

DECLARATION

I declare that this project is my original work and it has not been presented by anybody for the award of a postgraduate degree in any university or in any academic institution.

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DEDICATION

I dedicate my entire project to my parents and family members for their love; their moral, material and financial support. They have been a great source of inspiration.

ACKNOWLEDGEMENT

I am grateful to the Almighty God for giving me good health, the gift of life, modicum of wisdom and a sense of determination during the entire duration which this project was underway. Many people aided directly or indirectly towards the accomplishment of this research. It is for this reason that I want to sincerely thank the following people: special thanks to my parents for working out to ensure that I reach this height of education. To my supervisors, Dr. Irene Asienga and Mr. FirtzOketch, I lack the best words to appreciate your concern and the consistent support you gave me during this research undertaking. You gave me a sense of direction and purpose and this made my work achieve the intended goal. To my friendCorreta, I wish to express my gratitude for your support and constructive criticism during the research work. Thank you very much and I highly value your friendship.

ABBREVIATIONS

ARDC-American Research and Development Corporation

CBK-Central Bank of Kenya

IEA-Institute of Economic Affairs

IFC-International Financial Corporation

KEBS-Kenya Bureau of Standards

MENA- Middle East and North Africa

NVCA-National Venture Capital Association

SBIC-Small Business Investment Companies

SED -Society for Economic Development

SMEs-Small and Medium Enterprises

TFM- The Finance Mail

VC-Venture Capital

ABSTRACT

Venture capital financing continues to play a major economic role in Kenya especially towards the attainment of the vision 2030 which aims at making Kenya a middle-income country. It is a type of financing that involves buying a viable idea and converting it into a marketable product. The major beneficiaries of venture capital are the Small Medium Entrepreneurs (SMEs). Some of the specific roles that SMEs play include creation of employment and reaching out to markets which have been ignored by big firms. Despite their economic contribution to the country, the SMEs continue to suffer a serious blow especially in trying to access funds from the formal and informal sources of financing. This therefore calls for the SMEs to identify alternative means of financing their businesses and VC becomes the best option. However, the growth of VC in Kenya is wanting and this informed the need for this study to examine factors that inhibit the growth of VC. The variables used in the study include: availability of alternative sources of financing, information gap, level of risk and government policies. The researcher used both structured and unstructured questionnaires and interviews to collect data. The study was conducted in Nairobi County on businesses that have been financed by venture capital firms. The sample population comprised of 106 entrepreneurs however, response was received from only 90 entrepreneurs. Tables and graphs were used to present the data which was then analyzed using SPSS software. The findings show that venture capital financing has not been fully utilized by entrepreneurs due to over-reliance on formal financing sources e.g. bank loans being most preferable means of financing. The study also revealed that there is minimal information dissemination about VC. According to the study, most entrepreneurs fear loss of control of their businesses to the financing firms and therefore shy away from VC. The study also revealed that the government plays a major role in most business growth; however, the venture capital market has not been given the special attention that it ought to get from the government. The researcher therefore suggests that for venture capital market to grow to its full potential, proper policies need to be put in place to ensure that VC becomes attractive and accessible to more entrepreneurs.

Key words: Venture Capital (VC), Small and Medium Entrepreneurs (SMEs), Growth of VC

TABLE OF CONTENTS

DECLARATION.....	1
DEDICATION.....	2
ACKNOWLEDGEMENT.....	3
ABBREVIATIONS.....	4
ABSTRACT.....	5
TABLE OF CONTENTS.....	5
LIST OF FIGURES.....	5
LIST OF TABLES.....	6
CHAPTER ONE: INTRODUCTION.....	8
1.0Introduction.....	8
1.1 What is venture capital?.....	8
1.2 Background of the study.....	8
1.2.1Brief history of venture capital.....	8
1.2.2 Venture capital across the world.....	9
1.3 Growth of venture capital in Kenya.....	9
1.4Problem statement.....	10
1.5Objectives of the study.....	10
1.5.1 General objective.....	10
1.5.2 Specific objectives.....	10
1.6 Research questions.....	10
1.7Significance of the study.....	10
1.8Scope of the study.....	11
1.9 Limitation and delimitation of the study.....	11
1.10 Definition of terms.....	11
CHAPTER TWO: LITERATURE REVIEW.....	12
2.0 Introduction.....	12
2.1 Theoretical review.....	12

2.1.1 Pecking order theory.....	12
2.2 Empirical Review.....	12
2.2.1 Alternative sources of finance.....	12
2.2.2 Information gap.....	12
2.2.3Risk.....	13
2.2.4 Government Policies.....	13
2.3 Conceptual Framework.....	13
CHAPTER THREE: RESEARCH METHODOLOGY.....	14
3.1 Introduction.....	14
3.2 Research design.....	14
3.3 Population.....	14
3.4 Sample size and Sampling design.....	14
3.4.1 Sampling procedure.....	15
3.5 Instrumentation.....	16
3.6Validity and Reliability.....	16
3.7 Data Analysis and Presentation.....	16
CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION.....	17
4.1 Introduction.....	17
4.2 Background Information.....	17
4.2.1 Form of business.....	17
4.2.2 Capital base of the business.....	17
4.2.3Age of the business.....	18
4.2.4 Form of business Ownership.....	18
4.3 Alternative Sources of Capital.....	19
4.3.2 Form of business start-up finance used by firms.....	19
4.3.3 Ease of acquiring capital in respect to specific sources.....	19
4.3.4 Correlation analysis.....	20
4.4 Information Gap.....	20
4.4.1 Descriptive analysis.....	21
4.5 The risk and challenges associated with venture capital.....	21

4.5.1 Use of venture capital as start-up funding.....	21
4.5.2 Descriptive analysis of the challenges facing firms in acquiring venture capital.....	21
4.6 The effect of government policies on the growth of the venture capital market.....	22
4.6.1 Use of government-subsidized funds.....	22
4.6.2 The Kenya Vision 2030 and Venture Capital.....	22
4.6.3 The overall extent to which the Government of Kenya supports growth of venture capital.....	22
4.7 Discussion.....	22
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	23
5.1 Introduction.....	23
5.2 Summary of findings.....	23
5.3 Conclusion.....	23
5.4 Recommendations.....	24
5.5 Suggestions for further research.....	24
REFERENCES.....	24
APPENDICES.....	28

LIST OF FIGURES

Figure 1: Growth of Venture Capital.....	7
Figure 2: Conceptual Framework	18
Figure 4.3.1: Ease of acquiring capital in respect to form of business	26
Figure 4.3.2: Start-up finance used by firms	27
Figure 4.3.3(b) Ease of acquiring startup capital.....	28
Figure 4.5.2 challenges faced by firms in acquiring venture capital.....	32
Figure 4.6.3: Extent of government support for VC.....	34

LIST OF TABLES

Table 3.1: Target and sample population	21
Table 4.2.1 Forms of businesses.....	23
Table 4.2.2 Capital base of the business.....	24
Table 4.2.3 Age of the firm.....	25
Table 4.2.4 Form of business ownership.....	25
Table 4.3.4 Correlation analysis between the ease of acquiring capital and cheapness of the source.....	29
Table 4.3.5 Chi square test between the growth of VC and availability of alternative sources of finance.....	30
Table 4.5.2 Challenges facing firms in acquiring venture capital finance.....	32

CHAPTER ONE: INTRODUCTION

1.0 Introduction

This chapter contains, introduction of VC, background of the study, statement of the problem, objectives of the study, research questions and scope of the study.

1.1 What is venture capital?

According to Babihuga (2007) venture capital is an attractive funding option for young companies with high growth potential, most often in high technology industries but not limited to them. These new companies are unable to raise funds in more conventional ways like [bank](#) loans. Investors assume high risk of loss in [exchange](#) for high potential of future growth, significant control over company decisions, and a portion of the company's ownership.

Venture capitalist only invest in companies that have the following features: Rapid, steady sales growth, a proprietary new technology or dominant position in an emerging market, a sound management team, the potential for being acquired by a larger company or taken public in a stock offering. In exchange for the high [risk](#) that venture capitalists assume by investing in smaller and less mature companies, venture capitalists usually get significant control over company decisions, in addition to a significant portion of the company's ownership (Chad, 2002).

1.2 Background of the study

Businesses all over the world and particularly in Kenya play a major role towards the growth of the economy. Most people have started businesses as a survival tool due to unemployment challenge and the less amounts required to start and operate a business. However, they are faced with so many challenges including startup capital, many legal requirements before starting, and inability to access credit facilities from formal sources such as financial institutions (Modurch, 2009).

According to Wanjohi and Mugure (2008), without proper finance, Small and Medium Enterprises (SMEs) can neither expand to compete globally nor can they acquire technology to meet their fixed and working capital requirements. SMEs face significant challenges, which

include access to finance and inadequate financial management skills. This contributes to slow development and high mortality rates of small businesses in Kenya. Access to finance is particularly relevant for previously disadvantaged entrepreneurs who do not have access to collateral and the networks of wealthy individuals who could provide angel financing.

Lack of access to financing is a major constraint inhibiting the growth and expansion of business sector. The issues and problems limiting small businesses in 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 the small businesses; these challenges have made the business sector to grow at a very slow pace. Formal financial institutions perceive small upcoming businesses as high risk and commercially unviable and as a result only a few businesses access credit from formal financial institutions in the country. According to a report by Institute of Economic Affairs & Society for Economic Development (IEA/SED), 2001 various types of assistance have been offered to SMEs to boost their growth and development by making them more profitable.

Financing is necessary to help SMEs set up and expand their operations, develop new products, and invest in new staff or production facilities. Many small businesses start out as an idea from one or two people, who invest their own money and probably turn to family and friends for financial help in return for a share in the business. If they are successful, there comes a time when they need more funds to expand or innovate further. Some SMEs often run into problems, because they find it much harder to obtain financing from banks, capital markets or other suppliers of credit (Afua, 2011).

According to Keuschnigg (2008) venture capital is one source of non-bank financing, which is quite prevalent in developed financial markets for small or start up firms. 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. Once the Venture Capitalists are convinced that a business idea is promising, they will take an ownership stake in the business and provide the needed funds and help in the sharing of the business risk. This form of financing provides an alternative source of capital to many businesses that face challenges in accessing finance from formal sources of capital.

A research conducted by Jagongo (2012) shows that there is empirical evidence of the participation of venture capitalists in the industrialization of developed countries. According to his research on financing strategy under neglect in Kenya clearly shows the immense contribution of SMEs and particularly those under venture capital. In the United States of America, the role of Venture Capital has been instrumental throughout its industrialization; however it became institutionalized after the 2nd World War. Before World War II, venture investment was a monopoly led by wealthy individuals, investment banking syndicates and few family organizations with a professional manager. For example, over the years, the Rockefeller family has made the initial capital contribution to a number of successful businesses.

The first step towards institutionalizing Venture Capital industry took place in 1946 with formation of American Research and Development Corporation (ARD). The next major development was the small business investment company act of 1958 which married private capital with government funds. It was led by professionally managed Small Business Investment Companies (SBIC) to provide capital to start-up and growing businesses with tax advantage and incentives. SBIC were the start of the now formal Venture Capital industry.

In Kenya, private Venture Capital firms include: Fanisi financing which supports existing companies that wish to expand rather than start-up operations. Business venture which provides risk capital to new or expanding enterprises, including the reorganization and reconstruction. Ajibu which provides private equity and loan facilities has replaced the activities of Acacia Kenya Management Company Limited, which provides equity, related investments in private sector to companies with high growth potential to expand well-run businesses. Others include Jacana partners, Maris Capital, Fusion and Capital Bridge (TFM, 2013).

1.2.1 Brief history of venture capital

Before World War II (1939-1945), money orders, originally known as development capital, remained primarily the domain of wealthy individuals and families. Only after 1945 did private equity investments began to emerge, notably with the founding of the first two venture capital firms in 1946: American Research and Development Corporation (ARDC) and J.H. Whitney & Company (Graham, 2004).

Georges Doriot, the father of venture capitalism (and former assistant dean of Harvard Business School), founded INSEAD in 1957. Along with Ralph Flanders and Karl Compton, Doriot founded ARDC in 1946 to encourage private-sector investments in businesses run by soldiers returning from World War II. ARDC became the first institutional private-equity investment firm to raise capital from sources other than wealthy families, although it had several notable investment successes as well. ARDC is credited with the first trick when its 1957 investment of \$70,000 in Digital Equipment Corporation (DEC) would be valued at over \$355 million after the company's initial public offering in 1968 representing a return of over 1200 times on its investment and an annualized rate of return of 101%(Doriot, 2006).

Former employees of ARDC went on to establish several prominent venture-capital firms including Greylock Partners (founded in 1965 by Charlie Waite and Bill Elfers) and Morgan, Holland Ventures, the predecessor of Flagship Ventures (founded in 1982 by James Morgan).ARDC continued investing until 1971, when Doriot retired. In 1972 Doriot merged ARDC with Textron after having invested in over 150 companies (ARDC, 2007).

John Hay Whitney (1904-1982) and his partner Benno Schmidt (1913-1999) founded J.H. Whitney & Company in 1946. Whitney had been investing since the 1930s, founding Pioneer Pictures in 1933 and acquiring a 15% interest in Technicolor Corporation with his cousin Cornelius Vanderbilt Whitney. Florida Foods Corporation proved Whitney's most famous investment. The company developed an innovative method for delivering nutrition to American soldiers, later known as Minute Maid orange juice and was sold to The Coca-Cola Company in 1960. J.H. Whitney & Company continued to make investments in leveraged buyout transactions and raised \$750 million for its sixth [institutional private equity fund](#) in 2005 (Schmidt, 2009).

During the 1960s and 1970s, venture capital firms focused their investment activity primarily on starting and expanding companies. More often than not, these companies were exploiting breakthroughs in electronic, medical, or data-processing technology. As a result, venture capital came to be almost synonymous with technology finance. An early West Coast venture capital company was Draper and Johnson Investment Company, formed in 1962 by Franklin P. Johnson, Jr. In 1965, Sutter Hill Ventures acquired the portfolio of Draper and Johnson as a founding

action. Bill Draper and Paul Wythes were the founders, and Pitch Johnson formed Asset Management Company at that time (Schmidt, 2009).

It is commonly noted that the first venture-backed startup is Fairchild Semiconductor (which produced the first commercially practical integrated circuit), funded in 1959 by what would later become Venrock Associates. Venrock was founded in 1969 by Laurance S. Rockefeller, the fourth of John D. Rockefeller's six children as a way to allow other Rockefeller children to develop exposure to venture capital investments (Graham, 2004).

It was also in the 1960s that the common form of private equity fund, still in use today, emerged. Private equity firms organized limited partnerships to hold investments in which the investment professionals served as general partner and the investors, who were passive limited partners, put up the capital. The compensation structure, still in use today, also emerged with limited partners paying an annual management fee of 1.0–2.5% and a carried interest typically representing up to 20% of the profits of the partnership (Graham, 2004).

1.2.2 Venture capital across the world

Venture capital operation has evolved from being a novelty to a level where it is now considered as a pivotal for economic development. Development of VC industry in various countries has taken different shapes and forms due to different scales of economic development and the premise upon which each industry has been fashioned. Notwithstanding, institutional transformation in any economy is essential to the formation of a VC industry (Karaomer and Jacobsson, 2000)

Europe

According to data gathered by [Library House](#), 2007, Europe has a large and growing number of active venture firms. Capital raised in the region in 2005, including buy-out funds, exceeded €60 billion, of which €12.6 billion was specifically allocated to venture investment. The European Venture Capital Association includes a list of active firms and other statistics. In 2006, the top three countries receiving the most venture capital investments were the United Kingdom (515 minority stakes sold for €1.78 billion), France (195 deals worth €875 million), and Germany (207 deals worth €428 million)

Leading early-stage venture capital investors in Europe include Mark Pluszcz of Mangrove Capital Partners and Danny Rimer of Index Ventures, both of which were named on *Forbes* Magazine's Midas List of the world's top dealmakers in technology venture capital in 2007.

Asia

India is fast catching up with the West in the field of venture capital and a number of venture capital funds have a presence in the country in 2006, the total amount of private equity and venture capital in India reached \$7.5 billion across 299 deals. In the Indian context, venture capital consists of investing in equity, quasi-equity, or conditional loans in order to promote unlisted, high-risk, or high-tech firms driven by technically or professionally qualified entrepreneurs. Venture capital in the Asian region can be seen as financing companies that have demonstrated extraordinary business potential. Venture capital refers to capital investment; equity and debt; both of which carry indubitable risk. The risk anticipated is very high. The venture capital industry follows the concept of high risk, high return, innovative entrepreneurship, knowledge-based ideas and human capital intensive enterprises have taken the front seat as venture capitalists invest in risky finance to encourage innovation (Benison, 2007).

Middle East and North Africa

The Middle East and North Africa (MENA) venture capital industry is an early stage of development but growing. The [MENA Private Equity Association Guide to Venture Capital](#) for entrepreneurs lists venture capital firms in the region, and other resources available in the MENA venture capital ecosystem. Diaspora organization TechWadi aims to give MENA companies access to VC investors based in the US.

Southern Africa

South Africa, with the help of the South African Government and Revenue Service, has realized the necessity to follow the international trend of using tax efficient vehicles to propel economic growth and job creation through venture capital. Currently, there are not many venture capital funds in operation and it is a small community however funds are available. Funds are difficult to

come by and very few firms have managed to get funding despite demonstrating tremendous growth potential (Ritenberg, 2003).

Kenya

Many Kenyans are opting to go the entrepreneurial way with a huge percentage coming from employed people. The challenges most entrepreneurs face when starting their businesses is working capital. Getting capital has been an uphill task for most entrepreneurs. Bank loans have been difficult for entrepreneurs to access because of so many requirements such as collateral and also due to high and unfavorable interest rates. Such reasons have made Kenyans to opt for venture capital as a source of finance for their businesses.

1.3 Growth of venture capital in Kenya

According to a study conducted by the National Venture Capital Association (2013) the trend of growth rate of venture capital market has been on a downward slope. In the developed countries, the trend has been the same and the effects have trickled down to the developing countries. This trend can be demonstrated using the graph below. However, venture capital being an alternative source of financing to businesses in Kenya is expected to grow faster than it has in the recent past.

Source: National Venture Capital Association (2013).

Figure 1.0 Growth of venture capital in Kenya

From the graph, it is evident that ever since the year 2000; the rate of growth of venture capital has been downward sloping. The core objective of this study is to examine why there has been slow growth rate of venture capital market. Kenyans are focusing on job creation rather than waiting for white collar jobs. This therefore calls for adoption of venture capital as an alternative source of capital. This study therefore aims at identifying the factors that hinder the growth and expansion of the venture capital market in the Kenyan economy.

1.4 Problem statement

According to a research conducted by the National Venture Capital Association (2013) the rate of growth of venture capital has been on a downward sloping ever since the year 2000 as indicated in the graph under background of the study. Other researchers such as Wanjohi and Mugure (2008) have examined why there has been minimal penetration of venture capital in Kenya. Venture capital has had a significant impact on businesses in the developed and developing countries. Among the developing countries and especially Kenya, venture capital has been present since independence yet economic growth is still slow (Migiri, 2004).

Various studies have been conducted on venture capital on SMES; Internationally, Mansa (2011) did a study on the impact of venture capital financing on small and medium enterprises in the Tema Metropolis, Ghana; Mbhele, 2011 also did a study on the effects of venture capital finance and investment behavior in the small medium-sized enterprises. Locally; Koech, (2008) did a study on the use of venture capital instruments and other control mechanisms on venture capitalist in Kenya while Njoroge (2011) did a study on the effect of venture capital on financial performance of small and medium enterprises in Nairobi, Kenya. However, none of researchers looked at the reasons why venture capital has not grown. The researcher therefore aimed at identifying the factors that hinder growth and expansion of venture capital.

1.5 Objectives of the study

1.5.1 General objective

The overall objective of this study was to investigate the factors that inhibit the growth and expansion of venture capital market in Kenya.

1.5.2 Specific objectives

The specific objectives of the study were:-

1. To establish if availability of alternative sources of financing inhibits the growth of venture capital market.
2. To find out if information gap hinders the growth of venture capital market.

3. To determine if the risks involved in venture capitalism prevent growth of the venture capital market.
4. To evaluate if the government policies formulated concerning business inhibits the growth of venture capital market.

1.6 Research questions

1. How does availability of alternative sources of financing inhibit the growth of venture capital market?
2. How does information gap hinder the growth of venture capital market?
3. To what extent do risks involved in venture capitalism prevent the growth of venture capitalism?
4. How do government policies concerning business inhibit the growth of venture capital market?

1.7 Significance of the study

This study will be beneficial to the government especially the arm of government that is concerned with policy formulation. The government will concentrate on business policies that will encourage the growth and expansion of venture capital market; such policies will propel the country towards the attainment of Vision 2030.

Learning institutions such as universities, colleges will also benefit from this study. Students will change their perceptions concerning ways and means of getting capital. The study will broaden their thoughts about capital sources.

Investors and commercial banks can also use this study to help them identify the reasons that inhibit growth and expansion of venture capital market and come up with effective solutions. The investors can also broaden their target market by getting into the venture capital market and stop relying on the conventional sources of capital.

It will equip business men and women with knowledge on venture capital and hence provide an avenue for them to broaden their source of financing. This will be of great assistance to those who face challenges in accessing credit facilities or finances for business start up or business expansion.

1.8 Scope of the study

This study was concerned with the factors that hinder the growth and expansion of venture capital market in Kenya and the study was carried out in Nairobi County. The main target respondents comprised of small and medium businesses that have benefited from venture capital financing. The research was carried out between June and August 2014.

1.9 Limitation and delimitation of the study

This study was only limited to Nairobi county whereas Venture Capital cuts across the entire Nation of Kenya. However, Nairobi being the central business hub gave a good sample representation of small and medium businesses that have benefited from venture capitalism.

1.10 Definition of terms

Venture capital- is a type of financing that involves accessing the viability of an idea and investing in the idea for wealth creation. According to Babihuga (2007) venture capital targets the young and vibrant businesses with high growth potential. Chad (2002) further suggests that the venture capital firms acquire some level of ownership in the business that they have financed.

SMEs- different countries have different definition of SMEs based on their capital structure, physical size of occupation, levels of profits and number of employees among other factors that determine the sizes (Ngugi, 2005). Based on this research SMEs are limited to those that get financing from venture capitalist due to challenge in accessing credit facility from financial institutions.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This chapter presented the theoretical review, empirical review and conceptual framework. The theoretical review covered the theories that have been developed relating to venture capital. The empirical review covered literature concerning the specific objectives that have been outlined in chapter one. The conceptual framework showed the diagrammatic relationship between the dependent and independent variables of the study.

2.1 Theoretical review

Several theories have been formulated concerning venture capital; among the theories include: agency theory, business angel theory and pecking order theory. Agency theory is considered irrelevant since it does not give satisfactory framework between informal and formal venture capitalism in relation to their portfolio firms (Landstrom, 2003). There is a thin line between angel financing and venture capital in that there is ownership aspect in venture capital while

ownership and control in angel financing is not regarded as important. This study therefore, will be limited to pecking order theory.

2.1.1 Pecking order theory

This theory suggests that management prefers to finance first from the retained earnings, then the debt followed by hybrid forms of finance such as convertible loans and last of all by using externally issued equity. This theory was first suggested by Donaldson (1961) and it was later modified by (Majluf, 1984). This theory states that the firms prioritize their sources of finance from internal finance to equity (venture capital). Small firms strive for external sources of finance after exhausting the internal sources. Small firms try to meet their finance needs with a pecking order of personal retained earnings and then with debt. As the business needs grow and challenged by limited financial resources, the business tends to engage itself in financial borrowing to meet the upcoming needs. However, the small and medium businesses lack collateral to support them get financial resources from the formal and informal institutions. They tend to seek financial support from the angel capitalist (Daskalakis, 2008).

2.2 Empirical Review

SMEs are considered very risky and therefore appear undesirable as credit customers among banks and other financial institutions (International Financial Corporation, 2007). Lack of collateral has not made it any better for SMEs to acquire credit. This means that venture capital financing would be more suitable than debt finance and is one of the only options for entrepreneurs without collateral (Falkena, 2011). However, according to venture capital has not been fully utilized by most business persons despite it being an efficient source of financing.

2.2.1 Alternative sources of finance

Financing is the life blood and nerve centre of industrial and commercial enterprises. Business finance may be defined as the provision of money at the time when it is needed by a business. According to Upton (2009), he defined business finance as that administrative area or set of administrative function in an organization which relate arrangement of cash and credit so that an organization may have the means to carry out the objectives as satisfactorily as possible.

Banks have the advantage of being a formal arrangement. Banks will usually leave you to run the business for yourself, but they will insist on being paid on specific agreed period e.g. monthly,

quarterly, semi-annually or even yearly basis. Raising money may be difficult for a new firm especially if the person involved has no previous experience of running a business. Business may only have a few assets to use as a guarantee for a loan. Patterns of banks lending to small firms has changed dramatically in the recent years. Smaller businesses are perceived as being more risky than their larger counterparts and this has tended traditionally to lead to banks lending short term rather than long term (Graham, 2004).

Equity and savings mean the finance contributed by the owners of the enterprise. The amount of equity invested by the owners in the business depends on a number of factors, the most influential of which are the owner's wealth and the profitability of the business's activities. Most business persons save their incomes and use them to increase their capital base; others save from their salaries from their places of employment to use as startup capital (Keasey and Watson, 2005).

Angel capital is a source of informal venture capital. They are wealthy individuals, rather than financial institutions, which tend to have considerable business experience and are willing to invest in start-ups, early-stage or expanding enterprises. The main way in which firms and business angels find one another is through friends, family and business connections. A survey conducted by Gaston, 2009, estimated that in 1997 some 4% of funds for a sample of small firms were derived from business angels.

Another source of financing is borrowing from family and friends. This has its advantage that the people who have lent you their money may be willing to wait for some time to be repaid. However, this method has its own disadvantage in that the people you borrowed cash may want to be involved in that business than you would like and this can put a strain on your relationship with them (Maina, 2008).

2.2.2 Information gap

According to Roth (2007) information refers to knowledge, facts or details that one gets about a specific subject. Gaps are often viewed and defined from different perspectives. In venture capital, the venture capitalist, the entrepreneur, and government each has a distinct perspective. These perspectives are important if venture capital is to grow and must be understood and considered in the development of any policies and programs.

A survey conducted by Manigart(2000) in Canada and United States shows that only a small percentage of firms meet the basic requirements of VC investors. These issues complicate the identification of demand in the marketplace. As a result, unlike with research in more established capital markets, such as the debt market, surveying firms' applications for VC will only provide a partial picture of the state of demand in the market, as approximately 99 percent of firms applying for VC are rejected.

A venture capitalists' investment performance is largely determined by his/her business experience and expertise, and VC investments are highly variable based on the venture capitalist's individual skills and knowledge. These factors complicate the identification of real demand in the market as well as issues surrounding adequate or appropriate levels of VC. This represents a major challenge for policy-makers, since the VC debate centers on whether the supply of VC is adequate to maximize the development and growth of businesses (Equinox Management Consultants, 2002).

A study conducted by Gilson (2002) shows that due to the shortage of solid data on the demand for VC, industry players rely on theoretical evidence, which obscures the distinction between perceived and real gaps. In competitive capital markets, some firms will inevitably be denied financing, but, given venture capitalists' investment criteria, these firms' inability to obtain capital is not necessarily evidence of a real gap in the market. In fact, since venture capitalists fund only the most promising opportunities presented to them, some viable companies may not secure VC financing. However, a gap may exist if particular categories of firms that ought to receive financing are systematically unable to obtain it.

In Kenya other forms of financing are given a lot of coverage through advertising and inclusion in the school curriculum and forgetting completely the major role that VC plays in the economy. This therefore exposes potential businesspeople to specific sources of funds at the expense of venture capital. This creates a deficit on requirements of VC financing and knowledge of companies which can offer it. A deficit of management expertise and experience among firms seeking VC investment could result in the rejection of many investment proposals and the inability of many firms to obtain VC financing. These management or expertise gaps could be addressed by appropriate private actions and/or public policies.

2.2.3Risk

According to Keating (2011) risk is the probability of uncertain future events. Risks involved in venture capital depend on the stage of investment, the amount of money involved, size of the business and the management expertise among other factors. The following are ways in which risks affect the growth of venture capital markets:-

Market risk is dependent on the product or service being offered, the size of the market, whether the market is expanding or contracting, the speed at which the target market is growing. Investors are more interested in fast moving product as compared to the slower ones. Venture capitalists prefer bigger markets as this allows them to spread the risks across the market (Hussey, 2005).

Technical risks require one to ask the following questions: Is the technology being used up to date? Is technology part of the system or stand alone? Is technology being used to enhance current or future production? In this type of risk, innovation is a key element to ensure sustainability and customer satisfaction (Metaxas, 2011)

Financial risk analysts can ask the following questions to ascertain the riskiness of the business under the finance risk: How much return will the business make? How long will it take for the returns to be realized? What is the expected ownership structure by the venture capitalists? How liquid is the business? Are the business owners focusing on being listed in the stock exchange market? Most businesses are considered successful based on their financial performance (Mason, 2004)

Operational risk is concerned with legal compliance issues such as regulations, labour contracts and their implications on the firm, management expertise in running the business successfully, the suitability of the business products for its targeted market and the efficiencies of the business, that is both financial and time efficiencies. This would also be affected by the business location, that is, the political and economic stability of the country of residence. Venture capitalists desire to be in charge of the strategic direction of the company; therefore, a balance must be created between the interests of the business owners and the venture capitalists (Hussey, 2005).

2.2.4 Government Policies

According to Kimani (2010) Government policies are guidelines that are designed to achieve or promote a certain status or create a suitable environment for efficient operations. Policies can be political, management, financial, and administrative mechanisms aimed at achieving specific objectives, in this case, the creation of suitable business environment with the purpose of promoting upcoming businesses and sustaining the existing businesses.

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. Small and Medium Enterprises are now viewed as important in economic development. The sector is not only a provider of goods and services but also a driver in promoting competition, innovation and enhancing the entrepreneurial culture which is necessary for private sector development. The sector should effectively respond to challenges of creating productive and sustainable employment opportunities, promoting economic growth and poverty eradication in the country.

Kenya's long term development agenda spelt out in the vision 2030, targets an annual growth rate of 10% in the medium term with an investment rate of 30% of which a significant proportion will be financed through mobilizing domestic savings. Kenya's financial sector is dominated by banking institutions which have not evolved to provide long term capital adequately. If the anticipated investment level is to be achieved, it means that the financial sector must mobilize adequate and appropriate finance to meet the financing needs and this call for formulation of better policies (Ngugi and Njenga, 2005).

A key area of government economic policy is the role that the government gives to the state in the economy. The government has shifted concentration from the state-run public corporations to privatization with the intention of promoting individual businesses. This is evident as seen from 1979 onwards where many state companies were privatized to create a more competitive business environment.

Taxation policy affects business costs. In Kenya most SMEs are sole proprietorships or partnerships and are taxed at individual tax rates. Registered businesses are also taxed at the

same rate and this may be prohibitive for small businesses. There have been no special tax concessions to encourage growth of SMEs or to shield them from incurring high costs.

Interest rates are determined by the Central Bank of Kenya (CBK). There has been steady rise in interest rates which has affected borrowing. The Government has shifted its focus from creating employment to empowering youth to start their own businesses. This is meant to encourage self-sustainability and also promote economic growth through SMEs. For example the Government recently gave six billion Kenya shillings to youths who had formed income generating groups as subsidized loans (Daily Nation, 2014).

Few legal requirements are required to start up SMEs as compared to company’s requirement. These few legal requirements encourage citizens especially the youths to start up their own businesses. Government is focusing on ensuring that consumers get standard products-right quantity, right quality; through Kenya Bureau of Standards (KEBS).

2.3 Conceptual Framework

Independent Variable	Intervening Variables	Dependent Variable
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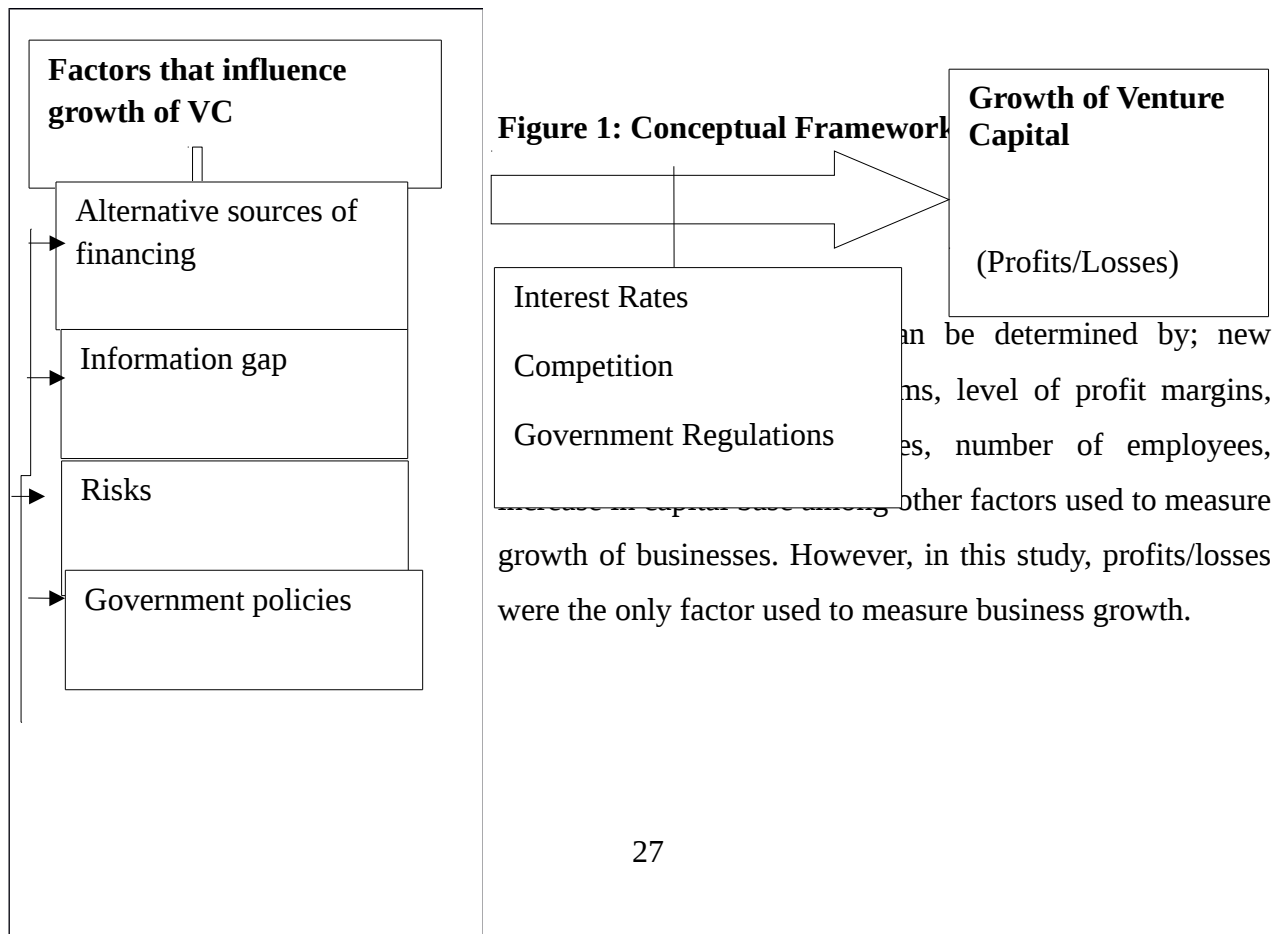


Figure 1: Conceptual Framework

can be determined by; new
 ns, level of profit margins,
 es, number of employees,
 other factors used to measure
 growth of businesses. However, in this study, profits/losses
 were the only factor used to measure business growth.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology that was adopted by the researcher in carrying out the study. The chapter also presented the information on population to be studied, sampling methods, data collection instruments and procedures that was used in data analysis.

3.2 Research design

According to Williams (2003) research design refers to schemes, outline or plan that is used to generate answers to research problems. This research used descriptive research design: descriptive research design is a systematic, empirical enquiry into which the researcher does not have direct control of independent variable and their manifestations has already occurred or because they inherently cannot be manipulated. Descriptive statistics summarizes data by stating what will be observed from the sample numerically and graphically. The descriptive research collects data in order to answer questions concerning the current status of the subject under study.

The study involved sample survey research design where a sample population was selected with the characteristics of the entire population. The study narrowed down to procedure-based survey where questionnaires and interviews techniques were used (Mugenda and Mugenda, 2003).

3.3 Population

According to Cooper and Schindler (2003) population is the total collection of elements about which a researcher wishes to make some inferences. Mugenda and Mugenda (2003) also defined population as a complete set of individuals, cases or objects with some common observable characteristics. Based on the finance mail records (2013), there are 145 businesses that have benefited from venture capital in Nairobi County and are categorized under the SMEs. Therefore, these 145 SMEs formed the target population of the study.

3.4 Sample size and Sampling design

According to Sekeram (2003) a sample is a subset of the population and this subset represents the characteristics of the entire population. Based on Yamane (1967) sample size formulae, a

sample size of 106 SMEs was selected from the target population of 145 SMEs that have benefited from VC as illustrated below;

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n = sample size

N = Population size

e = error of sampling (0.05)

$$n = \frac{145}{1 + 145(0.05^2)}$$

$$\therefore n = 106$$

3.4.1 Sampling procedure

This study used stratified random sampling technique to select the small and medium businesses that have benefited from VC firms. According to Chepkemoi (2013), a sample population can be obtained using the formulae below. The VC firms were categorized into nine strata and the sample size allocated under stratified proportional allocation; the best sample size was allocated as follows:

$$n_x = \left(\frac{N_x}{N} \right) n$$

Where:

x = Stratum / individual firm selected

n_x = The sample in stratum x

n = Total sample size

$$N_x = \text{Population } i \text{ stratum } x$$

$N = \text{The Total population}$

Table 3.1: Target and sample population

Venture capital firms in Nairobi	Target population	Sample population $n_x = \left(\frac{N_x}{N}\right)n$
Fanisi	30	22
Africa Media Ventures Fund	7	5
Ajibu	13	10
Jacana Partners	10	7
Kinyeti Venture Capital	16	12
Fusion	25	18
Capital bridge	22	16
Evolution Capital Partners	12	9
Savannah Fund	10	7
Total	145	106

Source: TFM (2013)

3.5 Instrumentation

Primary methods of data collection were used for this study. The researcher used questionnaires which are defined as a research instrument which consists of a series of questions designed to assist the researcher in getting information from the respondents (Mugenda and Mugenda, 2010).

The researcher administered the questionnaires personally to the respondents. The questionnaire contained structured questions as well as unstructured questions. Interviews were also used. Interviews provided in depth data which was not possible to acquire with questionnaires. It gave the researcher an opportunity to share in the views of the respondent as well as offer clarification on pertinent issues.

3.6 Validity and Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda&Mugenda, 20010). Reliability in a research is influenced by random error. Reliability of the questionnaire was determined by pilot test method which was conducted on the respondents who were not part of the sample and this enabled the researcher to know whether the questions met the objectives. Validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study and the pilot test assisted in revealing this.

3.7 Data Analysis and Presentation

According to Shamoo and Resnik (2003) data analysis is the process of systematically applying statistical and or logical techniques to describe and illustrate, condense and recap, and evaluate data. The data collected was tested for completeness and accuracy entered in the SPSS software for analysis. The data gathered is represented in tables and graphs form to enable the researcher to conduct analysis. Chi square test and Pearson correlation were used to test the relation between the independent and dependent variables.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

In this chapter, the data collected from the questionnaires administered was analysed and reported. The sample population comprised of 106 SMEs that have benefited from venture capital financing within Nairobi County. The researcher got feedback from 90 entrepreneurs, giving a positive response rate of 85%. Part A of the questionnaire was about the respondent's background, which included the respondent's profile and the profile of the firm. The specific objectives were addressed as follow: Part B was concerned with the alternative sources of financing used by businesses and the reasons behind such type of financing; Part C covered the information gap existing among entrepreneurs; Part D covered the level of risks facing firms on their choices of financing; Finally, Part E involved the influence of government policies on the venture capital market.

4.2 Background Information

4.2.1 Form of business

The respondents were required to indicate the form of business of the firm. Seven categories were provided, which included hotels, commercial, wholesalers and retailers, manufacturing and agriculture, construction, real estate and others. The data was analysed and the results are shown

Table 4.2.1 Form of business

Form of Business	Frequency	Percentage
Hotels	18	20
Transport & logistics	10	11.1
Wholesalers & Retailers	15	16.7
Manufacturing & Agriculture	16	17.8
Construction	9	10
Real Estate	13	14.4
Others	9	10
Total	90	100.0

Source: Research Data (2014)

This shows that hotel industry uses venture capital financing to the largest extent at with a 20% representation. This can be attributed to the fact that it is a less capital intensive business venture whose returns take a slightly short time to be realized. The construction sector on the other hand had least use of venture capital at only 10% due to the fact that it requires huge capital to start and run the construction companies. In addition the construction industry also involves huge risks especially in land acquisition process.

4.2.2 Capital base of the business

The respondents were required to indicate the amount of capital base in Kenya Shillings of the firm. This was necessary to indicate the relationship if any between the amount of the amount of capital base and the source of financing. The data were analysed and the results are shown below.

Table 4.2.2 Capital Base

Capital base in Ksh.	Frequency	Percentage
Below 500,000	13	14.4
500,000-1Million	47	52.2
Over 1 Million	30	33.3
Total	90	100.0

Source: Research Data (2014)

The study revealed that most businesses have a capital base of between Sh. 500,000-Sh. one million at 52.2%. Venture Capital firms are not willing to spend too much money on young businesses due to the high levels of uncertainty in the competitive Kenyan market. According to Graham (2014) smaller businesses are perceived as being more risky than their larger counterparts and this tends to make them only to get short term loans from banks.

4.2.3 Age of the business

The respondents were required to indicate the age of the business in years. This was also important so as to know how long the capital finance structure had been in operation. The data were analysed and the results are shown in Table 4.2.3.

Table 4.2.3 Age of the firm in years

Age in Years	Frequency	Percentage
Below 2	17	18.9
2-4	28	31.1
Over 4	45	50
Total	90	100.0

Source: Research Data (2014)

This data reveals that most businesses in the research have been in operation for over four years at 50%. This indicates that venture capital firms are willing to finance businesses that have survived the test of time. According to a study by Cooper and Dunkelbeg (1988) revealed that majority of business die prematurely before 3 years. The fact that these businesses have operated for over four years shows that venture capital firms are more willing to support them more than businesses that have just started.

4.2.4 Form of business Ownership

Respondents were asked about the firm's form of ownership. The importance of this was to understand the ownership structure of firms and the dominant source of capital financing. The data were analysed and the results are as shown in Table 4.2.4.

Table 4.2.4 Form of business ownership

Business ownership	Frequency	Percentage
Sole proprietorship	25	27.8
Partnership	10	11.11
Limited Liability Company	55	61.1
Total	90	100

Source: Research Data (2014)

The form of business ownership with the highest number of respondents was Limited Liability Company with a 61.1% representation. Sole proprietorships and partnerships recorded 27.8% and 11.11% respectively which shows that they do not engage use of venture capital finance to a large extent. The venture capital firms support limited liability companies more due to the reduced level of risks that they have. Partnership and sole proprietorship have a higher level of risk as compared to the limited liability company.

4.3 Alternative Sources of Capital

4.3.1 Ease of acquiring capital in respect to form of business

The researchers sought to find out whether there existed a variation in the ease of acquiring capital among different forms of business. The data were analysed and the results are presented in figure 4.3.1.

Figure 4.3.1: Ease of acquiring capital in respect to form of business

Source: (Research Data, 2014)

As shown in figure 4.3.1, hotels find it more difficult to raise capital than other forms of businesses; this can be attributed political effect e.g. during and after elections. The venture capitalists shy away due to the unstable political temperature of the country. This therefore makes investors to invest more in less risky ventures such as commercial activities. According to a research done by Kimani (2012) he found out that hotel industry is highly affected by political imbalance of a given economy.

4.3.2 Form of business start-up finance used by firms

The researchers sought to establish the various forms of financing used in starting the business. The analysis was done and the results are presented in Figure 4.3.2, which shows the popularity of various sources of start-up finance used by firms on a scale of 0-10.

Figure 4.3.2 Start-up finance used by firms

Source: Research Data (2014)

Note: Multiple responses were allowed.

The results in figure 4.3.2 indicate that most of the firms surveyed used founder's own funds to start the business. This was closely followed by funds from spouses and family members, while venture capitalists and business angels were the least common. This observation is consistent with a study conducted by Kamau and Maina (2010) that revealed that majority of business use

capital from their own savings and contribution from friends and relatives. The least used source of financing are venture capital and business angels and can be attributed to lack of awareness of such means of financing.

4.3.3 Ease of acquiring capital in respect to specific sources

Respondents were required to indicate the ease with which respective firms acquired capital from several specific sources. This was done on a Likert scale of 1-5 where 1- No extent at all 2-Small extent, 3- Moderate extent, 4- Large extent and 5- Very large extent. This was important because it indicated how businesses found the process of acquiring finance from both the financial and non-financial sector. The analysis was done and the results are presented in Table 4.3.3

Figure 4.3.3 Ease of acquiring capital in respect to specific sources

Source: Research Data (2014)

Note: Multiple responses were allowed.

The results indicate that founder's own fund was the easiest source of financing to acquire. Venture capital as a source of funds was second most difficult to acquire. This supports a survey conducted by Gaston, 2009, which estimated that in 1997 only 4% of funds for a sample of small firms were derived from venture capital.

4.3.4 Correlation analysis

4.3.4.1 Correlation analysis between the ease of acquiring capital and cheapness of the sources

The researcher wanted to test whether there is any relationship between the ease of acquiring funds from each of the sources and the perception of how cheap the various sources compare to one another. The Pearson correlation coefficient was used to examine this relationship. The Pearson correlation shows the strength of linear association between two variables on a scale that runs between -1.0 and +1.0. A positive correlation indicates a positive relationship while a negative correlation represents a negative relationship (Freedman, 2007). The results of the correlation analysis are as given in Table 4.3.4

Table 4.3.4 Correlation analysis between the ease of acquiring capital and cheapness of the sources.

		Ease of acquiring capital	Cheapness of the source
Ease of acquiring capital	Pearson Correlation	1	.110
	Sig. (2-tailed)		.584
	N	90	90
Cheapness of the source	Pearson Correlation	.110	1
	Sig. (2-tailed)	.584	
	N	90	90

Source: (Research Data, 2014)

Based on the results provided in Table 4.3.4, the Pearson correlation of 0.110 indicates a positive relationship exists between the ease of acquiring capital and the perceived cheapness of the source. Pearson r is close to 0, the relationship between the two variables is weak (Griffith, 2010). Further, the Sig (2-Tailed) value of 0.584 observed is greater than 0.05, which leads to the conclusion that there is no statistically significant correlation between the ease of acquiring startup capital and the perceived cheapness of the source.

4.3.4.2 Chi-square test between the growth of venture capital and availability of alternative sources

The researcher wanted to test whether there is any relationship between the growth of venture capital and availability of alternative sources. The chi-square test of association was used to examine this relationship. The chi-square test of association discovers if there is a relationship between two categorical variables. The results of the correlation analysis are as given in Table 4.3.5

Table 4.3.5 Chi-square test between the growth of venture capital and availability of alternative sources.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.487 ^a	2	.000
Likelihood Ratio	.487	2	.000
Linear-by-Linear Association	.481	1	.000
N of Valid Cases	90		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 20.95.

Source: (Research Data, 2014)

The results provided in Table 4.3.5 $X(1) = 0.487$, $p = .487$ indicate that there is no statistically significant relationship between the growth of venture capital and availability of alternative sources. The strength of association between the variables is very weak according to the Phi and Cramer’s V results.

4.4 Information Gap

Respondents were required to respond to several questions regarding their level and the firm’s level of knowledge regarding venture capital.

4.4.1 Descriptive analysis

Analysis was done and the results were as follows. 70% of respondents said they had learnt about venture capital in business school or college while another 10% had learnt from business seminars and related events. When asked about the specific venture capital sources, only 10% of the respondents were able to tell in detailed what venture capital financing is all about. This indicates that the respondents did not have an extensive knowledge of venture capital firms, which is an important prerequisite when sourcing for business start-up funding. 67% of respondents believe that venture capital has not been accorded adequate attention or awareness. About a third of those with this opinion said that they had only heard the term from other business persons before seeking help from VC firms. This supports the study by Equinox

Management Consultants (2002) which showed that venture capital was still a foreign term to many entrepreneurs.

4.5 The risk and challenges associated with venture capital

4.5.1 Use of venture capital as start-up funding

89% of the respondents were not aware of the risks associated with using venture capital finance for business start up. This is because they used their own sources of finance to start their businesses. Only 8% of the respondents used venture capital source of finance to start their business. 3% used business angel financing. This can be attributed to lack of awareness about other informal financing.

4.5.2 Descriptive analysis of the challenges facing firms in acquiring venture capital

The researchers sought to establish the challenges faced by firms in acquiring venture capital. Respondents were required to indicate the extent to which they faced each of the challenges on a scale of 1-5 where 1- No extent at all; 2- Small extent; 3- Moderate extent; 4- Large extent; and 5- Very large extent. The result for the analysis done on this data is presented in Table 4.5.2 and Figure 4.5.2.

Table 4.5.2 Challenges facing firms in acquiring venture capital

Descriptive Statistics

Challenge	Mean	Std. Deviation
Fear of loss of control of business	3.3471	.07487
Limited knowledge about VC	2.9706	.04159
Threshold limits	2.4353	.04991
Already too much debt	2.3941	.27452
Insufficient or risky potential	2.7029	.00416
No reason given	2.8235	.24957
Others	3.1618	.47834
Overall	2.8529	.20797
Valid N (listwise)		

Source (Primary data, 2014)

Figure 4.5.2 Presents the comparison of the challenges faced by firms in acquiring venture capital

Source: Primary data (2014)

Note: Multiple responses were allowed.

Figure 4.5.2 and table 4.5.2 indicate that the major challenges include fear of loss of control of business, which is the most common with a mean of 3.347, limited knowledge about VC and threshold limits. Majority of entrepreneurs wish to have full ownership of their businesses. However, venture capital financing requires division of ownership between the VC firm and business owners after capital injection i.e. the VC firm may ask for 67% ownership stake. The least challenge was denial of the VC funding with no reason given. According to a study by Hussey (2005) revealed that most VC firms call for 50% and above ownership in the business and this is supported by this study.

4.6 The effect of government policies on the growth of the venture capital market

The respondents were asked whether the respective firms used any government-subsidized funds to finance start-up operations. The respondents were also asked on whether vision 2030 considered venture capital markets under the economic pillar, as well as the extent to which the Government of Kenya supports growth and expansion of VC. The data were analysed and the results presented as below.

4.6.1 Use of government-subsidized funds

The results indicate that 20% of the firms used some form of government-subsidized funds for their start-up capital requirements. This implies the government's direct involvement in financing SMEs is still low. Ngugi and Njenga, 2005 found that for any business to be successful the government has to come up with better policies that support business growth.

4.6.2 The Kenya Vision 2030 and Venture Capital

While 65% of respondents did not respond to the question on whether Vision 2030 adequately caters for VC, 35% of the respondents were positive that Kenya's Vision 2030 adequately caters for the growth of venture capital market in the country. This is a clear indicator that many business entrepreneurs do not have sufficient knowledge about the vision 2030

4.6.3 The overall extent to which the Government of Kenya supports growth of venture capital

The researchers wanted to test establish whether the government of Kenya provides needed support for growth and expansion of VC. Respondents were asked on their opinion regarding the overall extent to which the government supports VC. The data were analyzed and the results are presented below in figure 4.6.3.

Figure 4.6.3: Extent of government support for VC

Source: Primary data (2014)

The results in figure 4.6.3 indicate that 57% of the respondents said the government offers moderate support for the growth of venture capital markets. The results shows that only 6% of the respondents said that the government provide support to a very large extent, while none thought the government does not offer any support; these results therefore show the government

does support growth of venture capital but not to a great extent. The government can support growth of venture capital by creating awareness and making VC a core business unit in the syllabus.

4.7 Discussion

According to a study conducted by Graham (2005) showed that investors investors tend to support established big businesses due to lower levels of risks that they face. The researcher in this study also found out that venture capital firms supported more the businesses that had been established for at least 3 years and above as discussed in table 4.2.3. This study also showed that most businesses were financed with a range of between Ksh.500000-Ksh.1000000 capital and this can be due to these financing firms not willing to spend too much money on risky ventures. Table 4.2.4 also revealed that the financing firms were more willing to support limited liability companies unlike sole proprietorship and partnership. This is because of reduced levels of risks that a limited liability company faces.

According to a researched carried out by Equinox Management Consultants (2002) clearly showed that venture capitalism is still a foreign idea in Kenya. In this study, 67% of the respondents said that venture capital financing had not been given the special attention it requires. Majority of the respondents got to know about VC financing at higher education level as discussed under 4.4.1.

Based on a study conducted by Hussey (2005) revealed that almost all venture capital financing firms ask for more than 50% ownership in a business that they finance. Under this study figure 4.5.2 and table 4.5.2 revealed that most entrepreneurs fear loss of control of their businesses. Any venture capital firm will definitely wish to have control of any business venture because they never ask for collateral as security of the risks the business faces during its operation.

A study conducted by Ngugi and Njenga (2005) indicated that for business to prosper in any given economy the respective government has to come up with favourite business policies that will support business growth. The researcher found out that the government of Kenya has tried to support venture capital financing by creating awareness though at a moderate level. The results in figure 4.6.3 indicate that 57% of the respondents said the government offers moderate support for the growth of venture capital markets. Through the vision 2030, under the economic pillar,

the government of Kenya has come up with policies that support youths to come up with their own businesses in order to avoid over reliance on white collar jobs

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the undertaken study and these include: a summary of the research findings, conclusions, recommendations and suggestions for further research.

5.2 Summary of findings

The most common sources of startup funding include founder's own funds, funds from spouses and family members, while venture capitalists and business angels were the least common. The easiest source of financing was the founder's own funds and funds from spouses. Venture capital was the second most difficult source while business angels was the most difficult

The study results indicated that no significant relationship exists between the ease of acquiring of business startup capital and cheapness of sources of funding.

An in-depth knowledge of venture capital is essential for successful venture capital funding, but respondents demonstrated a less advanced understanding of this source of financing.

The findings show that the major challenges facing SMEs in acquiring venture capital include fear of loss of control of business, limited knowledge about VC and threshold limits. The least challenge was denial of the VC funding with no reason given. Fear of loss of business control, limited knowledge of VC and insufficient or risky potential have a significant impact on the use of venture capital as a source of funding.

The Kenyan government has a significant impact on the use of venture capital financing. Government policies were found to moderately impact on the growth and expansion of venture capital market in Kenya.

5.3 Conclusion.

The core objective of this study was to investigate the factors that inhibit growth of venture capital market in Kenya. The study revealed that availability of alternative sources of finance to a large extent limits the growth of venture capital. The findings in this study indicate SMEs use venture capital to a low extent compared to other sources of startup financing. Most startups drew their capital at least from immediate relations in addition to other sources. The lack of adequate knowledge concerning VC is a major gap in the venture capital market. Many entrepreneurs tend to concentrate on financing from the financial institutions, micro finance institutions such as banks. This has made the venture capital market not to grow as it has done in other parts of the world especially the west.

Another specific objective that the study looked at was on information gap and how it has affected growth of venture capital market. The study revealed that many entrepreneurs got the knowledge on venture capital at college level and also from seminars they attended. This means that unless one attends a business college or seminars they will not be aware of what venture capital and how it operates. There is little or nothing about venture capital markets taught at lower levels of education e.g. primary and secondary levels. However, even those that are aware of venture capital financing really don't know how VC firms operate and therefore they are able to reap heavily from those firms.

Any business man or woman would wish to avoid any risk while carrying out their businesses. However, it is not possible to avoid all the risks. Businesses are faced with different types of risks at different times. This study sought to seek how risks affected the growth of venture capitalism. From the study, it is evidence that most entrepreneurs fear losing of their business ownership. Due to this fear of loss of control of the business, most business entrepreneurs shy away from venture capital financing

The government of Kenya plays a significant role in influencing the venture capital market. This study looked at how government policies affected the growth of venture capital market. From the

study, it was found out that government policies moderately affect the growth and expansion of business venture market. For any business to be successful it must in line with the government policies of the given country.

5.4 Recommendations

Based on the findings of this research, the researcher proposes the following recommendations that can take venture capital market in Kenya to the next level:

Entrepreneurs should be encouraged to seek help from venture capital firms to finance their business ideas and this will help stop over relying on formal financing. Venture capital firms should also be encouraged to create conducive environment that will encourage business persons to share their business ideas. This will help the venture capital market to grow at a much faster rate than it has done in the recent past.

Information is power and for the venture capital market to grow, adequate information about this type of finance is paramount. Venture capital firms should be encouraged to do thorough marketing to create awareness of their existence. Learning institutions should emphasize the importance of this type of financing to their students and expose the students early enough; this will help them change their perception on venture capital financing.

Many people fear trying a new idea, product or service and this becomes even worse where money and time is involved. Business persons should be encouraged to try venture capital financing and get the full benefits of such financing. The higher the risk, the higher the returns. Venture capital firms should be encouraged even finance more viable business ideas than they have done before; this will enhance the growth of venture capital markets.

The government's involvement in venture capital is important to the venture capital market. However, the government has not fully utilized its potential in carrying out awareness about this type of financing. This study therefore recommends a closely-knit relationship between the government and venture capital firms for better results. The syllabus can also be changed and venture capital can be incorporated from even secondary level unlike presently being offered in tertiary education level.

5.5 Suggestions for further research

The application of venture capital financing by SMEs in Kenya can be termed as being moderately advanced. In line with this finding, an important direction for future research that emerges regards the position the Government of Kenya should take to enhance the venture capital market in the country.

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APPENDICES

Instruction: please tick in the bracket [] and give explanation where applicable.

PART A: RESPONDENTS BACKGROUND 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. Hotels []

b. Commercial []

c. Wholesalers & Retailers []

d. Manufacturing & Agriculture []

e. Construction []

f. Real Estates []

g. Others

2. Capital Base of Business Kshs (Tick one)

a. Below 500,000 []

b. 500,000- 1 million []

c. Above 1 million []

3. Age of the business

a. 0-2 years []

b. 2-4 years []

c. 5 above []

4. Form of the business ownership

- a. Sole proprietorship []
- b. Partnership []
- c. Limited Liability Company []

PART B: ALTERNATIVE SOURCES OF CAPITAL

- 5. Given the firm’s industry, access to financing in your situation is considered:
 - Easy Normal Difficult
- 6. What form of financing did you use to start your business? (tick all applicable)

- Only founder’s own funds
- Funds from spouses or life partners
- Funds from other family members
- Funds from other individuals excluding business angels
- Finance companies
- Government funds
- Venture capitalists
- Business angels
- Other.....

7. To what extent was the ease with which the firm acquired capital from each of the following sources? (Rate the extent with **1 = no extent at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent**)

		1	2	3	4	5
0 1	Founder's own funds					
0 2	Funds from spouses or life partners					
0 3	Funds from other family members					
0 4	Funds from other individuals (excluding business angel)					
0 5	Finance Companies					
0 6	Government funds					
0 7	Venture capitalists					
0 8	Business angels					
	Others (specify and rate accordingly)					

8. Which do you think is the cheapest source, from those above?

- Founder's own funds
- Funds from spouses or life partners
- Funds from other family members
- Funds from other individuals excluding business angels
- Finance companies
- Government funds
- Venture capitalists
- Business angels
- Other

9. To what extent does the availability of other sources of capital affect the growth and expansion of VC? (Please use the scale provided)

1 = no extent at all	2 = small extent	3 = moderate extent	4 = large extent	5 = very large extent

PART C: INFORMATION GAP

10. How did you learn about Venture Capital?

.....

11. Which Venture Capital firm did you get financing from?

.....

12. Do you know any other Venture Capital firm(specify)

.....

13. Do you think Venture Capital has received enough attention/awareness? Give reason

Yes []

No []

.....

14. In your opinion is Venture Capital the best financing. Elaborate your answer

Yes []

No []

15. Do you think Venture Capital has been well covered in the school curriculum?

Yes []

No []

Explain.....

16. Do you think Venture Capital firms are marketing themselves adequately?

17. Do you think there a relationship between growth of Venture Capital and marketing?

Yes []

No []

18. Are other business men and women aware of Venture Capital?

Yes []

No []

If No what have you done about that?

19. What do you think should be done to increase awareness?

PART D: RISK

20. Are you aware of any risks associated with VC type of financing?

Yes []

No []

21. a) Did the firm use venture capital as a start-up financing?

Yes []

No []

b) If yes in 30 (a) above, to what extent did the firm face each of the following challenges in a bid to acquire venture capital? (Rate the extent with **1 = no extent at all, 2 = small extent, 3 = moderate extent, 4 = large extent, 5 = very large extent**)

		1	2	3	4	5
0 1	Fear of loss of control of business					
0 2	Limited knowledge `about VC					
0 3	Threshold limits					
0 4	Already too much debt					
0 5	Insufficient or risky potential					
0 6	No reason given					
	Others (specify and rate accordingly)					

Overall, indicate the extent to which the firm faces challenges in a bid to acquire venture capital (Please use the scale provided)

<i>1 = no extent at all</i>	<i>2 = small extent</i>	<i>3 = moderate extent</i>	<i>4 = large extent</i>	<i>5 = very large extent</i>

22. Which measures do you take to mitigate the above risks?

23. Which economic/political/ social factors do you think affect VC financing?

PART E: Government policies

24. Does the firm use any government-subsidized funds?

Yes []

No []

Not sure []

25. Do you think Kenya's Vision 2030 adequately caters for VC?

26. Overall, to what extent does the government support growth and expansion of VC?(Please use the scale provided)

1 = no extent at all	2 = small extent	3 = moderate extent	4 = large extent	5 = very large extent