FACTORS INFLUENCING ACCESS TO VENTURE CAPITAL ON GROWTH OF SMALL AND MEDIUM-SIZED ENTERPRISES

A CASE OF SELECTED SMALL AND MEDIUM-SIZED ENTERPRISES IN NAIROBI COUNTY, KENYA

BY

EUNICE NKURANI KONCHELLAH

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DECLARATION

This research project report is my original work and has not been presented for a degree in any other University.

Signature……………………………… Date……………………

EUNICE NKURANI KONCHELLAH
L50/71566/2011

This research project has been submitted for examination with my approval as University Supervisor

Signature……………………………… Date……………………

PROF. CHRISTOPHER GAKUU
DEPARTMENT OF EXTRA-MURAL STUDIES
UNIVERSITY OF NAIROBI
DEDICATION

This work is dedicated to my beloved family, my father Joseph Konchellah, my mother Janet Konchellah, my grandmother Naomi Tina, my sisters and brothers for their encouragement and continued support towards successful completion of this project

Thank you all for your support.
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ABSTRACT

Venture capital, which is quite prevalent in developed countries, has played a big role in enhancing growth of SMEs by providing equity capital in countries where both forms of venture capital participate in financing SME. This study therefore, sought to establish factors influencing access to venture capital on growth of SMES in Kenya. The specific objectives of the study measured the following variables level of literacy, number of lending institutions, demand for collateral, business proposal and entrepreneurial experience. Descriptive design was used in this study because of its appropriateness in establishing relationships between variables and facilitating the collection of information for determining the population parameter. The study was conducted in Nairobi County. A sample size of 114 finance managers was used for the study, where the results of data was analysed and presented in form of tables. Under SME category within Nairobi County majority of the respondent (SMEs), were in wholesale and retail trade representing 17%, followed by SMEs in the category of general services at 14%. SMEs within the hotel industry registered 12% of the study population where as those in the construction industry registered a close 11%. Manufacturing and agriculture, real estate’s and health registered 9%, 7% and 6% respectively. Financial Services, and Airline both represented 3%, finally education and NGOs registered both 1%. Correlation analysis indicated that there was very strong positive correlation at (0.7102) between level of literacy and growth of SMEs while, there was a weak but positive correlation between demand for collateral and growth of SMEs at (0.1975). In conclusion the study has demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate. The study recommended training of owners of SMEs in business management, Venture Capitalism into the stock markets, setting of management standards for SMEs, and improved financial, ethical and managerial records for SMEs to improve literacy levels of entrepreneurs. The study recommends the following policy initiatives by the government that will be useful in managing venture capital needs for SME at national policy level: - Easy accessibility to credit through specialized or development oriented banking or financial institutions should be encouraged. This fund should be made available to the SMEs at reduced interest rate.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Access to finance is necessary to create an economic environment that enables firms to grow and prosper. SMEs in developing countries, however, face significant barriers to finance. Financial constraints are higher in developing countries in general, but SMEs are particularly constrained by gaps in the financial system such as high administrative costs, high collateral requirements and lack of experience within financial intermediaries. Increased access to finance for SMEs can improve economic conditions in developing countries by fostering innovation, macro-economic resilience, and GDP growth. SMEs are the backbone of most economies in Africa. Innovative and creative entrepreneurial approaches are needed to help African SMEs adapt to global standards and realize their economic impact.

Venture capital in the UK originated in the late 18th century, when entrepreneurs found wealthy individuals to back their projects on an ad hoc basis. This informal method of financing became an industry in the late 1970s and early 1980s when a number of venture capital firms were founded. There are now over 100 active venture capital firms in the UK, which provide several billion pounds each year to unquoted companies mostly located in the UK.

Africa faces the challenge to provide better economic opportunities to its citizens, through sustained growth led by the private sector and to alleviate the poverty that has long plagued the region. A strong private entrepreneurial sector plays a vital role in this respect, in particular the small and medium-sized enterprises (SMEs) that provide many Africans employment, income and hope for a better future. SMEs contribute around two thirds of national income and provide the foundation for a stable middle class in many countries. They help form strong communities and are a powerful force for poverty reduction. Indeed, SMEs play a significant role in building economic stability and sustainability for the future.
SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint. They might not be able to access finance from local banks at all, or face strongly unfavorable lending conditions, even more so following the recent financial crisis.

Banks in developing countries are in turn hampered by the lack of lender information and regulatory support to engage in SME lending. The overall result is absence of a well-functioning SME lending market, and SMEs are impeded in their growth, with negative consequences for innovation, economic growth and macro-economic resilience in developing countries.

Paul Collier, in his book ‘The Bottom Billion’ argues that the bottom billion needs private capital and says, ‘clearly there are brave people within these societies who are struggling to achieve change. It is important to us that these people win their struggle, but the odds are currently stacked against them.’ He goes on to explain the numerous challenges ahead, but introduces a valuable line of thinking that builds the case for supporting local entrepreneurs seeking to implement solutions that are designed for a local context, the needs of a billion consumers rising as a middle class.

Venture Capital is money provided by investors to startup firms and small businesses with perceived long-term growth potential. This is a very important source of funding for startups that do not have access to capital markets(Westerfield, Jaffe, 2008). It typically entails high risk for the investor, but it has the potential for above-average returns.

Venture capital can also include managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships(AMCHAM. 2006). This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.
 Venture capital provides long-term, committed share capital, to help unquoted companies grow and succeed. If an entrepreneur is looking to start-up, expand, buy-into a business, buy-out a business in which he works, turnaround or revitalize a company, venture capital could help do this (Crabbe, Carolin A, ed. 2007). Obtaining venture capital is substantially different from raising debt or a loan from a lender. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of the success or failure of a business. Venture capital is invested in exchange for an equity stake in the business. As a shareholder, the venture capitalist's return is dependent on the growth and profitability of the business. This return is generally earned when the venture capitalist "exits" by selling its shareholding when the business is sold to another owner.

On the other hand “SME” encompasses a broad spectrum of definitions. Different organizations and countries set their own guidelines for defining SMEs, often based on headcount, sales or assets. While Egypt defines SMEs as having more than 5 and fewer than 50 employees, Vietnam considers SMEs to have between 10 and 300 employees. The World Bank defines SMEs as those enterprises with a maximum of 300 employees, $15 million in annual revenue, and $15 million in assets. The Inter-American Development Bank, meanwhile, describes SMEs as having a maximum of 100 employees and less than $3 million in revenue.

In this research, we follow the European Union definition: ‘ The category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.’ Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total. This definition is more encompassing, and much larger, especially with regards to turnover, than some others.

In order to promote the development of the private sector access to finance is crucial. This can take many different forms of bank loans to overdraft facilities. Unfortunately, Africa is still seen as a risky and expensive place to do business. Indeed, transactions costs are often higher than elsewhere. Speaking to entrepreneurs actively working to set up their business finds that, getting
a loan from a bank in Africa is like getting a root canal. They always take more than expected and the process is painful at best.

This project attempted to analyze the factors influencing access to venture capital on growth of SMEs, a case of selected SMEs, Nairobi County as a whole. The outline of these will also help craft out some solutions.

1.2 Statement of the Problem

SMEs, in Kenya have difficulties in growth due to lack of finance. They hardly grow beyond start-up stage. Others go out of business at a very early stage (Bronwyn, 1995). The study undertaken by Hallberg (2008) and Mead & Liedholm (2008) reveals that access to finance is an important ingredient to development of SMEs. They have few alternatives of accessing finance other than relying on their retained earnings to finance their investments. Notwithstanding the financial difficulties faced by SME presently in Kenya, alternative sources of funds have to be sought to sustain this important sector.

Venture capital, which is quite prevalent in developed countries, has played a big role in enhancing growth of SMEs by providing equity capital in countries where both forms of venture capital participate in financing SMEs, they are value-adding investors who bring significant benefits of their business know. The researcher feels that though venture capital firms have been present in Kenya as early as 1970s their influence on SMEs has not been significant. Venture capital has impacted significantly on performance of Small and Medium Enterprises (SMEs) in developed countries. SMEs in Kenya lack knowledge about the existence of venture capital and hence do not utilize it as an alternative source of finance. In Developed countries small businesses are the stepping stone of industrialization. However in the developing countries and especially Kenya venture capital has been present since 1970s yet industrialization is slow. Lack of finance has been cited as a major contributor to SMEs failure in Kenya.

SMEs in Kenya have found it hard to access finances for growth and expansion, labor costs may be low but often not enough to offset the high costs of transport, raw materials, utilities, and
other inputs. African businesses therefore find it difficult to compete in export markets, particularly in markets outside the region, and to compete against imports of a range of goods from other developing regions. Moreover, many African companies, especially SMEs, lack reliable financial data that allows financial organizations to scrutinize the health and prospects of the company. Most SMEs in Africa also lack assets that can act as collateral and mitigate the risk involved. As a result, capital in Africa remains too expensive for most entrepreneurs looking to build a sustainable enterprise. Venture Capital can be characterized as long-term, risk equity finance in new firms where the primary reward is capital gain. Complementary to existing lending facilities and micro-finance programs, there is a growing need for Private Equity and Venture Capital, to fuel the development of the private sector in Africa. Equity investments can be instrumental in helping small enterprises grow into medium-sized enterprises and semi-formal into formal businesses. An important role in this respect can be played by Venture Capital (VC) Funds. They can support business opportunities through investment relations with private companies in Nairobi, introduce new business concepts and offer mentorship and guidance many entrepreneurs need to tackle tough challenges they will face along the way. Hence the VC impact on the business environment can be significant.

1.3 Purpose of the study
The general objective of this study was to investigate factors influencing access to venture capital on growth of SMEs; a case of selected SMEs in Nairobi County, Kenya.

1.4 Objective of the Study
The specific objectives of the study were:

1. To establish whether the level of literacy influence entrepreneur access to venture capital for SMEs growth.
2. To investigate whether the number of lending institutions available influences the accessibility of venture capital towards SMEs growth.
3. To establish whether the demand for collateral by financial institutions influence the accessibility of venture capital towards SMEs growth.
4. To establish whether business proposal developed influences the accessibility of venture capital towards SMEs growth.
5. To establish whether entrepreneurial experience influences the accessibility of venture capital towards SMEs growth.

1.5 Research Questions

This research was carried out to answer the following questions:

1. What is the relationship between the level of literacy among entrepreneurs and its access to venture capital towards SMEs growth?
2. How does the number of lending institutions influence the accessibility of venture capital towards SMEs growth?
3. How does the demand for collateral by financial institutions influence the accessibility of venture capital towards SMEs growth?
4. How does business proposal developed by SMEs influence the accessibility of venture capital towards SMEs growth?
5. What is the relationship between entrepreneurial experience of SMEs and its access to venture capital towards SMEs growth?

1.6 Rationale

The Venture capitalists and SMEs will benefit from this research because most of these SMEs in developing countries face a financing gap that undermines economic prosperity, hence not able to get maximum profits as anticipated by their management.

The benefits are as follows:

a. It leads to expansion of the SMEs and smooth operations for these enterprises
b. Improve performance
c. Increasing revenue/profits for both the investors and the SMEs.
d. Increase their client or customer base
e. Smooth ALM (Asset Liability Management).
f. High return on investment for the investor.

Customers or clients are also able to benefit as well. The difficulties that these SMEs face in regards to accessing venture capital in the financial sector, do also affect their clients, so when
the SMEs get the solutions to this, these benefits are also reflected in their customers. Nairobi county residents and the economy will also benefit out of this research, because if the public are able to access loans/funds in a more convenient manner or way, this will lead to better living standards of the people.

1.7 Significance of the Study

The venture capitalists will use this research to identify current and future opportunities in the financial market. To support an initial positive assessment of a business proposition, the venture capitalist will want to assess the technical and financial feasibility in detail. The impact of venture capital on the growth of SMEs is real. This research has assisted the researcher to determine the relationship between the access to venture capital and the growth of SMEs in selected SMEs in Nairobi County. The study has also demonstrated that use of venture capital on SMEs can be profitable in Nairobi County even in a political and economic environment.

The economic impact of venture capital has been realized by SMEs in sales growth, profit, asset and improvement in management of finance and other resources. The social impact from a venture capital perspective includes the employment opportunities created. The increased profits imply revenue collection for government expenditure through collection of tax. Also venture capitalists do not just provide funds, but add value to SMEs, that is, they are not only involved in financing but also spur entrepreneurs who are responsible for economic growth. Venture capital involvement has demonstrated that the partnership implicit in equity capital is as important as the finance and that these two aspects of the relationship are mutually reinforcing. Venture capital not only assists SMEs in the provision of funds, but also in the internal operations of the business and especially in policy formulation. This research will also help the customers on how they can access the funds in a convenient way hence proper planning for both the client and the investor.
1.8 **Basic assumptions of the study**

1. The sample population selected represented the larger population of SMEs in Nairobi County.

2. As a result, this research concluded that the factors influencing access to venture capital have an influence on the growth of SMEs in Nairobi County.

3. While the study shows that on one hand venture capital have provided equity capital, it also revealed that they are value-adding investors bringing significant benefits with regard to expertise.

1.9 **Limitation of the Study**

1. Constraints are bound to occur in any research activity. Even though it was categorically explained to entrepreneurs that the study was purely for academic purpose, some entrepreneurs thought it is a deliberate act of benchmarking due to the stiff competition in the SME sector in Kenya. To manage this shortcoming the researcher recruited an independent research assistant who assisted in data collection and the researcher was to ensure confidentiality of the study by explaining the bigger picture and purpose of the study to respondent.

2. Resources for the study were not enough to cover a larger population in Nairobi. Hence questionnaires were used to collect data.

3. The data collection procedures that the researcher used was not sufficient for the amount of detail required. For instance, the use of questionnaires did not bring much information as expected due to response apathy; however the researcher made follow ups to ensure optimum response rate.

1.10 **Delimitation**

The study focused on the factors influencing access to venture capital on growth of SMEs Nairobi County. Where five (5), variables under the study were limited to level of literacy among entrepreneurs; number of lending institutions; demand for collateral by financial institutions, business proposal developed by SMEs and entrepreneurial experience of SMEs. The study
focused on SMEs firms registered in Kenya and quoted in the main investment market segment of the Nairobi Stock Exchange. This was motivated by the fact that these firms had adequate information available, not only arising from legal requirement for them to publish yearly results, but also required to certify their annual accounts which can be used to validate the response received.

1.11 Definitions of significance terms used in the study

**Venture Capital:** -is money provided by investors to startup firms and small businesses with perceived long-term growth potential.

**Small & Medium-Sized Enterprises:** -An enterprise is an entity engaged in an economic activity. Small and medium enterprises are thus defined as firms with 10 to 250 employees, and more than 10 million euro turnover or annual balance sheet total.

**Entrepreneurial Experience:** -is the dynamic process of acquiring the vision, change, and creation that enhances enterprise performance by engagement.

**Growth:** - An increase in the capacity of an entity to produce goods and services, compared from one period of time to another or increase in size, number, value, or strength; extension or expansion.

**Access:** - The proximity of acquiring a requirement or resources towards achieving a particular outcome. It can also be seen as the ability or right to approach, enter, exit, communicate with, or make use of.

1.12 Organization of the Study

This study is divided into five chapters, introductory and background, literature review, research methodology, data analysis with presentation and finally the study conclusion and recommendations. Chapter one being the introduction and background gives an entry behavior on factors influencing access to venture capital on growth of SMEs, where the problem statement was explained leading to the study specific research objectives and questions. The chapter also gave the significance of the study, basic assumption and delimitation.

Chapter two of the study reports on the findings from other scholars by reviewing gaps of the study by giving suggestions to the factors influencing access to venture capital on growth of
SME, based on the study variables. The chapter was concluded by a conceptual framework that guided the study. Chapter three gives the study road map towards investigating the objectives where the research design, study area, the target population, the sample size and data collection instrument were explained in detail.

Chapter four gives the analysis done on the data, which was collected by the researcher. It also gave presentation of findings and qualitative analysis. Finally chapter five provides summary of key finding, conclusion and recommendations based on both literature review and data analysis.

1.13 Chapter Summary
This chapter has discussed factors influencing access to venture capital on growth of small and medium-sized enterprises a case of selected small and medium-sized enterprises in Nairobi County, Kenya; by providing background to the concept of the study venture capital and SMEs. In addition to that, the chapter has clearly outlined the purpose of the study and the research objectives to guide it which are to be achieved within the specified scope. Finally, the chapter has provided the list assumptions and definitions of terminologies and concepts in the context of this study.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter is short and precise but also very important when it comes to research. It entails report finding from other scholars and also reviewing any gaps of the study by giving suggestions to the factors influencing access to venture capital on growth of SMEs in Nairobi County. A summary of this chapter (Literature review) is of essence or rather it’s important in order to make the reader to understand more on the topic being researched on. This section reviews the literature on venture capital `level of literacy’, `number of lending institutions ', `demand for collateral, `business proposal `entrepreneurial experience' and small and medium enterprises (SMEs) in developing countries. It will also develop a conceptual framework in the existing literature to enable us ascertain the directions for research.

2.2 Venture Capital
Venture Capital is one source of non-bank financing, which is quite prevalent in developed financial markets for small or startup firms (Keuschnigg 1998). Venture Capitalists are organized providers of financing for winning but risky business proposals by small and medium firms that have a promising but as yet unproven idea. If the Venture Capitalists are convinced that a business idea is promising, they will take an 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 finance.

Governments throughout the world are nowadays turning their attention to small-scale enterprises. This is because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the populations concerned (White Paper on International Development, 2000). Therefore, Small and Medium Enterprises (SMEs) are now viewed as important in even and equitable economic development. Kenya’s policy on SMEs as outlined in the Sessional paper number 2, (RoK, 2005) clearly show that the sector is not only a provider of goods and services but also a driver in promoting competition,
innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. The sector should effectively respond to challenges of creating productive and sustainable employment opportunities, promoting economic growth and poverty eradication in the country. The Sessional paper further provides a framework that will support research and development to boost SME’s access to appropriate technologies; encourage innovation and promote product design, development and quality control. SMEs will play a significant role in contributing to the national goal of wealth creation and making Kenya an industrialized country.

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. Formal financial institutions perceive SMEs as high risk and commercially unviable. As a result only a few SMEs access credit from formal financial institutions in the country. Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable (Institute of Economic Affairs & Society for Economic Development 2001). Several Organizations including business associations, voluntary organizations and other non-governmental organizations have set up programs to enhance the factors that influence development of SME especially as it relates to enterprise growth and development.

2.3 Literacy Level of Entrepreneurs

Education and skills are needed to run a business. Majority of people carrying out SME’s in Kenya are not quite well informed in terms of education and skills. According to King and McGrath (2002), those with more education and training are more likely to be successful in the sector. The literacy level was reflected in their ability to carry out managerial routines. The routine includes making decisions on financial investment and management. This affects the decision on the external funding of his enterprise; the low literacy levels of the SME’s owners are evidenced by the declining levels of the primary and secondary school enrolment of students in
Kenya. This makes an entrance to the ‘the juakali sector ‘increasingly the last resort for the disadvantaged students with relatively low levels of education. At the site, www.ilo.org, it’s observed that an entrepreneur’s level of education is directly correlated with his ability to make financial decisions of his business. Kenya’s declining level of education has, had negative impact on entrepreneur’s ability awareness on how and where to get loans to improve their businesses. With low ability to read and write, therefore an entrepreneur is at a disadvantage in the loans market. Information on availability of loans, and the rate of interests charged, is communicated through newspapers, in which a good level of literacy is required to read and interpret.

Saleemi (1997) explains that; complete, accurate and precise information is necessary for financial decisions including obtaining business loans. The literacy level is again observed in the ability to have appropriate book keeping skills. The banks often demand cash flows and other financial records as a prerequisite for approving of credit. Due to low literacy levels most SME traders are unable to differentiate the loan products offered by the financial institutions. Also since most of these services are offered in banking jargons, most traders are discouraged from applying for the loans. Further inadequacy in financial management skills and strategic planning put the SME’s in a disadvantaged position in competing with a large firms which are run by well-educated professional managers.

There are two opinions about the role of education in accessing venture capital. The first holds that education is not a useful predictor of accessing credit (Kimuyu and Omiti 2000). This is because it impedes attainment of entrepreneurial outcomes by reducing curiosity, vision and the willingness to take risks. Formal education is thought to foster conformity and low tolerance for ambiguity and thus is an impediment to entrepreneurship. The second opinion argues that education helps to distinguish entrepreneurs who access credit and those who do not (Lore, 2007). In this respect, education increases a person’s stock of information and skills. Due to lack of other sources of information in developing countries such as Kenya, education remains the only useful source of new knowledge. Therefore, education may enhance entrepreneurial orientation.
2.4 The Number of Lending Institutions

The number of financial institutions offering credit services to SME’s is a constraint to the development of the sector. In a study conducted in the site, www.allafrica.com, by a nonprofit organization, World Women Banking providing credit access to poor women, fewer than 2% of low income entrepreneurs, worldwide have access to credit facilities. It was further noted that the banking sector penetration in a typical sub-Saharan African country stands at 1% of GDP, far below a more advanced such as Brazil where penetration approaches 25% or industrialized nation where its 85%.

In Kenya, there are less than 50 commercial banks serving a population of 34 million people. Among the major commercial banks and other market share includes, Commercial bank(14.7%), Barclays (14.26%),and Standard Chartered(8.4%), there are also banks classified as small which as small banks which includes; Consolidated, Habib, Victoria, Equatorial Fidelity Bank among others.

Just 60% of Kenyans have access to banks or microfinance institutions with 30% of rural users having no access to banking services at all, according to the data by Financially Deepening Kenya (FSD),Business Daily(6th, May,2011) this further shows shortage in supply of financial services including credit compared to demand.

Recently, this increase in demand for this services has lend to emergence of mobile telephone money transfer services with the introduction of the M-pesa and Zap services by mobile telephone companies, Safaricom and Zain respectively. With over 6.1 million subscribers, the M-pesa is becoming an important financial transaction tool for SME’s with the unbanked even turning it into a banking institution. While the service has it is currently, cannot offer credit service the banks are adopting the system in order to attract the small entrepreneurs, who require micro finance products including loans. The growth of mobile money transactions shows the demand for formal financial services including credit services far outstrips the supply.

In Meru town, the concentration of banking services is even much lower with few branches of the major banks operating. The other lending institutions operating include the micro finance companies.
Wanjohi and Mugure (2008), in acknowledging that venture capital sources remain a major challenge among the SME’s, found out that, in the climaxing of the year 2008, money lenders in the name of ‘pyramid schemes’ came up promising hope among the small investors that they can make it to financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is to seek source of credit which is not available among the formal financial institutions.

2.5 Collateral

Formal banking institutions always demand collateral to act as a security on loans. This is often in the form of houses or deed to some immovable assets. This precondition plays a major part in the accessibility of loans among the SME’s since majority of they cannot attain these requirements. The situation may be more complicated for women entrepreneurs, who may not have right of ownership to expensive property including land and houses.

In the site www.allbusiness.com, collateral is again highlighted as a major constraint to credit accessibility. In a survey conducted at the site 92% of the firms surveyed had applied for loans, and were rejected while others had decided not to apply since they ‘knew’ they would not be granted for lack of collateral. Therefore, while most of the entrepreneurs, in this study recognized the importance of loans in improving their businesses, they cited collateral as a major impediment to loan accessibility and therefore business growth. Almost all respondents started their businesses from their own savings or loans from relatives since they did not demand security.

Beaver (2002), explains that the historical development and the associated culture, of the banking system underpins the problem of the emphasis on the provision of collateral as a primary condition in lending. Banks have always adopted a risk averse stance towards small firms, with an accompanying inability to focus on the income generating potential of the venture, when analyzing the likelihood of loan repayment.

Therefore, although there has been a considerable progress in the lending to the SME’s, banks remain cautious because many of these businesses have neither, collateral nor, asset registers.
2.6 Business Proposal

Business plans may be internally or externally focused. Externally focused plans target goals that are important to external stakeholders, particularly financial stakeholders. They typically have detailed information about the organization or team attempting to reach the goals. With for-profit entities, external stakeholders include investors and customers. External stakeholders of non-profits include donors and the clients of the non-profit's services. For government agencies, external stakeholders include tax-payers, higher-level government agencies, and international lending bodies such as the IMF, the World Bank, various economic agencies of the UN, and development banks.

Internally focused business plans target intermediate goals required to reach the external goals. They may cover the development of a new product, a new service, a new IT system, a restructuring of finance, the refurbishing of a factory or a restructuring of the organization. An internal business plan is often developed in conjunction with a balanced scorecard or a list of critical success factors. This allows success of the plan to be measured using non-financial measures. Business plans that identify and target internal goals, but provide only general guidance on how they will be met are called strategic plans. Operational plans describe the goals of an internal organization, working group or department. Project plans, sometimes known as project frameworks, describe the goals of a particular project. They may also address the project's place within the organization's larger strategic goals.

Planning is also a management function, concerned with defining goals for future organizational performance and deciding on the tasks and resources to be used in order to attain those goals. To meet the goals, managers may develop plans such as a business plan or a marketing plan. Planning always has a purpose. The purpose may be achievement of certain goals or targets. The planning helps to achieve these goals or target by using the available time and resources. To minimize the timing and resources also require proper planning. A plan can play a vital role in helping to avoid mistakes or recognize hidden opportunities. Preparing a satisfactory plan of the organization is essential. The planning process enables management to understand more clearly what they want to achieve, and how and when they can do it.
A well-prepared business plan demonstrates that the managers know the business and that they have thought through its development in terms of products, management, finances, and most importantly, markets and competition. Planning helps in forecasting the future, makes the future visible to some extent. It bridges between where we are and where we want to go. Planning is looking ahead.

2.7 Entrepreneurial Experience

Previous experience with entrepreneurship is an important predictor of outcomes (Shane 2000). This experience can be gained hands-on from having started previous ventures. Previous start-up experiences help provide entrepreneurs with considerable motivation for venturing again, opens new opportunities, links them to important resource providers and develop key competencies.

Previous start-up experience enhances perception of risks. Therefore entrepreneurs with previous start-up experience are expected to have higher levels of entrepreneurial orientation. Social capital consists of the goodwill flowing from friends, colleagues, and other general contacts. Adler and Kwon (2002) define social capital as the goodwill available to individuals or groups which includes feelings of gratitude, reciprocity, respect, and friendship. It is a resource that resides in an individual’s relationships. Social capital assists in the explanation of individuals’ success as they can utilize their contacts and connections and the resources that they bring for personal gain. Contemporary literature discusses two types of social capital. The first type, bonding social capital explores the impact of an individual’s internal ties and the substance of the network relationships within that. It examines the resources (such as information, ideas, support) that individuals are able to procure by virtue of their relationships with other people.

These resources are social in that they are only accessible in, and through relationships. The second type of social capital includes the nature and extent of one’s involvement in various informal networks and formal civic organizations. Its focus is on an individual’s external social ties and how the social capital, as a resource within this network, is used for the individual’s private benefit. A distinction is made between bridging social capital and linking social capital. Bridging social capital essentially connects people with more or less equal social standing. In contrast, linking social capital refers to one’s ties to people in positions of authority, such as representatives of public (such as political parties) and private (such as banks) institutions.
Bridging social capital has been shown to be useful in enhancing the outcomes of small businesses. Specifically, entrepreneurs who are members of business associations are expected to have enhanced knowledge and competencies.

2.8 Defining SMEs and its Growth

By and large small and medium enterprises are becoming or are the back bone of most economies especially developing countries like Kenya, since the large corporate bodies mostly spring up from these small firms. Thus Cook and Nixson (2005) commented that in majority of cases, these small enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies. Hence, the growth of these enterprises is part and parcel of a dynamic growth process in the corporate sector, as argued by Liedholm (1994) and Prasad (2005).

Cook and Nixson (2005) put forward that, although a number of measures have been used to identify and describe small firms, there is no consensus on any one measure and it is customary to use several metrics, including the value of fixed assets of the enterprise, enterprise turnover and the number of employees. Ryan (2007) has pointed out that the term may be used to cover a wide range of economic activities for an indicative number of employees; for example survival activities (<1 employees), household activities), microenterprise sector (<5), small emergent enterprises (<25) and growth businesses (<100 employees).

In the poorest countries, on average almost two thirds of workers are employed in enterprises with less than 5 employees while the majority work for enterprises with less than 10 employees Cull (2004). Early literature, particularly Staley and Morse (1965), enhanced the conceptualization of the main characteristics of small enterprises and the pattern of growth of these enterprises. However, Anderson (1982) notes that there was lack of basic data on the management and characteristics of micro and small enterprises. Cook and Nixson (2005) supported that, the lack of data hampered any attempts to undertake serious empirical work on measuring the characteristics of small and medium enterprises and explaining the behavior of these enterprises. However, due to poor book-keeping by small enterprises in the 1980s, the data were often incomplete, unreliable and not repeated across samples. According to Levy (1993) while the baseline data could be used for measuring the characteristics of small enterprises, it
was not adequate for testing theoretical propositions about the expected behavior of the small enterprises.

In a more recent thorough review of financial assistance available to SMEs, Curran (1999) notes that wide variations are apparent where quantitative parameters are applied to determine eligibility of the small to medium sized firms: for example turnover limits ranging from £50,000 to £50 million and the number of employees between 50 & 250. In contrast some scholars for example, Scott and Rosa (1996) suggest that employing additional qualitative criteria can enhance quantitative definition of an SME. For instance, Scott and Rosa (1996) provide the qualitative definition of an SME by arguing that an SME is one, which has three characteristics. Abor and Quartey (2010) states that; first, management is independent: usually managers are also the owners. Second, Capital is supplied and an individual or small group holds ownership. Third, areas of operation are mainly local. Workers and owners are in one home community, but markets need to be located in the same community. Abor and Quartey (2010) indicate that; the best description of the key characteristics of a small firm remains that used by the Bolton Committee in its 1971 Report on small firms.

According to Abor and Quartey (2010), a small firm is an independent business, managed by its owner or part owners and having a small market share. The Bolton report also adopts a number of different statistical definitions. Abor and Quartey (2010) said that they recognize that size is relevant to the sector. A qualitative approach view would suggest that a small firm is one “that has a relatively small share of the competitive market; that is unable to influence prices or if it is a non- profit organization makes little significant impact in its area; which the management has close personal involvement in all aspects of decision-making Abor and Quartey (2010). In a commercial organization they are likely to be the owners or part- owners; is independent, with the owners/managers having effective control of the business or activities of the organization although they might be limited in their freedom of action by obligations to financial institutions or founders Abor and Quartey (2010).
2.9 Conceptual Framework
Conceptual framework is a process of taking a construct or concept and refining it by giving it a conceptual or theoretical definition. It is the schematic diagram which shows the variables included in the study (Urco 2009).

Fig 2.1 Conceptual Framework

Independent Variables

- Level of literacy
  - Training
  - Family Background
  - Experience
- Number of lending institutions
  - No. of Commercial Banks
  - No. of DFIs
  - No. of NGOs.
- Demand for collateral
  - Land
  - Machinery
  - Group guarantee
- Business proposal
  - Nature of the Project
  - Business Financial Position
  - Impact of the Project
- Entrepreneurial Experience
  - Years of Operation
  - Market Share
  - Branch Network

Moderating Variables

- Global Recession
- Technology Advancement
- Multinational Firms Operations

SMEs Growth

- Growth in Capital Base
- Growth in Share Capital
- Product Performance
- Profits & Losses
- Cost of Trading
- Growth in Customer Base

Intervening Variables

- Size of SME
- Management Style
- Type of projects
- Business strategy
2.9.1 Independent Variables

This demonstrates the influencing factors on the access of venture capital that have a bearing on SMEs growth (dependent variable). The highlighted ones in the model include:

**Literacy levels of traders.**

Most lenders advertise their services on the print media. Since the literacy levels among the small scale traders are low they may not access the information. Others may have general literacy but are not well informed, on the effect of credit facilities on business growth, and therefore may fail to ask for the services. The literacy level may therefore be a constraining factor in the accessibility of credit, among traders.

**Demand for collateral by financial institutions.**

Most banking institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint to SME’s most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. Furthermore, most lending institutions are more inclined to lending to the large scale businesses who have higher success rate and repayment rate, the small scale businesses are relegated to the micro finance institutions(MFI’s) and ‘shylocks’ whose lending requirements may further discourage them.

**The number of lending institutions**

The numbers of small scale traders are many, while the financial institutions with the services tailored to them are few. The loan requirements of the SME’S traders are different from those of the large businesses. This is due to fragile nature of the business among other considerations, such as size, management structure, the capital base etc. Therefore there is need to have many lending institutions whose lending policies are established with such factors in considerations. The few institutions with such considerations are faced by the many small scale traders whose financial demands they may not cater for. This reduces accessibility for those who cannot get credit.

**Entrepreneur’s Experience**

The entrepreneur’s experience is considered important in accessing bank credit. Specialized knowledge of the industry, particularly on technology and market is considered critical for
venture performance. Knowledge gained from industry experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Industry experience is also important in reducing risks and uncertainty. Thus, industry experience is expected to be associated with entrepreneurial orientation

**Business Proposal**

A business plan is a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals. The business goals may be defined for for-profit or for non-profit organizations. For-profit business plans typically focus on financial goals, such as profit or creation of wealth.

**2.9.2 Dependent Variable**

This attempt to depict the likely effect on SMEs growth based on the influencing factors on the access of venture capital (independent variables). It is expected that these factors will impact on SMEs growth positively or negatively. The highlighted ones in the model include: - growth in capital base, growth in share capital, product performance, profits & losses, cost of trading and growth in customer base.

**2.9.3 Intervening Variables**

An intervening variable is one that surfaces between the time the independent variables start operating to influence the dependent variable and the time their impact is felt on it. These variables in the model attempt to portray that, where the identified factors affecting access to venture capital for SMES growth may not be the end in themselves. Other factors such as Size of SME, management style, type of projects and Business strategy may as well have an effect access to venture capital towards SMEs Growth.

**2.9.4 Moderating Variables**

The moderating variable is one that has a strong contingent effect on the independent variable and dependent variable relationship. That is the presence of a third variable modifies the original
relationship between the independent and the dependent variables. The highlighted ones in the model include: - global recession, technology advancement and multinational firms operations.

2.10 Summary

This chapter reviewed the relevant literature in relation to the research objectives presented in the study. Since the literacy levels among the small scale traders are low they may not access the information. Others may have general literacy but are not well informed, on the effect of credit facilities on business growth, and therefore may fail to ask for the services. The loan requirements of the SME’S traders are different from those of the large businesses. This is due to fragile nature of the business among other considerations, such as size, management structure, the capital base etc. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Therefore there is need to have many lending institutions whose lending policies are established with such factors in considerations. The few institutions with such considerations are faced by the many small scale traders whose financial demands they may not cater for. Finally a conceptual frameworks is developed from the existing literature to enable us ascertain the directions for research.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
Research methodology is an overall scheme, plan or structure conceived to aid the study in answering the raised research questions and objectives (Bhattacharyya 2003). This chapter analyzes the methods and design that will be used to carry out the study. It is a blueprint for the collection, measurement and analysis of data therefore in this section the research identifies the procedures and techniques that will be used in the collection, processing and analysis of data. The sub-topics covered in this chapter are the research design, study area, the target population, sample size and data collection instrument.

3.2 The Research Design
This research used descriptive design which described the factors that influence access to venture capital on growth of SMES. Scholars have offered varied definitions of research design. Survey design is used to ascertain the nature of a phenomenon from relatively large number of cases (NKPA, 1997). According to Weirsm (1980), descriptive sample design is research studies conducted in order to establish the status quo.

3.3 The Study Area
This study was conducted in Nairobi County. Nairobi County comprises the administrative region of the capital city of Kenya. Nairobi County is thus synonymous with the city itself. According to the 2009 Population Census, Nairobi is the Kenya’s largest urban centre with 3.1 million people (Kilele, 2010).

The choice of Nairobi County as the study area was influenced by various factors. Nairobi has been selected as the location of the study first because as the administrative and commercial capital of Kenya, the largest share (25 per cent) of modern sector wage employment is found in
Nairobi (Economic Survey, 2011) and furthermore it is the location where most of SMEs access finances from financial institutions.

Secondly, researcher’s own interest formed the choice of locale. Gay (1992) observed that factors such as familiarity to an area, limitations of time, effort and money may influence the researchers ‘choice of locale. Thus Nairobi was familiar to the researcher. That was what influenced the researcher to choose Nairobi County for study.

It was prudent for the researcher to identify a location that facilitates data collection. Moreover, Meredith (1996) notes that carrying out a research in a setting where you are known as a colleague and a friend facilitates data collection.

Nairobi County has over the years grown tremendously both for the population and industries and has prompted the Kenyan Government to create the Ministry of Metropolitan to manage this expansion. It has an estimated six hundred registered small and medium enterprises. The SMEs have been divided under four major categories. These are: services (airline, hotels, education, health, commercial, general services and clearing and forwarding), wholesalers and retailers, manufacturing and agriculture and financial services (construction, financial services Government, NGOs and real estates), (KRA, 2012). The researcher was able to follow the behaviour of these enterprises since most of them are accessible and centralized. These combinations of characteristics make it an appropriate location for a study. Moreover the few studies carried out in Nairobi have only explored the effect of venture capital on the growth of large enterprises and thus ignoring the effects of access to venture capital on the growth of small and medium enterprises a research gap that this study will attempt to seal

3.4 Target Population

Borg and Gall (1996) defines population as all members of a real set of people, events or objects to which the researcher wishes to generalize the results of the research. The target population in this study comprised all the registered SMEs and which make tax returns to KRA. There were 594 SMEs at the time of the study which met this condition in Nairobi County. These were: services (airline, hotels, education, health, commercial, general services and clearing and forwarding), wholesalers and retailers, manufacturing and agriculture and financial services (construction, financial services Government, NGOs and real estates), (KRA, 2012). These SMEs were distributed across the administrative units. From these SMEs, all the finance
managers constituted the target population because they were directly in charge of investment portfolio of these SMEs forming the unit of analysis this study. Table 3.1 shows the target population.

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Other Services</th>
<th>Manufacturing &amp; Agriculture</th>
<th>Wholesale &amp; Retail</th>
<th>Financial Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance Managers</td>
<td>239</td>
<td>132</td>
<td>89</td>
<td>134</td>
<td>594</td>
</tr>
</tbody>
</table>

Source: Kenya Revenue Authority’ 2012

3.5 Sampling Technique and Sample Size

Sampling technique and sample size have been used to seek knowledge and information about a whole population of the study and obtain a representative subset of a population to investigate the study objectives.

3.5.1 Sampling Technique

According to Orodho (2005), sampling is a technique where the investigator seeks knowledge or information about a whole population, objects or events by observing a sample, and extending the findings to the entire population.

One importance of sampling of sampling is that it saves time and money. This study employed stratified random sampling within each stratum. Random sampling designs are based on selections where each individual or item has an equal chance of being represented (Cooper & Schindler, 2001). There are many random sampling designs, but the researcher only employed two designs: stratified and simple random sampling designs.

The SMEs in the population differ by type – services, wholesalers and retailers, manufacturing and agriculture and financial services. In order to ensure that these different categories are adequately represented in the sample, stratified sampling was used. According to Frankfort-Nachmias and Nachmias (1996), stratified sampling is used primarily to ensure that different groups in the population are adequately represented in the sample. These are: services (airline, hotels, education, health, commercial, general services and clearing and forwarding), wholesalers and retailers, manufacturing and agriculture and financial services (construction, financial
services Government, NGOs and real estates), (KRA, 2012). These SMEs are distributed across the administrative units. The SMEs in Nairobi County will therefore first be classified according to whether they are services, wholesalers and retailers, manufacturing and agriculture and financial services. The population will thus be sub-divided into four mutually exclusive strata which will be based on the four types of SMEs. The list obtained served as the sampling frame from which a representative sample of the population will be obtained.

Simple random sampling will be used to draw the types of SMEs from each stratum. According to Doane (2007), in a simple random sampling, every item in the population has an equal chance of being chosen in a sample of items. For instance, in the stratum other services; airline, hotels, education, health, commercial, general services and clearing and forwarding will be selected by use of simple random.

3.5.2 Sample Size

A sample is a representative subset of a population (Nachmias & Nachmias, 1996). According to Singleton and Royce (in Orodho, 2005), the extreme upper limit of the sample size is 2000 – 3000 while the extreme lower limit is 30 cases for statistical data analysis. Gay (1992) asserts that for survey design, a sample of at least 17 per cent is justifiable for the study. On this strength, the researcher will take a sample size of 114 SMEs. Consequently, the sample size of 114 finance managers therefore was satisfactory for the study, given cost and time constraints.

Table 3.2 shows the sample size

<table>
<thead>
<tr>
<th>Stratum</th>
<th>Population Sample (N)</th>
<th>Sample (n)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Services</td>
<td>239</td>
<td>45</td>
<td>19%</td>
</tr>
<tr>
<td>Manufacturing &amp; Agriculture</td>
<td>132</td>
<td>26</td>
<td>19%</td>
</tr>
<tr>
<td>Wholesale &amp; Retail</td>
<td>89</td>
<td>17</td>
<td>19%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>134</td>
<td>26</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>594</strong></td>
<td><strong>114</strong></td>
<td><strong>19%</strong></td>
</tr>
</tbody>
</table>

Source: Researchers’ 2012
3.6 Methods of Data Collection

The research was conducted using questionnaires and secondary data analysis. Sub-section 3.6.1 and sub-section 3.6.2 describe what the questionnaires and the secondary data analysis contains and how they were utilized in the study respectively.

3.6.1 The Questionnaires

A Questionnaire is a set of questions or statements that assesses attitudes, opinions, beliefs, and biographical information (Schumacher, 2001). The current study utilized questionnaires because of their economy, permit use of standardized questions, and they have uniform procedures, provide time for subject to think about responses and are easy to score. Questionnaires also provide greater anonymity. In this study, this is important because information regarding taxation may invoke some reticence on the part of respondents (Weirsma, 1980). And since a large quantity of data is required, the questionnaire is suitable for this study. The study used them because the population under study can read and write and the researcher did not mail the questionnaires but administered them with the help of research assistant directly and with the issue of ambiguous items, the researcher reviewed the reliability and validity of these items with the help supervisors and peers. Further, the researcher conducted a pilot study to find out if the questionnaires can gather the information they are meant to gather. The closed and semi-closed questionnaires were used to collect data relating to the topic of study from the 114 finance managers within Nairobi County.

The Questionnaire consisted of six sections. Section A seeks background information of the SMEs. Section B sought for information about the effect of venture capital on the growth of small and medium enterprises. Section C – G solicited for data based on the independent variables on access to venture capital towards the growth of varying small and medium enterprises (level of literacy among entrepreneurs, number of lending institutions, the demand for collateral by financial institutions, business proposal developed by SMEs and entrepreneurial experience of SMEs).

3.6.2 Secondary Data Analysis

Documents are records of past events that are written or printed, (Schumacher, 2001). They include internal papers, communications to various publics and personal files, program provided background information on the topic under focus and they allowed for criticism to ascertain
authenticity of the information that was collected and therefore giving a clear picture of venture capital concept. The documents assisted the researcher to study information from KRA, SMEs, DFI and data from other sources.

3.7 Data Analysis
This section discusses the procedure that was utilized in data analysis in the current study. The first step tasked the researcher to read through the filled questionnaires in order to ascertain their numbers and to see how/ if all the items were responded to.

Secondly, the raw data was sorted out and edited to identify blank spaces or unfilled items, spelling mistakes and those that could have been wrongly responded to. Questionnaires were organized and classified according to the patterns of the responses given by the respondents, and their homogeneity. Questions were then be coded for purposes of allocations of the magnitude of what is being measured. Descriptive statistics was used in the analysis of the data. Descriptive statistics using frequency distributions mean and standard deviation and percentages was used to analyse the data. Descriptive statistics contain discrete numerical and percentage data (Mugenda and Mugenda, 1999). Descriptive statistics which include frequencies distribution, percentages, and measure of central tendency such as means, mode and measure of dispersion which includes standard deviations will be derived to inform the correlation analysis of the study variables. Qualitative data was derived from the open-ended questions in the questionnaire. The study used Pearson’s product moment correlation to measure the relationship between the independent variables and dependent variable.

The coded data was entered in the computer for analysis using the Statistical Package for Social Sciences (SPSS) version 17.5.

The results of data to be analysed was presented in form of tables that showed numerical values and percentage in rows and columns. Results from descriptive analysis were presented both in text and tabular form. Figures that were drawn from the results in tables were also used to present the results.
3.7.1 Validity

A pilot study is the pre-testing of the research instruments in the field to determine the validity and reliability of the research instruments.

**Internal Validity and External Validity**

A research study has internal validity if the outcome will be dependent upon the variables specifically under study. According to Weirsma (1980), validity is the extent to which the instrument measures what it was designed to measure (Weirsma, 1980).

There are many forms of internal validity; namely, content validity, construct validity and criterion validity; however only content validity will be crucial in this study. Content validity is the extent to which the content of the instrument in terms of the statements, questions or indicators represents the property being measured (Frankfort-Nachmias & Nachmias, 1996). According to Gay (1997), content validity is established by an expert. The researcher therefore consulted the supervisors to approve the content of the instruments.

On the other hand, a study has external validity if the findings generalize to other situations and subjects beyond those that were studied (Orodho, 2009). In this study, the researcher was interested with population validity. Population validity is the extent at which the researcher studies a sample of subjects with the objective of generalizing from the sample to the population from which the sample is drawn (ibid). In the study, the researcher ensured external validity by selecting a sample from which the generalizations was made indeed being a representative of the population being generalized to. The population to which the study was based was the small and medium enterprises in Nairobi County.

3.7.2 Reliability

Reliability refers to consistence of measurement or the extent to which the results are similar over different forms of the same instrument or occasions of data collection and the extent to which measures are free from errors (McMillan & Schumacher, 2001). According to Orodho(2005), reliability of an instrument concerns the degree to which a particular instrument can consistently yield a similar result over a number of repeated trials. The researcher used the split-halves method to determine the reliability of the instruments.
The developed questionnaire was administered to finance manager in the pilot SMEs twice at an interval of one week. The scores of each administration were recorded separately. Pearson’s Product Moment Formula was used to calculate the correlation coefficient between the tests. Berthoud (2000) states that a reliability index of a minimum of 0.6 is satisfactory for any research instrument. According to Orodho (2005), a coefficient correlation (r) of about 0.75 and above should be considered high enough to judge an instrument as reliable. The researcher’s value of coefficient correlation (r) was based upon attaining either of these coefficients to determine whether the instruments were considered reliable for data collection. To this end a reliability index of a minimum of 0.67 was established with a coefficient correlation of 0.81 on the variables.

### 3.8 Operational of Variables

Table 3.3 Operational Definition of Variables

<table>
<thead>
<tr>
<th>OBJECTIVES</th>
<th>VARIABLES</th>
<th>INDICATORS</th>
<th>MEASUREMENTS</th>
<th>MEASUREMENT SCALE</th>
<th>STUDY DESIGN</th>
<th>TOOLS OF ANALYSIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To establish whether the level of literacy influence entrepreneur access to venture capital for SMEs growth.</td>
<td>Independent level of literacy</td>
<td>Education levels</td>
<td>Increased in venture capital access by SMEs</td>
<td>Nominal Scale</td>
<td>Descriptive/Quantitative</td>
<td>Measure of Central Tendency (Mean)</td>
</tr>
<tr>
<td></td>
<td>Dependent Growth of SMEs</td>
<td></td>
<td>Reduced venture capital access by SMEs</td>
<td></td>
<td></td>
<td>Pearson’s product moment correlation coefficient (r)</td>
</tr>
<tr>
<td>2. To investigate whether the number of lending institutions available influence the accessibility of venture capital towards SMEs growth</td>
<td>Independent number of lending institutions</td>
<td>No. of banks No. of DFIs</td>
<td>Increased policy review Regulation and law enforcement Increased in venture capital access by SMEs Reduced venture capital access by SMEs</td>
<td>Nominal Scale</td>
<td>Descriptive/Quantitative</td>
<td>Measure of Central Tendency (Mode)</td>
</tr>
<tr>
<td></td>
<td>Dependent Growth of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pearson’s product moment correlation coefficient (r)</td>
</tr>
<tr>
<td>3. To establish whether the demand for collateral by financial institutions influence the accessibility of venture capital towards SMEs growth.</td>
<td>Independent demand for collateral</td>
<td>High Valued Security Moderate Valued Securities Low Valued securities Mixed Securities</td>
<td>Increased in venture capital access by SMEs Stagnated uptake of venture capital access by SMEs Reduced venture capital access by SMEs Reduced venture</td>
<td>Ordinal scale</td>
<td>Descriptive</td>
<td>Measure of Central Tendency (Medium)</td>
</tr>
<tr>
<td></td>
<td>Dependent Growth of SMEs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Pearson’s product moment correlation coefficient (r)</td>
</tr>
</tbody>
</table>
3.9 Summary

The chapter describes the methodology that will be applied in carrying out the study. The research design employed for this study is descriptive. The population of the study emanated from SMEs in Nairobi County. The sample size, the sampling techniques and questionnaire as a primary data collection instrument have all been described in the chapter. The questionnaires developed were pre-tested before a refined one is administered to the respondents. The chapter also indicated that data was to analyzed using SPSS and presented in form of tables. The next chapter presents the data findings of the research.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction
This chapter explains the analysis done on the data, which was collected by the researcher. It also contains presentation of findings and qualitative analysis.

4.1 Response Rate
The data for this study was collected within two weeks in the month of May 2013 using a questionnaire. The questionnaire was administered to finance managers in different SMEs within Nairobi County. In total 114 questionnaires were distributed to the 114 finance managers in each SME. Based on this, 92 questionnaires were successfully completed and returned by the respondents from the SMEs, giving a response rate of 81% considered substantially sufficient for the study. This response rate was considered adequate for analysis and reporting of the findings on the study question, Mugenda & Mugenda (2003), observed that response rate of above 50% in any study is adequate enough to validate study findings.

4.2 Demographic Analysis
This section gives general information of the respondent’s background as an entry behavior for data analysis.

4.2.1 SME Category
Table 4.1 below illustrates SMEs category as used by the study.

<table>
<thead>
<tr>
<th>Category of SMEs</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airline</td>
<td>3</td>
<td>3%</td>
</tr>
<tr>
<td>Hotels</td>
<td>12</td>
<td>13%</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>Health</td>
<td>6</td>
<td>7%</td>
</tr>
<tr>
<td>Commercial</td>
<td>8</td>
<td>9%</td>
</tr>
</tbody>
</table>
The study aimed at establishing the SME category within Nairobi County. Majority of the respondent (SMEs), were in wholesale and retail trade representing 17%, followed by SMEs in the category of general services at 14%. SMEs within the hotel industry registered 12% of the study population where as those in the construction industry registered a close 11%. Manufacturing and agriculture, real estate’s and health registered 9%, 7% and 6% respectively. Financial Services, and Airline both represented 3%, finally education and NGOs registered both 1%. These findings confirms Mudibo (2011), who observed that SMEs in Kenya were largely engaged in wholesale and retail trade in addition majority of SMEs provide general services that lacks specialty, a strategy for revenue diversification and competitive positioning in the sector.

### 4.2.2 SMEs Capital Base

<table>
<thead>
<tr>
<th>Capital Base (Kshs)</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 2 million</td>
<td>43</td>
<td>47%</td>
</tr>
<tr>
<td>Between 3 -5 million</td>
<td>28</td>
<td>30%</td>
</tr>
<tr>
<td>Above 5 million</td>
<td>21</td>
<td>23%</td>
</tr>
<tr>
<td>Totals</td>
<td>92</td>
<td>100%</td>
</tr>
</tbody>
</table>

The study aimed at establishing the SME category within Nairobi County. Majority of the respondent (SMEs), were in wholesale and retail trade representing 17%, followed by SMEs in the category of general services at 14%. SMEs within the hotel industry registered 12% of the study population where as those in the construction industry registered a close 11%. Manufacturing and agriculture, real estate’s and health registered 9%, 7% and 6% respectively. Financial Services, and Airline both represented 3%, finally education and NGOs registered both 1%. These findings confirms Mudibo (2011), who observed that SMEs in Kenya were largely engaged in wholesale and retail trade in addition majority of SMEs provide general services that lacks specialty, a strategy for revenue diversification and competitive positioning in the sector.

<table>
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</thead>
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<tr>
<td>Below 2 million</td>
<td>43</td>
<td>47%</td>
</tr>
<tr>
<td>Between 3 -5 million</td>
<td>28</td>
<td>30%</td>
</tr>
<tr>
<td>Above 5 million</td>
<td>21</td>
<td>23%</td>
</tr>
<tr>
<td>Totals</td>
<td>92</td>
<td>100%</td>
</tr>
</tbody>
</table>
The study measured the distribution of SMEs capital base across the entire population of study. The following categories were developed. SMEs with capital base below Kshs. 2 million. SMEs with capital between Kshs. 3 – 5 million and SMEs with capital base above Kshs. 5 million. Majority of the respondent at 47% were SMEs with capital base below Kshs. 2 million, seconded by 30% for SMEs with capital between Kshs. 3 – 5 million and lastly SMEs with capital base above Kshs. 5 million registered 23%. These findings supports, Wachira (2009), categorization of SMEs in Kenya, his epic indicated that majority of the SMEs had an annual turnover not exceeding Kshs.5 million which corresponds to the study findings, where it formed the least of 23%. Table 4.2 above illustrates the distribution of SMEs capital base in Nairobi County.

4.2.3 Sources of Capital to the Business

Table 4.3 below illustrates the various sources of capital accessed by the SMEs in Nairobi County.

<table>
<thead>
<tr>
<th>Sources of Capital</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>21</td>
<td>23%</td>
</tr>
<tr>
<td>Friends</td>
<td>11</td>
<td>12%</td>
</tr>
<tr>
<td>Family</td>
<td>9</td>
<td>10%</td>
</tr>
<tr>
<td>MFI</td>
<td>35</td>
<td>38%</td>
</tr>
<tr>
<td>DFIs</td>
<td>16</td>
<td>17%</td>
</tr>
<tr>
<td>Totals</td>
<td>92</td>
<td>100%</td>
</tr>
</tbody>
</table>

The study assessed the current avenues SMEs had in terms of capital acquisition for business growth and performance. Majority of the SMEs accessed their capital from MFI registering 38%. Access of capital from banks registered 23% whereas capital from friends and family represented 12% and 10% respectively. The study gave room for qualitative analysis, where the respondent specified on other sources of capital that were not included in the questionnaire. The following sources were discovered: - Funds from multinational corporations, government grants, bilateral facilitation grants, cooperatives societies, Community based organizations (CBOs) and from
fellow SMEs. Cases of independent private investors were highlighted and interesting enough savings by SMEs was captured as a source of capital for the business.

The above finding confers with Hallberg (2008) and Mead & Liedholm (2008) who observed that access to finance is an important ingredient to development of SMEs. Their findings indicated several alternatives of accessing finance by SMEs, notwithstanding the financial difficulties faced by SMEs in Kenya such as banks, MFI, Cooperatives, investment clubs, government fund such as YEDF and WEDF.

### 4.2.4 Business Access to Venture Capital

Table 4.4 below illustrates respondent feedback on access to venture capital.

<table>
<thead>
<tr>
<th>Response Measure</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>63</td>
<td>68%</td>
</tr>
<tr>
<td>No</td>
<td>29</td>
<td>32%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>92</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The study aimed at establishing if SMEs had access to venture capital. It can be seen from Table 4.4 above that 63 of the respondents representing 68% indicated that they had no access to venture capital. While 29 of them representing 32% stated that they accessed venture capital in Nairobi County. The outcomes supports, Wanjohi & Mugure (2008) studies, in acknowledging that venture capital sources remain a major challenge among the SMEs, found out that, in the climaxing of the year 2008, money lenders in the name of ‘pyramid schemes’ came up promising hope among the small investors that they can make it to financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is to seek source of credit which is not available among the formal financial institutions.
4.2.5 Gender Distribution

The gender distributions of the sampled SMEs are contained in the Table 4.5 below.

<table>
<thead>
<tr>
<th>Response Measure</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>56%</td>
</tr>
<tr>
<td>No</td>
<td>40</td>
<td>44%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>92</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Among the respondents fifty-two (52) were female representing 56 %. This supports the study by Kayanula & Quartey, (2000) that majority of the SMEs in Kenya, employ female and are owned by them. Forty (40) of the respondents were male representing 44%.

4.2.6 Age Distribution

The study of age distribution of the respondent is presented in Table 4.6 below.

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 -29</td>
<td>13</td>
<td>14%</td>
</tr>
<tr>
<td>30 -39</td>
<td>32</td>
<td>35%</td>
</tr>
<tr>
<td>40 &amp; Above</td>
<td>47</td>
<td>51%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>92</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The age distribution from the survey shows that the highest number of respondents was 40 years and above representing 51%, followed by age category 30-39 years representing 35% and finally age bracket 20 – 29 years at 14%. Mugure (2008) observed that majority of SMEs in Kenya were aged from 45 and above, his explanation was that most of them were retirees from the public sector and individual opening business as a result of break away from fellow partners. The findings revealed that majority of the respondent were 40 years and above.
4.3 Analysis of Study Variables

This section measures respondent feedback in terms of the frequency on the dependent variable i.e. SME Growth indicators (growth in capital base, product performance, profits & losses, cost of trading and growth in customer base) and the challenges SMEs do face in accessing venture capital in (business size, type of securities, project complications and lack of information).

4.3.1 Indicators of Growth on SMEs

Table 4.7 below tabulates the indicators of growth as a result of access to venture capital to SMEs.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very High</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
<th>Very Low</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in Capital Base</td>
<td>66</td>
<td>21</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Product Performance</td>
<td>54</td>
<td>43</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Profits &amp; Losses</td>
<td>61</td>
<td>38</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Cost of Trading</td>
<td>43</td>
<td>42</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Growth in Customer Base</td>
<td>41</td>
<td>41</td>
<td>12</td>
<td>6</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority of the respondent agreed that Growth in Capital Base at 66% had the highest impact on SMEs growth based on access to venture capital. Profit and loss was an important indicator registering 61%, product performance at 54%. While cost of trading and growth in customer base registered 43% and 41% respectively. The study supports Mudibo (2012), who highlighted financial access to SMEs enhance the growth of SME capital base through increased assets, working capital, stock and product performance. Owino (2009), eluded that cost of trading, and growth in customer base were key indicator in equity participation, where productivity and equity participation hard a direct correlation.
4.3.2 Challenge in Accessing Venture Capital

Table 4.8 below tabulates the some of the Challenges facing SMEs towards venture capital access.

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very High</th>
<th>High</th>
<th>Average</th>
<th>Low</th>
<th>Very Low</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Size</td>
<td>43</td>
<td>34</td>
<td>13</td>
<td>5</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Type of Securities</td>
<td>71</td>
<td>26</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Project complications</td>
<td>22</td>
<td>28</td>
<td>36</td>
<td>8</td>
<td>6</td>
<td>100</td>
</tr>
<tr>
<td>Lack of Information</td>
<td>68</td>
<td>21</td>
<td>6</td>
<td>1</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

Majority of the respondent agreed that type of securities at 71% posed as the greatest challenges toward access of venture capital in SMEs. Lack of information followed with 68%. Business size was also highlighted at 43% and project completion at 22%. The findings are in line with Berger and Udell (2002) stipulated SMEs do not issue traded securities that are continuously priced in public markets and lack information on financing. Furthermore, most of SMEs do not have audited financial statements at all that can be shared with any provider of outside finance. As a result, SMEs often cannot credibly convey their quality. Moreover, SMEs may have difficulty building reputations to signal high quality or non-exploitive behavior quickly to access debt financing from financial institutions to finance their growth opportunities, hence making it difficult to access venture capital.

4.4 Descriptive Statistics

Table 4.9: Means and Standard Deviations for Indexed Factors Influencing Access to Venture Capital

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of literacy</td>
<td>4.13</td>
<td>0.96</td>
</tr>
<tr>
<td>Entrepreneurial experience</td>
<td>4.09</td>
<td>0.80</td>
</tr>
<tr>
<td>Variable</td>
<td>Mean</td>
<td>Std Deviation</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------</td>
<td>--------------</td>
</tr>
<tr>
<td>Number of lending institutions</td>
<td>3.59</td>
<td>0.78</td>
</tr>
<tr>
<td>Business proposal</td>
<td>3.50</td>
<td>0.58</td>
</tr>
<tr>
<td>Demand for collateral</td>
<td>3.23</td>
<td>0.78</td>
</tr>
</tbody>
</table>

Descriptive data is used to detect anomalies in the data and also to have a general overview of the data. The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to level of literacy, number of lending institutions, demand for collateral, business proposal and entrepreneurial experience. The ratings ranged from 1 (Very High), 2 (High), 3 (Average), 4 (Low), to 5 (Very Low). Responses to various statements under each factors influencing access to venture capital on growth of small and medium-sized enterprises function were collapsed and a composite index (mean score) computed for each function. The results are presented in Tables 4.9. A look at Table 4.9 shows that level of literacy was rated highest on average with a mean of 4.13 with responses deviating from this mean by a standard margin of 0.96. This is followed closely by entrepreneurial experience with the mean of 4.09, with standard deviation (STD DEV) of 0.80, number of lending institutions, (mean = 3.59, STD DEV = 0.78), business proposal (mean = 3.50, STD DEV = 0.58), and demand for collateral (mean = 3.23, STD DEV = 0.78) in that order. This ordering could be interpreted to mean level of literacy, and entrepreneurial experience constituted the best factors influencing access to venture capital on growth of small and medium-sized enterprises under study as on average respondents agreed to them. Conversely, demand for collateral was the lowest on the scale of factors influencing access to venture capital on growth of small and medium-sized enterprises.

### 4.5 Correlation Analysis

Table 4.10: Results of the Correlation Analysis for the Relationship between Factors Influencing Access to Venture Capital on growth of SMEs

<table>
<thead>
<tr>
<th>Factors Influencing Access to Venture Capital</th>
<th>r</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of literacy</td>
<td>0.7102**</td>
</tr>
<tr>
<td>Entrepreneurial experience</td>
<td>0.4199**</td>
</tr>
<tr>
<td>Number of lending institutions</td>
<td>0.3033**</td>
</tr>
<tr>
<td>Business proposal</td>
<td>0.3002**</td>
</tr>
<tr>
<td>Demand for collateral</td>
<td>0.1975**</td>
</tr>
</tbody>
</table>

** Significant at $\alpha < 0.01$  n = 161
Five research questions were developed for this study, each question and its corresponding objective. Pearson’s product moment correlation coefficient (r) was used to measure the nature and strength of the relationship of the independent variables against the dependent variable where computation of correlation coefficient was determined.

The research questions were analyzed using Pearson’s product moment correlation analysis. The results of the correlation analysis are presented in Table 4.10 above. The results indicate that there is indeed a statistically significant very strong positive correlation at (0.7102) between level of literacy and growth of SMEs. A strong positive relationship at (0.4199) between entrepreneurial experience and growth of SMEs, a moderate relationship at (0.3033 and 0.3002) between number of lending institutions and business proposal respectively and the growth of SMEs. Finally there is a weak but positive correlation between demand for collateral and growth of SMEs at (0.1975).

4.6 Summary
The chapter explains the analysis done on the data, which was collected by the researcher. It also contains presentation of findings and qualitative analysis. The finding confers with Hallberg (2008) and Mead & Liedholm (2008) who observed that access to finance is an important ingredient to development of SMEs. The rationale behind turning to these schemes among a good number of entrepreneurs is to seek source of credit which is not available among the formal financial institutions. The research questions were analyzed using Pearson’s product moment correlation analysis. The results of the correlation analysis indicate that there is indeed a statistically significant very strong positive correlation at (0.7102) between level of literacy and growth of SMEs.
CHAPTER FIVE
SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This paper has reviewed literature on SMEs growth, venture capital and factors influencing access to venture capital by SMEs. By use of data analysis on respondent, this paper has also provided assess to the role of venture capital in Kenyan SMEs. This chapter therefore provides summary of key finding, discussions, conclusion and recommendations based on both literature review and data analysis.

5.2 Summary of the Key Findings

5.2.1 General SME Background
Under SME category within Nairobi County majority of the respondent (SMEs), were in wholesale and retail trade representing 17%, followed by SMEs in the category of general services at 14%. SMEs within the hotel industry registered 12% of the study population where as those in the construction industry registered a close 11%. Manufacturing and agriculture, real estate’s and health registered 9%, 7% and 6% respectively. Financial Services, and Airline both represented 3%, finally education and NGOs registered both 1%. As far as the distribution of SMEs capital base was concerned majority of the respondent at 47% were SMEs with capital base below Kshs. 2 million, seconded by 30% for SMEs with capital between Kshs. 3 – 5 million and lastly SMEs with capital base above Kshs. 5million registered 23%. Assessment of the current avenues SMEs had in terms of venture capital acquisition indicated that majority of the SMEs accessed their capital from MFI registering 38%. Access of capital from banks registered 23% whereas capital from friends and family represented 12% and 10% respectively. The age distribution of the respondent indicated those with 40 years and above representing 51%, followed by age category 30-39 years representing 35% and finally age bracket 20 – 29 years at 14%. Majority of the respondent agreed that Growth in Capital Base at 66% had the highest impact on SMEs growth based on access to venture capital. Profit and loss was an important indicator registering 61%, product performance at 54%. While cost of trading and growth in customer base registered 43% and 41% respectively.
5.2.2 To establish whether the level of literacy influence entrepreneur access to venture capital for SMEs growth

The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to level of literacy. The ratings ranged from 1 (Very High), 2 (High), 3(Average), 4(Low), to 5 (Very Low). Level of literacy was rated highest on average with a mean of 4.13 with responses deviating from this mean by a standard margin of 0.96. The results of the correlation analysis indicated that there is indeed a statistically significant very strong positive correlation at (0.7102) between level of literacy and growth of SMEs.

5.2.3 To investigate whether the number of lending institutions available influence the accessibility of venture capital towards SMEs growth

The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to lending institutions. The ratings ranged from 1 (Very High), 2 (High), 3(Average), 4(Low), to 5 (Very Low). Lending institution was rated with a mean of 3.59 with responses deviating from this mean by a standard margin of 0.78. The results of the correlation analysis indicated that there is indeed a statistically significant moderate relationship (0.3033) between lending institution and growth of SMEs.

5.2.4 To establish whether the demand for collateral by financial institutions influence the accessibility of venture capital towards SMEs growth

The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to collateral. The ratings ranged from 1 (Very High), 2 (High), 3(Average), 4(Low), to 5 (Very Low). Demand for collateral was the least on average with a mean of 3.23 with responses deviating from this mean by a standard margin of 0.78. The results of the correlation analysis indicated that there is indeed a statistically significant weak but positive correlation at (0.1975) between demand for collateral and growth of SMEs.
5.2.5 To establish whether business proposal developed influence the accessibility of venture capital towards SMEs growth

The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to business proposal developed. The ratings ranged from 1 (Very High), 2 (High), 3 (Average), 4 (Low), to 5 (Very Low). Business proposal developed was on average with a mean of 3.52 with responses deviating from this mean by a standard margin of 0.58. The results of the correlation analysis indicated that there is indeed a statistically significant very strong positive correlation at (0.3002) between business proposal developed and growth of SMEs.

5.2.6 To establish whether entrepreneurial experience influence the accessibility of venture capital towards SMEs growth

The respondents were asked to rate, on a five-point scale, the extent to which venture capital affects SME growth with respect to entrepreneurial experience. The ratings ranged from 1 (Very High), 2 (High), 3 (Average), 4 (Low), to 5 (Very Low). Entrepreneurial experience was on average with a mean of 4.09 with responses deviating from this mean by a standard margin of 0.80. The results of the correlation analysis indicated that there is indeed a statistically significant strong positive correlation at (0.4199) between entrepreneurial experience and growth of SMEs.

5.3 Discussion

5.3.1 General Discussion

The purpose of this study was to identify the factors influencing access to venture capital on growth of small and medium-sized enterprises a case of selected small and medium-sized enterprises in Nairobi County, Kenya. A major implication for the findings is that these findings will able to give better understanding for entrepreneurs and business owners in addressing the factors which will significantly affect the access to venture capital on SME growth. The study of the factors influencing access to venture capital on growth of small and medium-sized enterprises is critical in understanding the business continuity and growth for SMEs financing. The results of this study can also be used as reference for anyone who is interested to access venture capital which will provide insights into decision making in accessing finance / capital and credit for SMEs growth.
5.3.2 To establish whether the level of literacy influence entrepreneur access to venture capital for SMEs growth

Access to venture capital for SMEs growth is usually the outcome of the way an entrepreneur designs and manages the business. Hence level of literacy is key towards performance measurement, and flexibility in the business environment. This factor scored the highest correlation in the study model.

5.3.3 To investigate whether the number of lending institutions available influence the accessibility of venture capital towards SMEs growth

The results show that numbers of lending institutions played an important role in ensuring the SMEs access venture capital in Nairobi. Lending institutions enhance the business innovativeness in product development, quality, cost, reliability, and services that put the business profile in good light attracting investors based on the venture capital products provided.

5.3.4 To establish whether the demand for collateral by financial institutions influence the accessibility of venture capital towards SMEs growth

To achieve SME growth, many factors should be optimal simultaneously, since SMEs growth is a multidimensional phenomenon is dependent on the demand of collaterals by financial institutions.

5.3.5 To establish whether business proposal developed influence the accessibility of venture capital towards SMEs growth

Social network, government support, and legality, are the key strategic dimension in external environment in accessing venture capital for SMEs growth. Networks represent a means for entrepreneurs to reduce risks and transaction costs and also to improve access to business ideas, knowledge and capital. A social network consists of a series of formal and informal ties between the central actor and other actors in a circle of acquaintances and represents channels through which entrepreneurs get access to the necessary resources for business start-up, growth and credit.
5.3.6 To establish whether entrepreneurial experience influence the accessibility of venture capital towards SMEs growth

Specialized knowledge of the industry, particularly on technology and market is considered critical for venture performance. Knowledge gained from industry experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Industry experience is also important in reducing risks and uncertainty.

5.4 Conclusion

The impact of venture capital on growth of SME is real and practical as established by this study. Venture capital’s investment in SME has facilitated wealth creation in ways that people’s lives have been improved. This study reaffirms the relationship between SME development and access to venture capital. A considerable contribution to economic growth has been logically witnessed via the literature review. The study has demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate.

The impact of venture capital has been realized by SME in Growth in Capital Base, Product Performance, Profits & Losses Profits & Losses, Cost of Trading and Growth in Customer Base. Under the social impact from venture capital perspective include the employment opportunities created which has improved people’s lives and alleviated poverty among the employees. It is common sense that the employees have joined cooperatives which help them to alleviate cash flow problems. The increased profits imply revenue collection for government expenditure though collection of tax. Also venture capitalists do not just provide funds but add value to SME, that is, they are not only involved in financing but also spur entrepreneurs who are responsible for economic growth. Venture capital involvement has demonstrated that the partnership implicit in equity capital is as important as the finance and that these two aspects of the relationship are mutually reinforcing.
Venture capital not only assists SME in the provision of funds but also in the internal operations of the business especially in policy formulation. Therefore venture capital has demonstrated the business case for SME investment. Nurturing them at crucial junctures in their development and laying the foundation for an emerging generation of locally owned large enterprises. The fact that venture capitalists have exited from 50% of the SME, this has assured many managers the concern about losing control of their businesses. Venture capital is the fund to use to boost equity capital in the business. The study findings agrees with Cassar (2004) who pointed out that lenders may perceive increased collateral security as a good signal that portrays credibility and formality of operations of SMEs. Coleman and Cohn (2000) however find evidence suggesting a negative relationship between demand on security and venture capital shall exist based on borrowers perception.

5.5 Recommendations

Training of Entrepreneurs

The study recommended training of owners of SMEs in business management, Venture Capitalism into the stock markets, setting of management standards for SMEs, and improved financial, ethical and managerial records for SMEs to improve literacy levels of entrepreneurs.

Policy Formulations

The study recommends the following policy initiatives by the government that will be useful in managing venture capital needs for SME at national policy level:

1. Easy accessibility to credit through specialized or development oriented banking or financial institutions should be encouraged. This fund should be made available to the SMEs at reduced interest rate.
2. Establishment of a well-funded National Credit Guarantee fund that will assist for credit facilities from the banks and other financial institutions. This will help reduce the excessive demand for collateral security.
3. Development of clear national development objectives to meet the needs of the SMEs sector. That is, formal policies and regulations that guarantees achievement of anticipated results of SMEs.
SME Data Management on Venture Capital

The study further recommends that there is need for data on SMEs in Kenya with respect to capital distribution, strategic alliances etc. that will help SMEs to access relevant data for growth. The study recommends that to diversify sources of capital to SMEs in the country, stakeholders at NSE need to develop initiatives to reduce the listing requirements like the minimum assets and the continuing obligations for SMEs; special rules for listing in SMEs should be instituted this will increase SMEs participation at the stock exchange and raise more capital through stock for growth.

5.6 Areas for Further Research

This study sought to investigate factors influencing access to venture capital on growth of small and medium-sized enterprises.

It would be a useful exercise to further research into the following:

1. Evaluation and funding arrangement for SMEs in Kenya.
2. Problems and prospects of SMEs operation in Kenya.
3. Replication of the study in other regional Counties in Kenya apart from Nairobi County.
REFERENCES


Liedholm, C. and Mead, D.( 1987). *Small Scale Industries in Developing Countries*


Prasad, S., Green, C.J. and Murinde.V. (2005). *Company Financing, Capital Structure And Ownership: a Survey And Implications For Developing Countries*


White S (1999), Creating an Enabling Environment for Micro and Small Enterprise Development in Thailand, ILO/UNDP Project Document


APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

UNIVERSITY OF NAIROBI
COLLEGE OF EDUCATION AND EXTERNAL STUDIES
SCHOOL OF CONTINUING AND DISTANCE EDUCATION
DEPARTMENT OF EXTRA-MURAL STUDIES
NAIROBI EXTRA-MURAL CENTRE

Your Ref:  

Main Campus
Gandhi Wing, Ground Floor
P.O. Box 30197
NAIROBI

Our Ref:  

Telephone: 338262 Ext. 120

13TH MAY 2013

UON/CLES/NEMC/15/170

TO WHOM IT MAY CONCERN

RE: EUNICE NKURANJ KONCHELLAH- REG.NO. L50/71566/2011

This is to confirm that the above named is a student at the University of Nairobi College of Education and External Studies, School of Continuing and Distance Education, Department of Extra-Mural Studies pursuing Master of Arts in Project Planning and Management.

She is proceeding for a research entitled “factors influencing access to venture capital on growth of SMES”. A case of selected SMES in Nairobi County.

Any assistance given to her will be appreciated.

CAREN AWILLY
CENTRE ORGANIZER
NAIROBI EXTRA-MURAL CENTRE
APPENDIX II: RESEARCH QUESTIONNAIRE

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided. The researcher would like to assure you that the information gathered will be kept confidential and used strictly for the purpose of this research only. Do not write your name anywhere in this paper.

PART A: RESPONDENTS GENERAL INFORMATION

This section contains questions that relate to your business background. Please indicate your responses in the spaces provided in each item.

1. **Form of business (Tick one)**
   a. Airline [ ]
   b. Hotels [ ]
   c. Education [ ]
   d. Health [ ]
   e. Commercial [ ]
   f. General Services [ ]
   g. Wholesalers & Retailers [ ]
   h. Manufacturing & Agriculture [ ]
   i. Construction [ ]
   j. Financial Services [ ]
   k. NGOs [ ]
   l. Real Estates [ ]

2. **Capital Base of Business Kshs (Tick one)**
   a. Below 2 million [ ]
   b. Between 3 - 5 million [ ]
   c. Above 5 million [ ]
3. Sources of Capital to the business
   a. Banks [ ]
   b. Friends [ ]
   c. Family [ ]
   d. MFI [ ]
   e. NGOs [ ]
   f. Others (specify) [ ]

4. Has your business accessed venture capital?
   a. Yes [ ]
   b. No [ ]

5. Age
   a. 20-29 [ ]
   b. 30-39 [ ]
   c. 40 and above [ ]

6. Gender
   a. Male [ ]
   b. Female [ ]

PART B: VENTURE CAPITAL ON SMEs GROWTH

7. To what extent does venture capital has on the following growth indicators in SMEs?

<table>
<thead>
<tr>
<th>Factors</th>
<th>1 Very High</th>
<th>2 High</th>
<th>3 Average</th>
<th>4 Low</th>
<th>5 Very Low</th>
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<tbody>
<tr>
<td>a. Growth in Capital Base</td>
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</table>
b. Product Performance

c. Profits & Losses

d. Cost of Trading

e. Growth in Customer Base

8. To what extent does the following hinder access to venture capital for your business growth?

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<td></td>
<td>Very High</td>
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<td>Average</td>
<td>Low</td>
<td>Very Low</td>
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<tr>
<td>a. Business Size</td>
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<td>b. Type of Securities</td>
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<td>c. Project complications</td>
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<td>d. Lack of Information</td>
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PART C: LEVEL OF LITERACY

9. To what extent does the level of literacy of SMEs influence the access of venture capital and growth of your business?

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<td>Very High</td>
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<td>Very Low</td>
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**PART D: NUMBER OF LENDING INSTITUTIONS**

10. To what extent does the number of lending institution influence the access of venture capital and growth of your business?

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<td>Very High</td>
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<td>Average</td>
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**PART E: DEMAND FOR COLLATERAL**

11. To what extent does demand for collateral influence the access of venture capital and growth of your business?

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<td>Very High</td>
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<td>Average</td>
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<td>Very Low</td>
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</table>

**PART F: ENTREPRENEURIAL EXPERIENCE**

12. To what extent does entrepreneurial experience influence the access of venture capital and growth of your business?

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<td>Very High</td>
<td>High</td>
<td>Average</td>
<td>Low</td>
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PART G: BUSINESS PROPOSAL

13. To what extent does the business proposal influence the access of venture capital and growth of your business?

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<td>Very High</td>
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Thank you for your time and response.