

**The Impact of Venture Capital Finance on Performance of Small  
and Medium Enterprises in Kenya**

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## **ABSTRACT**

Venture capital has impacted significantly on performance of Small and Medium Enterprises (SMEs) in developed countries. In Developed countries small businesses are the stepping stone of industrialization. However in the developing countries and especially Kenya venture capital has been present since 1970s yet industrialization is slow. Lack of finance has been cited as a major contributor to SMEs failure in Kenya. No studies have been done investigating the impact of venture capital in Kenya. The overall objective of this study was thus to establish the impact of venture capital on performance of SMEs in Kenya.

The research design adopted was exploratory due to the fact that venture capital is relatively an unknown area. The design also enabled the researcher to gain a deep understanding of the area. The impact methodology used in this study is where data was collected on firms before using venture capital and after using venture capital.

The target population of this study consisted of 200 SMEs that have used venture capital. The research employed a case study method of utilizing a sample of 100 SMEs that have been financed by venture capitalist in the major towns of Kenya (Nairobi, Kisumu, Nakuru & Mombasa). Data was collected through semi structured questionnaire. The e-mail system was used to send questionnaires to some firms.

Data analysis was carried out using statistical techniques with the help of computer software (SPSS and Excel). Frequency tables were prepared,

averages determined, tests of hypothesis like ANOVA, chi-square, correlation analysis were carried out.

The findings in this study revealed that venture capital has an impact on performance of SMEs they finance. Upon use of venture capital average profits doubled (Ksh 12,202,775), value of assets improved drastically (Ksh 102,547,692) as funds were available for expansion or for diversification. Sales on average also doubled (Ksh 139, 043,076) as was employment in the firms where a total of 24,802 workers were absorbed.

On assessing whether firms that use venture capital attract other sources of finance, the findings indicated that 100% confirmed that other sources of finance were willing to provide funding including banks which were initially difficult to consider SMEs for funding. There was improvement in financial management as cash planning was carried out by 98% of the firms, debt collection was satisfactory (75%) and inventory control was good (62%). Management style improved when firms used venture capital. Upon use of venture capital the findings revealed that 99% participated in decision making. The study has demonstrated that use of venture capital can be profitable in Kenya even in an inauspicious political and economic climate. The study concluded that SMEs that use venture capital experience improved performance.

Based on the above findings, the following recommendations are proposed: businesses should be encouraged to use this type of finance for economic development, more local institutions and individuals should be encouraged to join the venture capital fund to build the fund capacity for more investments.

Currently, the contributors to the fund are foreign citizens. Venture capital has potentials of assisting Kenya to achieve vision 2030 which advocates for strengthening SMEs to become key industries of tomorrow.