.000		
PR	-.423*	-.039	-.194	.440*	1.000	
GSME	0.657	-.623	.439	-.184	.540	1.000

The finding revealed that growth of SMEs is negatively correlated with interest charged on loan (ICL) and collateral requirement (CR) while private equity (PE), loan size (LS) and product range (PR) are positively correlated with the growth of SMEs. On average, a moderate relationship was established given a Pearson correlation coefficient of between 0.657 and 0.540. However, a stronger relationship was established between growth of SMEs and private equity (PE) given a coefficient of 0.657; this was followed by product range at 0.540. The findings also give a negative correlation between growth of SMEs and collateral requirement at -.184.

#### 4.11 Regression Analysis

The study conducted regression analysis to determine the effect of access to private equity to the growth of SMEs in Kenya.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 +$$

The table below shows the results for the goodness of fit statistics.

##### 4.11.1 Goodness of Fit Statistics

The study also established the goodness of fit for the model. This was to check on the significance of explanatory variable in explaining the variation in growth of SMEs. Table 4.9 below gives a summary of the result.

**Table 4.9: Goodness of Fit Statistics**

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.887 <sup>a</sup>	.787	.764	.757	1.104

Determination coefficients ( $R^2$ ) were also carried out to determine the strength of the relationship between independent and dependent variables. The study established an adjusted  $R^2$  of 0.764.  $R^2$  of 78.7% indicates that 78.7% of the variation in growth of SMEs is attributed to changes in the independent variables. Durbin Watson test was also run to establish if the model would be affected by autocorrelation. Since the DW value of 1.104 was close to 2, then it can be concluded that there was no autocorrelation among the model residual.

#### 4.11.2 Analysis of Variance (ANOVA)

**Table 4.10: Analysis of Variance (ANOVA)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	120.450	5	20.075	35.037	.000 <sup>b</sup>
	Residual	32.659	32	.573		
	Total	153.109	37			

a. Dependent Variable: SMEs Growth

b. Predictors: (Constant), PE, ICL, LS, CR and PR

The study used ANOVA statistics to establish the significance of the relationship between private equity investment and growth of SMEs. The ANOVA statistics presented in Table 4.10 was used to present the regression model significance. An F-significance value of  $p < 0.000$  was established which is less than  $p = 0.05$  at 5% level of significance hence the model is significant for the regression analysis.

#### 4.11.3 Regression Coefficients

Multiple regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. This analysis was used to answer the questions; how do the independent variables influence the dependent variable collectively; to what extent does each independent variable affect the dependent variable in such a collective set-up, and; which are the more significant factors? The results are given in the model summary in Table 4.11.

**Table 4.11: Regression Results for Variables Used in the Study**

<b>Dependent SME's Growth</b>	<b>Coefficient</b>	<b>t- statistic</b>	<b>prob.</b>
<b>Explanatory variables</b>			
Private Equity	0.2565	-0.671182	0.025
Interest Charged on Loan	-6.4562	0.890008	0.038
Loan Size	4.1364	1.806656	0.081
Collateral Requirement	-0.1351	2.392872	0.023
Product Range	0.2419	2.670336	0.012
Constant	0.09124	4.517277	0.000

From the regression analysis, the following model was established:

$$Y = 0.09124 + 0.2565 X_1 - 6.4562X_2 + 4.1364X_3 - 0.1351X_4 + 0.2419X_5$$

All the explanatory variables are significant in at 5% level of significance with the exception of loan size which is insignificant in explaining the variation in SME's Growth. Going by the rule of the thumb, at level of significance of 5 % the P-value of loan size is greater than 0.05 hence not important in explaining the changes in SME's growth. The regression result indicates that holding other factors constant, a unit increase in SME's growth.

#### **4.11.4 Summary and interpretation of the findings**

The finding shows a significant negative relationship between the interests charged on loans and the growth of SMEs. This finding correlate to Cook and Nixson (2000) that financial institutions like banks are attracted to areas where SMEs are established but getting funds through these institutions via loans has not been easy due to high interest rates and harsh conditions like types of collateral to present. For the SMEs to thrive they need government to encourage them and develop more opportunities such opportunities could be in terms of providing infrastructures like stable power supply and good transport networks (rails and



roads), easy access to finance (low interest rates), stable government policies, reducing multiple taxations, ensuring availability and access to modern technology and raw materials locally etc. Interest is running high globally particularly in developing countries that are in the rat race to meet up and reduce the economic and development gap.

The average mean ratio of SMEs to total loans and advances is 0.09124 when the explanatory variables are held constant. The regression result obtained in table 4.11 indicates that unit increase in private equity leads to 0.2565 increase in growth of SMEs. The finding is in agreement with Levy (2003) who noted that private equity is a critical element for the growth of SMEs. The limited access to financial resources available to SMEs compared to larger organisation and the consequences of their growth and development. Typically, SMEs have higher transaction costs than larger enterprises in obtaining credit. Insufficient funding has been made available to finance working capital. Poor management and accounting practices have hampered the ability of SMEs to raise finance. Information asymmetries associated with lending to SMEs have restricted the flow of finance to them.

A unit increase in collateral requirement decreases the growth of SMEs by 0.1351 units. The result is in line with Van der Schans (2012), SMEs have been strongly affected by a number of factors during economic downturns, such as fewer options for financing, the difficulty involved in downsizing given their already smaller size, less diversified business activities and lower levels of capital. The financial crisis resulted to financial institutions to tighten lending standards for SMEs by increasing collateral requirements, demanding higher interest rate premiums and reducing loan maturities. From the regression result, it was established that collateral requirement has a negative relationship with the growth of SMEs.

A unit increase in product range leads to 0.2419 increases in the growth of SMEs. An increase in product range strengthens loan uptake capacity of the borrower therefore SMEs growth. The result is in line with Nkusu (2011) who depicts that the product range has a positive effect in growing small and medium enterprises. Product range has a positive impact on SMEs that are already experiencing strong growth than in their slower growing counterparts.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

In this chapter, summary of the main study findings is presented. The chapter also covers conclusions and recommendations of the study.

The purpose of this study was to determine the effect of access to private equity to the growth of small and medium enterprises in Kenya. The following are the summary of the research findings upon which the conclusions and recommendations of the study were made.

#### 5.2 Summary of Findings

The study established the effects to access to private equity to the growth of small and medium enterprises in Kenya included the interest charged on loans, loan size, collateral requirement and the product and service range. The study found out that SMEs need the cooperation of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries. The interest charged on loan and service affects the private equity firm to little extent. The aspects of interest charges on loan and services include the interest charges; loan processing charges; prepayment charges; charges for late payment; service tax; fixed-rate loans; adjustable-rate loans and partially-fixed rate loans. The findings are in line with Reille and Forster (2008) who investigated that the lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs.

The findings found out that the size of the loan affects SMEs growth to a very great extent. As far as external borrowings are concerned they are considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind. The findings are in line with Lewellen and Lewellen (2004) found out that in case of internally generated finances, it is said that these have the highest opportunity cost for

the firm because detainment of profits can affect share holder trust, because it would otherwise have been distributed as dividend.

The study established that collateral requirement influence the firm's growth with respect to private equity firms. The collateral requirement affects requirement of private equity on SMEs growth to a great extent. The findings are in line with Armendariz and Morduch (2005), private equity investments in financial institutions have long-term financial objectives often aimed at improving corporate governance and providing operational support. According to Rosenberg (2009) the portfolio quality (loan repayment) is an important indicator of the SME's performance, because high delinquency makes financial sustainability less attainable. The aspects of collateral requirement identified include credit history; asset base; availability of collateral; delayed payments by debtors and irregular cash flow.

The study further established the product and service range that influence the firm's growth with respect to private equity firm. The product and service range affects SME's growth to a very great extent. The indicators of product and service range as identified in the study include, increase in sales, returns, stock levels, retained earnings and an increase in profitability. The findings are in line with Lorenzo (2011) who focused on the performance of large public Microfinance Investment Vehicle (MIVs). She avoids the difficult data situation by limiting the research to funds that publish data on Bloomberg. This approach, comparing the performance of Microfinance Investment Funds (MIFs) with other investments, while interesting and important, could nevertheless lead to a biased picture of the market as only the large and most established funds are included.

The growth indicators of SMEs were identified as improvement in business efficiency; reduction in business costs; increase in sales volume; increase in the number of new customer and improvement on the new customer satisfaction. The findings of the study Ayayi and Sene (2010) investigate the most relevant factors that promote financial self-sufficiency of SMEs: a high quality credit portfolio, adequate interest rates, and effective management. The authors agree with the belief that financial sustainability is crucial under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SMEs affect it marginally. According to Rosenberg (2009) the portfolio quality (loan repayment) is an important indicator of the SME's performance, because high delinquency makes financial sustainability less attainable.

### **5.3 Conclusion**

The study made conclusions based on the study findings. SMEs need the of all market participants to ensure the continued growth of microfinance and thus the continued impact on poverty alleviation in developing countries. The lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs.

The size of the loan affects SMEs growth to a very great extent. External borrowing of SMEs is considered to be the cheapest source of financing because of the tax benefits. But they do still have certain costs like interest payments and it is widely accepted that the cost of external funds is directly proportional to the amount of these funds also while borrowing the capital structure policy of the firm has to be kept in mind.

The study concludes that collateral requirement influence the firm's growth with respect to private equity firms. The collateral requirement affects requirement of private equity on SMEs growth to a great extent. Private equity investments in financial institutions have long-term financial objectives often aimed at improving corporate governance and providing operational support. The portfolio quality (loan repayment) is an important indicator of the SMEs performance, because high delinquency makes financial sustainability less attainable.

The study concludes that the product and service range that influence the firm's growth with respect to private equity firm. The product and service range affects SMEs growth to a very great extent. Comparing the performance of Microfinance Investment Funds (MIFs) with other small investment firms, while interesting and important, could nevertheless lead to a biased picture of the market as only the large and most established funds are included.

SMEs growth indicators identified in the study findings established an improvement in business efficiency, business costs, increase in sales volume, number of new customer and improvement on new customer satisfaction. The most relevant factors that promote financial self-sufficiency of SMEs: a high quality credit portfolio, adequate interest rates, and effective management. Financial sustainability is crucial under the conditions of shrinking and inconsistent donor aid, while the client outreach and the age of SMEs affect it marginally. The portfolio quality (loan repayment) is an important indicator of the SMEs performance, because high delinquency makes financial sustainability less attainable.

#### **5.4 Recommendation to policy and practice**

The study made recommendations based on the study findings. SMEs should invest in the right model especially in the private equity space. The investors can and should make money there is a lot of choice, valuations are lower and growth potential is enormous. SMEs should have an appropriate capital structure that generates the maximum profit for the organisation as too less equity financing increases the control of the owners to a large extent. Microfinance should provide an opportunity for expanding or pursuing new SMEs business opportunities that allow poor people to increase or diversify the sources of their income. Microfinance should serve as a substitute and improve the living standard of the inhabitants, which is especially effective in the countries with dysfunctional traditional financial system. Promotional of the SMEs especially those in the informal sector form a suitable approach to development which should be sustained particularly with the resources in Africa. Profitable SMEs, which have lot of tangible asset, should be offered as collateral for debt, may have a higher target debt ratio.

#### **5.5 Limitation of the study**

The study was faced by various limitations which may have contributed to inaccurate findings. Time of the study was limited and therefore not able to drop questionnaires to some of the SMEs.

The study may suffer sampling bias due to the sample size in the study being adjudged to be small and this can lead to narrow understanding of the population.

Lack of response from some of the targeted respondents, some claiming issue of time, others it was against company's policy to disclose any information to the public, thus no support.

Some of the SMEs have not accepted investments from the private equity firms due to lack of knowledge on how they operate. Also Private equity has no been dominated in the SMEs sector, some of them have concentrated in the real estate developments.

#### **5.6 Suggestions for Further Studies**

This study was done using a total of 30 SMEs registered in Nairobi. This representation is less than half of all the SMEs registered in Nairobi.

Further, the research should be done to cover more regions in the country which will enable comparison or results collected to the entire SMEs population in the country.

Research should be carried out various aspects of private equity firms contribution on the management buy outs and management buy ins of the various SMEs business in Kenya.

Also, research to be carried out to compare SMEs which have Private Equity and those which do not have and compare the profitability. To analyze the extent which Private equity improves the performance of the SMEs.

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## APPENDIX I: QUESTIONNAIRE

### INSTRUCTIONS

This questionnaire seeks to collect information on the Effect of Private Equity Firms on the growth of Small and Medium Enterprises in Kenya. Please provide information in the spaces provided unless indicated as optional and tick or circle the appropriate boxes. All the information received will be treated confidentially and will only be used for academic purposes.

#### Section A: Respondents Information

- 1) Please indicate your level of education.
  - a. Diploma
  - b. Graduate
  - c. Post Graduate
  
- 2) Please indicate your position in the organization.
  - a. Top manager
  - b. Middle level manager
  - c. Low level manager
  
- 3) How long have you been working in the organization? 1-5 years 
  - a. 5-10 years
  - b. 10-15 years
  - c. 16 years and above

#### Section B: Effect of Private Equity Firms on the growth of Small and Medium Enterprises

##### Interest Charges on Loan

1. Kindly indicate the extent to which the following aspects of interest charges on loan and service influence your firm's growth of Small and Medium Enterprises, with respect to Private Equity Firms, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

Interest Charges on Loan and Service	1	2	3	4	5
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Interest charges					
Loan processing charges					
Prepayment Charges					
Charges for late payment					
Service Tax					
Fixed-rate loans					
Adjustable-rate loans					
Partially-fixed rate loans					

2. To what extent would you say Interest charged on loan and service in your choice of financial facility has affected your financial performance?

- Very great extent            [ ]
- Great extent                    [ ]
- Moderate extent                [ ]
- Little extent                    [ ]
- No extent                        [ ]

**Loan size**

3. Kindly indicate the extent to which the following aspects of loan size influence your firm's financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Term to maturity					
Uncertainty about loan amount					
High interest rates					
Mismatch of funds					
Undue pressures for repayment					

4. To what extent would you say Loan size in your choice of financial facility has affected your financial performance

- Very great extent            [     ]

- Great extent [     ]
- Moderate extent [     ]
- Little extent [     ]
- No extent [     ]

**Collateral requirement**

5. Kindly indicate the extent to which the following aspects of collateral requirement influence your firm's financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Credit history					
Asset base					
Availability of collateral					
Delayed payments by debtors					
Irregular cash flows					

6. To what extent would you say collateral requirement in your choice of financial facility has affects your financial performance

- Very great extent [     ]
- Great extent [     ]
- Moderate extent [     ]
- Little extent [     ]
- No extent [     ]

**Product and service range**

7. Kindly indicate the extent to which the following aspects of product and service range influence your firm's financial performance, with respect to your choice of financial facility, using the scale: 1= No extent; 2= A little extent; 3= Moderate; 4 = Great extent; 5= Very great extent

	1	2	3	4	5
Increase in sales					
Increase in returns					
Increase in stock levels					
Increase in retained earnings					

Increase in profitability					
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8. To what extent would you say that your current product and service range in your choice of financial facility has affected your financial performance?

- Very great extent [     ]
- Great extent [     ]
- Moderate extent [     ]
- Little extent [     ]
- No extent [     ]

**Section C: Growth of SME's**

Using the scale below, please indicate the extent to which you agree or disagree with the statement.

Not at all	To a little extent	To a moderate extent	To a great extent	To a very great extent
1	2	3	4	5

The following indicators would contribute to growth in SMEs:

1	Improvement in business efficiency	1 2 3 4 5
2	Reduction in business costs	1 2 3 4 5
3	Increase in sales volume	1 2 3 4 5
4	Increase in the number of new customer	1 2 3 4 5
5	Improvement on the new customer satisfaction	1 2 3 4 5

**Section D: Private Equity Firms and Growth of SME's**

Using the scale below, please indicate the extent to which you agree or disagree with the statement.

Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

If we make use of Private Equity financing in our business, it effects on growth of business include:

1	Increase in number of employees	1 2 3 4 5
2	Improvement in the financial statements	1 2 3 4 5
3	Sales volumes will increase	1 2 3 4 5
4	Expansion in the business networks	1 2 3 4 5
5	Use of improved technology	1 2 3 4 5

**THANK YOU FOR TAKING TIME OUT OF YOUR BUSY SCHEDULE TO ANSWER THIS QUESTIONNAIRE.**



## **APPENDIX II: LIST OF SMES INCLUDED IN THE SAMPLE**

Atlas Plumbers and Builders  
Tropikal Brands Afrika  
Keppel Investments Ltd  
Shian Travel  
Rupra Construction Co.  
Powerpoint Systems (E.A) Ltd  
Chemical And School Supplies  
Satguru Travel And Tours  
Radar Ltd  
Kentons Ltd  
Avtech Systems Ltd  
Sai Pharmaceuticals Ltd  
Kunal Hardware And Steel  
Coninx Industries Ltd  
R & R Plastic Ltd  
Capital Colours C. D Ltd  
Asl Credit Ltd  
Kandia Fresh Produce Suppliers Ltd  
Furniture Elegance Ltd  
Muranga Forwarders Ltd  
Bbc Auto Spares Ltd  
Digital Den Ltd  
Xrx Technologies Ltd  
Nairobi Garments Enterprise Ltd  
Charleston Travel Ltd  
Spice World Ltd  
Master Power Systems Ltd  
Software Technologies Ltd  
Kenbro Industries Ltd  
Skylark Creative Products Ltd  
Ganatra Plant & Equipment Ltd  
Security World Technology Ltd  
Specialized Aluminium Renovators Limited

Wines Of The World Ltd  
Virgin Tours Ltd  
Aramex Kenya Ltd  
Canon Aluminium Fab Ltd  
Panesar's Kenya Ltd  
Tyre Masters Ltd  
Lantech Africa Ltd  
Warren Enterprise Ltd  
Africa Tea Brokers Ltd  
Meridian Holdings Ltd  
Dune Packaging Ltd  
The Phoenix Ltd  
Fairview Hotel Ltd  
Specicom Technologies Ltd  
Punsani Electricals & Industrial Hardware Ltd  
Biselex (K) Ltd  
Victoria Furnitures Ltd  
Gina Din Corporate Comm  
Amar Hardware Ltd  
Melvin Marsh International  
Lanor International Ltd  
Synermed Pharmaceuticals (K) Ltd  
Sahajanand Enterprises Ltd  
Vehicle & Equipment Leasing Ltd  
Silverbird Travelplus  
Waumini Insurance Brokers Ltd  
Kenapen Industries Ltd  
Hardware And Welding Supplies  
Isolutions Associates  
Mombasa Canvas Ltd  
East Africa Canvas Co  
Total Solutions Ltd  
Print Fast (K) Ltd  
Optiware Communications Ltd

Deepa Industries Ltd  
Endeavour Africa Ltd  
Travel Shoppe Co Ltd  
Kema (E.A) Ltd  
Amar Distributors Ltd  
Pwani Cellular Services  
Sheffield Steel Sytems Ltd  
General Aluminium  
Creative Edge Ltd  
Brollo Kenya Ltd  
Trident Plumbers Limited  
Physical Therapy Services Ltd  
Praful Chandra & Brothers Ltd  
Dharamshi Lakhamshi & Co / Dalco Kenya  
Madhupaper Kenya Ltd  
Union Logistics Ltd  
Oil Seals And Bearing Centre Ltd  
Skylark Construction Ltd  
Biodeal Laboratories Ltd  
Warren Concrete Ltd  
Rongai Workshop & Transport  
Complast Industries Ltd  
Kinpash Enterprises Ltd  
Sight And Sound Computers Ltd  
De Ruiter East Africa Ltd  
Ace Autocentre Ltd  
Kenya Suitcase Mfg Ltd  
Hebatullah Brothers Ltd  
Market Power Int. Ltd  
Nivas Ltd  
Sigma Suppliers Ltd  
Impala Glass Industries Ltd  
Eggen Joinex Ltd  
Essajee Amijee & Sons (Lusaka Rd)

Tropical Wild Expeditions  
Airtech Cooling Services  
Pathway International  
Smart Glass Industries Ltd  
Destiny Cargo Forwarders Ltd  
Exxon Trading Co.Ltd  
Nyals (K) Ltd  
Fanikiwa Insurance Brokers Ltd  
Ngecha Industries Ltd  
Brinks Security Services Ltd  
Trident Risk Management Consultants Ltd  
Paragon Signs & Advertising Ltd  
Ivory Motors  
Infiniti Africa Business Systems  
Indigo Telecom  
Mbagu Enterprises Ltd.  
Neo Interior Decorators Ltd  
Soliplus Communication Limited  
Truckers Kenya  
Hazel'S Cutlery  
Lolwe Auctioneers  
Nairobi Kitchen Care  
Safarilinks Africa  
Audio Visual Control Systems Ltd  
Obiworld Ict Solutions Ltd  
Trio Craft Ltd  
Insync Solutions Limited  
Tintoria Ltd  
Tononoka Fireworks Ltd  
Ali Glaziers Ltd  
All-Tyme Cleaning Services Ltd  
Associated Technologies & Electricals  
Bobstats Consulting Worldwide  
Brital Pest Control Consultant

Chowpaty  
Compulynx Ltd  
Craft Silicon  
D K Engineering Co Ltd  
Doshi Group Of Companies  
House Of Waine - Karen  
International Talent Management Consulting  
Kam Pharmacy Ltd  
Lolwe Auctioneers  
Media Eye Ltd  
Ongata Works Ltd  
Roy Transmotors Ltd  
Sayari Afrika Ltd  
Somak Travel Ltd  
Swiftweb Technologies Ltd  
Text Book Centre Ltd  
The Brew Bistro & Lounge  
Total Security Surveillance Ltd  
Tuffsteel Limited  
Wilken Telecoms  
Wireless Innovations Nairobi Ltd  
Azar Anwar Motorsport Training  
Dalbit International  
Hassconsult Ltd  
Marketing Africa Limited  
Pc World  
Signon Freight Ltd  
Techbiz  
Wananchi Group (K) Ltd  
Prideinn Hotels & Conferencing  
Uneek Freight Services (K) Ltd  
Transcend Media Group  
Universal Machining Solutions Limited  
Xtranet Communications Ltd

Aero Kenya  
Apex Lifestyle Consulting  
A-Plus Motors Ltd  
Carlson Wagonlit Travel Kenya  
Copy Pro Ltd  
Dallago Tours & Safaris Ltd  
East African Elevator Company Limited  
Heavy Construction Equipment Kenya Ltd  
Insync Solutions Ltd  
Lloyd Masika Ltd  
2020 Marketing  
Mass Consultancy Firm  
Newline Ltd  
Power Innovations Ltd  
Professional Technologies Ltd - Protec  
Simbanet Com Ltd  
Spero Africa  
T N T International Express  
Viva Productline Ltd  
Trendy Opticians  
Ace Realtors Ltd  
Enke Investment Ltd  
Pelican Signs Limited  
Lotus Africa Ltd.  
M J Vekaria Electric Ltd  
Peak Performance International  
Elit Trailers Limited  
Extreme Renovators  
G P Karting Ltd  
Kams Crafts  
Turkoman Carpet Emporium  
Weddings N More  
Zenith Surveying Equipments Kenya Ltd  
Aero Club Of East Africa

African Trade Insurance Agency  
Avenue Electronics Ltd  
Daly & Figgis Advocates  
Dinesh Construction Ltd  
Elite Tools Ltd  
Farmchem  
Frigorex East Africa Ltd  
General Plastics  
Husseini Glass Kenya Ltd  
Mantrac Kenya Ltd  
Medilink Labs & Surgicals Ltd  
Methodist Guest House & Conference Centre  
Mustek East Africa Ltd  
N W Realite Ltd  
Powerpoint Systems (E A) Ltd  
Space And Style Ltd  
Surgilinks Ltd  
Tell-Em Public Relations (E.A) Ltd  
Universal Signs Ltd  
Yaya Towers Ltd  
Ags Frasers  
Arrow Cars Ltd  
Astral Aviations Ltd  
Chemoquip Ltd  
Coast Data Systems  
Compulynx  
Corrington Business Systems  
Crown Tours  
Kenital  
Knight Frank Kenya  
Laboratory & Allied Ltd  
Sahannet Ltd  
Philips Health Care Ltd  
Pierlite E A Ltd

Moringa Enterprises

Mitchell Cotts Freights (K) Ltd