THE IMPACT OF VENTURE CAPITAL ON THE GROWTH OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SPRING 2019
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A Research Project Report submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

SPRING 2019
STUDENT’S DECLARATION

I do hereby, declare that this is an original creation of my work, stating that it has not been submitted to any other college, institution or university other than the United States International University Africa for academic credit.

Signed: ________________________ Date: _____________________

Nellie Githae (ID 654449)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ________________________ Date: _____________________

Dr. Francis M. Gatumo.

Signed: ________________________ Date: _____________________

Dean, Chandaria School of Business
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ABSTRACT

The purpose of the study was to ascertain the impact of venture capital on growth of Small and Medium Enterprises in Nairobi County. The study was guided by three research questions which included how does venture capital impact on sales in SMEs in Nairobi County?, what is the impact of venture capital on profits in SMEs in Nairobi County?, and does venture capital influence the market size of SMEs in Nairobi County?

The study concentrated on the three dependent variables which include sales of the SMEs, profits of SMEs, and the market share of SMEs. The study was limited to recruiting small and medium enterprises that are within the Nairobi County that have benefited from venture capital financing between 2010 and 2017. The study applied cross-sectional design that is explanatory approach on the influence of venture capital regulation on the accessibility of capital to and growth of small business in Nairobi County. The closed-ended designed questionnaires were used to collect primary data from the sample size of 155 SMEs through purposive sampling. The data analysis was done through the help of Statistical Package for Social Science (SPSS). Inferential statistics was used as it helped in comparing the variables under the study.

The study established that the relationship between sales by SMEs and growth of SMEs depended on the management of the proceeds; profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding; and that market share had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences market size of SMEs positively through their funding. The coefficient of determination (R squared) of 0.016 showed that 1.6% of SMEs growth can be explained by the sales by SMEs (p value = 0.239) while the adjusted r square = 0.005. The coefficient of determination (R squared) of 0.056 showed that 5.6% of SMEs growth can be explained by the profitability (p value = 0.029); the adjusted r square = 0.045. The coefficient of determination (R-squared) of 0.57 indicated that 57% of SMEs growth can be explained by the SMEs’ market size (p value =0.002); the adjusted r square = 0.046.
The first research question “how does venture capital impact on sales in SMEs in Nairobi County?” was answered by the realization from the findings that venture capital impacted on sales of SMEs; only that the way the sales were managed would either contribute to the growth of the SMEs or stagnation. The second research question “what is the impact of venture capital on profits in SMEs in Nairobi County?” was answered by stating that the venture capitalists by contributing to the profitability of SMEs normally impact on their profits. The third research question “does venture capital influence the market size of SMEs in Nairobi County?” was answered in the sense that Venture Capital influences market size of SMEs positively through their funding.

The researcher therefore, concluded that venture capital had great impact on the growth of small and medium enterprises in Nairobi County.

The study recommended that proprietors of SMEs should have the necessary training coupled with adhering to good business ethics to realize growth; and that SMEs should minimize credit sales in order to ensure that their revenues are in liquid for faster development through the reinvestment of the money made from profits of the business. It is also recommended that all SMEs proprietors should have financial training to know how to manage their profits even as they cater for pressing household needs.
ACKNOWLEDGEMENT

The utmost gratitude goes to the Almighty God for his divine guidance throughout my pursuit for education in my entire academic life and most notably during my Masters’ program. He gave me courage, faith, tenacity, and passion to pursue and finish this course that positions me to attain my personal goal.

Secondly, I register my appreciation to my beloved parents especially for instilling the needed character and aspirations that must accompany the bigger picture of dreaming big.

My appreciations are also in order to my supervisor, Dr. Francis Gatumo, who has mentored me, guided, and offered academic insights to me throughout this process of doing my research work and by extension in this academic journey. Thank you for being genuinely committed toward ensuring that I attain this academic feat.

Lastly, I would like to thank my class mates and friends who have also travelled with me in this journey and have contributed in one way or another to my studies.
DEDICATION

I dedicate this project to the entire family of Githae, more so to my parents, who have tirelessly supported my pursuit for academics, my professor who has assisted in guiding my research and to all individuals who assisted me with information and encouragement during my field work.
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## ACRONYMS OR ABBREVIATIONS

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<tr>
<td>ARDC</td>
<td>American Research and Development Corporation</td>
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<tr>
<td>BSC</td>
<td>Balance Scorecard</td>
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<td>CMA</td>
<td>Capital Market Authority Kenya</td>
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<td>GDP</td>
<td>Gross Domestic Products</td>
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<td>IVCA</td>
<td>India Venture Capital Association</td>
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<td>KTAC</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the study

Starting and managing a business venture can prove daunting especially when there are minimal startup capitals. According to Loewen (2008) this lack of capital informed the invention of venture capital in order that the small business could be assisted through availing capital. The idea of venture capital can be traced back to the industrial revolution era. Jacob and Isaac Pereire founded the first venture capital-like company called the Credit Mobilizer in London and in 1854 the company teamed up with Jay Cooke in New York to finance the first America’s Transcontinental Railroad (Wilson, 1985).

Proper venture capital (what can be associated with the modern venture capital) therefore, can be traced to 1946; immediately after World War II in America. In that year, two venture capital companies namely, American Research and Development Corporation and J.H. White and Company were founded. Georges Doriot who formerly was a dean of Harvard Business School, was credited with the establishment of American Research and Development Corporation earning for himself a name of “father of Venture capitalism” as explained by Wilson (1985). The main aim of coming up with ARDC was to ensure that the soldiers that were returning from World War II found engagement in businesses; meaning that he came up with this company in order to help and encourage the soldiers to engage in private sector investment.

Rising from the initial venture companies which include American Research and Development Corporation (ARDC) and J.H. White & Company, many other such companies started to come up in various parts of the world (Jain & Indrani, 2009). But in America, most of the venture capital companies put their efforts of investments on starting and then expanding companies. This approach took place in the duration of 1960s and 1970s (Jain &
Indrani, 2009). They mainly exploited breakthrough that were realized in data-processing technology, electronic, and medical. This approach made venture capital to become almost synonymous with technology finance.

In this industry of venture capital, America as a country is credited with the origin of venture capital and the American firms are traditionally the largest participants in the venture business. America has used venture capital as a tool of economic development in different development spheres. This has partly contributed to the good development records of America.

In Europe as a whole, the venture capital has been largely used in SMEs. It is reported that the amount of capital used in 2005 inclusive of buy-outs funds exceeded €60 billion and out of this capital €12.6 billion was allocated to venture investments (Jain & Indrani, 2009). According to Invest Europe (2015) venture capital investments grew by 5% in 2015 within Europe with a total of 2,836 companies backed by these venture capital companies. The interesting and encouraging thing with the companies that are backed by the venture capital is that most of them become successful and are listed in stock exchange which means they perform better than those of the US. Two of the best performing venture capital investors include Index Ventures and Mangrove Capital Partners led by Danny Rimer and Mark Tluszcz respectively.

Even though Jain and Indrani (2009) point out that in Asia and Africa, venture capital industry is still developing and can be termed as being in its early stage; there are significantly tremendous milestone in Asia as far as the venture capital industry is concerned based on the Ahlstrom, Bruton, and Yeh (2007) work. In India, the venture capital funds are managed by India Venture Capital Association (IVCA) which report a total private equity and venture capital as $ 7.5 billion by 2006. Singapore has reported a record of US$ 3.5 billion with 100 deals by 2016 in both private equity and venture capital (Jain & Indrani, 2009). Ahlstrom, Bruton, and Yeh (2007) report that venture capital in China has grown
steadily since 1980s as the economy of the country also showed robust improvement. Indeed Ahlstrom, Bruton, and Yeh (2007) continue to give an impressive statistics about Chinese venture capital indicating that it has reported one of the fastest growths in the world within this sector of venture capital. An estimation of $1.17 billion was raised by firms in the venture capital industry to invest in the country just in 2005 alone. Ahlstrom, Bruton, and Yeh (2007) go ahead to give reasons why the venture capital has thrived well in China by stating that China has distinct types of venture capital firms that include corporate venture capital firms, university venture capital firms, local government venture capital firms, and foreign venture capital firms.

But Kennedy, Han, and Tanaka (2004) report that the first venture capital in Japan was founded in 1972 and christened as the Kyoto Enterprise Development (KED); that was modeled from the American Research and Development which was the first US venture capital firm as have been mentioned. A case of Korea is worth noting; this is because the government of Korea took interest in research in encouraging the venture capital. The government created a Korean Technology Advancement Corporation (KTAC) in 1974 that was funded by directly by the government institutions (Kennedy, Han, & Tanaka, 2004). The main objective of the KTAC was/ is to “be an intermediary financial institution that assisted in the transfer of research results from government-supported research institutes to technically competent SMEs.” What has emerged out of these efforts is evident to date because Japan and China are emerging giants in economic advancements.

Singapore reported the issue of first venture capital in 1983 when the Advent International of Boston helped in creating the South East Asia Venture Investment Fund (Ahlstrom, Bruton, & Yeh, 2007). To spur up growth of small businesses and investments, the government of Singapore used incentives and tax exemptions to attract more venture capital firms that operated from other parts of the world (Koh & Koh, 2002). This is because the policymakers saw the opportunity that venture capital firms could contribute in such transformation. “Singapore also boasts one of the most far-reaching venture capital firms, Vertex
Management, which has offices abroad and invests globally” (Kennedy, Han, & Tanaka, 2004).

These observations on the brief history of the venture capital especially in Asia attest to the importance of the venture capital firms to SMEs that lead to building a robust economy of the entire country. China, Singapore, Japan, and Korea can be said to be on the upward economic growth simply due to laying emphasis on the venture capital to the contribution of the SMEs growth.

In Kenya, the first case of Venture Capital Company can be traced back to 1996 when Acacia Fund was founded with a net worth of Ksh 1.9 billion (CMA, 2010). The Acacia Fund was credited to have funded Deacons which was a fashion retailer and Steers and Debonairs companies (fast food franchises owned by Hoggers) (Juma, 2017). Other Venture capital investments in Kenya include Novastar Ventures, Savannah Fund, Equity Bank Limited, Safaricom Kenya Limited, Enkare Partners, Viktoria Ventures, Fusion Capital, Fanisi Venture Capital Fund, Kenya Climate Ventures, and TransCentury Limited among others (CMA, 2010).

The Capital Market Authority Kenya (CMA) defines Venture Capital as capital invested in a new venture or project putting money in expansion of business in exchange for shares in the business; such business has a substantial element of risk (CMA, 2010). This means that CMA disregards venture capital as a loan but views it as performing a pivotal role in taking care of the funding needs of emerging entrepreneurial ideas and companies that may not possess the financial muscle/ assets, the size, and operating histories that is relevant in obtaining capital from more traditional sources, such as banks and public markets. If venture capital were to be compared to private equity it would be noted that private equity put their focus on mature business; while the venture capital normally injects its financial help or aid into a business during its starting time or launch, at the early stages of the business, and in the expansion of the business (CMA, 2010).
When small business term is mentioned, the next thing that comes to mind or what normally goes hand-in-hand with the term is medium enterprises hence the term small and medium enterprises (SMEs). The SMEs generally is defined based on the economic situations of a country and that is why it varies in definition according to a country of interest (Memba, Gakure & Karanja, 2012). For instance, the Inter-American Development Bank gives a definition of SMEs as the business entities that have less US$ 3 million and have maximum employees numbering 100. In Europe, the SMEs are defined as those having fewer than 250 employees (Natarajan & Wyrick, 2011). While in the United States, those SMEs are those that have less than 500 employees (Natarajan & Wyrick, 2011).

Unfortunately according to Memba, Gakure & Karanja (2012) in Kenya there is still no exact definition that has been consolidated by the financial players. But according to the 1999 SMEs baseline survey the small enterprises were defined as those with 6 to 10 employees while medium ones are those with more than ten employees but less than 100 employees (CBS, K Rep, & ICEG, 1999). The various definitions that have been advanced by various countries or regions, would show that apparently SMEs would only be defined as per the financial or economic advancement of a given region or country. But start-ups in business terms simply means a business venture that is either still conceived in the mind or a small business that is still in its nascent stage and no meaningful development can be attributed to it. Grassroots economic growth as referred to by Jain and Indrani (2009) is dependent on SMEs as they play a pivotal role in directing the economy for equitable and sustainable development. However, according to Deloitte Kenya Economic Outlook 2016 factors like poor infrastructures, inadequate capital, insufficient skills and knowledge coupled with rapid changing technology, and limited market do contribute to SMEs’ dwindling development in Kenya. We can as well include the run-away corruption in every sector of the government.

However, the World Bank gives a general guideline in definition that the SMEs should be the business entities that have a maximum of 300 employees, those reporting a total assets value of US$ 15 million, and have annual revenue of US$ 15 million (United Nations, 2006). Some
economies would not attain this definition especially the developing economies; in particular Kenya defines small and medium enterprises different from United Nations.

1.2 Problem Statement

The Kenyan Capital Market Authority (CMA) defines Venture Capital as funds invested in a new venture or putting money for expansion of business under risk (CMA, 2010). The venture capital injects its financial help or aid into a business starting time or launch, at the early stages of the business.

Membas, Gakure & Karanja (2012) and Mbogo (2008) investigated the impact of venture capital on growth of SMEs in Kenya. They posit that venture capital financing lead to improved growth of firms. Mogiro (2012) studied Kenyan manufacturing SMEs stated that the venture capital has not permeated this sector to fund these businesses. This notwithstanding, there are many struggling small businesses that are lacking enough funds for expansion (Waari & Mwangi, 2015). This study investigates the need for venture capitalists to avail needed funds for the SMEs.

1.3 General Purpose of the Study

The purpose of the study was to investigate the influence of venture capital on growth of small and medium enterprises in Nairobi County.

1.4 Research Questions

The specific research questions were designed as follows:

1.4.1 How does venture capital impact on sales in SMEs in Nairobi County?
1.4.2 What is the impact of venture capital on profits in SMEs in Nairobi County?
1.4.3 Does venture capital influence the market size of SMEs in Nairobi County?
1.5 Significance of the Study

The study will be of benefit to the following:

1.5.1 The Small Businesses

The researcher is of the opinion that there are many people or entrepreneurs who are oblivious of the venture capital while they may be having brilliant ideas that would help spur growth of the economy. This makes the study to be relevant so that the awareness of the existence of the venture capital companies and their operations may be availed to the public.

1.5.2 Policy makers/ Global Entrepreneurship Monitor (GEM)

One of the mandates of GEM is to monitor and coordinate (internationally) the activities of market intermediaries; this is done well through policies that guide the players in the industry. It is a trusted affiliate to the United Nations and World Bank thus helps in contributing to the development of entrepreneurial skills. (GEM, 2018). The small businesses contribute significantly to the development of the economy of a country. This calls for the special attention to be drawn to them especially in terms of good policies that would enable them to thrive. The establishment of small businesses and the thriving of the same would improve the Gross Domestic Products (GDP) hence creating more employment to the youths. This can only be achieved if conducive environment is made available to them through good policies that would enable them access the capital for the business. This makes the study to be relevant for the policy makers.

1.5.3 Researchers/ Academia

In any study, there needs to be a basis on which an argument is laid just as the current research work relies on the different literature. This study would therefore, contribute to
other academic works that would come after it as it would avail the findings based on the objectives set therein.

1.6 The Scope of the Study

The study concentrated on the regulations that venture capitalists use in order to avail finances to SMEs that enhance their growth. The study was limited to recruiting small business enterprises that are within Nairobi County that had benefitted from venture capital financing since 2010 to 2017. According to Kiprotich (2017) study there are 254 SMEs that have been funded through venture capital within Nairobi County. The study therefore, based its sample size from this target population.

1.7 Definition of terms

1.7.1 Financial performance

This is the measure of start-ups’ or SMEs’ growth concerning its level of profitability return on assets, return on investment and sales (Waari&Mwangi, 2015) as per this study. In this study financial performance will be measured three variables which include the sales on SMEs, the profitability of the SMEs and the market size of the SMEs.

1.7.2. SMEs

These are small and medium enterprises that have been started through the venture capital,(Govori, 2013), hence contribute to the current study which is the interest of the researcher.

1.7.3 Start-ups

In business terms simply means a business venture that is either still conceived in the mind or a small business that is still in its nascent stage and no meaningful development can be
attributed to it (Florida & Kinga, 2016). However, this paper investigated SMEs that benefited from the financial support through venture capitalists.

**1.7.4 Growth**

It is regarded as an indication of continued entrepreneurship. Earlier studies have suggested a very large number of determinants of entrepreneurship and growth (Moore & Manring, (2009); Davidsson, Steffens, & Fitzsimmons, (2005). The major three determinants are ability, need and opportunity. The subjective factors influence growth that is motivation and direct behavior (Davidsson, Steffens, & Fitzsimmons, 2005). Growth is realized by proper financial performance whose indicators are sales, profitability, and market size as explained by Jain & Indrani (2009).

**1.7.5 Venture Capital**

In this study Venture Capital as capital invested in a new business project (in this case the SMEs) or putting money in expansion of business in exchange for shares in the business; such business has a substantial element of risk (CMA, 2010).

**1.7.6 Micro Finance**

Participation of groups is promoted as a key means of increasing financial sustainability while at the same time empowering them. They build capital hence making a significant contribution (Mayoux, 2001).

**1.7.7 Nairobi County**

It is one of the 47 counties of Kenya. The smallest yet the most populous of the counties, it holds or doubles up as the capital city of Kenya, which is also the largest city of Kenya. It has a population of 3.3 million and an area of 696 kilometers squared (Kaggikah, 2017). The Nairobi County borders Kajiado County to the South, South West and West, Machakos
County to the East and South East, while Kiambu County to the North West, North and North East side. The county has an annual growth rate of 4.1% (Kaggikah, 2017).

1.8 Chapter Summary

The chapter has given a brief introduction, background to the study, problem statement, general purpose of the study, research questions, significance of the study, the scope of the study, definition of terms, and the chapter summary. The chapter that follows presents literature review according to the specific objectives. Chapter three looks into the methodology, chapter four presents the findings, and chapter five gives the summary of the study, conclusion, and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter is designed for the discussion of some of the themes/ objectives as per the literature review of relevant studies that have been done previously. The objectives include the venture capital’s impact on sales in SMEs in Nairobi County, the impacts of Venture Capital on Profits in SMEs in Nairobi County, and how the venture capital and how it influences the market size of SMEs in Nairobi County. It factors both theoretical and empirical literature of the relevant studies and texts that have been done previously.

2.2 Impact of Venture Capital on Sales in SMEs

According to the 1999 SMEs baseline survey the small enterprises were defined as those with 6 to 10 employees while medium ones are those with more than ten employees but less than 100 employees (CBS, K Rep, & ICEG, 1999). These are actually start-up business that can only manage such manpower; because a fully established business would at least have reasonable number of employees. This is basically why Memba, Gakure, & Karanja (2012) report that in Kenya there is still no definite definition that has been consolidated by the financial players. Because SMEs definition is pegged on the financial or economic advancement of a given region or country; it must be noted that sales and the general performance of the SMEs are always dictated by the same financial and economic advancement.

Availing finances to SMEs will therefore contribute to sales performance. SMEs must put themselves at a position where they can access these funds in order to boost their sales. Gal (2007) on a study of venture capital as financial source for SMEs in transition of economy of Slovakia and Hungary found out SMEs that enjoyed the support of venture capitalists thrived
quickly; this he says was as a result of making good sales. Biney (2018) supports this by categorically explaining that good sales come about when there are reserves of finance which in this case are availed by the venture capital.

Biney (2018) says that there is a gap in financial support for SMEs in Ghana. He appreciates the importance of venture capital to the SMEs. He says that SMEs can never be active in their respective industries due to lack of resources especially capital. In analyzing this statement activeness of a business is seen in how they make sales and realizes profit. An active business venture is one that makes good sales. Therefore, Biney (2018) asserts the need for venture capital to be available for the SMEs to be active in their sales and growth accordingly.

The availing of the startup capital to the SMEs by the Venture capital is also pegged on the government policy as at a specific financial year. The policies may impact on the currency that will be available in circulation in the market. This therefore has a direct impact on the sales. For example, the government through the central bank may decide to impose credit rationing within financial institutions (Florida & Kinga, 2016). In case of such rationing, the money in circulation would be minimal impacting also on the amount available for the venture capital to disburse to the SMEs. When there is less currency for the SMEs their purchasing power will decrease and this would automatically have a direct impact on the sales of their goods that they have purchased for their businesses to grow. This attests to the fact that the government should also put in place policies that would ensure the availability of start-up capitals become an easy phenomenon to the SMEs (Florida & Kinga, 2016).

Kamunge, Njeru, and Tirimba (2014) underscore business management on the part of the entrepreneurs as vital for the thriving of the SMEs. They observed that on top of access to finance, the entrepreneurs need to have management experience that forms a key socio-economic factor that affects performance of business in the area of their study; which they measured in terms of the sales volume of the business per given duration and the profits of
the businesses. The aspect of management should also influence the perspective of the entrepreneurs on business and loan acquisition. This is because as Calopa, Horvat, and Lalic (2014) observe that many small entrepreneurs do not search for other sources of capital simply due to belief they have on other sources of finances. Some are of the belief that acquisition of funds from such institutions as venture capital would put their businesses to debts and would make their businesses to be auctioned even associating venture capitals with the lending institutions. This is a myth that should be demystified if such businesses should gain access to capital from the venture capital.

Storbacka, Ryals, Davies, and Nenonen (2009) say that sales alone cannot determine the success of the business due to the fact that one may be making sales but at a minimal selling price that may give small profit margin or lack of it all together. They say that poorly managed SMEs may only focus on making sales at the detriment of making profit especially if the entrepreneurs do not have financial knowledge to tell whether the business sells at a loss or at a profit. Training therefore impacts important skills like adhering to the financial ethics. When one lacks financial training, sales may be reported but may not translate to profitability (Lambert, 2008). This underscores the need for venture capital as they would ensure that the SMEs are imparted with necessary sales and financial skills that would enable them to do sales that would make them enjoy profitability.

According to Roodman (2012) the performance and the subsequent success of any business entity or institution are pegged on effective credit management. A business that sells on credit may find it difficult to reach break-even and attain profitability. That is why Roodman (2012) explain that proper credit management would ensure that the performance of SMEs is stirred up to higher echelons. This theme is guided by the balance scorecard theory.
2.2.1 The Balance Scorecard (BSC) Theory

According to Kaplan and Norton (1996) who is the proponent of the theory, the BSC suggests for a better management of business, there is the need to view organization’s performance from four dimensions namely: from an internal perspective, from a customer perspective, financial perspective, and from innovation & learning perspective(Kaplan & Norton 1996). Management of sales is also encompassed in this as ‘sales’ is what determines the growth (one of the sources of revenues to a business) (Biney, 2018). The balanced scorecard theory looks into the non-financial measures and the financial measures in business management when accessing the financial position of a business. This means that it gives or presents a comprehensive framework that translates a company’s vision and strategy into a coherent set of performance measures (Lawrie, Abdullah, Bragg, & Varlet, 2016).

According to Kaplan and Norton (1996) the balanced scorecard not only allows the monitoring of present performance, but also tries to capture information about how well the organization is positioned to perform in the future. The venture capital firm would be interested in knowing the market dynamics as far as the goods and services that the SME would want to trade on or is trading in so that it could be at a better position to assess its viability. This also helps the venture capital firms to come up with the policies that would enable them to evaluate the type of SMEs that would become eligible to access financial aids. How customers perceive a business, how the business manages itself and its finances, how innovative and adeptness of the business entrepreneurs of the SMEs are would contribute to the accessibility of funds.

The Balanced Scorecard Theory is also relevant to SMEs in the sense that the theory will help them to evaluate themselves as far as the matters of business management are concerned. This is because the BSC is all about the business management. When a business entity carries out internal assessment on its operations; assessments in terms of a customer – business relationship: assessments in terms of financial management and ethics; and
assessment in terms of its innovation and learning adaptability would expose such a business entity to financial assistance (Lawrie, Abdullah, Bragg, & Varlet, 2016).

The fact that the Balanced Scorecard has progressed to become a central part of management tool that managers identify with is a manifestation of the fact that it can contribute to faster growth and development of a business. According to Kaplan and Norton (1996) in practice, companies use the BSC approach to accomplish four critical management processes, “clarify and translate vision and strategy, communicate and link strategic objectives and measures, plan, set targets, and align strategic initiatives and enhance strategic feedback and learning.” This is why this theory is also relevant to the SMEs entrepreneurs and by extension to the current study.

The application of this theory to the current study is pegged on the fact that it helps in translating an organization’s vision and mission into the actual deliverables or operational actions; what can be termed as strategic planning (Kaplan & Norton, 1996). The applicability of this theory leans on the fact that venture capital firms always interest themselves in the start-up businesses. This means that the businesses with convincing mission and vision that are workable would gain accessibility to the venture capital financing.

**Knowledge gap:** Lawrie, Abdullah, Bragg, and Varlet, (2016) underscore the financial management and business ethics as some of the issues that business organizations should look into in order to succeed. Even though they did not directly look at the venture capital this information is vital as it gives some of the variables that they used in coming up with the report. Sales as a variable did not feature as part of their variable. Biney (2018) found the importance of Venture Capital Financing on SMEs Growth as vital only that sales did not feature as part of his variables. The current study would want to evaluate sales as a variable and how venture capital affects it in the growth of the SMEs.
2.3 The Impact of Venture Capital on Profits on SMEs

Profit making is the fundamental aim of venturing into a business (McDonald, Rogers, & Woodburn, 2000). This means that the venture capitalists are driven by this aim so that the SMEs may make profit out of their various businesses and grow. According to Sumari (2013) good profitability is one of the indicators of business growth. McDonald, Rogers and Woodburn (2000) add that when a venture capital aids an SME and sees it thrive to greater heights through constant reporting of good profit, then there comes some sense of pride on the part of the venture capital.

There are many factors that affect growth and development of SMEs that would be taken care of if the start-ups businesses were to gain accessibility to good financial empowerment like the venture capital. Govori (2013) did a study on the factors that are affecting the growth and development of SMEs with specificity to what they experience in Kosovo. He found four vital factors which include the insufficient/ inaccessibility to finance, government policies (unfriendly), corruption, and competition. He further reported that barriers like high collateral requirements, high administrative costs, and lack of willingness by the banks to lend to the SMEs make the growth and development of the same to be hampered because they make very small profit if any. These findings by Govori underscore the importance of the venture capitals to the establishment and development of start-up businesses or SMEs.

Grassroots economic growth as referred to by Jain and Indrani (2009) is dependent on SMEs as they play a pivotal role in directing the economy for equitable and sustainable development. Economy can only grow when the SMEs do make profit out of their businesses. According to Deloitte Kenya Economic Outlook (2016) factors like poor infrastructures, inadequate capital, insufficient skills and knowledge coupled with rapid changing technology, and limited market do contribute to SMEs’ dwindling development in Kenya. This means that these are factors that gag profit making by the SMEs and should therefore be looked into so that the SMEs can attain profitability (McDonald, Rogers, &
You will agree with me that such are the factors that when a venture capital invests on any businesses will ensure that they address in the spirit of starting and developing a business to full growth. This is due to the fact that a venture capital would not like to invest in a business that would eventually die off.

Calopa, Horvat, and Lalic (2014) say that in comparison to business that get their capital from banking institutions and other financial loaning institutions such as the micro-finance banks, the ones that are financed by the venture capital institutions do develop faster than the one that are servicing loans in order to develop their business. This is because they do register impressive profit margins. Developing faster in other terms means that their profit margin is sustainable, thus enabling the expansion to be attained (Sumari, 2013). This faster development by SMEs under venture capital, he says do reach the breakeven point faster as compared to the ones under the credit financing. The ones under the venture capital also develop faster as compared to the ones whose finances were sourced from credit institutions that need to be refunded. This they say is because of two important aspects (Florida & Kinga, 2016). The first one is the fact that the money realized from the investment (profit) in the business that can be used through ploughing back to the business is used for servicing the loans. This makes the development of such businesses to dwindle or break-even only after the credit acquired had been fully serviced. The second reason he gives is a psychological one whereby a creditor instead of concentrating on the management and proper running of the business spend most of his time in worrying on how and when the loan would be fully serviced (Florida & Kinga, 2016). This sometimes results to stressful situation to such entrepreneur making the commitment to the business a toll order.

The venture capitalists would therefore, ensure that the business has inadequate capital to start and develop to an impactful outfit by reaching fast break-even point and profitability (Sumari, 2013). This is the core mandate of the venture capital. A business would not perform well in an event where there is lack of adequate capital (Chakrabarty, 2011). Even for such a business to reach the break-even point would be a herculean task to attain. This is
where the venture capital comes in handy for the start-ups or SMEs. Second to that is the fact that the venture capital enables the small businesses to have relevant sufficient skills that would enable them to run and develop the business outfits to maturity/ success (Lambert, 2008).

Another important undertaking of venture capital is the way they encourage upon them to enable start-up businesses to have access to market for their goods and services. It is a fact that a business venture cannot reach profitability is it does not access its market (McDonald, Rogers, & Woodburn, 2000). The venture capital does this in two ways. One is through the venture capital ensuring that it popularizes the businesses with which it has involved itself. In so doing, the business gets the business automatically markets goods and services as explained by Florida and Kinga (2016). Another way is through marketing by association. This is in the sense that, by virtue of just a venture capital giving a helping hand to a business, the business gains fame through such a big name thereby making its goods and services to sell. By this, the SMEs would attain profitability quickly.

Lastly, according to Florida and Kinga (2016) small businesses would benefit through gaining access to developed infrastructures such as good roads and advanced information technologies that come as a result of venture capitalists developing interests in them. This is due to the fact that the venture capitalists often work with the government thereby enabling them to single out areas that would thwart the facilitation of doing business with the start-up businesses or SMEs. This them is guided by Market failure theory as explained in the following paragraphs.

2.3.1 Market Failure Theory

According to Waari and Mwangi (2015) this theory underscores the importance of efficiency in business transaction. Growth of a business entity would not be attained if efficiency in management and financial utilization cannot be put into action. The theory thus, gives
highlights to the fact that there must exist ideal conditions for resource allocation. It states that “for financers (debt and equity providers) to play a legitimate role the ideal conditions must be present and efficiency must be the most important criterion for directing resource allocation” (Waari & Mwangi, 2015). This means that sometimes goods and services may not be allocated efficiently by the financial service providers. When such a situation occurs, then we talk of the “Market Failure” as far as the goods and services were concerned. When the market failure is reported, it becomes a basis or a rationale (an efficiency-based one) for concluding that small businesses were experiencing limited accessibility to finance thus cannot attain profitability. The theory can, in other terms, be called the market inefficiency theory (Waari & Mwangi, 2015).

The efficiency is therefore needed both on the part of the SMEs and the venture capital firms. It is imperative this way because if both or either one fails to be efficient, then failure looms in the growth of the SMEs (Calopa, Horvat, & Lalic, 2014). The venture capital firms need to be efficient in disbursing the correct amount of the needed funds to the SMEs and go ahead to ensure that the managerial skills were imparted on the entrepreneurs of the SMEs so that they get the necessary skills in managing the SMEs to success (Calopa, Horvat, & Lalic, 2014). On the other hand, the SMEs need to ensure that they put the money that they get from the venture capital firms into the use of the running of the business rather than using it on other purposes other than the purpose of operating the SMEs.

This theory is relevance to the current study in the sense that it helps in justifying the reasoning that explains that sometimes the inefficiency in supply of finances to the SMEs make them to lack accessibility and not make the much needed profit. Some of the inefficiencies may be as a result of the policies that the venture capitalists or the government has imposed on the SMEs that form the benchmark in accessing the capital for the businesses (Waari & Mwangi, 2015). This efficiencies is pegged on the economic productive abilities of the SMEs vis-à-vis their taste. It means that when the need of a given SME is met in accordance to what it trades on, then it may sometimes result into wastage. Whenever
wastage is reported, then we talk of the lack of efficiency. Availing finances to businesses making them to access the necessary funds that are needed for development and growth.

Lack of profit in a business venture definitely retards growth. If there is ample capital for a business growth may be realized. This study therefore looked into profit as one of the variables that the study evaluated as one that is affected by the availability of venture capital to SMEs and has not been looked at in the reviewed literature.

2.4 Influence of Venture Capital on Market Size of SMEs

Farris, Neil, Phillip, and Reibstein (2010) opine that market share is an indicator on how a firm performs relative to its competitors. While Keegan (1999) gives it a distinctive and descriptive definition as a “firm’s percentage of an industry’s total sales” Keegan (1999) definition connotes ‘sales’ as a factor of the market share. This means that ‘sales’ is directly related to market share. This means it is the amount of sales a company gets compared with its industry as a whole. This is translated that a business will compete for a large market size with the competitors though maximizing on sales and profit margin.

From the above definition, we gather that a small or low market share implies there is a low or small sales; while on the other hand a higher market share implies that a firm realizes higher sales than its competitors because it successfully expands its customer base. Farris et al. (2010) explain that “generally, sales growth resulting from primary demand (total market growth) is less costly and more profitable than that achieved by capturing share from competitors.”

Venture capitalists try to help SMEs to have a bigger output at a lower average cost also called economies of scales so that they attain lower cost products to customers through the provision of the start-up capital. They can also labor to increase the brand recognition and customers/ consumers loyalty to the SMEs that are under them. By doing this, it would help the SMEs to grow their market size.
From the literature that we have looked so far, what comes out is the fact that small businesses do struggle a lot to realize the start-up capital and the subsequent managerial skills to ensure the success of the businesses (Chakrabarty, 2011). It is important to point out many business do not attain their vibrancy due to the lack of this vital capital. Because CMA disregards venture capital as a loan but views it as performing a pivotal role in taking care of the funding needs of emerging entrepreneurial ideas and companies that may not possess the financial muscle/ assets, the size, and operating histories that is relevant in obtaining capital from more traditional sources, such as banks and public markets; it is expected that the presence of VC firms should spur up growth but there presence should impact positively to the growth of the SMEs.

Davila, Foster, and Gupta (2000) emphasizes on the impact of venture capital on the market size of the SMEs. They pointed out in their study in US that looked into the venture capital financing and the growth of startup firms that startups that have financial support at their inception grow faster and gain higher market size in the industry they operate in. This shows the importance of having enough funds in starting a business even as Keegan (1999) explain that a business can not only gain higher market size due to financial availability alone, but the good will and proper management by the entrepreneurs.

Calopa, Horvat, and Lalic (2014) say that in comparison to business that get their capital from banking institutions and other financial loaning institutions such as the micro-finance banks, the ones that are financed by the venture capital institutions do develop faster (gain higher market size) than the one that are servicing loans in order to develop their business. This he says that those under the financial assistance by the venture capital do reach the breakeven point faster as compared to the ones under the credit financing.

This makes them to acquire higher market share as opposed to those that are struggling in financial matters(Moore & Manring, 2009). The ones under the venture capital also develop faster as compared to the ones whose finances were sourced from credit institutions that need
to be refunded. This they say is because of two important aspects (Florida & Kinga, 2016). The first one is the fact that the money realized from the investment in the business that can be used through ploughing back to the business is used for servicing the loans. This makes the development of such businesses to dwindle or break-even only after the credit acquired had been fully serviced. The second reason he gives is a psychological one whereby a creditor instead of concentrating on the management and proper running of the business spend most of his time in worrying on how and when the loan would be fully serviced (Florida & Kinga, 2016). This sometimes results to stressful situation to such entrepreneur making the commitment to the business a toll order.

This is why on another study on the impact of venture capital in the development of Zanzibar SMEs, Mohammed (2015) explains that when SMEs compete for market share, the determinant factor for one to emerge as the strong contender to the market is the availability of working capital. This serves to explain that it is easier to colonize the market and gain a bigger market size if there is capital to the SMEs. This study concluded that venture capital can improve SMEs and hence strengthen Zanzibar economy. This conclusion underscores the fact that SMEs contribute significantly to the economy of a country thus by competing to have a higher market size they enrich a country.

According to Muroki (2012) market size is a key indicator of financial performance of any given business. In his study of the effect of venture capital on the financial performance of small and medium enterprises in Nairobi Kenya he points out some key things that impact on the market share of a business. He says that lack of working capital and funds for expansion make SMEs to stagnate and remain small. This is a situation that can be rectified through involvement by the SMEs.
2.4.1 Financial Inclusion Theory

The Financial inclusion theory avers that there is “a process of ensuring access to appropriate financial services and products needed by all sections of the society including the vulnerable groups such as weaker sections and low income groups, at an affordable cost, in a fair and transparent manner, by mainstream financial services providers” (Chakrabarti, 2011). For SMEs to have higher market size in their respective different industries they should enjoy inclusivity in the programs of venture capitalists. The theory points out that an inclusive financial sector is one that is not selective in giving its financial services. Indeed, (United Nations, 2006) defines such a sector as one that is capable of making available credits to all bankable firms and people, savings and payment services to everyone for everyone, and insurance for all insurable people firms and people (Chakrabarti, 2011). This theory is applicable to people of businesses on low incomes. The theory is thus applicable and relevant to the current study in the sense that it helps most of the SMEs in the country operate on a very minimal capital and could be classified as in dire need for capital assistance. This means that if this theory were to be followed in the country, the venture capitalists and the other government financial agencies would not make policies that segregate other SMEs from accessing the inevitable financial assistance.

According to Mogiro (2012) the prevailing situation in the Kenyan market is that there are many struggling small businesses that are lacking in enough capital for expansion. This implies that there are many SMEs that are crying for financial inclusion for them to at least break-even and start enjoying their profits gained as a result of being helped by the venture capital firms as explained by Mboto, Offiong, & Udoka (2018). This means that the venture capital firms have not permeated this sector in order to come to the aid of these businesses so that we have many thriving ones (Mboto, Offiong, & Udoka, 2018).

This theory is relevance to this study by the fact that performance of the SMEs that are struggling, especially those that are in the informal settlements, is pegged on getting a life-
line in terms of financial aid and management assistance. The management assistance would only be of help if the management skills were imparted on the entrepreneurs for posterity purposes (Lawrie, Abdullah, Bragg, & Varlet, 2016). It is relevant for the struggling firms to feel included in the financial plan of the venture capital firms so that they may attain the financial growth that was necessary for their success.

The studies whose literatures have been reviewed revolve around the effects of venture capital financing to start-ups or businesses, the factors that affect the growth and development of the SMEs, and the importance of venture capital to the SMEs. Govori (2013) studied factors that affect the growth and development of SMEs in Kosovo left out the market size of SMEs as he looked into some of the vital factors. Memba, Gakure, & Karanja (2012) and Mbogo (2008) investigated the impact of venture capital on growth of SMEs in Kenya but they did not single out market size as a variable. It seems that there are grey areas as far as this vital variable is concerned toward the growth of any business venture. This study would thus, strived to bridge the gap by laying emphasis on evaluating how venture capital has contributed to market size of the SMEs.

2.5 Chapter Summary

The chapter has done a brief introduction, reviewed relevant literature based on the objectives that include the venture capital’s impact on sales in SMEs, the impact of venture capital profits on SMEs; and Venture Capital and how it influences the market size of SMEs. Chapter three presents research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the method that was applied in carrying out the research. It gives stepwise criteria of how the study was carried out among the SMEs within Nairobi County on impact of venture capital on growth of SMEs. The chapter was organized under the following sections: research design, population and sampling design, data collection methods, research procedures, data analysis methods and the chapter summary.

3.2 Research Design

Cooper and Schindler (2012) explain that research design is a detailed outline of how an investigation will take place. He goes on to elucidate that the research design entails detailed information on how data is to be collected, what instruments to be used, how the instruments would be put to use and the intended means of analyzing the data. The study will use a cross-sectional data collection approach through the use of questionnaires so as to obtain quantitative data. This is due to the fact that the timeframe would allow the researcher to take only a snapshot of the targeted population (Cooper & Schindler, 2012). The data type in this study was a quantitative entailing the questions in the instruments which were semi-structured. This means the study adopted a descriptive statistics. This was helpful in showing the frequencies, the means and the standard deviation of the data collected. It was thus help in the construction and display of graphs and tables during the analysis of raw data.

The cross-sectional survey design was important in this study as it that it confers the due diligence to study a large population through drawing conclusion from the sample which is a subset of the targeted population (Saunders, Lewis, &Thornhill 2012). Usually, researchers use sample survey studies to obtain pertinent and precise information concerning the current
status of a phenomenon and whenever possible to draw a valid general conclusions from the
facts established so as to help in extrapolation of the findings to the entire population where
the sample was drawn from. The researcher therefore, saw this design useful due to its ability
to collect first-hand information from the respondents by interviewing them from the field
and through observation within a short time. Sometimes it becomes impossible to contact
every individual in the population in the area of study. So this design will allow the
researcher to administer questionnaires to a sampled of individuals within the population that
constitutes business entrepreneurs within Nairobi County.

3.3 Population and Sampling Design

3.3.1 Population

According to Emmel (2013) Population is a group of individuals with the same traits that are
of interest to the researcher. The target population according to Malhotra and Birks
(2007) represent the aggregate of all elements sharing a common set of characteristics that
comprise the universe for the marketing research problem. This study focused on the
influence of venture capital on growth of small and medium enterprises in Nairobi County.
From this target population 155 individuals formed the population size as described in
section 3.3.2.3. According to Kiprotich (2017) study there are 254 startups that have been
funded through venture capital within Nairobi within a period of 2012 to 2016.

3.3.2 Sampling Design

Under the sampling design, the researcher looked into sampling frame, sampling technique
that was employed, and the sample size of the study.

3.3.2.1 Sampling Frame
According to Cox and Hassard (2005) sample frame is a list of all individuals that is to be included in the study but is within the target population that has the same characteristics – SMEs that have benefited from VC making it a homogeneous target population. It thus serves as a list or information defining the researcher’s concern about the population. In this study, the researcher relied on a population sampling frame of 254 businesses. The study therefore, based its sample size from this target population.

### 3.3.2.2 Sampling Technique
According to Saunders, Lewis, & Thornhill (2012) sampling technique is the means and approach taken by a research in collection of his or her data. It can either be probability or non-probability sampling. In this study, the sampling method was purposive as it sought to sample only the SMEs who were registered as have benefited from VCs. This is justified due to the fact that the study wanted to look into the impact of the VC on the growth of SMEs. Purposive sampling is a non-probability sampling that is arrived at as a result of the researcher’s judgment on his or her population (Emmel, 2013).

### 3.3.2.3 Sampling Size
According to Saunders, Lewis, & Thornhill (2012) the sample size also known as the sample frame is defined as the number of respondents that are recruited by the researcher to use to collect data from or as a source of his or her data that represents the entire population. In this study the sample size is based on the target population which stands at 254 SMEs in Nairobi County (Kiprotich, 2017). This forms the basis of the study’s sample size. This study relied on the Yamane (1967) sample size calculation if the target population is known.

This formula stipulates as below:

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

Where

\[ e \] represents the margin of error.
n = sample Size

e stands for the margin of error (in this study our margin of error is 0.05)

N = the population under study (the target population).

Therefore, our sample size was defined by

\[ n = \frac{254}{(1 + 254 (0.05)^2)} \]

\[ n = 254/ 1.635 \]

\[ n = 155 \]

Therefore the sample size of this study was 155 respondents.

3.4 Data Collection Methods

The primary data were collected using the semi-structured questionnaire which formed the only instrument that was used in the data collection. The justification for the use of questionnaire was due to the fact that the researcher realized that the questionnaire can capture several themes of the study thus saving time. It also has the aspect where the questionnaire is self-administered thus, the researcher had the lee-way of leaving the questionnaire with the respondents and collect it latter based on the agreement therein as explained by Emmel (2013). Most of the questions were in closed-ended design and likert scale form that suits the quantitative data analysis.

The importance of closed-ended questions is to facilitate data collection as it is faster to answer and does not discourage the respondents because of less writing in comparison with the open-ended ones. The first type of scale needed the respondents to rate the items in a scale of 1 to 5, where 1 –Strongly disagree, 2 - disagree, 3 –Don’t know, 4 –Agree, 5 –
Strongly Agree. Place a tick in the appropriate space provided. The second type of scale was also of 1 to 5, where 1 - Not at all, 2 - To a little extent, 3 - To a moderate extent, 4 - To a great extent, 5 – To a very great extent. Place a tick in the appropriate space provided.

Of importance is to note that the questionnaire contained questions that were organized under the three themes that were informed by the research objectives as directed by (Saunders, Lewis, & Thornhill 2012).

3.5 Research Procedures

In this study, the data were collected from the point of contact with the respondents who were at their business premises explaining to them the importance and the relevance of the study. After the introduction through a cover letter that was obtained from the university, the researcher assured the respondents of their confidentiality and that the information would be used for the purpose of the study only.

The main tool for data collection was through the use of questionnaires that were administered to the participants at the point of contact in the field as explained by Saunders, Lewis, and Thornhill (2012). First of all, permission was sought from the university management in order for the researcher to be allowed, and be granted a letter of introduction to the respondents, for identify and a sign of authenticity to carry out this study. After having been given permission to proceed to the field, the researcher proceeded to the field and administer the questionnaires personally because this gave her the advantage that come with the use of questionnaire such as providing an opportunity for the researcher to establish good rapport with the respondents, which includes; explanation of the purpose of the study and clarification of individual items hence encouraging the respondents to act immediately and promptly. This was done after the pilot study shall have been done in order to ascertain reliability and validity. The study instrument was piloted among selected ten SMEs within Nairobi County two weeks prior to the actual data collection. This piloted sample was eventually be part of the main study. The pilot helped in testing the instruments validity; to
measure the consistency of this study. The most important question it helps us to answer is: Does the instrument consistently measure what it is intended to measure? The piloted sample eventually formed part of the data as it will be taken from the population under study (Emmel, 2013).

Reliability was tested using the Cronbach’s alpha. Cronbach alpha value shows how closely related a set of items are as a group. If a low value of alpha below 0.7 is reported then, it could be due to a low number of questions, or as a result of poor correlation between variables or variables, or poor interrelatedness between variables or items (Saul, 2008). For example, if a low alpha is due to poor correlation between items then some should be revised or discarded. The research instrument may be modified as a result of the pilot - depending on the reliability scores as well as the feedback from pilot respondents on the clarity of the instrument.

After completion of data collection, the researcher settled down and sorted out the questionnaires in order to come up with those that met the criteria of being analyzed. This was due to the fact that not all the questionnaires were marked well accordingly by the respondents.

3.6 Data Analysis Methods

The data analysis was done through the help of SPSS. It allowed result presentation through the use of tables, figures, and presentation of central tendencies. Inferential statistics was used as it helped in comparing the variables under the study such as relationship between sales and growth of SMEs; relationship between profit and growth of SMEs; and relationship between market share and growth of SMEs. The collected data were collated, coded, and computed in SPSS format. Descriptive statistics gives meaning in terms of mean, median, frequencies, percentages and variance among others (Emmel, 2013). The study relied much on the mean which showed the measure of central tendency and standard deviation which indicated the
magnitude of dispersion as an indicator of how the responses were dispersed from the mean. Cross tabulations were used to present and describe the sampled data.

The data from the questionnaires were analyzed as per the research questions of the study, using quantitative method because most of the questions were in closed-ended design and likert scale form that suits the quantitative data analysis. The study sought to know the relationship between the venture capital and growth of small and medium enterprises in Nairobi County. In order to ascertain this, a bivariate correlation analysis was applied in order to know the strength of relationship. Pearson product moment correlation coefficient (r) will be applicable in this case as it would be relevant in establishing relationship between the study variables that have been mentioned. This is important because the correlation coefficient is often used to show the magnitude and the direction of the relationship between the study variables as explained as far as the inferential statistics is concerned by Cooper and Schindler (2012). The 5% level of significant was used in considering level of decision criteria for the level of significance in order to establish the nature of relationship between the study variables (Walker & Preuss, 2008). Finally, the researcher then made conclusions and recommendations from the information obtained from this analysis as well as from the answers gotten from research questions.

The model that defined the study is as follows

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon. \]

Where \( Y \) represents Growth of SMEs

\( \beta \) represents Intercept term,

\( X_1 \) represents Sales by SMEs,

\( X_2 \) represents Profit by SMEs,
X3 represents Market Share of the SMEs,

ε= Error term

### 3.7 Chapter Summary

This chapter has provided the research methodology that was adopted in undertaking this study. This therefore, has been organized into organized under the following sections: research design, population and sampling design, data collection methods, research procedures, data analysis methods and the chapter summary. Chapter four presents result and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the study findings and results. The chapter is thus organized into sequential subsections based on the design of the research instrument. It is therefore, arranged into the response rate or the percentage of response, the background information, descriptive analysis, and inferential analysis based on the research questions. The findings are presented in the form of tables, figures, and charts alongside the interpretations according to the researcher after preliminary analysis was done to test the reliability of the instrument used getting a Cronbach Alpha 0.73. This enabled the researcher to endorse instrument.

4.2 Response Rate

In carrying out data collection the researcher set out to recruit 155 respondents. However, due to the fact that the respondents were to be recruited in a voluntary basis, only the willing ones were recruited and the researcher managed to collect 86 fully completed questionnaires. This translated to 56% response rate. The average response rate was due to the fact that many of the SMEs were kind of suspicious and the researcher could not coerce which is against the research ethics. It was purely voluntary. The 44% did not volunteer to participate making the researcher to have no control over them. The researcher therefore, chose to consider the 56% turn out based on the assurance by Emmel (2013), who advised that it is appropriate to work with 46% turnout in the event of data apathy or disparity.
4.3 Demographic Information

4.3.1 Information on the SMEs’ Proprietors

The researcher sought to know the gender, age, and the level of education which are personal to the proprietor. The information was presented as in the table 4.1 below:

According to the table 4.1 it shows at a glance that male gender takes 80.2% in running the SMEs while 19.8% is taken by female. This shows that male gender is active in the SMEs sector as compared to the females. Age-wise we can see that majority 41.9% represent the proprietors in the age bracket 26-35 while those in bracket of below 25 years form 34.9%. This gives a total of 76.8% SMEs that are run by youthful persons living a paltry 23.2% for people outside the youth bracket. On the education level 46.5% of the proprietors have bachelor’s degree and above; while 24.4% are diploma holders. This leaves only 29.1% of the participants that are having certificates and below.

Table 4.1 Information on the SMEs’ Proprietors

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<th>Demographic Information</th>
<th>Classification</th>
<th>Frequency</th>
<th>Percentage</th>
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</tbody>
</table>
4.3.2 Information on the SMEs

The researcher also sought to know more about the business in terms of the duration of operation and the type of business associated to that SMEs; whereby 37.2% of the SMEs have been in existence for less than 5 years; 19.8% have been operated within 6-10 years, 18.6% have been in place in the duration of 11-15; while 24.4% have been run for more that 15 years. This shows that the majority of the businesses sampled have been in existence for less than ten years (19.8% plus 37.2%) for a total of 57%. The essence of coming up with this question was to know how much the business has withered the business’ storm and remained in the market for so much duration. It also helps in deciding whether coming in by venture capital to aid the business has contributed to their being in the market for so long a time. On the type of business that the SME is associated with, the respondents; majority 82.5% did engage in selling goods only, while 10.5% did sell services while 7% were selling both goods and services. Figure 4.1 below shows a graphic presentation as per the findings that pertain the information on the SMEs.

Figure 4.1 The SMEs’ Information
4.4 Descriptive Statistics

4.4.1 Impact of Venture Capital on Sales of SMEs

Under the objective one of the study, the researcher sought to evaluate how the venture capital impacted on the sales of the SMEs. She therefore, came up with ten questions to help in coming up with findings on this objective.

4.4.1.1 Receipt of Funding

The first question was for the respondents to confirm whether they have received funding from the venture capital whereby all of the respondents agreed that they have received funding (purposive sampling on the SMEs who have received funds from VC). This is represented comprehensively in Table 4.2.

4.4.1.2 Initial Business Worth

The second question under this objective sought to find out the start-up capital or the business worth as at the initiation time. On this, the findings indicated that 76.7% of the respondents had a capital that is less than Ksh.25000, while 14% had capital falling in the range of Ksh.51000-100000. Those who had a starting capital in the range of Ksh.26000-50000 formed only 9.3%. There was no SME that had a start-up capital of more than Ksh.100000. These findings showed that raising a substantial capital was a challenge in the SME sector. In terms of skewness, the results pertaining to this variable reported a right skewness of (+1.623) meaning the Mean (1.37) is greater than the Mode (1). This is represented comprehensively in Table 4.2.

4.4.1.3 The impact of Start-up Capital on Sales

The third question under this objective was to find out whether the respondents were of the opinion that the amount used as a start-up capital does impact on the sales. On this issue
96.5% of the respondents agreed that the amount for start-up actually impacted on their sales while only 3.5% of them where of the contrary opinion. This would imply that a business would need a substantial amount of capital in order to grow its sales. In terms of skewness, the results pertaining to this variable reported a right skewness of (+4.160) meaning the Mean (1.03) is greater than the Mode (1). This is represented comprehensively in Table 4.2 below.

**4.4.1.3 The Magnitude of Capital in Relation to Sales**

Another question under this objective was to assess the respondents view on how the magnitude of capital relates to sales; whereby 50% were of the opinion that “small capital would mean small sales and vice versa” while 46.5% reported that “effort coupled with good management begets sales regardless of capital” this actually is an indicator that SMEs have realised the importance of good management of business. 3.5% did not respond to this question. In terms of skewness, the results pertaining to this variable reported a right skewness of (+0.074) meaning the Mean (1.48) is greater than the Mode (1). This is represented comprehensively in Table 4.2.

**4.4.1.5 Training attainment**

The fifth question under this objective also sought to know whether the respondents underwent any training before accessing the financial support. On this nearly every respondent was subjected to training because the affirmative response stood at 96.5% while the contrary stood at a negligible 3.5%. The 3.5% said they were not there at the start of the business because they had taken over from their kins. In terms of skewness, the results pertaining to this variable reported a right skewness of (+4.160) meaning the Mean (1.03) is greater than the Mode (1). The information above is presented in the table 4.2 below:
### Table 4.2: Composite Report on SMEs’ Sales

<table>
<thead>
<tr>
<th>Information</th>
<th>Categories</th>
<th>Response</th>
<th>Mean</th>
<th>SD</th>
<th>Mode</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endorsement on Profitability</td>
<td>Less 25000</td>
<td>76.7%</td>
<td>1.37</td>
<td>0.72</td>
<td>1</td>
<td>1.623</td>
</tr>
<tr>
<td></td>
<td>26000-50000</td>
<td>9.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>51000-100000</td>
<td>14%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>More than 100000</td>
<td>0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital impacts sales</td>
<td>Yes</td>
<td>96.5%</td>
<td>1.03</td>
<td>0.185</td>
<td>1</td>
<td>4.160</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opinion on amount of start-up capital</td>
<td>Small capital – small sales</td>
<td>50%</td>
<td>1.48</td>
<td>0.503</td>
<td>1</td>
<td>0.074</td>
</tr>
<tr>
<td></td>
<td>Effort together with Mgt</td>
<td>46.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No Response</td>
<td>3.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Was Trained</td>
<td>Yes</td>
<td>96.5%</td>
<td>1.03</td>
<td>0.185</td>
<td>1</td>
<td>4.160</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### 4.4.1.6 Percentage sales

The researcher also sought to know the percentage sales per month of the sampled SMEs. On this 81.4% of the respondents reported their sales to be below 50%; while 18.6% reported sales of above 50%. In terms of skewness, the results pertaining to this variable reported a right skewness of (+1.645) meaning the Mean (1.19) is greater than the Mode (1). This is represented comprehensively in Table 4.3.

#### 4.4.1.7 Monthly Sales
On the issue of contentment on the monthly sales 65.1% of the respondent affirmed that they were content with their sales while 34.9% still not content with their monthly sales. In terms of skewness, the results pertaining to this variable reported a right skewness of (+0.646) meaning the Mean (1.35) is greater than the mode (1). On this issue of contentment, the researcher probed the respondents on what they were doing to improve on sales especially those that answered “No” on the preceding question. Fortunately enough, all the respondents answered this question whereby 33.7% went for “increasing their purchases”, 2.3% would offer credit, 19.8% “give after sales services”, 11.6% “do marketing alongside sales”, and 32.6% would do all of the mentioned practices. This actually means that all of the practices were important to the business only that “offering more credits to the customers” would be detrimental to the business and that is why only 2.3% of the respondents had it as a choice. In terms of skewness, the results pertaining to this variable reported a left skewness of (-0.128) meaning the Mean (3.07) is greater than the Mode (4). This is represented comprehensively in Table 4.3.

4.4.1.8 Impact of Associating with VC on Sales Improvement

It is also important to note that 96.5% of the respondents agree that through associating with the venture capital, they have experienced improvement in their sales. This leaves a 3.5% who say that they do not associate that with the Venture Capital. It may not be a coincident because the same percentage responded to the issue of “effort coupled with good management begets sales regardless of capital” by not giving their position (did not respond to it). This may mean that it is the same percentage that does not know the essence of proper management hence could not tell the difference that lies in association with or not associating with Venture Capitalist. In terms of skewness, the results pertaining to this variable reported a right skewness of (+4.160) meaning the Mean (1.03) is less than the Mode (1). This is represented comprehensively in Table 4.3.

4.4.1.9 How SME’s Sales have improved

39
The last question under this objective sought to know the extent to which the SMEs’ sales have improved due to the association with the venture capital. On this, the data can still be comparable to the previous result because 4.7% still say “Not at all” while we see great percentage – 57% responding to a promising affirmative (“To a great extent 27.9% ; To a very great extent 29.1%). These findings showed that there was agreement that association with VC led to improvement of sales because even “To a little extent” – 7% and “Moderately” - 31.4% were still in agreement that it contributed to the sales. This is represented comprehensively in Table 4.3.

Table 4.3: Views on Monthly Sales and Improvements

<table>
<thead>
<tr>
<th>Information</th>
<th>Categories</th>
<th>Response %</th>
<th>Mean</th>
<th>SD</th>
<th>Mode</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales on</td>
<td>Below 50%</td>
<td>81.4%</td>
<td>1.19</td>
<td>0.391</td>
<td>1</td>
<td>1.642</td>
</tr>
<tr>
<td>monthly</td>
<td>Above 50%</td>
<td>18.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>purchases</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Content on</td>
<td>Yes</td>
<td>65.1%</td>
<td>1.35</td>
<td>0.479</td>
<td>1</td>
<td>0.646</td>
</tr>
<tr>
<td>Sales</td>
<td>No</td>
<td>34.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Means of Sales improvement</td>
<td>Increase purchases</td>
<td>33.7%</td>
<td>3.07</td>
<td>1.679</td>
<td>4</td>
<td>-0.128</td>
</tr>
<tr>
<td></td>
<td>More credits to customers</td>
<td>2.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>After-sales services</td>
<td>19.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Marketing with sales</td>
<td>11.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>All of the above</td>
<td>32.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement on sales through VC</td>
<td>Yes</td>
<td>96.5%</td>
<td>1.03</td>
<td>0.185</td>
<td>1</td>
<td>4.160</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>3.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of improvement</td>
<td>Not at all</td>
<td>4.7%</td>
<td>3.70</td>
<td>1.107</td>
<td>4</td>
<td>-546</td>
</tr>
<tr>
<td></td>
<td>A little extent</td>
<td>7.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.4.2 The Impact of Venture Capital on Profits on SMEs

The researcher had a second objective that was designed to assess the impact of venture capital on profits in SMEs. Under this, the researcher had ten questions to help in unravelling this fact.

4.4.2.1 Monthly Percentage Profit and Contentment

The first question under this objective that the researcher assessed was to know the monthly percentage profit of the SMEs on their monthly purchases. According to the respondents 81.4% of them made a profit below fifty percent while 18.6% of them made profit above fifty percent. The second to this question wanted to know whether they were content with the profit they were making. On this 43% agreed that they were content with the profit they were making while 57% were of the contrary opinion that they were not content. The researcher presented the findings of the first two questions in Figure 4.2 below for comparison at a glance.
4.4.2.2. Association with VC and Profitability

The researcher also sought to know whether the participants agreed that through their association with VC, they had gained experience in their business and if that translated to profitability. On this, 95.3% agreed – said “Yes” to this; while 4.7% said “No” for disagreeing to the statement. It is also worth reporting that the results of this measured variable are skewed to the right (+1.139) meaning many respondents leaned to the yes side; the Mean, therefore, becomes bigger than the mode which is 1. This is represented comprehensively in Table 4.4.

4.4.2.3 Profit Gain accordance to Association with VC

The other question under this objective wanted to evaluate to what extent this association had enabled them to gain the said profitability; to which 4.7% reported “Not at all” this is in congruence with ones that said “No” to the complementary preceding question. The rest were
in agreement whereby 36% of the respondents gave a resounding response “To a very great extent”; 15.1% - to a great extent, 27.9% - Moderately, and 16.3% - to a little extent. On this measured variable, the skewness was to the left (-0.324) meaning that the mean reports lesser amount (3.62) as compared to the mode (5). The information above is presented at a glance on the Table 4.4.

### Table 4.4: Information on Monthly Profitability

<table>
<thead>
<tr>
<th>Information</th>
<th>Categories</th>
<th>Response</th>
<th>Mean</th>
<th>SD</th>
<th>Mode</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endorsement on Profitability</td>
<td>Yes</td>
<td>95.3</td>
<td>1.26</td>
<td>0.439</td>
<td>1</td>
<td>1.139</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>4.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extent of profitability</td>
<td>Not at all</td>
<td>4.7</td>
<td>3.62</td>
<td>1.257</td>
<td>5</td>
<td>-324</td>
</tr>
<tr>
<td>To a little extent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderate</td>
<td></td>
<td>27.9</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To a great extent</td>
<td></td>
<td>15.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To a very great extent</td>
<td></td>
<td>36.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the fifth question under this objective, the researcher wanted to assess the respondents’ thought on the diversification if it has brought profitability to the respondents’ business through association with VC. On this issue 74% of the respondents answered “Yes” meaning that they were in agreement that diversification in doing business has brought profitability to
their businesses through associating with the venture capital. 26% of the respondents did not agree with this statement.

**Figure 4.3 Diversification on Profitability**

4.4.2.6 Selected Ratings on the Impact of VC on Profits in SMEs

The remaining questions - sixth, seventh, eighth, ninth, tenth - under this objective were organized in likert scale and the researcher wanted the respondents to respond by ticking: 1 – Strongly disagree, 2 - disagree, 3 – Don’t know, 4 – Agree, 5 – Strongly Agree. The results were presented in the Table 4.5.

The researcher wanted to know the position of the respondents on various issues that pit VC with the profits of the SMEs. In order to come up with the result, study weighed the response of the respondents on a five point Likert Scale by asking them to indicate their level of affirmation with a number of statements by placing a tick against the stamen in stating how they view the statement in relation to how Impacts of Venture Capital on Profits in SMEs: 1- Not at all, 2-Little extent, 3-Moderate extent, 4-Great extent, 5-Very great extent. The
findings were presented as in the table 4.5 above. The Mean (M) indicates where majority aggregated, while the Standard Deviation (SD) shows the strength of dispersion.

On the issue of whether VC has enabled the business’ profit margin to be sustainable, thus enabling the expansion; the respondents seemed to be in agreement with this as it reported a M = 3.62 and SD = 1.382. On whether “There are some other factors that also affect my profitability which include the government policies (unfriendly), corruption, and competition” M = 3.53 and SD = 1.369. On “Lack of financial training may not translate to profitability” M = 3.64 and SD = 1.388. On Whether “Sales on credit causes difficulty in reaching break-even and attain profitability” they reported M = 3.5 and SD of 1.404. On the issues whether “Good profit that I make enables me to meet other financial obligations outside the business” M = 3.27 and SD = 1.451. Of importance to report is that the results are skewed to the left for all the measured variables; this means that the modes are greater than the means as can be seen from the resultant table.

Table 4.5 Selected Ratings on the Impact of VC on Profits in SMEs

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>M</th>
<th>SD</th>
<th>Mod</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>VC has enabled the business’ profit margin to be sustainable, thus enabling the expansion</td>
<td>10.5</td>
<td>14.0</td>
<td>16.3</td>
<td>22.1</td>
<td>37.2</td>
<td>3.6</td>
<td>1.382</td>
<td>5</td>
<td>-0.590</td>
</tr>
<tr>
<td>Other factors such as government policies, corruption, and competition affect profitability</td>
<td>10.5</td>
<td>16.3</td>
<td>15.1</td>
<td>25.6</td>
<td>32.6</td>
<td>3.5</td>
<td>1.369</td>
<td>5</td>
<td>-0.511</td>
</tr>
<tr>
<td>Lack of financial training may not translate to</td>
<td>11.6</td>
<td>12.8</td>
<td>11.6</td>
<td>27.9</td>
<td>36.0</td>
<td>3.6</td>
<td>1.388</td>
<td>5</td>
<td>-0.701</td>
</tr>
</tbody>
</table>
Sales on credit causes difficulty in reaching break-even and attain profitability.

Good profit that I make enables me to meet other financial obligations outside the business.

### 4.4.3 Venture Capital and how it Influences the Market Size of SMEs

The researcher came up with a third objective that sought to evaluate how Venture Capital has influenced the market size of the SMEs. On this issue, she came up with nine questions to help in evaluation according to the objective.

#### 4.4.3.1 Return On Investment on Seed Capital

The first question under this objective was to find out whether the Return On Investment on the seed capital given by the VC has contributed significantly to the respondent’s business; of which 93% affirmed the statement by selecting “Yes” leaving a paltry 7% on the “No” side. Two succeeding questions also arose from the first one where the researcher wanted the respondents to estimate their ROI per year before the support by VC as well as estimation of the same after the support by the VC. On this before the VC - result were that 77.9% of the respondents reported a below fifty percent profit while 14% reported above fifty percent and 8.1% did not know. After receiving the VC’s help, 68.6% of the respondents reported a profit of below fifty percent while 23.3% reported a profit above fifty percent and still 8.1% did not know. This statistics is presented on Figure 4.4 below.
4.4.3.2 Impact of VC on expansion and Market Size of SMEs

Still on this section, the remaining questions - fourth, fifth, sixth, seventh, eighth, and ninth - under this objective were organized in likert scale and the researcher wanted the respondents to respond by ticking: 1 – Strongly disagree, 2 – disagree, 3 – Don’t know, 4 – Agree, 5 – Strongly Agree. The results were presented in the Table 4.6.

On this, the researcher wanted to know the position of the respondents on various issues that touch on SMEs’ expansion and market size in relation to its association with VC.

The respondents seem to be unanimous on the view that “VC has enabled me to gain competitive advantage over my competitors making my market size to grow” due to its score of M = 4.07 and SD = 1.196. This is comparable to the view that “Because of VC I’ve managed to gain expansion of the business and have not remained stagnated” (M = 3.69 and SD = 1.383) that also scored highly.
Most of the SMEs also seem to be satisfied with their business as this had a mean of 3.31 and a SD of 1.457. On the other issues, the respondents’ view seemed to be receding to the moderate with the lower ones rated as M = 3.21 and SD = 1.294 for “VC has enabled me to grow my market size” and M = 3.20 and SD = 1.3 for a view “Because of the VC my business reached break-even faster and fast profitability.”

The remaining view “Because of the VC I was able to plough back profit into business for farther expansion” reported M = 3.28 and SD = 1.436. Of importance to report is that the results are skewed to the left for all the measured variables; this means that the modes are greater than the means.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>M</th>
<th>SD</th>
<th>Mode</th>
<th>Skewness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Because of the VC my business reached break-even faster and fast profitability</td>
<td>11.6</td>
<td>22.1</td>
<td>19.8</td>
<td>27.9</td>
<td>18.6</td>
<td>3.20</td>
<td>1.300</td>
<td>4</td>
<td>-0.180</td>
</tr>
<tr>
<td>Because of the VC I was able to plough back profit into business for farther expansion</td>
<td>14.0</td>
<td>23.3</td>
<td>10.5</td>
<td>25.6</td>
<td>26.7</td>
<td>3.28</td>
<td>1.436</td>
<td>5</td>
<td>-0.238</td>
</tr>
<tr>
<td>Because of VC I’ve gained expansion of the business</td>
<td>11.6</td>
<td>11.6</td>
<td>10.5</td>
<td>29.1</td>
<td>37.2</td>
<td>3.69</td>
<td>1.383</td>
<td>5</td>
<td>-0.780</td>
</tr>
<tr>
<td>VC has enabled me to grow my market size</td>
<td>11.6 20.9 20.9 27.9 18.6</td>
<td>3.21 1.294 4 -0.260</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
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<td>---------------------</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am satisfied with my business’ market size</td>
<td>14.0 23.3 9.3 24.4 29.1</td>
<td>3.31 1.457 5 -0.263</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VC has enabled me to gain competitive advantage over my competitors making my MS grow</td>
<td>7.0 5.8 8.1 31.4 47.7</td>
<td>4.07 1.196 5 -1.362</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 4.5 Inferential Statistics

The purpose of the study was to investigate the influence of venture capital on growth of small and medium enterprises in Nairobi County. Our specific objectives in this study included the venture capital’s impact on sales in SMEs in Nairobi County, the impacts of Venture Capital on Profits in SMEs in Nairobi County, and how the venture capital and how it influences the market share of SMEs in Nairobi County. Looking at both the specifics and the purpose of the study we realize that growth on, sales as a variable that impacts on the expansion of a business/ market share, and profit that also impacts on expansion of a business/ market share. In the inferential statistics we compared these variables in order to come up with conclusion as far as the purpose of the study is concerned. The detailed discussions below show the inferential statistics as per the specific objectives.

#### 4.5.1 Impact of Venture Capital on Sales in SMEs

The first objective was to determine how venture capital impact on the sales of SMEs. The coefficient of determination (R squared) of 0.016 shows that 1.6% of SMEs growth, although not statistically significant, can be explained by the sales by SMEs. The adjusted R-square of 0.005 indicates that sales by SMEs explained the change in growth of SMEs by a small statistics of 0.5%, the remaining percentage can be explained by other factors excluded from
the model; R of 0.128 shows that there is positive correlation between sales by SMEs and SMEs’ growth. The standard error of estimate (1.206) indicates the average deviation of the independent variables from the line of best fit. Table 4.7 shows the results that have been just discussed.

Table 4.7 Model Summary on Growth of Business and Sales by SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.128a</td>
<td>.016</td>
<td>.005</td>
<td>1.206</td>
</tr>
<tr>
<td></td>
<td>a. Predictors: (Constant), Percentage sales per month</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author (2019).

As shown in Table 4.8, the result of Analysis of Variance (ANOVA) for regression coefficient indicated that (F=1.408, p value = 0.239). As per this result we can see that the p-value is more than 0.05. This implies that there is no significant relationship between the sales by SMEs and growth of the SMEs.

Table 4.8 The ANOVA on Sales by SMEs and Growth of SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regression</td>
<td>2.047</td>
<td>1</td>
<td>2.047</td>
<td>1.408</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>122.093</td>
<td>84</td>
<td>1.453</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>124.140</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Dependent Variable: Growth of Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Predictors: (Constant), Percentage sales per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.9 helps me analyze the relationship between the variables (sales by SMEs and growth of SMEs); thus, the study sought to determine whether sales by SMEs have a
significant effect on growth of SMEs. The study findings showed that there was no significant relationship between sales by SMEs and growth of SMEs ($\beta=0.396$ and $p$ value=$0.239$). This does not necessarily mean that a unit increase in sales by SMEs would lead to an increase in growth of SMEs by 12.8%. It can increase it by 12.8% or decrease it by the same percentage as per the findings (factors like management of revenues come into play).

Table 4.9 Model Coefficients on Sales by SMEs and Growth of SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.832</td>
<td>.417</td>
<td>4.393</td>
<td>.000</td>
</tr>
<tr>
<td>1</td>
<td>Percentage sales per month</td>
<td>.396</td>
<td>.334</td>
<td>.128</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth of Business

The resultant model:

$$Y = 1.832 + 0.396X_1$$

4.5.2 The Impacts of Venture Capital on Profits in SMEs

The second objective was to determine the impacts of Venture Capital on profits in SMEs. The coefficient of determination ($R$ squared) of 0.056 shows that 5.6% of SMEs growth can be explained by the profitability. The adjusted R-square of 0.045 indicates that sales by SMEs explained the change in growth of SMEs by a small statistics of 4.5%, the remaining percentage can be explained by other factors excluded from the model; $R$ of 0.236 shows that there is positive correlation between SMEs’ profit and the growth of SMEs. The standard error of estimate (1.181) indicates the average deviation of the independent variables from the line of best fit. Table 4.10 shows the results that have been just discussed.

Table 4.10 Model Summary on Growth of Business and Profits on SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>$R$</th>
<th>$R$ Square</th>
<th>Adjusted $R$ Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
</table>
As shown in Table 4.11, the result of Analysis of Variance (ANOVA) for regression coefficient indicated that (F=4.966, p value = 0.029). As per this result we can see that the p-value is less than 0.05. This implies that there exist a significant relationship between the profits of SMEs and growth of the SMEs.

Table 4.11 ANOVA on Growth of Business and Profits on SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.929</td>
<td>1</td>
<td>6.929</td>
<td>4.966</td>
<td>.029</td>
</tr>
<tr>
<td>Residual</td>
<td>117.210</td>
<td>84</td>
<td>1.395</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>124.140</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth of Business
b. Predictors: (Constant), Through associating with VC, you’ve improved on profitability

Table 4.12 helps analyze the relationship between the variables (profits of SMEs and growth of SMEs); thus, the study sought to determine whether profits by SMEs has a significant effect on growth of SMEs. The study findings showed that there was a positive significant relationship between profits by SMEs and growth of SMEs (β=0.651 and p value=0.029). This therefore, means that a unit increase in profits made by SMEs would lead to a corresponding increase in business growth by 23.6% (Beta 0.236). We could conclude that profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding.

Table 4.12 Growth of Business and Profits in SMEs Regression Weights Model

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.119</td>
<td>.388</td>
<td>8.037</td>
<td>.000</td>
</tr>
</tbody>
</table>
Through associating with VC, you’ve improved on profitability. The resultant model:

\[ Y = 3.119 + 0.651X_2 \]

4.5.3 Venture Capital and how it Influences the Market Size of SMEs

On the analysis of regression, the results showed significant association between growth of the SMEs and the market size. The coefficient of determination (R-squared) of 0.57 indicates that 57% of SMEs growth can be explained by the SMEs’ market size. The adjusted R-square of 0.046 further depicts that SMEs’ market size explained the change in SMEs’ growth by 4.6%. The remaining percentage can be explained by other factors excluded from the model. These results are indicated in Table 4.13.

Table 4.13 Growth of Business and Market Size of SMEs

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adj R²</th>
<th>Std. Error of the Estimate</th>
<th>R² Change</th>
<th>F</th>
<th>Df</th>
<th>Sign.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.239a</td>
<td>0.57</td>
<td>0.046</td>
<td>1.180</td>
<td>0.57</td>
<td>5.107</td>
<td>84</td>
<td>0.002</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), I’m satisfied with my business’ market size

The study used F-statistics to measure of model validity as reflected in Table 4.14 that showed a significant relationship between business market size and growth of the business.
(F=5.107, p value =0.002) and at least the slope (β coefficient) is not zero. Therefore, it can be concluded that the model was valid.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.114</td>
<td>1</td>
<td>7.114</td>
<td>5.107</td>
<td>0.002b</td>
</tr>
<tr>
<td>Residual</td>
<td>117.025</td>
<td>84</td>
<td>1.393</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>124.140</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth of Business
b. Predictors: (Constant), I'm satisfied with my business' market size

The study sought to evaluate how Venture Capital influences the market size of the SMEs; on this, the study looked into growth in relation to the market share. The finding revealed that there was a positive relationship between growth and the market share (β=0.199 and p-value=0.000) as shown in Table 4.15. This therefore, means that a unit increase in market size would lead to a corresponding increase in business growth by 23.9% (Beta 0.239). We could conclude that market size had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences market size of SMEs positively through their funding.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>B 1.644</td>
<td>Std. Error .318 Beta .239</td>
</tr>
<tr>
<td>1 I'm satisfied with my business' market share</td>
<td>.199 .088 .239</td>
<td>2.260 .002</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Growth of Business

The resultant model:

\[
Y = 1.644 + 0.199X_3
\]
The researcher went ahead to do a composite regression analysis that generated the results as presented in Table 4.16.

The aim of the composite regression was to find out the most positive relationship between the measured variables and the growth of the SMEs. This therefore showed that satisfaction with the market share had a positive relationship with growth of SMEs (β=0.24 t=2.225 p value = 0.029). This still shows that a unit increase in market size would create an increase in growth of SMEs by 24%. The second most significant is in the influence through improvement of profitability (β=0.091 t=0.833 p value = 0.047). A unit increase in profitability of SMEs will lead to a corresponding increase in growth of SMEs by 9.1%. Lastly is the “monthly sales” (β=0.084 t=0.773 p value = 0.042). This means that a unit increase in sales by the SMEs will lead to a unit growth or degrowth based on the management of the proceeds from sales as previously explained.

### 4.16 The Composite Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>P Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.868</td>
<td>.800</td>
<td>-.800</td>
<td>.108</td>
</tr>
<tr>
<td>Sales per month</td>
<td>.259</td>
<td>.335 .084</td>
<td>.108</td>
<td>.773</td>
</tr>
<tr>
<td>Improvement of profitability</td>
<td>.518</td>
<td>.622 .091</td>
<td>.109</td>
<td>.833</td>
</tr>
<tr>
<td>Satisfied with market share</td>
<td>.202</td>
<td>.091 .244</td>
<td>.110</td>
<td>2.225</td>
</tr>
</tbody>
</table>

A Dependent variable: Growth of Business

According to composite regression coefficients
\[ Y_0 = 1.868 + 0.259X_1 + 0.518X_2 + 0.202X_3 \]

**4.6 Chapter Summary**

The chapter starts with a brief introduction, followed by the response rate, descriptive statistics in line with specific objectives, inferential statistics in line with the specific objectives, and the chapter summary. Chapter five follows; where summary of the study is presented, the conclusion, and the recommendations.

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**CHAPTER FIVE**

**5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS**

**5.1 Introduction**

In this chapter of the study, it presents the discussion on the findings that have been presented on the previous chapter from as it purpose to the findings as it indulges in comparison of the findings with the literature that have been reviewed. The section also presents the summary of the study and the recommendations for further improvement in this sector SMEs so that the businesses should grow to success. The study is eventually concluded on the basis of the findings as per the research questions.

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5.2 Summary

The purpose of the study was to ascertain the impact of venture capital on growth of Small and Medium Enterprises in Nairobi County. The study was guided by three research questions which included: how does venture capital impact on sales in SMEs in Nairobi County?, what is the impact of venture capital on profits in SMEs in Nairobi County?, and does venture capital influence the market size of SMEs in Nairobi County?

The study concentrated on the three dependent variables which include sales of the SMEs, profits of SMEs, and the market share of SMEs as the study scope. The study was limited to recruiting small and medium enterprises that are within the Nairobi County that have benefited from venture capital financing between 2010 and 2017. The study applied cross-sectional design that is explanatory approach on the influence of venture capital regulation on the accessibility of capital to and growth of small business in Nairobi County. The closed-ended designed questionnaires were used to collect primary data from the sample size of 155 SMEs through purposive sampling. The data analysis was done through the help of Statistical Package for Social Science (SPSS). Inferential statistics was used as it helped in comparing the variables under the study. The descriptive data were then presented as per the analysis together with the inferential statistics were regression analysis and ANOVA of the compared variables under study.

The study established that the relationship between sales by SMEs and growth of SMEs depended on the management of the proceeds; profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding; and that market share had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences market size of SMEs positively through their funding. The coefficient of determination (R squared) of 0.016 showed that 1.6% of SMEs growth can be explained by the sales by SMEs (p value = 0.239) while the adjusted r square = 0.005. The coefficient of determination (R squared) of
0.056 showed that 5.6% of SMEs growth can be explained by the profitability (p value = 0.029); the adjusted r square = 0.045. The coefficient of determination (R-squared) of 0.57 indicated that 57% of SMEs growth can be explained by the SMEs’ market size (p value = 0.002); the adjusted r square = 0.046. The study findings showed that there was a negative significant relationship between sales by SMEs and growth of SMEs (β=0.396 and p value=0.239). This does not necessarily mean that a unit increase in sales by SMEs would lead to an increase in growth of SMEs by 12.8%. It can either increase it by 12.8% or decrease it by the same percentage. Though there is no significant relationship between sales and growth of SMEs 1.6% of their growth, if any, is attributed to sales. This was informed by the coefficient of determination (R squared) of 0.016; p value of 0.239; and the adjusted r square of 0.005.

The second objective that was designed to assess the impact of venture capital on profits in SMEs found, that 81.4% of the respondents made a profit below fifty percent while 18.6% of them made profit above fifty percent. On another important issue, the participants agreed that through their association with VC, they had gained experience in their business and if that translated to profitability. This was endorsed by 95.3% agreed who said ‘Yes’ to the question. On another question, the researcher wanted to know whether they were content with the profit they were making. On this 43% agreed that they were content with the profit they were making while 57%. On the issue of whether VC has enabled the business’ profit margin to be sustainable, thus enabling the expansion; the respondents seemed to be in agreement with this as it reported a M = 3.62 and SD = 1.382. On whether “There are some other factors that also affect my profitability which include the government policies (unfriendly), corruption, and competition” M = 3.53 and SD = 1.369. On “Lack of financial training may not translate to profitability” M = 3.64 and SD = 1.388. On Whether “Sales on credit causes difficulty in reaching break-even and attain profitability” they reported M = 3.5 and SD of 1.404. On the issues whether “Good profit that I make enables me to meet other financial obligations outside the business” M= 3.27 and SD = 1.451. As per inferential
statistics, it was deduced that a unit increase in profits made by SMEs would lead to a corresponding increase in business growth by 23.6% (Beta 0.236). Furthermore, the 5.6% shows the growth that came as a result of profitability. This was informed by the coefficient of determination (R squared) of 0.056; p value = 0.029; the adjusted r square = 0.045. Of common knowledge is the fact that business do grow if there are profits. On this point, it can be explained that any business venture must be said to experiencing growth if it generates profits. One that grows as a result of external financial growth cannot claim growth. This means profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding. A business that cannot regenerate its finances is termed as a failed business venture.

The third objective was on the how Venture Capital Influences the Market Size of SMEs. On this 93% of the respondents agreed that the Return On Investment on the seed capital given by the VC contributed significantly to the respondent’s business. The profits of the respondents improved after the assistance by the VC. Because before the VC, 77.9% of the respondents reported a below fifty percent profit as compared to 68.6% of the respondents reported a profit of below fifty percent while 23.3% reported a profit above fifty percent. On comparing the means about those that said VC had enabled them to gain competitive advantage over their competitors making their market size to grow seemed strong on this due to its score of M = 4.07 and SD = 1.196. This is comparable to the view that “Because of VC I’ve managed to gain expansion of the business and have not remained stagnated” (M=69 and SD = 1.383) that also scored highly. Most of the SMEs also seem to be satisfied with their business as this had a mean of 3.31 and a SD of 1.457. On the other issues, the respondents’ view seemed to be receding to the moderate with the lower ones rated as M = 3.21 and SD = 1.294 for “VC has enabled me to grow my market size” and M = 3.20 and SD = 1.3 for a view “Because of the VC my business reached break-even faster and fast profitability.” The remaining view “Because of the VC I was able to plough back profit into business for farther expansion” reported M = 3.28 and SD = 1.436. The inferential result found that there was a
positive relationship between growth and the market size (β=0.199 and p-value=0.000) as shown in Table 4.13. This therefore, means that a unit increase in market size would lead to a corresponding increase in business growth by 23.9% (Beta 0.239). Furthermore, a growth of 57% of SMEs was as a result of market size. This was informed by the coefficient of determination (R-squared) of 0.57 and a ‘p value =0.002’; the adjusted r square = 0.046. The study could conclude that market size had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences market size of SMEs positively through their funding.

5.3 Discussion

5.3.1 The Venture Capital’s impact on Sales in SMEs

The first research question was about the evaluation of how the venture capital impacted on the sales of the SMEs the following could be reported that 76.7% of the respondents had a capital that is less than Ksh.25000. This showed that small capital should not be a discouragement from business. Regardless of the amount one uses to start business one should just strive to maintain the business. However, 96.5% of the respondents agreed that the amount for start-up actually impacted on their sales. Training was also found to play an integral part on the daily running of the business. On this, nearly every respondent was subjected to training because the affirmative response stood at 96.5%. The results serve to underscore the importance of training. Training is the only way humans improve their skills in whichever aspect of life. This underscores the importance of SMEs capacity building from time to time. This is supported by Sumari, (2013) who emphasizes on constant acquisition of skills by entrepreneurs. Association with VC was found to good for the SMEs as it helped them in raising their sales; we see great percentage – 57% responding to a promising affirmative (“To a great extent 27.9%; To a very great extent 29.1%).
The study findings showed that there was a negative significant relationship between sales by SMEs and growth of SMEs ($\beta=0.396$ and $p$ value=0.239). This does not necessarily mean that a unit increase in sales by SMEs would lead to an increase in growth of SMEs by 12.8%. It can either increase it by 12.8% or decrease it by the same percentage. More sales do not necessarily translate to growth just because goods are moving; this is because one may be making more big sales but at a loss. Though there is no significant relationship between sales and growth of SMEs; 1.6% of their growth, if any, is attributed to sales. This was informed by the coefficient of determination (R squared) of 0.016; $p$ value of 0.239; and the adjusted r square of 0.005.

This actually agrees with what Storbacka, Ryals, Davies, & Nenonen (2009) say that large sales do not automatically translate to growth of the business. This is because, may be, revenues arising from sales can be misappropriated (lack of reinvestment), the monies may be used in the household budget without taking care of the business account, or the business may be making large sales but on credit (Storbacka, Ryals, Davies, & Nenonen, 2009).

According to the theory that guided the study under this objective BSC suggests that for a better management of business, there is the need to view organization’s performance from four dimensions namely: from an internal perspective, from a customer perspective, financial perspective, and from innovation & learning perspective (Kaplan & Norton 1996). It goes without affirming that doing business needs proper insight coupled with training in order to handle all the facts that have been mentioned by the BSC theory. This is why the venture capital insists on training of the SMEs before they access the funds. This could also be reflected by the findings that showed that 96.5% of the respondents went through training before the funds were disbursed to them and those who did not get this training stood at a negligible 3.5%. The 3.5% said they were not there at the start of the business because they had taken over from their kins. Training entails different aspects of doing business such that when the proprietors got such trainings they would be at a position to influence their
businesses from different aspects that have been high-lighted by the theory (from an internal perspective, from a customer perspective, financial perspective, and from innovation & learning perspective).

In looking at the gap that the study identified, we reported that Lawrie, Abdullah, Bragg, and Varlet, (2016) underscored the financial management and business ethics as some of the issues that business organizations should look into in order to succeed but did not relate it to the sales of the business and how it impacted on growth. Even though they did not directly look at the venture capital as far as the objective of their study was concerned, the current study found their information vital as it gives some of the variables that they used in coming up with the report. The study has now made us understand that venture capital emphasizes on training that would also ensure that growth is attained by ensuring that the sales revenues were reinvested into the business. This can also buttress Biney (2018) study that underscored the importance of Venture Capital Financing on SMEs Growth as vital only that his study did not touch on sales as part of his variables; which the current study has addressed.

5.3.2 The Impacts of Venture Capital on Profits in SMEs
The second objective that was designed to assess the impact of venture capital on profits in SMEs found, that 81.4% of the respondents made a profit below fifty percent while 18.6% of them made profit above fifty percent. The second to this question wanted to find out whether they were content with the profit they were making. On this 43% agreed that they were content with the profit they were making while 57% were not content. Contentment is an aspect that is relative in respect to one’s ambition. But we can as well deduce that failure to be content can be triggered by the urge to get more and to develop faster. Analysed in this perspective, we can say that it was healthy for the 57% of the respondents not to be content
with their profit regardless of magnitude of their profitability. According to Calopa, Horvat, & Lalic (2014) contentment in business management should be elusive in nature because attainment of absolute development in any organization is never accomplished. This is because every year business entities come back for reflection and drawing up of new strategies notwithstanding the success of the organization.

It can be reported that the participants agreed that through their association with VC, they had gained experience in their business and this had translated to profitability. This was endorsed by 95.3% agreed who said ‘Yes’ to the question. This shows the importance of VC to the SMEs. On another question where the researcher wanted to know whether the respondents were content with the profit they were making; 43% agreed that they were content with the profit they were making while 57%. On the issue of whether VC has enabled the business’ profit margin to be sustainable, thus enabling the expansion; the respondents seemed to be in agreement with this as it reported a M = 3.62 and SD = 1.382. The issue of profit is an important aspect in the business and that is why the researcher sought the views of respondents on this. This is because profit informs the reinvestment and the consequential expansion of the business as explained by McDonald, Rogers, & Woodburn (2000).

On the issue whether there are some other factors that also affect the profitability which include the government policies (unfriendly), corruption, and competition” the response attracted M = 3.53 and SD = 1.369; while on “Lack of financial training may not translate to profitability” M =3.64 and SD = 1.388. It is important to underscore the fact that policies influence doing business on the ground as explained by Natarajan & Wyrick (2011). This means that the government must ensure that policies that are made are those that encourage investment even at the grassroots. Of importance is that training forms the basis of any business especially if the business was to gain profit and use these gains in the development of the same business (Sumari, 2013). This point can be corroborated with this point on the issues whether “Good profit that I make enables me to meet other financial obligations outside the business” M= 3.27 and SD = 1.451. We can see that it is through the proceeds of
the business that the proprietors earn a living. This means that there needs to be due diligence in management of profit in order to make good use of it both in the business and in the household front. Without sound financial management, one’s household spending may be given first priority while the reinvestment into the business becomes secondary. This gradually leads to the death or perpetual stagnation of the business.

On Whether “Sales on credit causes difficulty in reaching break-even and attain profitability” they reported M = 3.5 and SD of 1.404. Some shrewd business entities embark on sales on credit but they offer selling prices far much higher than the market price. If the sales on credit could receive a mean of this magnitude then it can be deduced that these SMEs that resort to credit sales do sell on higher prices. This issue of sales on credit can be compared with a question on objective one where the researcher wanted to know what the respondents did to increase on their sales. On offering sales on credit only 2.3% would offer credit. This meant that even though they might resort to sales on credit, it still not in their to-do list in terms of increasing sales. This is because it is not a faster way of increasing revenues. This finding is congruous to what Kamunge, Njeru, & Tirimba (2014) found that sales on credit are a recipe to slow growth.

As per inferential statistics, it was deduced that a unit increase in profits made by SMEs would lead to a corresponding increase in business growth by 23.6% (Beta 0.236). Furthermore, the 5.6% shows the growth that came as a result of profitability. This was informed by the coefficient of determination (R squared) of 0.056; p value = 0.029; the adjusted r square = 0.045. Of common knowledge is the fact that business do grow if there are profits. On this point, it can be explained that any business venture must be said to experiencing growth if it generates profits. One that grows as a result of external financial growth cannot claim growth. This means profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding. A business that cannot regenerate its finances is termed as a failed business venture.
This research question was guided by the Market Failure Theory which according to Wari & Mwangi (2015) underscores the importance of efficiency in business transaction. The theory was picked because it gives highlights to the fact that there must exist ideal conditions for resource allocation. It states that “for financers (debt and equity providers) to play a legitimate role the ideal conditions must be present and efficiency must be the most important criterion for directing resource allocation” (Waari&Mwangi, 2015). It is only prudent for the VC to allocate their funding only to the SMEs that they have assessed and found out that they can manage fund. This is why there is the aspect of emphasis on training so as to evade the market failure. When finances, services, and goods are not efficiently allocated, then we talk of the “Market Failure” as far as the finances, services, and goods were concerned. When the market failure is reported, it becomes a basis or a rationale (an efficiency-based one) for concluding that concluding that the SMEs cannot attain profitability simply because there was financial crunch (limited accessibility). The efficiency is therefore, needed on the part of both SMEs and the VC. It is imperative this way because if both or either one fails to be efficient, then failure looms in the growth of the SMEs.

The knowledge gap as per this objective under the study was filled as the current study proved by looking into profit as one of the variables that should be evaluated as one that is affected by the availability of venture capital to SMEs and has not been looked at in the reviewed literature.

5.3.3 Venture Capital and how it Influences the Market Size of SMEs

The researcher came up with a third objective that sought to evaluate how Venture Capital has influenced the market size of the SMEs. On this issue, she came up with nine questions to help in evaluation according to the objective. The first question under this objective was to find out whether the Return On Investment on the seed capital given by the VC has contributed significantly to the respondent’s business; of which 93% affirmed the statement by selecting “Yes” leaving a paltry 7% on the “No” side. This showed the importance of
financial aid to SMEs and thus struggling businesses should not be left alone to struggle as they form important part in the economy of our country as explained by Florida and Kinga, (2016).

Two succeeding questions also arose from the first one where the researcher wanted the respondents to estimate their ROI per year before the support by VC as well as estimation of the same after the support by the VC. On this before the VC result were that 77.9% of the respondents reported a below fifty percent profit while 14% reported above fifty percent and 8.1% did not know. After receiving the VC’s help, 68.6% of the respondents reported a profit of below fifty percent while 23.3% reported a profit above fifty percent and still 8.1% did not know. The statistics showed an increase in performance as far as profitability was concerned. This is because, before the aid by the VC only 14% of the SMEs could make a profit of above fifty percent; but after the aid by the VC many could make above fifty percent profit.

The VCs have also enabled the respondents to gain a competitive advantage over the others i.e. “VC has enabled me to gain competitive advantage over my competitors making my market share to grow” due to its score of M = 4.07 and SD = 1.196. This big mean can only tell that the market sizes of the respondents were influenced by their association with the VCs. This is comparable to the view that “Because of VC I’ve managed to gain expansion of the business and have not remained stagnated” (M=3.69 and SD = 1.383) that also scored highly. Most of the SMEs proprietors also seem to be satisfied with their business as this had a mean of 3.31 and a SD of 1.457. On the other issues, the respondents’ view seemed to be receding to the moderate with the lower ones rated as M = 3.21 and SD = 1.294 for “VC has enabled me to grow my market size” and M = 3.20 and SD = 1.3 for a view “Because of the VC my business reached break-even faster and fast profitability.” The remaining view “Because of the VC I was able to plough back profit into business for farther expansion” reported M = 3.28 and SD = 1.436
The inferential result found that there was a positive relationship between growth and the market size ($\beta=0.199$ and p-value=0.000) as shown in Table 4.13. This therefore, means that a unit increase in market size would lead to a corresponding increase in business growth by 23.9% (Beta 0.239). Furthermore, a growth of 57% of SMEs was as a result of market size. This was informed by the coefficient of determination (R-squared) of 0.57 and a ‘p value =0.002’; the adjusted r square = 0.046. The study could conclude that market size had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences market size of SMEs positively through their funding. It has been shown the importance of market size to a business. From these findings the researcher can attest to the fact that when a market size of a given business is big enough, there is a resultant commensurate growth of the business.

The research question was guided by the Financial inclusion Theory that avers that there is “a process of ensuring access to appropriate financial services and products needed by all sections of the society including the vulnerable groups such as weaker sections and low income groups, at an affordable cost, in a fair and transparent manner, by mainstream financial services providers” (Chakrabarty, 2011). For SMEs to have higher market size in their respective different industries they should enjoy inclusivity in the programs of venture capitalists. The study has found out that the VCs do not only contribute to the growth of the market size of the SMEs, but also make this funding available at the right time when the SMEs have acquired the necessary training for the running of the business.

5.4 Conclusions

5.4.1 The Venture Capital’s impact on Sales in SMEs

The study sought to determine the Venture Capital’s impact on Sales in SMEs. The study established that the relationship between sales by SMEs and growth of SMEs depended on the management of sales proceeds($\beta=0.396$ and p value=0.239). This does not necessarily mean that a unit increase in sales by SMEs would lead to an increase in growth of SMEs by
12.8%. It can either increase it by 12.8% or decrease it by the same percentage. The research question one “how does venture capital impact on sales in SMEs in Nairobi County?” was answered by the realization from the findings that venture capital impacted on sales of SMEs; only that the way the sales were managed would either contribute to the growth of the SMEs or stagnation.

5.4.2 The Impacts of Venture Capital on Profits on SMEs

The study sought to evaluate the impacts of Venture Capital on Profits on SMEs. The study found out that a unit increase in profits made by SMEs would lead to a corresponding increase in business growth as demonstrated in chapter four. This means profits by SMEs had a significant effect on growth of the SMEs giving us a further conclusion that Venture Capital influences profits of SMEs positively through their funding. The research question two “what is the impact of venture capital on profits in SMEs in Nairobi County?” was answered as per the findings presented here. Having stated that an increase in sales in a unit profit made by SMEs leads to an increase in business growth; it implies that the venture capitalists by contributing to the profitability of SMEs normally impact on their profits.

5.4.3 Venture Capital and how it Influences the Market Sizes of SMEs

The study lastly sought to evaluate how venture capital influences the Market Size of SMEs. A unit increase in market size would lead to a corresponding increase in business growth as reflected in chapter four. We could conclude that market share had a significant effect on growth of the SMEs. The third research question “does venture capital influence the market size of SMEs in Nairobi County?” was answered in the sense that Venture Capital influences market size of SMEs positively through their funding.
The researcher therefore, concluded that venture capital had great impact on the growth of small and medium enterprises in Nairobi County.

5.5 Recommendations

5.5.1 Recommendations for Improvement

The researcher came up with the following recommendations based on the findings of the study according to the research questions.

5.5.1.1 The Venture Capital’s impact on Sales in SMEs

The study recommends that proprietors of SMEs should have the necessary training coupled with adhering to good business ethics so that they may know how to manage their finances and ensure that they reinvest from the sales of the business so that profitability of the business would be realized and used in the development/growth of the business. In line with afore mentioned, it is recommended that the government comes up with a policy that compels every SMEs to undergo compulsory training regardless of whether they benefited from VC or not. This would enable them to have good business practices and management. In line with that, it is also recommended that the management of venture capital should only collaborate with the proprietors who have adopted the spirit of capacity building that would enable them to embrace all the needed management skills in their business.

5.5.1.2 The Impacts of Venture Capital on Profits on SMEs

The study also recommends that SMEs should minimize credit sales in order to ensure that their revenues are in liquid for faster development through the reinvestment of the money made from profits of the business. It is also recommended that all SMEs proprietors should have financial training to know how to manage their profits even as they cater for pressing household needs (good management of finances).
5.5.1.3 Venture Capital and how it Influences the Market Size of SMEs

The study recommends that the government should ensure that funds were made available to the serious SMERs that are struggling through good policies. Not just through the private venture capital firms. This is because the SMEs form an important part of the economy of the country as they contribute to the income per capita. This would make the SMEs expand their market size faster.

5.5.2 Recommendation for Further Study

The purpose of the study was to evaluate the impact of venture capital on growth of SMEs in Nairobi County. The study recommends further study on the importance of proper credit management of SMEs within Nairobi on both VC sponsored and those that are not sponsored by VC. The study also recommends a similar study but in a dissimilar county especially in the rural so as to see if the results are reproducible in a different rural county.

There is also a recommendation so that a further study be done on the policies that guide the venture capital in their dealing with SMEs.
REFERENCES


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Appendix I: SMEs Proprietors’ Questionnaire

Date:______________________________________________________________

Contact’s Telephone number__________________________________________

INTRODUCTION

This study is being conducted in partial fulfillment of the requirement for the degree of Master of Business Administration (MBA) in Finance that is purposed for academic qualification. You are therefore implored upon to give your honest response and opinion in accordance to the questions or information raised in this questionnaire. The information you give will be treated confidentially. This exercise will take approximately 10 minutes of your time to complete. Please select your answers by ticking the appropriate response.

SECTION ONE: DEMOGRAPHIC INFORMATION

1. Please indicate your gender:
   Female [ ]   Male [ ]

2. Please select your age bracket:
   25 and below [ ], 26 - 35 [ ], 36 – 45 [ ], 45 + [ ]

3. Would you indicate the highest level of education you have attained?
   Certificate and below [ ]
   Diploma [ ]
   Bachelor’s degree and above [ ]

4. How long have you been running this your business?
   Less than 5 Years [ ], 6 – 10 Years [ ], 11 – 15 Years [ ], Above 15 Years [ ]

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5 The kind of business the respondent run:

- Selling goods [ ]
- Selling services [ ]
- Both sales of goods & services [ ]

SECTION 2: THE VENTURE CAPITAL’S IMPACT ON SALES IN SMEs IN NAIROBI CITY COUNTY

6. Confirm if your business has received capital grand: Yes [ ] No [ ]

7. Please select your starting capital bracket for this business

- Below 25,000 [ ], 26,000 – 50,000 [ ]
- 51,000 – 100,000 [ ], Over 100,000 [ ]

8. Do you think the amount of starting capital impacts on sales? Yes [ ] No [ ]

9. Following the answer above, how does the starting capital relates to sales?

- Small capital would mean small sales and vice versa [ ]
- Effort/ good management beget sales regardless of amount of starting capital [ ]

10. Were you subjected to any training before being given financial support?

- Yes [ ] No [ ]

11. What is the percentage sales of your monthly purchases?

- Below 50% [ ], Above 50% [ ]

12. Are you content with your monthly sales? Yes [ ], No [ ]

13. If the answer to No. 10 is No, what among the following are you doing to improve?

- Increasing my purchases [ ]
Offering more credits to my customers [ ]
Give after-sales-services [ ]
Do marketing alongside sales [ ]
All of the above [ ]

14. Do you think through associating with the VC, you have experienced improvement in your sales?

Yes [ ] No [ ]

15. If the answer above is yes, to what extent is this improvement

Not at all [ ], To a little extent [ ]
To a moderate extent [ ], To a great extent [ ]
To a very great extent [ ]

SECTION 3: THE IMPACTS OF VENTURE CAPITAL ON PROFITS IN SMEs IN NAIROBI CITY COUNTY

16. What is the percentage profit of your monthly purchases?

Below 50% [ ], Above 50% [ ]

17. Are you content with your monthly profit? Yes [ ], No [ ]

18. Do you think through associating with the VC, you have experienced improvement in running the business and its profitability?

Yes [ ] No [ ]

19. If the answer above is yes, to what extent is this improvement

Not at all [ ], To a little extent [ ]
To a moderate extent [ ], To a great extent [ ]
To a very great extent [ ]

20. Do you think diversification has brought profitability to your business through association with the VC? Yes [ ] No [ ]

Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5, where 1 – Strongly disagree, 2 – disagree, 3 – Don’t know, 4 – Agree, 5 – Strongly Agree. Place a tick in the appropriate space provided.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>21. VC has enabled the business’ profit margin to be sustainable, thus enabling the expansion</td>
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<td>22. There are some other factors that also affect my profitability which include the government policies (unfriendly), corruption, and competition</td>
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<td>23. Do you think lack of financial training, whether one makes sales it may not translate to profitability</td>
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<td>24. Selling on credit brings difficulty in reaching break-even and attain profitability</td>
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<td>25. Good profit that I make enables me to meet other financial obligations outside the business</td>
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SECTION 4: VENTURE CAPITAL AND HOW IT INFLUENCES THE MARKET SHARE OF SMES IN NAIROBI CITY COUNTY

26. The Return on Investment is dependent on the seed capital given by VC has contributed significantly to my business Yes [ ] No [ ]

27. Would you estimate your Return On Investment per year before the financial support

Below 50% of the seed capital [ ]
Above 50% of the seed capital [ ]

Don’t Know [ ]

28. Would you estimate your Return On Investment per year after the financial support

Below 50% of the seed capital [ ]

Above 50% of the seed capital [ ]

Don’t Know [ ]

Please indicate the extent to which you agree with the following statements by using a scale of 1 to 5, where 1 - Not at all, 2 - To a little extent, 3 - To a moderate extent, 4 - To a great extent, 5 – To a very great extent. Place a tick in the appropriate space provided.

<table>
<thead>
<tr>
<th>Comparison statement</th>
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<tbody>
<tr>
<td>29. Because of the VC my business reached break-even faster and started enjoying profitability</td>
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<td>30. Because of the VC I was able to plough back profit into business for farther expansion</td>
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<td>31. Because of VC I’ve managed to gain expansion of the business and have not remained stagnated</td>
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<td>32. VC has enabled me to grow my market share</td>
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<td>35. I am satisfied with my business’ market share</td>
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<tr>
<td>36. VC has enabled me to gain competitive advantage over my competitors making my market share to grow</td>
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Thanks!

~END
## Appendix II Budget

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<td>Communication costs</td>
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<td>Transport costs</td>
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### Appendix III: Work plan

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<td>Determining sample design</td>
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