EFFECT OF PRIVATE EQUITY AND DEBT FINANCING ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN KAKAMEGA COUNTY, KENYA.

ESTHER AKOTH ARIKO
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DECLARATION

I affirm that the research project herein is my unique work and has not been submitted to some other college or higher learning for scholarly honor.

Signed: ______________________________ Date: 30/11/2021

Esther Akoth Ariko
D61/5405/2017

The exploration project was presented to us for assessment with our endorsement as the University supervisor.

Signed: Date: 30/11/2021

Dr. Otieno Odhiambo Luther
Department of Finance and Accounting, School of Business
University of Nairobi.

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ABSTRACT

The principal reason for the review was to set up the impact of private value and obligation financing on the development of small and medium enterprises in Kakamega County, Kenya. Specifically, the study sought: to assess the relationship between Private Equity and SMEs' growth; to establish the relationship between debt finances and growth of SME's and to examine the strategies that impact access to private equity and debt financing by SMEs. The study embraced a descriptive survey research design. The populace in this review was 3097 out of which a sample size of 341 respondents was acquired. The data were examined using descriptive statistics, such as mean scores, percentages, and standard deviations. The results were presented in frequency tables, charts, and graphs. Linear Regression 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 SME's sector; external borrowing of SMEs is considered to be the cheapest source of financing because of the tax benefits. The study recommends that SME's should invest in the right model especially in the private equity space; SME's 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 SME's, which have a lot of tangible assets, should be offered as collateral for debt, may have a higher target debt ratio.

LIST OF ABBREVIATIONS AND ACRONYMS

SMEs	:	Small, and Medium Enterprises
ROA	:	Return, on Assets
ROE	:	Return, on Equity
ROI	:	Return on Investment
PE	:	Private Equity
GM	:	Gross Margin
FDI	:	Foreign Direct Investment

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Small and medium-sized organizations or SMEs have become recognized because of their contribution to the national financial system. The great function of SMEs has evolved through the years. A shift has befallen from the view factor of SMEs as a contribution to society and political balance to more on financial ground. The improvement and success of SMEs may additionally help smooth the transition of the economy to marketplace base one. However, SMEs have some characteristics, which confine them to experience the same get right of entry to the capital marketplace as the big firms do. There are some of the papers with awareness of SMEs and their function in innovation, poverty, globalization, and GDP increase. However, I observed that there is a constrained range of researches with a focus on SME and its capital structure.

Capital structure and its compositions are one of the maximum distinguished subjects in the company finance theories, which have been pondered in Modigliani and Miller theorem (1958). The principal proposition of Modigliani and Miller's theorem, under positive assumptions, is that the marketplace value of a company is independent of its capital shape composition. Numerous financial economists brought leverage relevance to explain the exclusive composition of debt ratios across the firms. In different theories added with the aid of Deangelo and Musulis (1980), the lifestyles of bankruptcy value and taxes make debt applicable. In different theories, debt is relevant because of the lifestyles of records asymmetry (Myers, 1984; Ross, 1977). A 0.33

applicable idea is Agency theory, which is added by Jensen and Meckling (1976). The agency idea is to set conflict amongst managers and outdoor shareholders and bondholders.

Various capital shape researches have realized that the mixture of leveraged associated cost and tax benefit of the debt, resulting in the best capital shape. This most beneficial capital structure is below one hundred percent debt for the reason that tax gain is traded towards the probability of financial bankruptcy. However, the question that arises here is whether distinct gearing associated fees and benefits are low cost severe sufficient to affect the most efficient capital shape. Various empirical researches had been carried out to answer this question. The empirical result suggests that the capital structure is related to the companies' characteristics. Such characteristics as firm length, profitability, boom price, firm risk, and enterprise traits are recognized with the aid of many authors (Marsh, 1982; Bradley et al., 1984; Kester, 1986; Titman and Wessels, 1988). Companies are beneath no duty to pay fair shareholders their dividends. This has accelerated the degree of desire for equity in place of debt financing amongst most corporations today.

As per the study done by Musila (2015) on the impact of equity financing on the growth of SMEs. The major finding established that equity financing played a vital role in raising funds for investment purposes was concerned. Wesonga, Raude, and Wawire (2015) examined the strategy of equity financing and its influence on Kenyan SME performance. Salerno (2018) analyzed whether private equity financing influences the performance of family-owned SMEs. The finding showed that there are positive results caused by financing through equity to the organizational financial performance. The increased recognition of equity as a source of financing investments and projects among firms is brought about by the fact that small organizations especially SMEs have limited access.

1.1.1 Private Equity and Debt Financing

According to Cendrowski (2007) who defines private equity is a medium or lengthy-time period equity funding that isn't always publicly traded on an exchange. Private equity not only includes venture capital, buyout transactions similarly to investment in hedge charge range, finances of the price range, private funding in public equity, distressed debt funds, and different securities. Private equity firm increases poll of capital that fund the fairness contributions for those transactions and receive periodic manage price as well as a percentage within the income earned from every fairness fund managed

Borrowing loans from other banks, corporations, or financial institutions to aid the operations of an enterprise is referred to as debt financing. An interest fee is paid earlier than the maturity period of the debt, with the mortgage fundamental being repaid at a destiny time (Harelimana, 2017). Debt financing is a financing alternative that is structured to enhance the owners' price on investments by producing a better rate on a return that is better than the overall price of the borrowed price range (Saad et al., 2015). Leverage financing involves the acquisition of interest-bearing devices which can be protected by using asset-based safety and that have term structures (Githaigo & Kabiru, 2015). Debt financing comprises the primary resources of external funding for most enterprise firms. It presents a mechanism of filling financing deficits for companies that have insufficient monetary sources (Onchong'a, Muturi & Atambo, 2016).

The core of debt is that the borrower will need to repay the borrowed funds which are followed by service costs along with mortgage origination costs and interest fees (Harelimana, 2017). Debt financing offers a means of pleasurable financing deficits of businesses that have insufficient inner assets to finance their operations and investments (Onchong'a, Muturi & Atambo, 2016). In the capital structure of an organization, debt capital involves the long-term bond that the company makes use of at some stage in the financing of its funding choices for the reason that the organization has a duration of repaying the mortgage amount, while the price interest is only confined with the prevailing time. The wellbeing and fitness of a firm's balance sheet is a key determinant of the price of debt capital within the structure of capital of a company (Lambe, 2014). Leverage financing can lower the firm's fees of financing because of the supply of liabilities tax shields mission and hence improving the value of the firm (Xu, Ou & Chen, 2016).

Leverage financing preference delivers the form of trade credit from bank loans and different financial institutions, suppliers, loans from individuals, and governments (Obuya, 2017). Though debt financing is much less high priced because of the tax exemption, it subjects corporations to some constraints as well as the default chance of repaying the principal and interest quantity (Liaqat et al., 2017).

The measure of debt in this undertaking was performed using debt ratios that evaluate the company's general debt to its total asset. A low percentage will suggest that the firm is less reliant on debt i.e., price range obtained from others or this is owed to others. The lesser the percentage of the debt ratio, the decrease the firm is in the usage of debt finance and the more potent its equity kingdom is (Makanga, 2015). Debt ratio (DR) indicates the fraction of money that financed the overall property employing the use of an outside source of finances. A higher ratio indicates that the maximum of the firm's belongings is supplied by way of creditors relative to the proprietors (Harelimana, 2017).

The exchange-off theories of financing are constructed across the idea of goal capital shape which balances numerous charges and benefits of debt and equity, Modigliani and Miller (1963). The predicted benefit of debt (tax benefit to be derived due to debt usage and mitigation of organization battle among managers and shareholders) relies upon whether or not there is an economic expansion or recession because it interprets to cash flow implication. The company price can be visible because of the discounted move of anticipated cash flows generated through its assets. Investors finance the firm's assets and that they preserve numerous sorts of claims on the company's cash flow implication. Debt holders' declare at the firm's stream of coin flows is safe because of the contractual guarantees of a set schedule of payments. Claims of fairness holders on the residual move of cash flows are riskier, in view that there may be no price guarantee on equity. The aggregate of debt finances and fairness finances (leverage) improve utilizing the firm defines its capital shape. By considering numerous constraints with the corporations, each company tries to issue a unique combination of debt and fairness to maximize its standard market fee.

1.1.2 SMEs

One definition of a small and medium-size business enterprise (SMEs) is an enterprise with much less than 250 employees. In the UK SMEs account for 58% of the non-public sector jobs and 52% of the personal sector revenue (Source: SME facts for the United Kingdom). Between the years 1999 and 2003, employment in the personal zone SMEs extended through 4.7 percent whilst huge companies within the private region enjoy a 4 percent reduction in employment. Numerous research has indicated corporation as a detail to a better price of increase, productiveness, and innovation (Geroski and Pomeroy, 1990; Cosh, Hughes, and Wood, 1999).

An extremely vital detail for start-ups and growing business to gain is the supply of capital (HMT/SBS, 2002). The capital market is imperfect like every other market. There are continually barriers for smaller agencies to elevate enough outside finance to satisfy their needs (Boltom, 1997; Wilson, 1979; Graham, 2004).

1.1.3 Growth of SME'S

Owing to A. Romano et al (2000) SMEs in every united States have the maximum effect on economic improvement, via the invention of employment, productiveness, and innovation. Porter (2006) burdened out that, within the latest many years, the impotence of SMEs has extended fantastically due to the fact governments have accepted the function of SMEs function in the economy. SMEs are a full-size part of the Kenyan financial system, and their contribution is crucial to destiny's economic increase. SMEs ' undertakings help reduce unemployment and create jobs. A dynamic growing SME area plays a vital role in raising productiveness boom within the Kenyan financial system employing stimulating innovation, competition and inspiring the technique known as 'productive churn'.

Having get entry to outside finance is one of the vital troubles of SMEs. SMEs want finance to fund their enterprise funding, attain their growth capability, and for facilitating new startups businesses. Husain et all. (2006) believed, as soon as the SMEs' inner source of finance is determined to be insufficient to meet the commercial enterprise's objective, these agencies look for an external supply of finance. Lack of incapability to raise finance can limit the coins going with the flow and block the enterprise's survival. Donckels (2000) explains how crucial it is for SMEs to use outside finance in their capital shape. Donkeys observed in his researches that a maximum of the SMEs funds their organization via long-term fund provided via banks and monetary establishments. External finance allows the economic churn. The critical part of the market mechanism within the financial system for useful resource allocation is external finance.

1.2 Research Problem

Capital structure theories, which include trade-off, pecking order, and agency theory, were advanced to explain the capital structure. These theories have been advanced regarding the traits of large corporations (Daskalakis and Thanou, 2010. Numerous studies on capital structure theories are carried out using the records set of massive companies. According to Jensen and Meckling (1976), the organization suggests that fairness holders of levered corporations can probably extract a price from debt holders employing growing investment threat to maximizing fairness value after a debt is in location; this leads to a conflict of hobby between debt-holder and fairness-holders, thereby reasons organization costs. Several research was performed in the discipline of capital structure though nobody may want to locate the best capital structure.

According to Myers (2001) who notes that there is no commonplace theory of debt-fairness desire, and there's no purpose to assume. Kila and Mahmood (2008) advise that the key to choosing an appropriate and suitable stage of financial leverage remains debatable, for this reason, there aren't any particular hints to assist the attainment of the efficient aggregate of debt and fairness.

A piece of empirical evidence in Kenya consists of Kibas (1995) on a training session at the effect of credit score financing on SMEs' improvement. His findings illustrate that clients suggested improvement in their income, income, belongings. New jobs linkages with different organizations have been created. This, therefore, demonstrates get the right of entry to economic help affects the increase of SMEs.

Based on the study done by Ebaid (2009) he suggests that capital structure has a vulnerable influence on the economic overall performance of listed firms. By the use of three accounting measurements of financial overall performance which is Return On Asset (ROA), Return On Equity (ROE), and Gross Margin(GM), the empirical results give you the result that capital Structure (Particularly short-term debt and total debt) that's measured through ROA harm an agency's performance. Apart from that, capital shape (together with short period debt, long term debt, and general debt) that's measured with the aid of ROE and GM doesn't have any considerable impact on business enterprise's increase.

Tian and Zeitun (2007) discovered out that a firm's capital shape has a vast and poor effect on the firm's increase measures in both accounting and market measures. As a result, the troubles of capital shape which may have an impact on the company's boom must be solved. The observe is therefore motivated with the aid of this hole in finance expertise and sought to reply to the question;

i. How should a firm choose its debt-equity ratio to maximize value?
ii. What are the critical factors determining the target leverage ratio for the company capital structure and how does it relate to the value of the firm?

1.3 Research Objectives

The study sought to establish the effect of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya. The specific objectives of the study were:

i. To assess the relationship between Private Equity and SMEs' growth
ii. To establish the relationship between debt financing and growth of SME's
iii. To examine the strategies that influence access to private equity and debt financing by SMEs

1.4 Value of the Study

The study would be useful to the following:

i. Debt holders

To evaluate the performance of the firm for credit facilities. Investors, on the other hand, are interested in evaluating the performance, to know the success of management in applying their capital. To help investors to recognize the link between capital structure and growth and choose an appropriate mix.

ii. Investment practitioners

This study would be of great use to security analysis stockholder's investors and other parties whose knowledge of the relationship between capital structure and firm value is required in making decisions.

iii. Academic and researchers

This Study would act as a base of further research, a point of reference for investigation on the relationship between capital structure and other measures (variables) of a firm's growth.

iv. Regulation and policymakers

This study would be useful by regulators and policymakers in coming up with policies that protect the minority shareholders against expropriation by the large shareholders such as stating the numbers of shares that can be held by individuals and other parties.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of other scholars' findings on the subject of private equity and debt capital financing on the growth of SMEs. This chapter also presents the theoretical and empirical literature relevant to the study. The section also presents research gaps and a summary of the literature review.

2.2 Theoretical Review

2.2.1 Trade-off theory

Modigliani and Miller corrected their initial work in 1963 after the realization of the large tax merit in debt. The tax-adjusted MM theory results in an incredible conclusion that firms should use only debt to maximize their value. However, empirical evidence refuted this extreme conclusion. The purpose of the tradeoff theory is to explain why firms are financed partly by debt and partly by equity. The optimal capital structure of a firm is often explained as a tradeoff between the cost and the merits of debt. The optimal structure occurs when the merit and cost of debt are equal.

The optimized capital structure exists when the marginal cost of debt is equal to the marginal benefit of debt. If an unlevered firm starts to adjust its capital structure to a small level of leverage, this act will create a high benefit from the interest tax shield without any huge increase in the distress cost. If the company increases its leverage more, the benefit would still be considered but not as high as before. The cost of financial distress would also be high. If the leverage increases, the cost of financial distress would exceed the tax shield benefit. As a result, the firm value-line concerning debt holds a hump shape curve (Hillier et al 2010).

According to the trade-off theory, at the point of optimal balance between the cost and the benefit of debt finance, a firm should stop increasing the D/E ratio. At the optimal D/E ratio the firm market value should be maximized and the cost of capital should be as low as possible. The cost of debt is the cost of financial distress and bankruptcy. One of the advantages of this theory is about costs, which are fiscally deductible from the company's tax as a result of paying interests (Modigliani and Miller. 1963; DeAngelo and Masulis, 1980); the other advantage is lessening of the free cash flow problem (Jensen and Meckling 1976; Stulz, 1990). The disadvantage of debt contains the potential costs as a result of financial distress (Kraus and Litzenberger, 1973; Kim, 1978), and the agency costs occurring between creditor and the company's owner (Jensen and Meckling, 1976; Myers, 1977).

2.2.2 The pecking order theory

Myers and Majluf developed the pecking order theory in 1984. The theory is applicable by financial managers in comparison to the trade-off theory. The pecking order theory's underlying assumption is that there exists asymmetric information among the managers of the firm and outside stakeholders. It is assumed that managers who work on behalf of the company’s stakeholders have better information than the company's stakeholders and other invests. The pecking order theory is the order, which shows the preference of financial managers in raising new capital. According to this theory, a manager's first choice is to use internal or retained earnings. Internal financing indicates that there is no need to issue debt or equity and the firm can inject its own money to finance a project. If the firm does not possess enough internal resources, the second option will be external financing.

The consequence of issuing risky new securities as a source of external finance is the underpriced problem. This means that the new security might be priced under its real value. If there is too severe underpricing, the new investor will get more than the net present value (NPV). Therefore, managers prefer to raise less risky sources of capital; for example, using retained earnings before debt and debt before equity (Myers Majluf, 1984).

2.2.3 Agency Cost Theory

Agency theory is concerned with the diverging interest when the firm ownership and management are separated. The theory argues about the relationship between the agent (e.g. the manager), and the principal (e.g. the shareholders). The major assumption of this theory is that the separation of ownership and management creates conflicts among principals and agents. The emergence of conflicts in the firm creates tension and result in high agency costs. It is assumed that the final objective of all stakeholders is to maximize their wealth. On the other side, agents may have other objectives rather than maximizing the principal's wealth. If the agents do not meet the principals' interests and objectives, then conflict arises among them. The main argument behind the agency theory is that corporate managers act in their interests.

Regarding agency theory, Jensen and Meckling (1976) argued that there is less conflict between principal and agent in small and medium enterprises. The reason is that in the SMEs owner and the manager is one person. According to Ang et al. (2000), family or small firms can be considered as zero agency cost since the level of conflict is low in these kinds of firms. The idea of zero agency cost is also supported by Anderson and Reeb (2003) and McConaughy (2000). They argued that the existing incentive structured in the Small and medium-size firms create fewer agency conflicts between different claimants.

However, SMEs may experience agency costs, when the principals and agents are separated. In addition problems like entrenched ownership and asymmetric altruism within the SMEs may create difficulties (Gomez-Meija et al., 2001; Schulze et al., 2001). SMEs have agency cost problems when they decide to separate managers from stakeholders.

The agency cost problem is also tense in SMEs because they do not have to disclose their financial information and financial statement. Daskalakis and psillaki (2008) argued that the problem of agency cost will increase when a firm has a high level of asymmetric information. Therefore, it is expected that small businesses experience a greater agency cost since the manager of the business gives priority to his interest. On the other side, solutions for agency cost problems in SMEs are more expensive than in large listed companies. The monitoring process in SMEs is harder than in listed firms. Moreover, rules and regulations force large companies to be transparent about their financial activities while SMEs are free from financial disclosure.

2.3 To assess the relationship between private equity and SMEs' growth.

Private Equity is capital to establishments not quoted on a stock market. Used to expand new products and technology, extend operating capital, make stronger balance sheets and help solve management ownership problems Sami (2016). High leverage or low fairness/property ratio reduces enterprise value of fairness from an outdoor and high fee of the firm and this renders the managers to take heed to the shareholder's interest.

The role of Private Equity companies has been considered as an important detail for the boom of SMEs. Previous studies have highlighted the limited access to economic resources available to SME's as compared to a larger employer and the consequences in their boom and improvement Levy, (2018). Typically, SME's have higher transaction costs than large businesses in acquiring credit scores Saito & Vulanueva, (2019). Insufficient funding has been made available to finance running capital Peel & Kuson, (2016). Poor management and accounting practices have hampered the capability of SMEs to raise finance. Information asymmetries associated with lending to SME's have constrained the glide of finance to them.

Owing to Deloitte Private Equity survey 2018 on SME financing, indicates that it is a phase wherein traders can and must make cash, there is a lot of preference, valuations are lower and boom capacity is extensive. But it is pretty tough to get the SME funding version right mainly in the private equity area. Growth by way of the SMEs isn't always simplest depending on the financing employing the Private Equity corporations, however, also stimulated through the expertise the impact into the enterprise when they participate because the Equity companions. This reduces the effect of sole possession and decision-making approaches are extra streamlined due to the expertise they bring in. A business valuation helps in attaining the right price.

2.4 To assess the relationship between debt financing and the growth of SMEs.

Debt financing is the principal source of capital for actually nascent firms for the reason that retained income is inadequate or no longer to be had (Robb and Robinson, 2018). According to Sun (2018), SMEs rely on debt financing due to the fact debt financing is fairly cheaper compared to equity financing (Graham, 2019). In addition, companies have inadequate good statistics, ensuing in a particularly higher risk for capital providers (Berger and Udell, 2018). Therefore, shareholders are less probably to provide money for such companies.

According to Dobbins, Barnard (2016), the forgoing assessment of the literature on SMEs financing indicates that, until now, no tool has been furnished to deal with capital structure in general and debt adulthood mainly: theoretical fashions do no longer accommodate the special traits of SMEs; empirical studies has supplied most effective ex-post explanation in place of specifying how an ultimate capital structure may be determined. As a long way as we are capable of confirming from the prevailing finance literature, no realistic tool has been elaborated for allowing SMEs to optimize their capital structure.

Long-term debt limits managerial discretion via making the right of entry to a new price range and over-investment much less in all likelihood Hart and Moore (2016): a function that might decorate profitability. Schiantarelli and Jaramillo (2016) argue that shorter-time period loans are not conducive to more productivity at the same time as long-time period loans may lead to upgrades in productivity (Schiantarelli and Srivastava (2017). It is better in more potent and greater flexible firms, while there are huge variations between brief period and longtime interest rates and when corporations have greater increase opportunities (Moro, 2019). An econometric observation by using Hernandez-Canovas and Koeter-Kant (2018), indicates that the vital variables in figuring out SMEs' long-term debt include the duration of the banking courting and the number of banks concerned (cited in Moro, 2019).

Short-time period debt in any surroundings of incomplete contracts grants the lender a management right because the company's potential to roll over the debt may be conditioned on monetary ratios and adequate overall performance. As this mechanism limits managerial discretion it may contribute to the relaxation of financial constraints (Rajan and Winton (2015). This increased availability of external finance needs to stimulate better performance. Maturity matching between debt and the life of assets plays a vital function in deciding the length of the debt maturity (Ooghe, 2017). According to Garcia-Teruel and Martinez- Solano, (2007), Short-term debt is positively correlated with a company's growth possibilities. Short-time period debt is a high-quality financing tool because its miles looked as if it would be less expensive. Thus, each entrepreneur and financial institution select quick-term debt (Landier and Thesmar, 2019).
Recent literature on SMEs debt financing indicates that, till now, no tool has been furnished to cope with money owed and its impact on SMEs' monetary performance: theories have no longer fully accommodated the capital structure of SMEs; further, empirical research has no longer targeted on how a superior capital structure may be determined.

Several studies have studied the effect of numerous factors on the growth of SMEs in Kenya. According to Langat (2017), the challenges going through SME encompass the loss of getting admission to credit amongst others. In Kakamega town, several SMEs increase indicators were located which include the number of commercial enterprise firms, variety of business activities, a boom in the market for the manufacturing, a boom in employment absorption charge, universal monetary growth, and an accelerated fee of funding in real estate via SMEs entrepreneurs. Preliminary studies display that the mandate given to SME debt financing is essential and can help sell the growth of SMEs.

According to a report employing the Republic of Kenya (2016), authorities' funding tasks can decorate the increase of enterprise possibilities on the county degree. These include county consultative meetings, specific and open coverage improvement techniques, and obvious county authorities activities. These supportive county authorities establishments evidenced through an operational public-non-public speak framework might offer avenues through which the SMEs associations can gift their hobby.

2.5 To examine the strategies that influence access to private equity and debt financing by SMEs

2.5.1 Corporate Governance

Corporate governance is one of the gears used by investors in making decisions regarding investments. According to Krafft, Qu, Quatraro, and Ravix (2013), Corporate Governance acknowledges that a powerful corporate governance system can lower the value of capital and inspire firms to use resources extra efficaciously, thereby selling increase. This implicitly and explicitly helps the notion that higher company governance will result in better company costs and greater worthwhile company performance.

Ahwireng–Obeng, and Mwebi (2012) point out that good corporate governance practices with sturdy monetary controls assist groups to transition from informally run agencies to professionally controlled agencies. They advise that for the venture capitalists to insist on transparency in control, accounting, and operational information formula, they need to be physically close to the corporations, and teach the entrepreneur and the project team on the benefits of true governance which include higher business enterprise valuations, lower value of capital, extended investor self-assurance, greater access to outside investment and expanded exit top rate. Good corporate governance additionally reduces records asymmetry and the threat of mortal danger.

Empirically, a look at by way of Ammann, Oesch, and Schmid (2009) shows a strong and effective relationship between company-level corporate governance and firm valuation. This may be defined by way of the reality that precise governance will increase investor belief and willingness to pay more and renders managers' moves high-priced and expropriation much less in all likelihood. Thus proper governance way that 'extra of the company's earnings would come lower back to (the traders) as interest or dividends rather than being expropriated by the entrepreneur who controls the company (Krafft, Qu, Quatraro, & Ravix, 2013). The trust arises from the issue that traders perceive nicely-ruled firms as much less volatile and higher monitored and tend to apply to decrease expected charges of return, which results in a higher company valuation (Krafft, Qu, Quatraro, & Ravix, 2013) as better governed companies may also have greater efficient operations, resulting in better-expected destiny cash-float streams.

2.5.2 Strategic Alliances

Strategic alliances represent new organizational formation that seeks to gain organizational targets higher thru collaboration than via competition. The alliances are developed and propagated as formalized inter-organizational relationships (Todeva & Knoke, 2005). A strategic alliance is a settlement between or more groups operating on identical horizontal stage within the marketplace, that share assets to carry out a preferred project for which each event has a few not unusual hobbies (Zamir, Sahar, & Zafar, 2014). The firms remain legally unbiased after the alliance is fashioned however percentage blessings and managerial management over the performance of assigned duties; and make persevering with contributions in one or extra strategic regions, such as technology or products (Todeva & Knoke, 2005). Hence, strategic alliances create interdependence between self-reliant economic units, bringing new blessings to the partners in the form of intangible property, and obligating them to make continuing contributions to their partnership.

Todeva and Knoke (2005) outline the subsequent as a number of the strategic reasons, reasons, alternatives for engaging in a strategic alliance. To decorate their productive capacities; to reduce uncertainties in their internal systems and outside environments; to gather competitive advantages that enables them to boom earnings; to advantage future commercial enterprise opportunities so one can permit them to command better market values for their outputs; to overcome felony / regulatory barriers; to create legitimation, bandwagon impact, following industry tendencies amongst others.

2.5.3 Financial Innovation

Financial innovation can be considered as an act of making and then popularizing new monetary contraptions as well as new monetary technologies, institutions, and markets. Innovations in this context are every so often divided into product or system innovation, with product innovations exemplified by new spinoff contracts, new company securities or new sorts of pooled funding products; and process upgrades typified with the aid of new manner of dispensing securities, processing transactions, pricing transactions, capital sourcing and structuring (Tufano, 2002).

It has been generally well-known that innovation performs an essential role in improving productiveness and monetary innovation has been described as the lifestyles blood of an efficient and responsive capital marketplace (Akhavein, Frame, & White, 2001). Financial innovations come in available in locating approaches around economic hurdles and limitations. For instance, Calomiris (2009) posits that economic innovations regularly reply to regulation employing sidestepping regulatory regulations that could in any other case restrict economic sports wherein human beings want to engage.

In the US of America and a variety of countries in Europe, SMEs are advocated to participate in some of the financially modern schemes along with equity assure to draw greater price range. For example, a document on innovative instruments for elevating equity for SMEs in Europe employing Bannock Consulting (2001) indicates that public-quarter fairness guarantees imparting loss-sharing for investors in SMEs have been utilized in numerous European international locations to stimulate the increase of the mission capital industry as an entire, and in others to inspire buyers to increase the scale variety in their investments downwards, specifically in excessive-tech sectors.

The document similarly shows that some greater generous schemes, for instance among the ones running in Germany, provide gentle leverage or co-funding as well as a assure. Where the upside of the personal investor is improved via options to shop for -out the investment at a low go back, the prices of the scheme can increase further, and the departure from market situations for the

SME investment choice is even greater. Still, inside the personal capital markets, there is innovative merchandise just like the Princess bond to draw institutional investment for the wider (this is extending past SME investment) personal fairness and task capital interest. These offer advanced global threat pooling and coin glide control in addition to insurance to simply limit the downside chance (Bannock Consulting, 2001). Insurance merchandise has additionally been developed to cushion the traders against probable losses.

2.5.4 Business Strategy

Viewing the approach as a long-time route, commercial enterprise strategy implies how the character companies need to compete in their particular markets. Business degree strategy therefore normally issues troubles which include innovation, appropriate scale, and response to competitors' moves (Teece, 2010).

An excellent business method must be in a role to demonstrate specific agency's targets, broaden regulations and plans to acquire and acquire those objectives, and allocate sources to put in force the rules and plans (Muogbo, 2013). In this admire control of any commercial enterprise challenge desires to increase a clear commercial enterprise method, which defines their company's route in the quick, medium and long time.

The business method attitude argues that implementing a strong business approach leads to an aggressive edge over competitors (Acquaah, 2013). The implementation of a strong and possible commercial enterprise strategy will generate superior overall performance, in addition, to acting as assets of aggressive gain. Hence, true business techniques will consequently replicate undoubtedly the important thing management and their management capability. Such techniques usually generally tend to increase objectives; overall performance improvements; and Succession guidelines. This will act as a side on attracting equity capital (Baroto, Abdullah, & Wan, 2012).

2.6 Conceptual Framework

The study was guided by the following conceptual framework where private equity and debt financing are itemized as independent variables and SME's growth as the dependent variable as shown in figure 2.1 below.

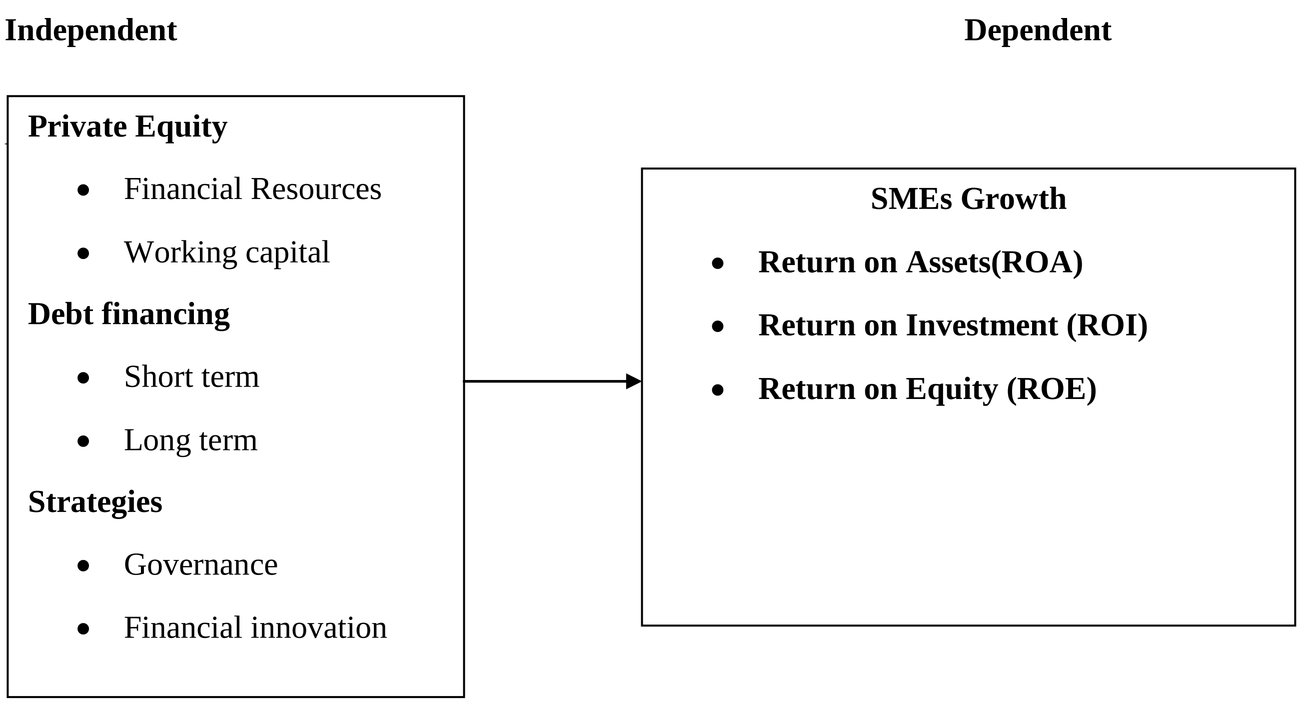

Figure 2.1 Conceptual Framework (2019)

Source: Self-conceptualization (2019)

2.7 Research gaps

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 foreign direct investment (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 SME's in Kenya have benefited from private equity. It is by providing this assessment that this paper seeks to make its greatest contribution to the body of knowledge on Kenya’s private equity.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the research methodology of the study. It outlines the research design, the research methods, research approach, the instrument used to collect data including methods implemented to maintain validity and reliability of instruments, and finally presents data analysis.

3.2 Research design

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. Hopper 2015 described a research design as a plan or structure for an investigation or a list of specifications and procedures for conducting and controlling research projects.

The study adopted a descriptive research design. This design was adopted because it describes the state of affairs as it exists at present in the study (Babbie, 2010). The researcher applied this design to evaluate the effect of access to private equity and debt financing on the growth of small and medium enterprises in Kakamega, Kenya. This design was very useful in studying the interrelations between the variables already mentioned in the conceptual framework. Ngecha (2014), is analytical and often singles out a variable factor or individual subject.

3.3 Target Population

The target population consists of 3097 SME's registered by the Kakamega County Government and respondents were finance managers/accounts/owners of these firms.

Table 1. Target Population

Sector	Population	Percentage
Retail chain distributors	880	28%
Food and beverages restaurants	970	31%
Open-air markets	560	18%
Animal sales	495	16%
Others	192	6%
Total	**3097**	**100%**

Source; Kakamega County (2019)

3.4 Sample size

Mugenda and Mugenda (2003) sample size is the subgroup of individuals in the population from which information is collected. It is a smaller group obtained from accessible population to show what the whole is like. The study adopted the formula by Kothari (2004) to determine the sample size. Where a sample size of 341 respondents was obtained.

3.3 Data collection Method

The study relied on both primary data for a period of 10 years between 2007-2017.

Primary data was collected using closed-ended questionnaires.

3.4 Data analysis

Before processing the responses, the completed questionnaires were edited for completeness and consistency. In analyzing the data collected, both descriptive and inferential statistics were utilized. The quantitative data were obtained from the questionnaires which were coded and keyed into the statistical package of social science (SPSS) analysis software version 2.0.

Data was presented in the form of frequency distribution tables, graphs, and pie charts to facilitate the description and explanation of the study findings. Tables and figures were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measures of central tendency (Mean and Standard deviation), In addition, to quantify the strength of the relationship between the variables, the researcher conducted multiple regression and correlation analysis. The multiple regression equation was; $Y=\beta 0+\beta 1X1+\beta 2X2+\beta 3X3+\varepsilon$

Whereby Y= Growth of SME's

B0= Constant Term

X1= Relationship between private equity and SMEs growth

X2= Relationship between Debt Financing and SMEs Growth

X3= Strategies that influence access to equity and debt financing by SMEs

B1, β2, and β3= coefficients of determination

ε= error term.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1. Introduction

This chapter presents data analysis, presentation, and interpretation. The researcher analyzed and presented the data in a summarized and logical manner as well as indicating the interpretations through deducing meanings out of the data patterns established. The general objective of this study was to establish the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

4.2 Response rate

The study targeted 400 respondents within the SMEs in Kakamega county. However, 341 questionnaires were returned and were involved in the study.

Table 4.1: Response Rate

	Questionnaires administered	Questionnaires filled & returned	Percentage
Respondents	400	341	85%

Source: Author, 2021

Out of 400 questionnaires distributed to the respondents, 85% of the questionnaires were returned. This response rate was excellent and representative and conforms to Creswell's (2009) stipulation that the key to accurately arguing that those responding are similar to those not responding is a high response rate of 60 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 85%.

This implies that based on this assertion; the response rate in this case of 85% 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 to the respondents who completed them and these were picked shortly after.

4.3 Diagnostic tests

The diagnostic tests that were performed include the Shapiro-Wilk test for normality multicollinearity test, homoscedasticity, and Breusch-Pagan / Cook-Weisberg test for heteroscedasticity and Durbin-Watson test for autocorrelation.

4.3.1 Shapiro-Wilk test for normality

A Kolmogorov-Smirnov and Shapiro-Wilk test for normality was used to detect any departures from normality. Where the p-value is less than or equal to 0.05 the null hypothesis of normality is rejected (Sharpiro & Wilk, 1965).

The study sought to establish a test for normality of data as shown in table 4.2

Table 4.2 Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
private equity and debt financing	0.249	341	.200*	0.882	341	0.831
Growth of SMEs	0.489	341	.200*	0.478	341	0.863

a. Lilliefors Significance Correction

The results from table 4.2 depict that variables were normally distributed since the Shapiro-Wilk was greater than 0.05 hence evidence that the data is a normal distribution.

4.3.2 Test of multicollinearity

Linear regression models assume that there is little or no multicollinearity in the data. Multicollinearity occurs when the independent variables are not independent of each other (Statistics solutions, 2019). This means that variables are highly correlated to each other and have an influence on the outcome because multicollinearity makes coefficient estimates unstable by inflating standard errors of coefficients. Since the numbers of independent variables in this study are more than two, there are chances that multicollinearity may be prevalent. Multicollinearity was examined by regressing each of the independent variables against all other independent variables.

Table 4.3 presents the R-squared statistic and the variance inflation factor (VIF) for each equation. The variance inflation factor of the linear regression is defined as VIF = 1/tolerance. With a VIF > 10 there is an indication for multicollinearity to be present in the sample. The general rule of thumb is that VIF exceeding 4 warrants further investigations, if there are two or more variables that will have a VIF around or greater than 5, one of these variables must be removed from the regression model (Bryman & Cramer, 2012).

Table 4.3 Multicollinearity		**Unstandardized Coefficients**		**Collinearity Statistics**	
		B	Std. Error	Tolerance	VIF
1	(Constant)	5	0		0
	private equity and debt financing	0.5	0	1	1.56

	Strategies	0.388	0	1	1.48

Results from table 4.3 indicate that VIF was 1.560 and 1.480 for private Equity and debt financing and Strategies respectively. Both results were less than 4, therefore the research findings suggest that the three variables have no issues of multicollinearity.

4.3.3 Homoscedasticity and Heteroscedasticity

Another assumption of ordinary least square (OLS) regression is that the variance of residuals is homogenous across levels of predicted values. Homoscedasticity means that the error terms along the regression are equal (Statistics solutions, 2019). On the other hand, heteroscedasticity occurs when the variance of residuals is not constant for all observations. In such a case the standard OLS estimators no longer produce a minimum variance and the standard error of the coefficients gives inaccurate estimates. In the presence of heteroscedasticity, the estimated parameters may remain consistent but inefficient. Data was also checked for constant variance in the error term. The null hypothesis for this test for each variable was that the variance was constant.

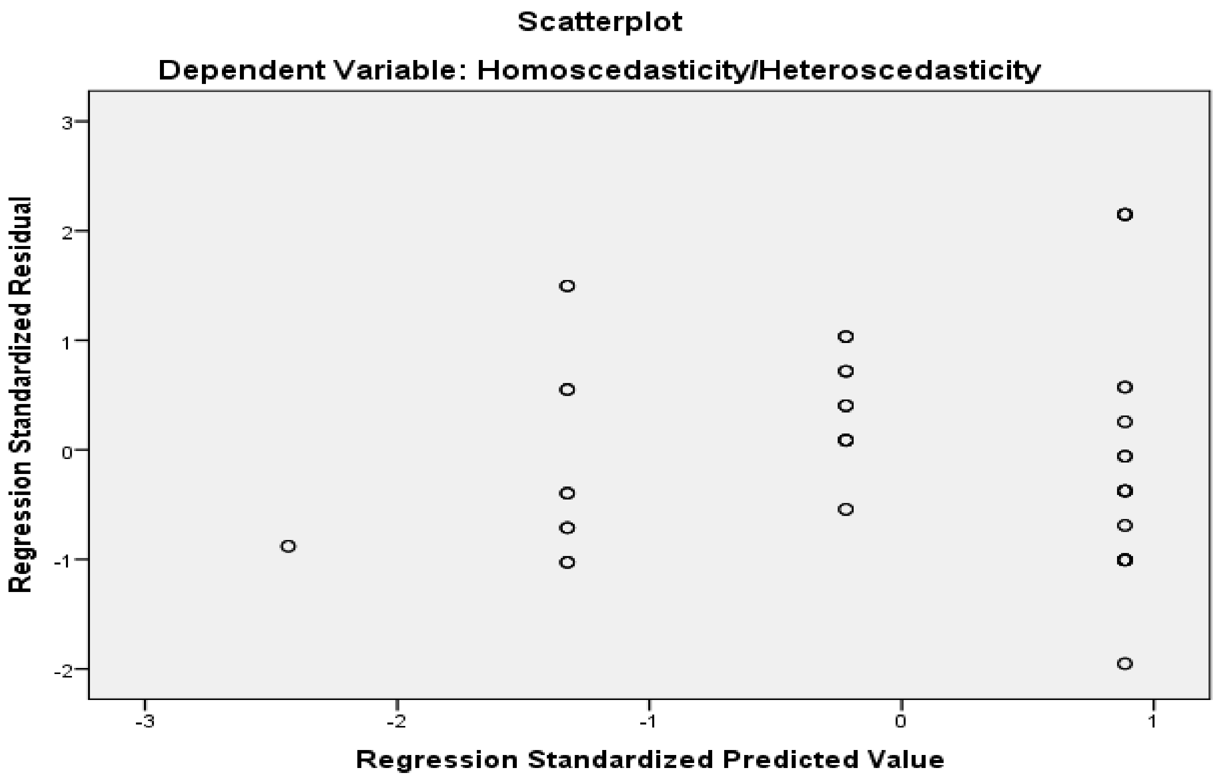

Figure 4.1 Scattered plot for Homoscedasticity and Heteroscedasticity

0Based on the scattered plot output, from figure 4.1 it appears that the spots are diffused and form a clear specific pattern, it can be concluded that the regression model occurs to have evidence of heteroscedasticity.

4.3.4 Autocorrelation

Linear regression analysis assumes that residuals are identical and independently distributed. Autocorrelation occurs when the residuals are highly correlated to each other. If the error terms are correlated it creates the problem of autocorrelation which makes the standard error biased. The Durbin-Watson statistics were used to test for the presence of autocorrelation. Consequently, the null hypothesis that there was no autocorrelation was tested. While d can assume values between 0 and 4, values around 2 indicate no autocorrelation. As a rule of thumb values of 1.5 to

2.5 are acceptable (Statistics solutions, 2019). A value of the Durbin–Watson statistic close to 2 was adjudged to indicate a lack of serial correlation. Each variable was regressed against all the other variables to determine the Durbin–Watson statistic for each variable.

Table 4.4 Autocorrelation model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	0.127	0.657	0.071	1.58241	0.657	2.293	1	340	0.056	1.51

a. Predictors: (Constant), Private and debt financing.

b. Dependent Variables: Growth of SMEs

The results in table 4.4, reveal that except for the private equity, all the other variables had no cases of autocorrelation.

4.4 Demographic information

The section presents the demographic profile from gender, position in employment, education level, experience, and years in operation.

4.3.1 Gender of the respondents

The respondents were asked to indicate their gender on the questionnaire, the results are shown in figure 4.2 below.

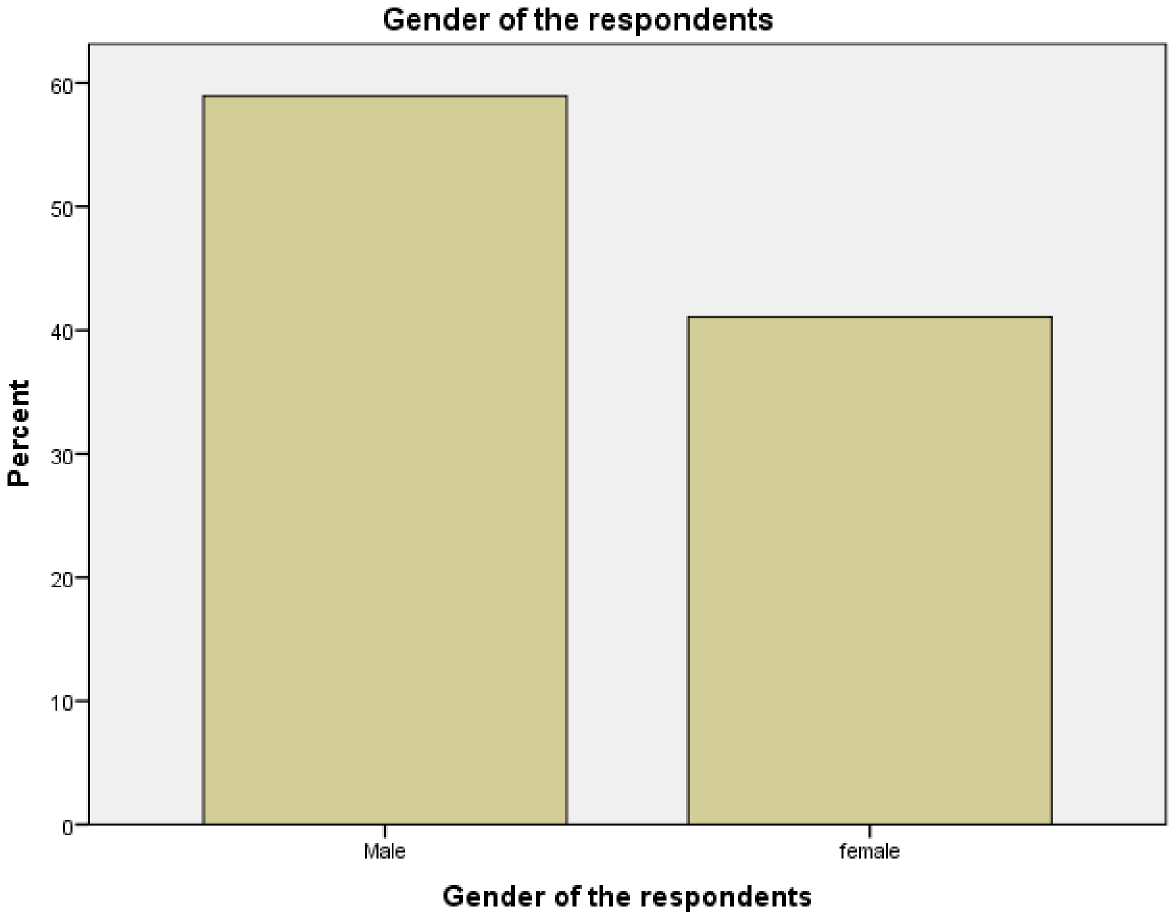

Figure 4.2 Gender of the respondents
Source: Researcher (2021)

The results of the study findings indicate that the majority of the respondents were Male with 201(58.9%) while the rest were Female with 140(41.1%). Therefore, this indicated that the findings of this study as regards the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya, were representative of members of both genders and were gender-sensitive.

4.3.2 Level of education

The respondents were asked to indicate their highest level of education; the results are as shown in figure 4.3 below:

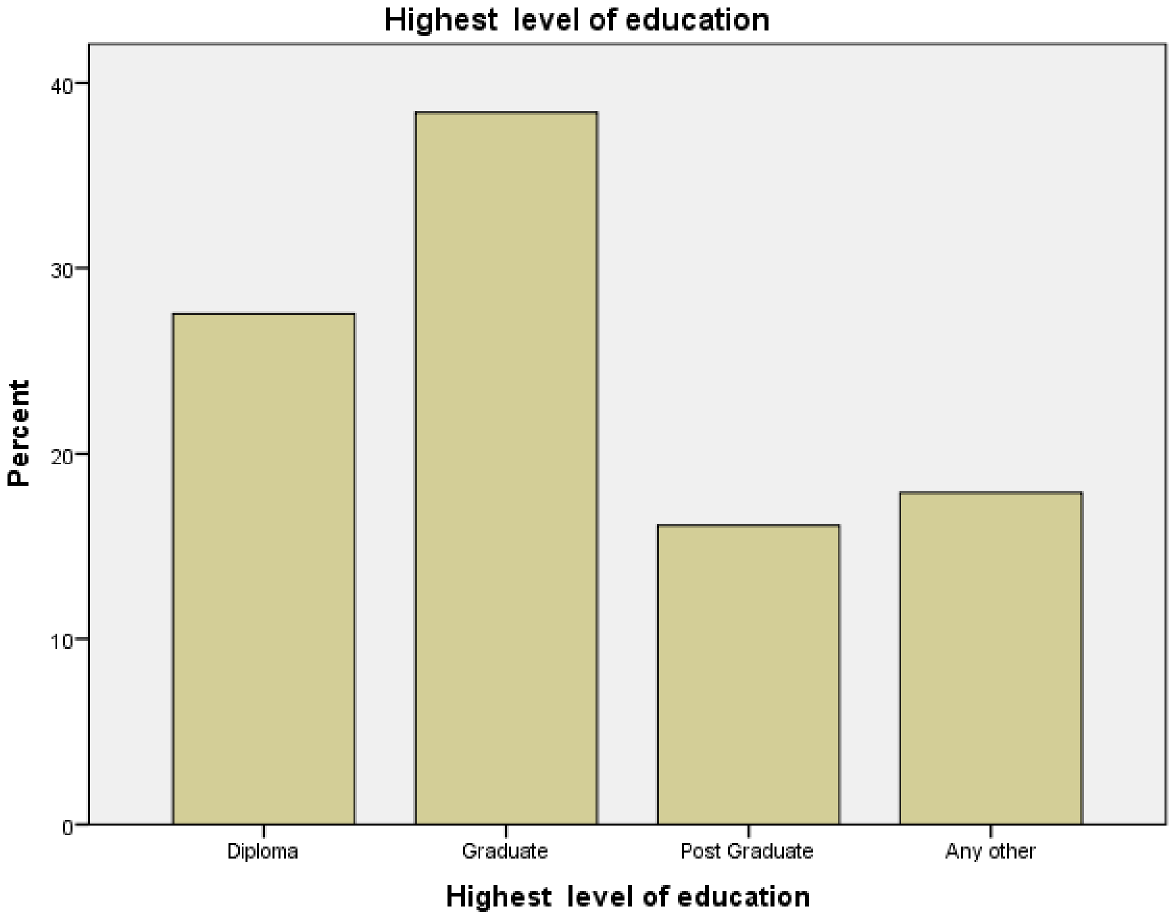

Figure 4.3 Level of education
Source: Researcher (2021)

The study findings from figure 4.3, reveals that the majority of the respondents are degree holders with 131(38.4%), followed by diploma with 94(27.6%), those with any other qualification had 61(17.9%) while those with postgraduate qualification had 55(16.1%). The results suggest that being employed in SMEs requires some level of education and that the respondents were academically qualified to participate in this study. The study deduced that the respondents were knowledgeable on the effects of private equity on the growth of SMEs in Kakamega.

4.3.3 Current position

The researcher sought to establish the current position being held by the respondents the results are as shown in figure 4.4.

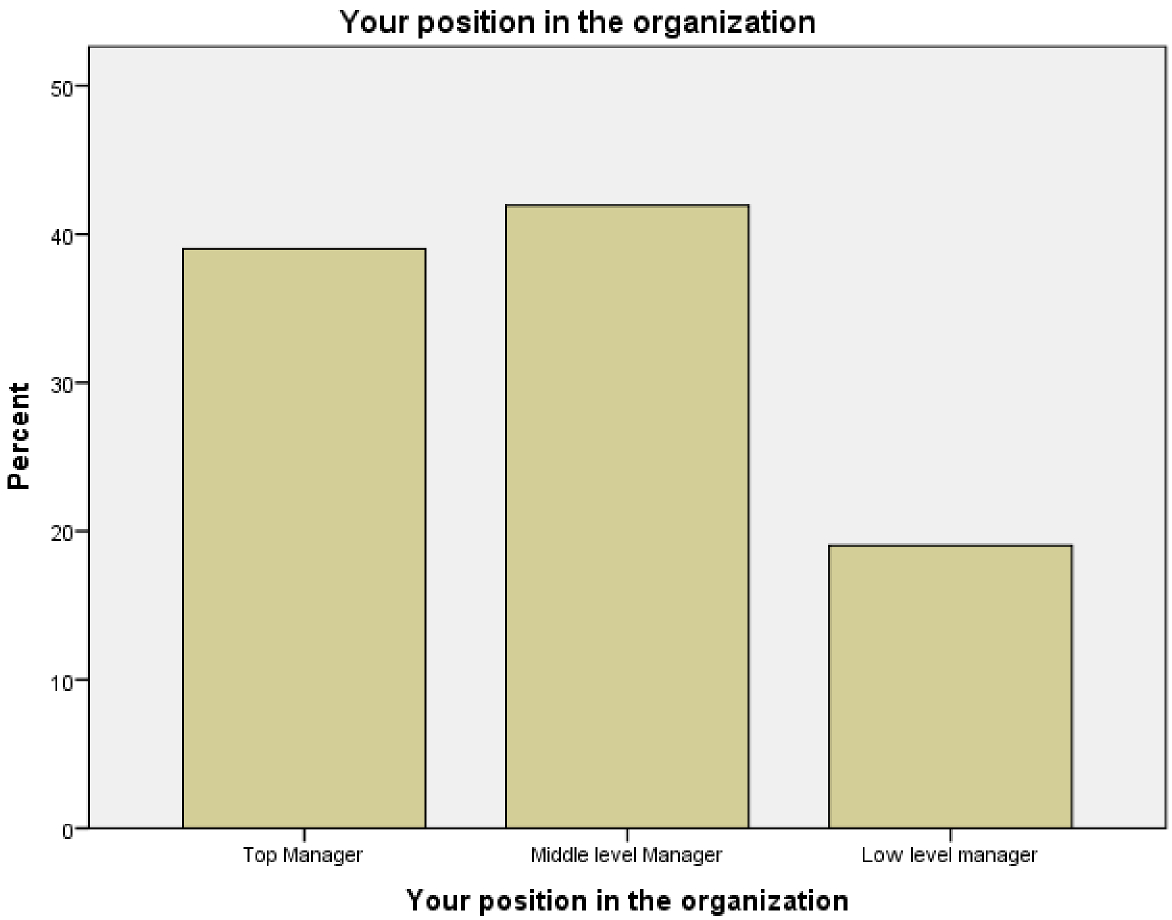

Figure 4.4 Current position
Source: Researcher (2021)

The study findings from figure 4.4 above, established that the majority of the respondents were in middle-level management accounting for 143 (41.9%). 133(39%) of the respondents indicated that they were in top management while 65(19.1%) were at the lower 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 the financial performance of the SME's.

The findings are in line with Dutta (2019) 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 shareholder's interest.

4.3.4 Business establishment

The researcher sought to establish the years of establishment of the business the results are as shown in table 4.5. below:

Table 4.5 Years of establishment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5years	111	32.6	32.6	32.6
	5-10years	108	31.7	31.7	64.2
	10-15years	69	20.2	20.2	84.5
	Above 16years	53	15.5	15.5	100.0
	Total	341	100.0	100.0	

Source: Data (2021)

The study findings from Table 4.5 above reveal that majority of the respondents had been working in the organization for 1-5 years. This accounted for 111(32.6%). The respondents indicated that they had worked for several 10-15 years accounting for 108(31.7%). The respondents indicated that they had worked for a period of between 10-15 years accounting for 69(20.2%) while 53(15.5%) had worked for several 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 private equity and debt financing on the growth of SMEs in Kakamega.

4.3.5 Registration Status of SMEs

The researcher sought to establish the registration status of SMEs, the results are as shown in table 4.6. below:

Table 4.6 Registration status of your SME firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Registered	206	60.4	60.4	60.4
	Not registered	135	39.6	39.6	100.0
	Total	341	100.0	100.0	

Source: Data (2021)

The results from Table 4.6 above reveals that the majority of the SMEs in Kakamega town is registered, this was confirmed through 206(60.4%) of the respondents who indicated that their organization is a registered entity while 135(39.6%) of the respondents indicate that their organizations are not registered. This study finding implies that most SMEs in Kakamega is legally registered to do business.

4.3.6 Form of ownership of SMEs

The researcher sought to establish the form of ownership of SMEs, the results are as shown in figure 4.5. below:

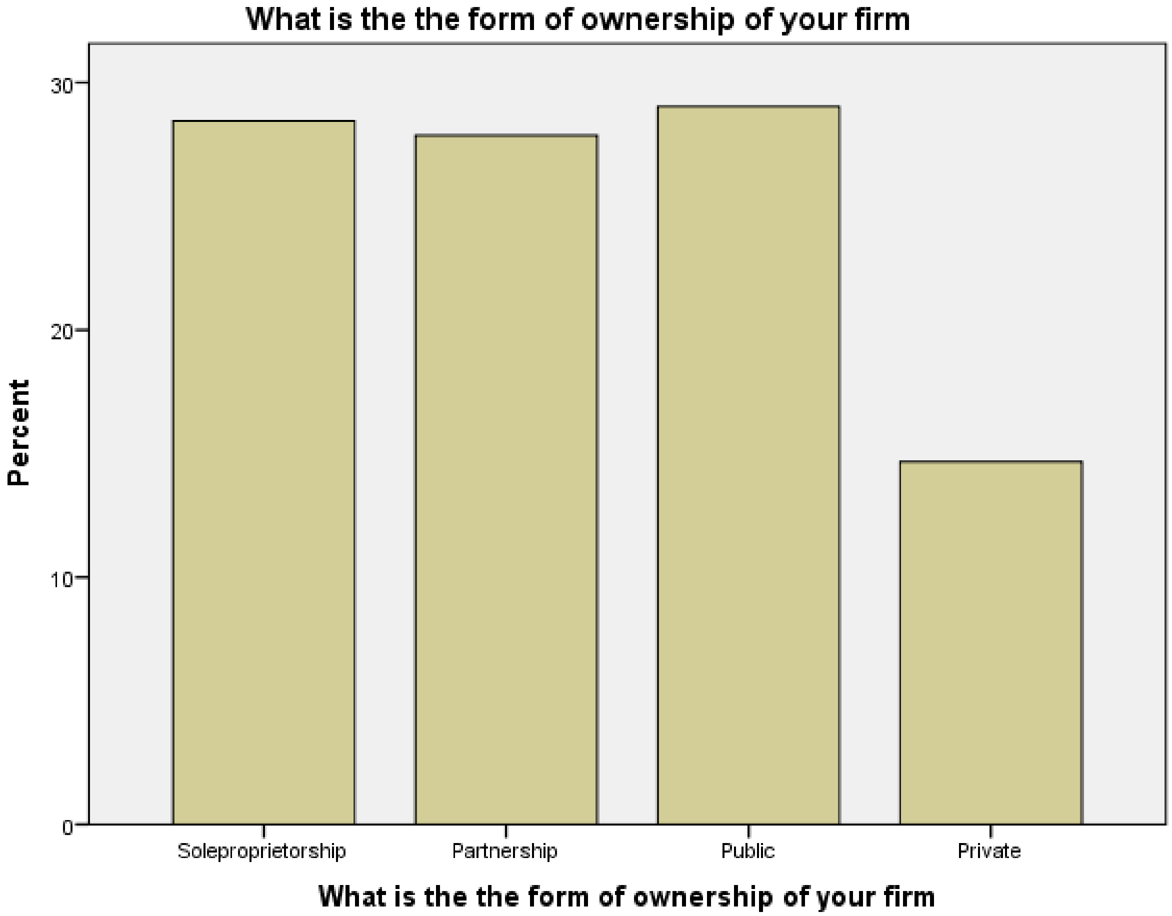

Figure 4.4 Form of ownership
Source: Researcher (2021)

The study findings presented in figure 4.5 above shows that 99(29%) of the SMEs in Kakamega are owned by the public, 97(28.4%) are owned by a sole proprietorship,95(27.9%) are partnership entities while 50(14.7%) are public entities. This finding suggests that the study involved all the forms of ownership of the SMEs in Kakamega county.

4.3.7 Location of SMEs

The researcher sought to establish the location of SMEs, the results are as shown in figure 4.6. below:

Figure 4.5 Location of SMEs
Source: Researcher (2021)

The study findings presented in figure 4.6 above reveal that 216(63.3%) of the respondents indicated that their SMEs are located in the Central business district(CBD) while 125(36.7%) of the respondents indicated that they are located far from central business District. This finding suggests that the SMEs are strategically located and are easy to access.

4.3.8 Number of Employees

The researcher sought to establish the number of employees in each SME, the results are as shown in Table 4.7 below:

Table 4.7 Number of employees

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-9 Employees	134	39.3	39.3	39.3
	10-49 Employees	88	25.8	25.8	65.1
	50-100 Employees	46	13.5	13.5	78.6
	Over 100 Employees	73	21.4	21.4	100.0
	Total	341	100.0	100.0	

Source: Data (2021)

From the study findings depicted in Table 4.7 above, the study shows that the majority of the respondents indicated to have a total number of employees of between 1-9 employees, this was confirmed by 134(39.3%) of the respondents indicated so on the questionnaire, 88(25.8%) had a total number of employees between 10-49 employees, 73(21.4%) had a total number of employees of over 100 employees while 46(13.5%) had a total number of employees between 50-100 employees. The findings of the study imply that the SMEs are at the forefront of providing job opportunities to the resident of Kakamega county.

4.4 Influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

4.4.1 Assess the relationship between Private Equity and SMEs' growth

The first objective of the study was to investigate the relationship between Private Equity and SMEs' growth in Kakamega County. The regression model is presented as follows in Table 4.8

Table 4.8: Multiple Regression Analysis Results on the relationship between Private Equity and SMEs' growth

Model	Unstandardized Coefficients		Standardized Coefficients	T	p-value
	B	Std. Error	Beta		
(Constant)	54.705	3.317		16.491	0.000
Equity capital	-0.162	0.065	-0.129	-2.48	0.014
Less liability	0.166	0.156	0.055	1.065	0.288
Equity preferred to debt	1.500	0.564	0.128	2.659	0.008
Prefer debt	0.381	0.101	0.204	3.759	0.000
Debt to asset life	0.000	0.000	-0.523	-9.356	0.100

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	0.566	0.062	0.311	6.12577

- Dependent Variable: SMEs Growth
- **Source: SPSS Output, 2021**

The study, therefore, modeled the relationship between Private Equity and SMEs' growth using multiple linear regression analysis. The positive and negative signs of the coefficient indicate increased and decreased SMEs performance respectively. The significance of the relationship between a given independent variable and the dependent variable was tested at p=0.05.

The result of the regression analysis in Table 4.8 depicts constant of regression statistically significant indicating that the variables in the model were able to predict the outcome variable. The variables in the model; Equity capital less liability, equity preferred debt, and debt to asset life) were able to predict 0.311 (31.1%) of the variation in SMEs growth.

The results of the regression analysis in Table 4.8 indicate that Equity capital was predicted to reduce the SMEs' performance by 0.162 points. Suggesting that a one-year increase equity capital reduces SME's performance by 0.162 points.

The results of the regression analysis in Table 4.8 also show that Equity preferred to debt is predicted to increase the SMEs performance mean score by 1.500 points. Suggesting that a one-year increase in Equity preferred to debt increase the SME's performance by 1.500 points. These results imply that as Equity preferred to debt progress in their debt financing the returns gain are beneficial to SMEs' performance. This implies that SMEs that prefer Equity over debt are predicted to produce better SMEs performance results.

From the results in Table 4.8 above, The R-Squared is that proportion in the dependent variable that can be explained by the independent variable. The larger the value of R-squared, the higher the effect of the independent variable on the dependent variable. From Table 4.8 the value of R (the correlation between the observed and predicted values of the dependent variable) is 0.566. This is a strong relationship between the observed and predicted values of the dependent variable. The same table also displays R-squared as 0.062, which is the proportion of variation in the dependent variable explained by the regression model. This means Private Equity can explain only 62% of SMEs' performance in Kakamega County. It also reveals that there are 38% other factors that influence SME's performance but which are not represented in this model. The value of the standard error of the estimate was 6.12577.

These findings buttress with the findings of Bogan (2011) explores how changes in capital structure could improve the SME's 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 debts, 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 debts may be related to inefficient operations due to the lack of competitive pressures associated with attracting market funding.

4.4.1.1 Analysis of Variance

Table 4.9 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.794	1	.794	1.317	.256[b]
	Residual	34.940	340	.602		
	Total	35.733	341			

a. Dependent Variable: SMEs Performance

b. Predictors: (Constant), Relationship between Private Equity and SMEs' growth.

Source: Data (2021)

The analysis of variance is used to determine whether the regression model is a good fit and also provides F-test statistics for the data. ANOVA was used to test differences in means (for groups or variables) for statistical significance. Table 4.9 above summarizes the results of an analysis of variance. For the accounted for values, the mean square (the sum of squares divided by the degrees of freedom), is 0.794, the F statistic (the regression mean square divided by the residual mean square) is 1.317 and the degree of freedom (df) is 1 whereas the output for residual which displays information about the variation that is not accounted for by the model has the following values: sum of squares as 34.940, df as 340 and a mean square of 0.602. The overall relationship was statistically significant (F = 1.317, p=0.05). In the case above, the p-value has a significance level of 0.256 meaning that the regression model is a good predictor of the relationship between Private Equity and SMEs' growth, hence, can be used to reliably predict the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

4.4.2 Establish the relationship between debt financing and growth of SME's

The first objective of the study was to determine to investigate the relationship between debt financing and the growth of SMEs in Kakamega County. The regression model is presented as follows in Table 4.10

In the model, the value of the coefficient indicates the influence of debt financing. The positive sign and negative signs of the coefficient indicate increased and decreased SMEs growth respectively. The significance of the relationship between a given independent variable and the dependent variable is tested at p= 0.05. The result of the multiple regression models is presented in Table 4.10

Table 4. 10: Multiple Regression Analysis Results on the relationship between debt financing and growth of SME's

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	T	*p*-value

(Constant)	45.238	2.862		15.805	0.000
Improved business efficiency	.012	0.562	0.001	0.02	0.984
Reduction in cost	-6.442	0.934	-0.433	-6.898	0.000
Increased sales volume	-0.023	0.023	-0.122	-.997	0.320
Increased in stock levels	4.811	1.36	0.238	3.537	0.000

	R	R Square	Adjusted R Square	Std. Error of Estimate
	.605[a]	0.366	0.349	5.95063

Source: SPSS Output, 2021

The results of the multiple regression analysis in Table 4.10 indicate that the constant of the regression is statistically significant indicating that the model was able to predict the outcome variable. The results in Table 4.10 indicate that more than half of the debt financing variables; Improved business efficiency, cost reduction, increased sales, and increased stock volumes helps improve SMEs growth and that was statistically significant in explaining variations in the relationship between debt financing and growth of SME's in Kakamega County.

The debt financing variables in the model were able to predict 0.349 (34.9%) of the variation on SMEs growth. The results indicate that several debt financing were able to account for variations in SME growth.

The results of the regression analysis in Table 4.710 indicate that the variables, Reduction in cost and increased sales were predicted to reduce SMEs growth mean score by 6.442, and 0.023 respectively. The results imply that if the cost reduction, increased sales, and increased stock volumes were reduced by one, the SME's growth means score would reduce by 6.442 and 0.023 points respectively. This implies that the availability of debt financing improves SME growth. The results concur with Mashenene (2016) who observed that increase in a firm's size was the best measure of a firm's growth realized over a long period. Fjose (2017) further concurred that a firm's size was determined by the profitable supply of capital, labor, and appropriate management and opportunities for investments. Moreover, Caruabna (2017) agreed that market share growth was a portion of the customer base that kept on increasing in the same proportion of resource input and was used to define a firm's increase in the volume of sales, employment levels, and profitability and total assets as a measure of the growth of SMEs. Moreover, Langat (2018) concurred that SMEs growth indicators included the number of business enterprises, number of business activities, increase in the market for the production, increase in employment absorption rate, overall economic growth, an increased rate of investment in real estate by SMEs entrepreneurs.

4.4.2.1 Analysis of Variance

Table 4.11 Analysis of variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.191	1	.191	.180	.673[b]
	Residual	61.459	340	1.060		
	Total	61.650	341			

a. Dependent Variable: SMEs Growth

b. Predictors: (Constant), Debt financing

Data (2021)

The analysis of variance is used to determine whether the regression model is a good fit and also provides F-test statistics for the data. ANOVA was used to test differences in means (for groups or variables) for statistical significance. Table 4.11 above summarizes the results of an analysis of variance. For the accounted for values, the mean square (the sum of squares divided by the degrees of freedom), is 0.191, the F statistic (the regression mean square divided by the residual mean square) is 0.180 and the degree of freedom (df) is 1 whereas the output for residual which displays information about the variation that is not accounted for by the model has the following values: sum of squares as 61.459, df as 340 and a mean square of 1.060. The overall relationship was statistically significant ($F = 0.180$, $p=0.05$). In the case above, the p-value has a significance level of 0.673 meaning that the regression model is a good predictor of the relationship between debt financing and SMEs' growth, hence, can be used to reliably predict the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

4.4.3 Examine the strategies that influence access to private equity and debt financing by SMEs

The third objective of this research was to explore the strategies adopted by SMEs in access to private equity and debt financing. The regression model is presented as follows in table 4.12 below.

In the model, the value of the coefficient indicates strategies adopted by SMEs. The positive sign and negative signs of the coefficient indicate increased and decreased SME's access to private equity and debt financing respectively. The significance of the relationship between a given independent variable and the dependent variable is tested at $p= 0.05$. The result of the multiple regression models is presented in Table 4:12.

Table 4.9: Multiple Regression Analysis Results of strategies that influence access to private equity and debt financing by SMEs

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	P-value
(Constant)	46.361	1.347		34.422	0
Good corporate governance	-7.146	0.427	0.448	-16.719	0
Strategic Alliance	7.299	0.5	0.616	14.597	0
Financial innovation	3.127	0.36	0.453	8.68	0
Strong Business strategy	-15.347	1.318	-1.215	-11.64	0
Model	1	R	RSquare	Adjusted RSquare	Std. Error of Estimate
		.277[a]	0.077	0.074	7.09845

Source: SPSS Output, 2021

The results of the multiple regression analysis in Table 4.12 indicate that the constant of the regression is statistically significant indicating that the model was able to predict the outcome variable. The results in Table 4.12 indicate all the variables on the strategies adopted by SMEs in explaining variations on access to private equity and debt financing that influence the growth of SMEs. The strategies adopted by SMEs variables in the model were able to predict 0.074 (7.4%) of the variation on SME's growth. The results of the regression analysis in Table 4.12 indicate that the variables of corporate governance and strong business strategy negatively were predicted to reduce SMEs growth mean score by 7.146, and 15.347 respectively.

Similarly, the results of the regression analysis in Table 4.12 indicate that the variables on strategic Alliance and financial innovation were predicted to improve the SMEs growth mean score by 7.299 and 3.127, respectively.

The findings of the study concur with the findings of 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 (2019), corporate governance is an important indicator of the SME's performance, because high corporate governance makes financial sustainability less attainable. Ayayi and Sene (2010) also investigate the most relevant factors that promote the financial self-sufficiency of SME's: 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.

4.4.3.1 Analysis of variance

Table 4.13 Analysis of variance ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.022	1	.022	.021	.886[b]
	Residual	61.628	340	1.063		
	Total	61.650	341			

a. Dependent Variable: SMEs Growth

b. Predictors: (Constant), Strategies adopted by SMEs

Field Data: 2021

The analysis of variance is used to determine whether the regression model is a good fit and also provides F-test statistics for the data. ANOVA was used to test differences in means (for groups or variables) for statistical significance. Table 4.13 above summarizes the results of an analysis of variance. For the accounted for values, the mean square (the sum of squares divided by the degrees of freedom), is 0.022, the F statistic (the regression mean square divided by the residual mean square) is 0.021 and the degree of freedom (df) is 1 whereas the output for residual which displays information about the variation that is not accounted for by the model has the following values: sum of squares as 61.628, df as 340 and a mean square of 1.063. The overall relationship was statistically significant ($F = 0.021$, $p=0.05$). In the case above, the p-value has a significance level of 0.886 meaning that the regression model is a good predictor of the Strategies adopted by SMEs hence, can be used to reliably predict the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the main study findings, conclusions, and recommendations of the study. The purpose of this study was to determine the influence of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya.

5.2 Summary of Findings

5.2.1 Demographic information

The study established that the majority of the respondents who took part in the study were male representing 201(58.9%), this could be because there is a large number of male employees compared to female employees.

The findings of the study showed that the respondents were literate enough to respond to research questions since the study findings reveal that majority of the respondents are degree holders with 131(38.4%).

The research design adopted in the study was descriptive. The target population for this study was 3097 respondents drawn from listed SMEs firms in Kakamega, Kenya. A sample size of 341 respondents took part in this survey presenting an 85% response rate.

The primary data was collected using a structured questionnaire as the data collection instrument which had both close-ended and open-ended questions. The questionnaire was piloted to capture the responses of the target respondents before the research and corrections made with the guidance of the experts who in this case were both scholars to ensure the questions are relevant and error-free. SPSS, as well as spreadsheets, were used to analyze the data and the results presented in the form of tables, figures, and charts.

5.2.2 Private Equity and SMEs' growth

The study established the effect of private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya. The study found out that SMEs need the cooperation of all market participants to ensure the continued growth of micro-finance and thus the continued impact on poverty alleviation in developing countries.

The equity capital and private equity firm to a little extent. The findings are in line with Reille and Forster (2018) who investigated that the lack of access to credit is a major constraint inhibiting the growth of the SME's sector. The issues and problems limiting SME's acquisition of financial services include lack of tangible security coupled with the inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SME's.

The findings found out that Equity preferred to debt affects SME's 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. Equity capital less liability, equity preferred debt and debt to asset life) were able to predict 0.311 (31.1%) of the variation in SMEs growth. The findings are in line with Lewellen and

Lewellen (2016) found out that in the case of internally generated finances, it is said that these have the highest opportunity cost for the firm because detainment of profits can affect shareholder trust. After all, it would otherwise have been distributed as a dividend.

5.2.3 Debt financing and growth of SME's

The study established that debt financing cost influences the firm's growth concerning private equity firms. Debt financing affects the requirement of private equity on SME growth to a great extent. The debt financing variables in the model were able to predict 0.349 (34.9%) of the variation on SMEs growth. The results indicate that several debt financing were able to account for variations in SME growth. The findings are in line with Armendariz and Morduch (2017), debt financing in financial institutions has long-term financial objectives often aimed at improving corporate governance and providing operational support. According to Rosenberg (2009), portfolio quality is an important indicator of the SME's' performance, because high delinquency makes financial sustainability less attainable.

5.2.4 Strategies that influence access to private equity and debt financing by SMEs

The study further established the strategies adopted by SMEs in access to private equity and debt financing. The strategies adopted by SMEs affect SMEs ' growth to a very great extent. The indicators of strategies adopted by SMEs as identified in the study include Good corporate governance, Strategic Alliance, Financial innovation, and Strong Business strategy. The strategies adopted by SMEs variables in the model were able to predict 0.074 (7.4%) of the variation on SME's growth. The findings are in line with Lorenzo (2017) 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.

5.2.5 Growth of SMEs

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 customers and improvement in the new customer satisfaction. The findings of the study Ayayi and Sene (2016) investigate the most relevant factors that promote the financial self-sufficiency of SME's: 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 (2019), portfolio quality is an important indicator of the SME's performance, because high delinquency makes financial sustainability less attainable.

The study findings disclosed that some of the strategies adopted to enhance access to private equity and debt financing on the growth of small and medium enterprises in Kakamega County, Kenya include amongst others good corporate governance, strategic alliance, financial innovation, and business strategy.

The results from the survey show that good governance as a strategy is a contributor to access to private equity and debt financing. This idea is in line with the studies of Krafft, Qu, Quatraro, and Ravix (2018), who acknowledges that good corporate governance can lower the cost of capital and encourage firms to use resources more efficiently, thereby promoting growth. This implicitly and explicitly supports the belief that better corporate governance will result in higher firm value and more profitable firm performance.

From the data findings, it is clear that strategic alliance is responsible for access to private equity and debt financing. The argument is supported by Todeva & Knoke, (2015) who noted that with strategic alliance the firms remain legally independent after the alliance is formed but share benefits and managerial control over the performance of assigned tasks; and make continuing contributions in one or more strategic areas, such as technology or products hence their ability to access to private equity and debt financing.

Financial innovation as epitomized from the study influences access to private equity and debt financing. This school of thought is echoed by Calomiris (2019) who acknowledges that financial innovations come in handy in finding ways around financial hurdles and barriers. For example, financial innovations often respond to regulation by sidestepping regulatory restrictions that would otherwise limit financial activities in which people wish to engage thus the ease with which they can access venture capital.

The study findings noted that business strategy can influence access to private equity and debt financing. This is supported by the works of Acquaah, (2018) that the business strategy perspective argues that implementing a robust business strategy, leads to a competitive edge over competitors. The implementation of a robust and feasible business strategy will generate superior performance as well as act as sources of a competitive advantage that allows access to private equity and debt financing. Hence, good business strategies will therefore reflect positively on the key management and their leadership ability. Such strategies typically tend to growth targets; performance enhancements; and Succession policies. This will act as an edge on attracting equity capital (Baroto, Abdullah, & Wan, 2016). This intends to confirm that business strategy can influence access to private equity and debt financing.

5.3 Conclusion

5.3.1 Private Equity and SMEs’ growth

The study made conclusions based on the study findings. SMEs need 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 the SME sector. The issues and problems limiting SME's acquisition of financial services include private equity and debt financing coupled with an inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SME’s. The study concludes that collateral requirements influence the firm's growth concerning private equity firms. The collateral requirement affects the 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 is an important indicator of the SME's' performance because high delinquency makes financial sustainability less attainable.

5.3.2 Debt financing and SMEs’ growth

The size of both private equity and debt financing affects SME 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.

5.3.3 Strategies that influence access to private equity and debt financing by SMEs

The study concludes that the strategies that influence the firm's growth concerning private equity and debt financing. The product and service range affects SME's 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.

5.3.4 Growth by SMEs

SME's growth indicators identified in the study findings established an improvement in business efficiency, business costs, increase in sales volume, the number of new customers, and improvement in new customer satisfaction. The most relevant factors that promote the 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 is an important indicator of the SME's 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. SME's should invest in the right model especially in the private equity and debt financing space. The investors can and should make money there is a lot of choices, valuations are lower and growth potential is enormous.

SME's should have an appropriate capital structure that generates the maximum profit for the organization as too little equity financing increases the control of the owners to a large extent. Microfinance should provide an opportunity for expanding or pursuing new SME's 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 countries with dysfunctional traditional financial systems.

Promotions of the SME's 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 a lot of tangible assets, should be offered as collateral for debt, may have a higher target debt ratio.

5.5 Suggestions for Further Studies

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

Research should be carried out on various aspects of private equity firms' contribution to the management buyouts and management buy-ins of the various SME's business in Kenya.

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

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APPENDIX I: QUESTIONNAIRE

INSTRUCTIONS

This questionnaire seeks to collect information on the role of Private Equity and Debt capital financing on the financial performance of Small and Medium enterprises in Kakamega, Kenya. Please provide information on 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.

PART I: RESPONDENT INFORMATION

1). Please indicate your gender

Male ☐ Female ☐

2). Please indicate your level of education

a. Diploma ☐ b. Graduate ☐ c. Postgraduate ☐

3). Please indicate your position in the organization

a. Top manager ☐ b. Middle-level manager ☐

c. Low level ☐

4). How long have you been in business?

a.5-10 years ☐ b. 10-15 years ☐ c. 16 years and above ☐

5). What is the registration status of your SME firm?

a. Registered ☐

b. Not Registered ☐

6. What is the form of ownership of your firm

a. Sole Proprietor ☐

b. Partnership ☐

7. Where is your business located

a. CBD ☐

b. Far from CBD ☐

8. Give the number of employees

a. 1-9 ☐ b. 10-49 ☐ c. 50-100 ☐ d. Over 100 ☐

PART II: FACTORS THAT LED TO ADOPTION OF PRIVATE EQUITY AND DEBT FINANCING BY THE SME'S SECTOR

(i) What is the familiarity of your organization regarding equity

(a) Does your organization relay on equity capital to run its business

Yes ☐ No ☐

(b) Does it have less liability burden Yes ☐ No ☐

(c) Is Equity Preferred to debt Yes ☐ No ☐

(d) Does the firm maintain reserves to ensure continuity Yes ☐ No ☐

(e) Do Members receive flexible dividends from savings Yes ☐ No ☐

(f) is equity enough to run business Yes ☐ No ☐

(ii) Why does your firm prefer debt

(a) Relies on loan to run the business Yes ☐ No ☐

(b) Borrowing short term reduces risk of running business Yes ☐ No ☐

(c) Borrowing long term reduces risk of investment Yes ☐ No ☐

(c) Debt preferred due to lower information disclosure Yes ☐ No ☐

(e) SME matches maturity of its debt to asset life Yes ☐ No ☐

(e) Issues long term debt to minimize finance bad times Yes ☐ No ☐

(f) Firms consider credit rating before it borrows Yes ☐ No ☐

(g) Firms limit its debt Yes ☐ No ☐

PART III: STRATEGIES ADOPTED BY SMES IN ACCESS TO PRIVATE EQUITY AND DEBT FINANCING

To what extent do you agree that your firm engages and emphasizes the following activities relating to strategies adopted to enhance Private Equity and capital debt financing on the growth of Small and Medium Enterprises in Kakamega, Kenya?

(Please rate 1; strongly disagree 2; Disagree 3; Neutral, 4; Agree 5; strongly agree)

Statement	**Strongly disagree (1)**	**Disagree (2)**	**Neutral (3)**	**Agree (4)**	**Strongly agree (5)**
Good corporate governance stimulates access to private equity financing					
My firm is seeking a strategic alliance with other players					
Financial innovation is a breakthrough to private equity financing					
My firm has put in place a strong business strategy to seek private equity financing					

In your opinion, what other strategies can be adopted by your firm to enhance access to private equity and debt financing?

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THANK YOU FOR YOUR HONEST FEEDBACK.