EFFECT OF THE STAGES OF VENTURE CAPITAL FINANCING ON THE PERFORMANCE OF TOP ONE HUNDRED MIDSIZED COMPANIES IN KENYA

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTERS OF SCIENCE IN COMMERCE (FINANCE AND INVESTMENT) AT KCA UNIVERSITY.

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DECLARATION

Declaration by the Student

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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Sign: …….…………….………… Date: ……………………….……....

I do hereby confirm that I have examined the master's dissertation of Wangui Elizabeth Njoki and have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed

Sign: …….…………….………… Date: ……………………….……....

Dr. Michael Njogo, PHD

Dissertation Supervisor

DEDICATION

My appreciation to my Mighty God who has given me the strength and will to pursue this course to the end. To Cyrus who inspires, support and protects. I couldn't have done it without you. To David Kariuki my mentor for always encouraging me to strive hard and be the best I can. Thanks for always checking on me. Lastly to my late mother Mary Wangui, a remarkable woman whom I miss every day. It was my wish for her to grace my future success endeavours but I know that I will make her proud. May her beautiful soul rest in eternal peace.

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ABSTRACT

Midsized companies in Kenya remain financially constrained due to lack of working capital and funds for expansion, thus, such businesses do not provide the much hyped role of job creation, contribution to Gross Domestic Product (GDP) and above all contribution to social economic development. This study examined the effect of venture capital financing on the performance of top one hundred midsized companies in Kenya. The specific objectives entailed determining the effect of early stage financing, expansion financing and effect of acquisition financing on the performance of top one hundred midsized companies. The study adopted descriptive research design with the target population being the top 100 midsized companies in Nairobi. The data was collected using questionnaire and analyzed using descriptive statistics and multiple regression analysis. This study found that there is a significant positive relationship between early-stage financing, expansion-stage financing, acquisition-stage financing and performance of Mid-Sized Companies in Kenya. The researcher recommends that, firms should focus their capital structure on end results as defined by growth. The order of preference reflected the relative costs of various financing options. Firms therefore should first use internal sources of finance as compared to expensive or costly external finance and that firms that are profitable and generate higher earnings are expected to use less debt than those that do not generate high earnings.

Keywords: Venture Capital financing, Performance of companies, Top 100 Mid-Sized companies

ACRONYMS AND ABBREVIATIONS

GDP	Gross Domestic Product
IT	Information Technology
SMEs	Small and Medium-Sized Enterprises
VCs	Venture Capitalists

OPERATIONAL DEFINITION OF TERMS

Acquisition Financing Is the capital that is obtained for the purpose of buying another business. Acquisition financing allows the user to meet their current acquisition needs by providing immediate resources (Musinga, 2013).

Early Stage Financing It is the ability to finance one's start-up during the initial stages of the business (Ganbold & Bataa (2013).

Expansion Financing It is the capital used to enlarge the size of a corporation through a variety of means, can be used for internal growth through organic measures such as launch of new products (Nyamute, 2010).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium-sized enterprises (SMEs) play a focal role in the national economies of countries around the world (Lerner, 2013). This is especially true for emerging markets. SMEs are considered to be the bedrock for growth in both developed and developing countries since they lead to creation of employment opportunities, strengthening of industrial linkages, innovation and generation of export revenues (Lerner, 2013).

In UK, Germany and China small businesses contribute to more than half of the gross domestic products (GDP) in each of these economies (Natarajan & Wyrick, 2011). According to Kachembere (2011) SMEs plays a pivotal role in enhancing the grass roots economic growth and sustainable development. This, leads to high rates of economic and social development and poverty reduction. Thus leading to a growing concern and interest by the government and development agencies for the improved performance and growth of the small and medium enterprises. The government envisages the SMEs to become the key industries in the future by enhancing their productivity and innovations (Ministry of Planning National Development &Vision 2030, 2010).

Traditionally, venture capitalists (VCs) in India have shied from the SME sector due to higher transaction costs and difficulties in exits out of such investments (Iwisi, Kitindi & Tesfayohannes, 2013). However, the Venture Capital scenario in India is rapidly changing. Iwisi, et al (2013) further stated that alternative funding like Venture Capital is picking up in the India, including in the SME sector. Moreover, the VCs are expanding their reach into areas besides the traditional VC sectors like Information Technology (IT); nowadays interest in sectors like clean energy, healthcare, pharmaceuticals, retail, media, etc. is also growing. In recent years, the government controlled financial institutions have initiated positive and progressive measures to provide SMEs access to funds at reasonable and affordable costs.

African financial systems are fragmented and lack of funding for SMEs has partly been made up for by micro-credit institutions, whose growth is due to the flexible loans they offer small businesses. Though adapted to local needs, however, micro-credit institutions remain fragile and modest-sized. Their mainly short-term finance means they cannot easily turn the savings they collect into medium or long-term loans. This source of finance has been of help to SMEs however, it does not provide equity capital and funds may not be sufficient for an expanding business. In Tanzania, Zimbabwe, South Africa and Zambia, formal credit is presently quantitatively the most important source of external finance; however, the financial markets are inefficient (Kithae,Gakure & Munyao, 2012).

SMEs in Kenya plays a significant role in the economy currently contributing to an estimated 18% of the Gross Domestic Product supporting over 80% of the nation's population through employment. While the contributions of SMEs to development is generally acknowledged, SMEs face many obstacles that limit their long term survival and development; past statistics indicate that 3 out of 5 businesses fail within the first few months of operation and those that continue about 80 per cent fail before the fifth year (Kenya National Bureau of Statistics, 2012).

The growth of SMEs has been hampered by the lack of adequate knowledge and a well structured financial market for the mobilization of capital. The role of finance has been viewed as a critical element for the development of SMEs (Cook and Nixson, 2010). However, venture capital has had a significant impact on Midsized companies (SMEs) in the developed countries as small businesses have been and are the stepping stone of industrialization in these countries. However, among the developing countries and especially Kenya venture capital has been present since independence yet industrialization is slow.

1.1.1 Venture Capital Financing

Venture Capital (VC) is an important source of finance for SMEs especially for start ups and business expansion. Small businesses usually start the business using their own funds and those borrowed from financial institutions. It is during expansion that they find hard to raise funds. SMEs traditionally have always depended on banks finance for expansion (Keushnigg, 2015). However, in the recent past bankers have curtailed lending to them due to greater risk of default. Venture capitalists specialize at solving these problems, thereby connecting idea-rich entrepreneurs with cash-rich investors. Ensuring funding for innovative firms has positive externalities on the economy, so it makes sense for governments to promote an active venture capital market (Lerner & Tåg, 2013).

Venture capital is a type of non bank financing which is very common in developed financial markets for small firms and start-ups that have demonstrated a high growth potential or which have demonstrated a high growth in term of the number of employees , annual revenue or both (Keuschnnigg 2015). Venture capitalists take on the risk of financing risky start-ups in the expectations that some of the firms they support will become successful in the future. It is at this point that they take ownership in the business and provide the needed funds while still sharing the risks.

In Kenya private Venture Capital firms include: Kenya Equity and Term Financing which supports already existing entities that want to expand and diversify rather than start-up operations. Aureos East Africa provides private equity and loan facilities it replaced the activities of Acacia (The Finance Mail Vol 9 no.6, 2003). Acacia Fund Limited provided risk capital to new or expanding enterprises, including the reorganization, rationalization and reconstruction. Kenya Management Company Limited, provides equity related investments in private sector to companies with high growth potential to expand well managed businesses. Savannah Fund which provides funds for technical start-ups, Safaricom Spark venture fund which provides investments in technical and business development support, finally we have Fanisi Capital which provides funds for companies in agribusiness, healthcare, energy, retail and education.

1.1.2 Performance of Midsized Companies

Profit maximization, business growth as a component of business performance is still the major goals of business enterprises. Profit is desirable by the business to ensure a long term survival of the business and that’s why there is numerous businesses start up in Kenya (Parker and Torres, 2012). Therefore, whereas Kenya has the highest rate of business start up, it is also among the countries with the highest number of SMEs that perform poorly and close business before the end of the first year in business, inefficient financial management ways contribute immensely to SMEs poor performance (Ekanem, 2010).

Musinga (2013) explains that lack of access to credit is almost universally indicated as a key problem for SMEs. Accessing adequate and timely financing on competitive terms, particularly longer term loans, accessing credit on easy terms has become difficult in the backdrop of current global financial crisis and the resultant liquidity constraints in the Kenyan financial sector, which has held back the growth of SMEs and impeded overall growth and development. Micro-Midsized companies in Nairobi face eminent challenges in financial borrowing arrangements to fund their operations.

Mid Size firm performance is a complex, multifaceted construct that should be examined with an eye toward its complexity. Yonggui et. al. (2012) examined a set of micro and macro factors/variables that may be crucial to distinguish high-growth SMEs from those of poor performance. The study based on the relationship between factors and determinants concerning top management team, companies characteristics, organizational strategies and external environment, and poor performance and high-growth affected performance of mid size firms in Kenya.

Operational performance measures growth in sales and growth in market share this provide a wider definition of performance as they focus on the factors that ultimately lead to financial performance. The most common used performance proxies are the GP margin, NP margin and operating ratios (Munyuny, 2013). Pandula (2011) explains that firms' performance has a huge impact on access to credit facilities; research implies that greater profits as well as sales are associated with easier access to financing. Firms with increasing sales and sales turnover have less constraint on credit while poor performing firms have been found to have limited access to financing particularly by banks.

The failure of mid size firms leads to loss of jobs and consequently increased insecurity, low liquidity in the economy, and decline in economic growth. Soyibo (2012) note that there had been a major challenge of limited resources thus making mid size firms be managed in non-professional form as many of the entrepreneurs lacked sufficient resources to effectively engage all factors of production sufficiently. The human resources remain to be the largest causality as the proprietors rarely invested in this. Lack of specialization of duties and weak governance issues leave these small firms prone to having misrepresented reports. The financial reports which give general overview of the financial health of the organizations may at times give false information as the books of account are prepared by individuals with limited experience and knowledge. In cases where the finance staffs are well trained, they usually become overwhelmed as they play different roles including acting as human resource in charge, administration manager and at times operations manager (Mugure and Wanjohi (2011).

1.2 Statement of the Problem

Venture capital which is quite extensive in developed countries has played a big role in enhancing growth of mid-size firms by providing equity capital. In countries where both forms of venture capital participate in financing mid-size firms, they are value-adding investors who bring significant benefits of their business know. According to Mugure and Wanjohi (2010), Midsized companies in Kenya remain financially constrained due to absence of working capital and funds for expansion, thus, businesses do not provide the much expected role of job creation, contribution to Gross Domestic Product (GDP) and above all contribution to social economic development (Karugu, 2013). They have difficulties in growth due to lack of finance. They hardly grow beyond start-up stage. Others go out of business at a very early stage (Bronwyn, 2015).

The study undertaken by Hallberg (2015) reveals that access to finance is an important element to development of SMEs. These businesses have less options of accessing finance other than relying on their retained earnings to finance their investments. Notwithstanding the financial difficulties faced by SME presently in Kenya, alternative sources of funds have to be sought to sustain this important sector.

Earlier work on venture capital market in Kenya only focused on formal venture capital firms and their requirement in financing SMEs especially institutionalized venture capital firms (Okongo, 2011). The study by Ngigi (2012) on the role of venture capital in financing technology-based mid size firms only focused on formal venture capital firms that are government owned. The findings indicated that many technology based firms do not qualify for venture capital financing due to lack of basic requirements. Another study by Kimani (2010) found that unfavourable government policies and decisions such as high taxes, inadequate capital, lack of effective management, competition, lack of planning, politics and family situations impose threats in starting and running successful small scale businesses.

The researcher therefore feels that though venture capital has been present in Kenya, their impact on mid size firms has not been significant. Therefore, there will be need to study the effect of stages of venture capital financing on the performance of top one hundred midsized companies in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

To examine the effect of stages of venture capital financing on the performance of top one hundred midsized companies in Kenya.

1.3.2 Specific Objectives

i. To evaluate the effect of early stage financing on the performance of top one hundred midsized companies in Kenya.
ii. To establish the effect of expansion stage financing on the performance of top one hundred midsized companies in Kenya.
iii. To determine the effect of acquisition stage financing on the performance of top one hundred midsized companies in Kenya.

1.4 Research Questions

i. How does early stage financing affect the performance of top one hundred midsized companies in Kenya?
ii. To what extent does expansion stage financing affect the performance of top one hundred midsized companies in Kenya?
iii. How does acquisition stage financing affect the performance of top one hundred midsized companies in Kenya?

1.5 Justification of the Study

Kevane & Wydick (2011) indicated that through financing option business enterprises have become an important contributor to the Kenyan economy. The sector contributes to the national income by creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country accounting for 12–14% of GDP. With about 70% of such enterprises located across the country, the sector has a high potential for contributing to the development (Republic of Kenya, 2000-2004). Yet the majority of enterprise firms in this sector are considered un-creditworthy by most formal providers of credit and venture capitalist. Therefore, this motivates the researcher to undertake a study to examine the impact of venture capital financing on performance of top one hundred midsized companies in Kenya.

1.6 Significance of the study

1.6.1 Scholars and Academicians

The study will contribute to the pool of knowledge (once the impact of venture capital on mid size firms performance has been empirically established) from which other researchers will use the findings to understand issues raised and use them as reference material and/or base for further study.

1.6.2 Policy makers

The government will gain an understanding of the role played by both informal and formal venture capital market so as to provide a suitable environment for their operations especially to formulate policies that will support the entrepreneurs. This study will be of value to achievement of the Kenyan vision 2030 (which advocates for strengthening SMEs to become the essential industries of tomorrow). This study upon bringing light the impact of venture capital on performance of mid size firms, the venture capitalists will review the need to provide seed financing which will lead to establishment of many such businesses. These financers can also review their stringent requirements to accommodate more users of their fund.

1.6.3 Small and Medium Enterprises

Entrepreneurs unfamiliar with such equity providers will get access to funds to expand their establishments. The financially able individuals may join the network of invisible capitalists to finance mid size companies in order to create employment, hence development. The formal venture capital market may know that the informal sector is its competitor in equity provision and as such relax their requirements.

1.7 Scope of the Study

This study mainly focused on venture capital and their resultant effect on performance of mid size companies. This study selectively examined mid size companies financed by venture capitalists to ascertain whether there has been any significant improvement in performance before and after use of this kind of finance. The study considered top one hundred mid size companies from Nairobi County that has experienced venture capital.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review is a systematic process making use of literature from publications containing information relating to the proposed research study being investigated. This chapter covers theoretical literature, empirical review and the conceptual framework.

2.2 Theoretical Review

2.2.1 Agency Theory

Jensen and Meckling (1976) proposed the agency theory. This theory states that there is possible conflict between shareholders and managers' interests because managers have shares of less than 100 percent in the firm. The managers given role has many implications for the capital structure of a firm. Managers make investment decisions based on imperfect markets and incur agency costs of different types, thus influencing firm's value. Optimal capital structure can be obtained by trading off the agency cost of debt financing for the benefit of debt financing. Free cash flow refers to cash flow available after funding all projects with positive cash flows. Managers may try to use the free cash flows sub-optimally or use them to their own advantage rather than to increase value of the firm. Duffie and Singleton (2010) suggests that this problem can be somehow controlled by increasing the stake of managers in the business or by increasing debt in the capital structure, thereby reducing the amount of 'free' cash available to managers. Thus, debt serves as a mechanism to discipline the managers from engaging in self serving activities, e.g. perquisite consumption, empire building etc.

According to Bryce (2012), the short-term debt can serve as a mechanism to align managerial incentive with that of shareholders since bankruptcy is costly for management. This implies that liquidity is an important determinant of capital structure. Schueker (2011) further noted that agency theory is also concerned with agency conflicts, or conflicts of interests between agents and principals. This has effects for, numerous other things, corporate governance and ethics. When agency occurs it tends to give rise to agency costs, which are costs incurred in order to sustain an effective agency relationship (offering management performance bonuses to encourage managers to act in the shareholders' interests).

Agency theory may be used to architecture these incentives/perks appropriately by considering what interests encourages the agents to act. Incentives encouraging the wrong behaviour must be removed and rules discouraging moral hazard must be in place in order to plan and allocate finances appropriately. Understanding the mechanisms that create problems helps companies develop better policy for venture capital structuring.

The rationale of this theory to the current study is that, when conflict between the principal and the agent is too big to bear, the subject organization normally ends up being restructured including changing the ownership structure by way of acquisition. This will assist the company in achieving key items to consider such as the continued growth opportunity provided by the target company which improves the performance, purchase price, and financing terms.

2.2.2. Pecking Order Theory

This theory was generated by Myers and Majluf (1984). According to pecking order theory (pecking order model), companies show a specific preference for utilizing internal finance (as retained earnings or excess liquid assets) over external finance. If internal funds are inadequate to finance investment opportunities, a company might obtain external financing but it will choose among the various external finance sources in a manner as to minimize additional costs. According to pecking order theory hypothesis, a firm will use first internally generated funds which may not be sufficient for a growing firm so the next option is for the growing firms to use debt financing which implies that a growing firm will have a high leverage (Choe, 2012). Hence firm growth should be considered as a determinant of capital structure. The order of preference reflected the relative costs of various financing options. Firms therefore would prefer internal sources of finance as compared to expensive or costly external finance and that firms that are profitable and therefore generate earnings are expected to use less debt than those that do not generate high earnings.

Empirical evidence supports applicability of the Perking Order Theory in explaining the finance of SMEs. These studies emphasize that small firms rely on internal sources of finance and external borrowing to finance operations and growth, and only a very small number of firms use external equity (Palich & Bagby, 2013). However, Lerner and Tåg (2013) in their study found that adherence to the Perking Order Theory is dependent not only on demand-side preferences, but also on the availability of the preferred source of financing. The supply of finance depends on many factors, particularly the stage of development of the firm.

According to Bryce (2015), the most important source of funding for start-up and nascent firms are the personal funds of the firm owner, and funding from friends and family. Although the theory emerged in other literature: entrepreneurs tend to seek finance first from their own resources, and then friends and families, and then from other sources such as banks. Indeed, the money from family and friends is often essential (and often regarded as quasi-equity by the banks) to unlock support from commercial institutions.

Pecking order may be used to explain that companies do tend to manage financing using the easiest source, for them. It does not necessarily mean that one mode of financing is inherently superior to the other. For instance; depending on the circumstances of a business, the entrepreneur must weigh all the options, and then choose the one that is most likely to produce the result that is in the best interests of the venture over the long-term, rather than simply going with what appears to be the easiest solution.

This theory addresses the early stage of venture financing where an entrepreneur would wish to reduces the risk of failure by having partners who will help the entrepreneur by giving not only capital, but sound advice that is mentoring, provision of business management experience, skills and contacts for the entrepreneur. Since entrepreneur would wish to have full control of their businesses at the early stage of venture financing, they would prefer using pecking order theory in order to exercise this freedom by opting to use their own finances and avoid partnerships with other financers.

2.2.3 Trade -Off Theory of Capital Structure

The proponents of Trade -Off Theory of Capital Structure were proposed by Kraus and Litzenberge in 1973. The theory explains the strategy a firm uses to finance investments which may be by equity and sometimes by debt. Trade off theory forecasts that a weak firm will rely exclusively on a bank for debt capital. That is, for weak firms, bank debt dominates any mix of market and bank debt regardless of the priority structure (Keushnigg, 2015). However, according to Lamu (2010), this result contradicts the notion that small or young firms avoid public debt because they lack access to such markets or face prohibitive costs in so doing.

King and McGrath (2012) says the theory implies that firms with more tangible assets and more taxable income shield should have high debt ratios. Firms with more intangible assets, whose value will recede in case of liquidation, should rely more on equity financing. In terms of profitability, trade-off theory predicts that more profitable firms should mean more debt-serving capacity and more taxable income to shield, thus a higher debt ratio was anticipated. Iwisi et al. (2013) stated that under trade-off theory, the firms with high growth opportunities should borrow less because they are more likely to lose value in financial distress.

An important element of the theory is to explain the fact that companies usually are financed partly with debt and partly with equity. It shows that there is a benefit to financing with debt, the benefit of debt and there is a cost of financing with debt, the costs of financial distress including bankruptcy costs of debt and non-bankruptcy costs (such as staff leaving, suppliers demanding disadvantageous payment terms, bondholder/stockholder infighting.). The marginal benefit of further increases in debt declines as debt goes up, while the marginal cost increases, so that a firm that is optimizing its overall value will focus on this trade-off when choosing how much debt and equity to use for financing.

This theory is relevant to the current study because it addresses the expansion stage of venture capital financing. As asserted by Khayesi(2013), a business is likely to run into missing business opportunities while building up the necessary funds. The business also needs cash to fund ongoing operations and expansions. If the business devotes too much of the resources to growth, the enterprise may be starved off cash limiting its level of performance. Thus, it becomes prudent to look for partners who will participate in both financing and decision making in the business. Although outside investment means giving up a degree of control, the enterprise might gain from the experience and insight of these new players in the business.

2.3 Empirical Review

In the following section past studies showing the nexus between study variables was discussed from which study gaps were drawn.

2.3.1 Early Stage Financing and Performance of Midsized Companies

Early stage funding is the ability to finance one's start-up during the initial stages of the business. The essence of early stage funding to an entrepreneur is that it lessen the risk of failure by having partners who will aid the entrepreneur by giving not only funds, but sound advice that is mentoring, provision of business management experience, skills and contacts for the entrepreneur (Ganbold & Bataa (2013). As an entrepreneur one should be able to know the many sources of funding so as to avert any financial hindrances in the establishment of businesses. Amati (2010) stated an entrepreneur needs external investments to grow one's company and reach the intended market faster.

The aspect of finance has been viewed as a important element for the development of medium-sized enterprises. Previous studies have displayed the limited access to financial resources accessible to smaller enterprises compared to larger organizations and hence the consequences for their growth and change in performance (Firzli, 2013). Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit. Inadequate funding has been made available to finance working capital and poor management and accounting practices have hampered the ability of smaller enterprises to raise finance that enhances positive performance. Therefore, the information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises limiting their performance level (Kathawala, 2010).

According to a survey in Kenya of the top 100 SMEs, most SMEs rely heavily on savings or bank loans for expansion (Economic Survey report, 2010). Such challenges are not unique to Ghana and Kenya but also they are rampant across the Southern African region member countries. The three main challenges that Small to medium size business owners encounter are financial support, business opportunities to be able to grow, businesses diversification and good business practices.

In Kenya, the performance of SMEs has continued to slump over the years. As at (Gok, 2009) virtually most small enterprises had collapsed leading to the closure of some of the SMEs that were producing 35% of the employment in Kenya. Other SMEs were auctioned while some were merged or acquired signifying questionable financial performance. Between 2001 and 2002, the SMEs performance dropped by 56% (Kenya Economic Survey, 2012). On the other hand, industrial economists indicated that the small industries have higher bankruptcy rates and also a faster growing rate than larger industries. SMEs still experience numerous difficulties in improving their financial performance since short term loan, trade credit and long term loans are not well governed.

Mugure & Wanjohi (2012) assert the abundance of loan facilities plus the demanding approval requirement of the scantily available equity funds has led many of the SMEs to resort to debt. This development is theoretically and practically acceptable from the loan providers' outlook owing to the perceived high risk of moral hazard difficulties among small and medium enterprises. While debt is necessary for the free flow of cash in the operation of the SMEs, over proportion of debt in their financial structure may bring issues to their financial health and performance.

According to Hardy, Holden and Prokopenko (2012) states that early stage funding is important to the success of start-up because when business owner funds their business from angel investors or venture capitalists, there is an expectation that the business owner will create a liquidity event for the investors within the next 5 to 7 years. Although Lamu (2010) stated that small businesses has different optimal capital structure and are financed by various sources at different stages of their organizational lives. There are many sources in which SMEs can get funding from, Lamu went on to suggest that venture capitalist, angel investors, accelerators and crowd funding, the entrepreneur needs external investments to grow one’s company and reach the intended market faster.

Good management and technical expertise, allows firms to make good use of available information and resources to present well-crafted business growth strategies thereby reducing risk to the business. The study recommends that SMEs ought to acknowledge the possible advantages of seeking external equity funding from corporate sources (Karugu, 2013).

Tomala (2010) explains that while they are in the early stages of development most SMEs are forced to look for external investment capital. The firms that seek external capital tend to be vigorously growth-oriented companies. Many business owners look to borrow money from family or friends in order to start their new business. This can be one of the best sources of funds because if those individuals that one approaches respect and trust one, the approval is almost guaranteed and approval times are usually very short.

2.3.2 Expansion Stage Financing and Performance of Midsized Companies

Expansion Financing is defined as capital used to enlarge the size of a corporation through a variety of means. Expansion financing can be used for internal growth through organic measures such as launch of new products or the acquisition of new customers (Nyamute, 2010). Expansion financing can also be used for external growth through execution of mergers and acquisition. In its most simple application, Mugo and Wanyoike (2013) says the expansion financing is money used by a corporation to expand its working capital or productive capacity to facilitate growth. While not directly related to any one form of capital, expansion financing can be a loan, an equity investment of a combination thereof.

The funding for expansion from retained earnings has disadvantages on the level of performance because it’s slow on approvals. The business is likely to run into missing business opportunities while building up the necessary funds. The business also needs cash to fund ongoing operations. If the business devote too many of the resources to growth, the enterprise may be starved off cash limiting its level of performance. Although outside investment means giving up a degree of control, the enterprise might gain from the experience and insight of these new players in the business (Khayesi, 2013).

There is also the angel investors. An angel investor is an individual who invests his or her own money in an entrepreneurial company. This distinguishes them from institutional financiers, who invest other people's money. In venture capital, the venture capitalists represent the most charming and luring form of financing to many entrepreneurs. They are known for backing high-growth companies in the early stages, and many of the best-known entrepreneurial success stories attribute their success to financing from venture capitalists (Bagachwa, 2009).

In order for a business to get approved for expansion financing they should be focused and have a detailed plan in place for the lender to see. This should be a complete business plan that captures the attention of the lender right off with a well written executive summary at the beginning. This is the first thing the lender will see, and will determine whether or not the rest of the loan gets considered. Additional information that should be included is the names and brief resumes of each of the company's key staff including Owner, President and Management (Hull et al. 2012).

All else being equal, Hassan (2011) affirms that VC financing has no effect on employment growth, while it has a moderate negative effect on sales growth. The studies that were mentioned above exhibit serious methodological weaknesses. Kimani (2010) analyze growth of sales and employees of 500 start-ups localized in Germany and the United Kingdom; they fail to detect any effect of VC financing. The venture capitalist needed to trigger, maintain and to speed up the small enterprise's growth and its performance, and therefore to result in improved profitability. Thus, its primary role: it is the main contributor in getting rid of the most financial impediments that occur in the establishing phase of a new business.

The World Bank report (2013) states that SMEs do not experience greater difficulty that other emerging countries (surveyed by world bank) in obtaining finance and argues instead that in Kenya, lack of adequate financial management support is the second biggest weakness in the national environment for entrepreneurial activity. The precarious nature of many SMEs is borne out by a statistic quoted by Hull et al. (2012) of all the jobs created in the SME sector, up to 75% are lost within a year.

According to King and McGrath (2012) lack of access to credit is a major constraint inhibiting the growth of SMEs sector. The issues and problems limiting SMEs acquisition of financial services include lack of tangible security coupled with appropriate legal regulatory framework that does not recognize innovative strategies for lending to SMEs. Limited access to formal finance due to poor and insufficient capacity to deliver financial services to SMEs continues to be a constraint in the growth and expansion of the sector. Formal financial institutions perceive SMEs as high risk and commercially unviable as a result only a few SMEs access credit from formal financial institutions in the country.

Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable and well performing. Several Organizations including business associations, voluntary organizations and other nongovernmental organizations have set up programs to enhance the factors that influence development of SME especially as it relates to enterprise growth and development. Vary with some giving financial assistance, others training and extension services, pre-constructed commercial shades or assisting in marketing of products (Macharia, 2015). Venture capital is one source of non-bank financing, which is quite prevalent in developed financial markets for small or start up firms. Mugure and Wanjohi (2012) stated that SMEs in Kenya lack knowledge about the existence of venture capital and hence do not utilize it as an alternative source of finance.

2.3.3 Acquisition Stage Financing and Performance of Midsized Companies

Acquisition financing is the capital that is obtained for the purpose of buying another business. Acquisition financing allows the user to meet their current acquisition aspirations by providing immediate resources that can be applied toward the transaction (Musinga, 2013). There are several different choices for a company that is looking for acquisition financing. Palich & Bagby (2013) notes that a line of credit or a traditional loan is the most common choices. Favourable rates for acquisition financing can help smaller companies reach economies of scale and is generally viewed as an effective method for increasing the size of the company's operations.

Bwisa (2010) says in bank financing, if the target company has a lot of assets, positive cash flow and strong profit margin, the buyer should be able to find bank financing. There is a significant decline in cash flow-based loans. Quality of cash flow, debt load, and insufficient collateral were cited as primary reasons. Collateral type is emerging as the most important factor in a lender's decision to approve a loan. In seller financing, for small and middle-market transactions, it is quite common for the seller to finance part of the transaction.

In Asset-based Financing, Khayesi (2013) explains that the primary difference between asset-based lending and traditional lending is what the lender looks to when underwriting a loan. A traditional lender will look first to the cash flow then to collateral. An asset-based lender looks to collateral first, debt load, and quality of earnings. Esipisu (2010) found that the main drawback of using asset-based loans for financing is the expense involved. Pricing among asset-based lenders is competitive, but interest rates can range from 12 percent up to 28 percent. In equity financing, the equity financing involves the offer and sale of the buyer's securities for the purpose of raising the capital to pay the seller and to provide working capital for the new company. Companies can also confront problems with financing the acquisition before and after the transaction.

Typically, the expenses for acquisitions involve acquisition fees from investment brokers, lawyers, consultants, financiers, and advisors that helped make the deal possible. Moreover, filing and legal fees can pile up especially if there ends up being complications with the transaction. These fees can easily reach into the millions of dollars, and many organizations finance them by increasing their amounts of debt. The resulting interest costs from the additional leverage can strain the financial capabilities of the firm and increase the firm's financial risk (Ascher, 2010).

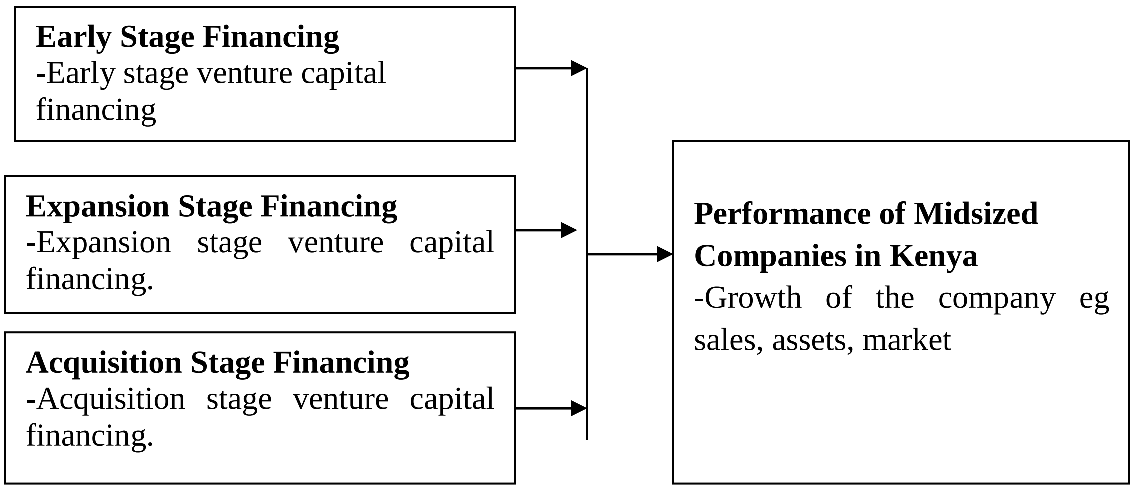
2.4 Conceptual Framework

Conceptual Framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organize ideas which capture something real and do this in a way that is easy to remember and apply (Scherer, 2010). In this study the dependent variable is Performance of Midsized companies in Kenya while the independent variables are early stage financing, expansion financing and acquisition financing.

Figure 1

Conceptual Framework

Independent Variables **Dependent Variable**



Source: Author (2017)

2.5 Operationalization of Conceptual Framework

This section deals with the operationalization of study variables, along with other components of the conceptual framework. The independent variable will be the Early Stage Financing, Expansion Financing and Acquisition Financing. The dependent variable will be the performance of Mid-sized companies in Kenya as indicated in Table 1.

Table 1

Operationalization of Conceptual Framework

Variable	Nature of variables	Operational Indicators	Measurement scale
Early Stage Financing	Independent	• Initial rental costs • Product development costs • Initial marketing costs • Initial operation costs • Initial research costs	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale
Expansion Financing	Independent	• Distribution outlets • Production capacity • Diversification of market	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale.
Acquisition Financing	Independent	• Financing in buyouts • Financing of mergers • Financing of acquisitions • Financing of partnerships	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale
Performance of Midsized Companies in Kenya	Dependent	• Growth in the market share • Growth in the assets of the company • Increase in the profitability of the company • Effect on the working capital • Growth in the sales volume	Ordinal Scale – by use of questionnaires that reflects on to the views of respondents in a likert scale

Source: Researcher (2017)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter on methodology constituted the research instruments which the researcher used in the study. This comprised of research design, the target population and the sampling method, procedure of data collection and data analysis.

3.2 Research Design

Research design works as a systematic plan outlining the study, the researcher's methods of compilation, details on how the study arrives at its conclusions, the research design is not limited to a particular type of research and may incorporate both quantitative and qualitative analysis (Orodho & Kombo, 2012).

The study adopted descriptive research design. According to Lyon (2012)**,** the term descriptive research refers to the type of research question, design, and data analysis that is applied to a given topic. Mugenda and Mugenda (2003) notes that descriptive statistics tell what exists which consequently determines cause and effect, therefore, the type of question asked by the researcher ultimately determines the type of approach necessary to complete an accurate assessment of the topic at hand. Descriptive studies, primarily concerns with finding out "what is," might be applied to investigate research questions. The main goal of this type of research is to describe the data and characteristics about what is being studied. The idea behind this type of research is to study frequencies, averages, and other statistical calculations.

3.3 Target Population

The target population is the number of elements that has one or more characteristics in common that which can be studied or can provide information for studying; this is according to (Peil, 2011). The target population of this study constituted all the top 100 midsized companies in Kenya (Small and Medium resource centre, 2017) with atleast one respondent from each company. The List of top 100 midsized companies is shown on **Appendix III.**

3.4 Sample and Sampling Procedure

According to Shamoo and Resnik (2013), a sample is a portion of the population. Gay and Airasian (2003) have offered the following guidelines for selecting a sample size: for small populations (with 100 or less people or other units), there is little point in sampling and therefore surveying the entire population is recommended. In this study, a census of top performing midsized companies in Nairobi was considered and therefore the sample size is equal to the population (that is, 100).

3.5 Research Instrument

Questionnaires were used to collect primary data. A questionnaire is a collection of questions to which a research subject is expected to respond (Mugenda & Mugenda, 2003). The questionnaire contained both open and closed ended questions. Advantage of using this method as stated by Mugenda includes; the open ended questions allow the respondents to give more information thus allowing the researcher to gain better insight to the respondents' true feelings about an issue. While the closed ended questions allow the respondents to answer quickly while to the researcher it is easier to analyse statistically and code them.

3.6 Validity and Reliability of the Instrument

Trochim (2006) defines validity as the degree to which a test measures what it is supposed to measure. It is rare, if nearly impossible, that an instrument be 100% valid, so validity is generally measured in degrees. As a process, validation involves collecting and analyzing data to assess the accuracy of an instrument. To confirm validity, the questionnaires were confirmed by the research supervisor and the research assistant. The confirmatory tests were on proper construction of questionnaire and the contents of the questions. This was done by formulating the questionnaire and present to the supervisor for a review and guidance. The research assistant was also involved by directing on simplification of questions for easy understanding by the respondents.

While reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials; Therefore, reliability must be determined because there is generally a good deal of consistency in the results of a quality instrument gathered at different times (Lyon, 2007). To confirm reliability, the study adopted Cronbach alpha coefficient.

3.7 Diagnostic Tests

The researcher carried out both multicollinearity and normality tests. Multicollinearity is a statistical phenomenon that occurs in multiple regression models in which some of the independent variables are significantly correlated among themselves (Mugenda & Mugenda, 2012). In its most severe case (if the correlation between two independent variables is equal to 1 or -1) multicollinearity makes the estimation of the regression coefficient impossible, in all other cases it makes the estimates of the regression coefficients unreliable.

Normality tests are used to determine if a data set is well-modelled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed (Sekaran & Bougie, 2013). To achieve this, histogram was drawn and data was normally distributed since the mean was zero and standard deviation 1.

3.8 Data Collection

Primary data was collected using questionnaires which were formulated and delivered to the respondents in the companies chosen. These were achieved basically by hand delivering to the respondents. The researcher allowed a period of three days so that the respondents can have adequate time to respond. The researcher then verified their completeness, consistency and accuracy.

3.9 Data Analysis

Data analysis procedure is the process of packaging the collected information putting them in order and structuring the main components in a way that the findings can be easily and effectively communicated (Williamson, 2011). The data to be collected comprised mainly of quantitative nature and was appropriately analyzed using descriptive statistics, correlation analysis and regression analysis.

Correlation analysis was adopted as statistical tool to determine the level of association of the variables. A correlation matrix was developed to analyze the relationships between the independent and the dependent variables. Correlation value of zero shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship. The values will be interpreted between 0 (no relationship) and 1.0 (perfect relationship).

Additionally, a multiple regression analysis was used to establish the combined effect on the study variables. The regression analysis model is specified as follows;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$:

Where Y = performance of Midsized companies; X_1 = early stage financing; X_2 = expansion financing; $X_{3=}$ acquisition financing, α = constants term, $\beta_{1,}$ $\beta_{2,}$ β_3 = regression coefficients of $X_{1,}$ X_2 and $X_3$and finally ε = error item.

The results of the analysis will be presented using tables and pie charts.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 Introduction

In the current chapter primary data which was collected through use of structured questionnaires will be analysed and presented using tables and graphs. The analysis will be arranged from demographic information, descriptive analysis and finally inferential analysis.

4.1.1 Response Rate

Out of the targeted 100 medium sized enterprises only 86 filled completely and returned the questionnaires constituting a response rate of 86%. The response was deemed appropriate since Kothari (2007) argued that a response rate exceeding 70% is appropriate for social science study.

Table 2

Response Rate

Questionnaire	Frequency	Percentage
Returned	86	86
Non returned	14	14
Total	**100**	**100**

4.1.2 Reliability and Validity of the Research Instrument

Stable and consistent ability of a research instruments yields reliability of it. In the current study Cronbach's Alpha was used to test the reliability of the research instrument. Sekaran and Bougie (2013) argued that the reliability coefficient ranges between 0 and 1 and the more close it is to 1 the more reliable it is, indeed when a research instrument exceeds 0.7 then the research instrument is reliable. In the current study all the variables had coefficient ranging from 0.7 to 0.8; hence the research instrument was reliable.

Table 3

Validity of the Research Instrument

Variables	Number of items	Reliability Cronbach's Alpha	Comments
Early Stage Financing	5	0.800	Accepted
Expansion Stage Financing	4	0.704	Accepted
Acquisition Stage Financing	4	0.805	Accepted
Performance	5	0.776	Accepted

On the other hand validity of the research refers to research instrument ability to measure what it was anticipated to measure. Prior to piloting the research instrument was discussed with the lecturer, statistician and strategic leadership expert. Later the research instrument was pretested with 20 instruments. Feedback generated from the stakeholders was incorporated in the final questionnaires. Moreover, Kaiser-Mayor-Oklin measures of sampling adequacy and Bartlett's test of the sphericity were applied to show the relationship between study variables as shown in Table 4. The Kaiser-Mayor-Oklin measures of sampling adequacy show the value of test statistic as 0.524 and p-value <0.5. Bartlett's test of sphericity had a chi-square value of 259.253 p value of 0.000. Since the p value was less than 0.05 then there is a relationship among the study variables to be investigated.

Table 4

Reliability of the Research Instrument

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.524
Bartlett's Test of Sphericity	Approx. Chi-Square	259.253
	Df	78
	Sig.	0.000

4.2 Demographic Information

The current study sought the demographic information of the respondents, specifically gender, experience in years and the highest level of education were sought as summarised in Table 5.

As shown in Table 5 most of the respondents were males who accounted for 62% while females were only 38%, this implies that 100 medium sized enterprises are most run by males. Regarding the working experience majority 38% had worked for a period ranging from 7 to 11 years, followed by 35% who had worked for less than one year and 27% had worked for a period of 1 to 6 years. This implies that most of the 100 medium sized enterprises has exceeded the business incubation period. Concerning the highest level of education attained 49% had college qualifications followed by 40% with secondary qualification and 11% were university graduates. There is need to develop the culture of entrepreneurship amongst university graduates especially currently when the level of unemployment is high in Kenya.

Table 5

Demographic Information

Gender	**Frequency**	**Percent**
Male	53	62
Female	33	38
Total	**86**	**100**
Working experience	**Frequency**	**Percent**
Below 1 year	30	35
1-6 years	23	27
7 - 11 years	33	38
Total	**86**	**100**
Highest level of education	**Frequency**	**Percent**
Secondary	34	40
College	42	49
University	10	11
Total	**86**	**100**

4.3 Descriptive Analysis on Early Stage Financing and Performance

The first objective of the study sought to evaluate the effect of early stage financing on the performance of one hundred midsized companies in Kenya. To achieve this, a five point likert rating scale was adopted and the study findings were summarised using frequency, percentage, mean and standard deviation. As shown in Table 6; majority of the respondents reported that financing of initial rental costs had great extent on performance as accounted by mean of 3.7 and standard deviation of 1.3. Secondly, majority 33.7% reported that financing of product development costs had great extent on performance. Moreover, majority reported that financing of initial marketing costs, operational costs and research costs respectively all had great extent on performance of 100 midsized companies as accounted for by mean of 3.6. On overall early stage financing had great extent on performance of 100 midsized companies in Kenya (mean =3.6, standard deviation = 1.3). It is paramount to note that financing of initial rental costs had the highest effect on performance mainly because it involves huge initial financial outlays even if the company has not been operational in the past.

Table 6

Descriptive Analysis on Early Stage Financing and Performance

n=86	No extent	Very Small extent	Small extent	Great extent	Very great extent	Mean	Std. Deviation
Financing of initial rental costs	7	15.1	17.4	24.4	36	3.7	1.3
Financing of product development costs	5.8	12.8	20.9	33.7	26.7	3.6	1.2
Financing of initial marketing costs	5.8	16.3	19.8	29.1	29.1	3.6	1.2
Financing of initial operation costs	8.1	15.1	17.4	24.4	34.9	3.6	1.3
Financing of initial research costs	8.1	17.4	14	27.9	32.6	3.6	1.3
Overall average						**3.6**	**1.3**

4.3.1 Descriptive Analysis on Expansion Stage Financing and Performance

Secondly, the study sought to establish the effect of expansion stage financing on the on the performance of top one hundred midsized companies in Kenya. The study findings in Table 7 revealed that financing of distribution outlets had very great extent (32.6%) on the performance of midsized companies. Majority 31.4% reported that expansion through opening of branches had very great extent on performance. Further, 34.9% reported that financing in production capacity had very great extent in performance. The most significant expansion strategy was financing through diversification of markets since it had an average of 3.8. This can be attributed to risk diversification benefits which are achieved by an organization due to portfolio benefits. On average expansion stage financing had great extent on performance as accounted for by mean of 3.6.

Table 7

Descriptive Analysis on Expansion Stage Financing and Performance

n=86							
	No extent	**Very Small extent**	**Small extent**	**Great extent**	**Very great extent**	**Mean**	**Std. Deviation**
Financing of distribution outlets	9.3	20.9	14	23.3	32.6	3.5	1.4
Financing of new branches	4.7	16.3	23.3	24.4	31.4	3.6	1.2
Financing in production capacity	8.1	15.1	19.8	22.1	34.9	3.6	1.3
Financing in diversification of market	2.3	15.1	17.4	26.7	38.4	3.8	1.2
Overall average						**3.6**	**1.3**

4.3.2 Descriptive Analysis on Acquisition Financing and Performance

The third objective of the study sought to examine the effect of acquisition financing on the performance of top one hundred midsized companies in Kenya. As shown in Table 4.5, majority reported that financing buyouts (mean= 3.5), financing mergers (mean =3.6), financing acquisitions (mean =3.6), each had great extent on performance while financing partnerships had small extent on performance. The overall average revealed that acquisition financing had small extent on performance; this may indicate low levels of mergers and acquisition awareness among midsized companies' investors.

Table 8

Descriptive Analysis on Acquisition Financing and Performance

n=86	No extent	Very Small extent	Small extent	Great extent	Very great extent	Mean	Std. Deviation
Financing in buyouts	4.7	18.6	20.9	38.4	17.4	3.5	1.1
Financing of mergers	3.5	18.6	19.8	34.9	23.3	3.6	1.1
Financing of acquisitions	5.8	14	18.6	36	25.6	3.6	1.2
Financing of partnerships	24.4	14	17.4	34.9	9.3	2.9	1.4
Overall average						**3.4**	**1.2**

4.3.3 Descriptive Analysis on Performance

Concerning performance descriptive analysis on the rating from respondents in a five point likert scale as shown in Table 8 revealed that to a great extent performance was measured through growth of market share (mean = 4.1), followed by growth in sales volume (mean 4.0). Thirdly, performance was perceived to be either measured by growth in asset base or changes in working capital with mean of 3.9 each. Changes in profitability was perceived to indicate performance to a small extent (mean =3.2).

Table 9

Descriptive Analysis on Performance

n=86	No extent	Very Small extent	Small extent	Great extent	Very great extent	Mean	Std. Deviation
Growth in the market share	0	0	12.8	65.1	22.1	4.1	0.6
Growth in the assets of the company	0	5.8	19.8	57	17.4	3.9	0.8
Increase in the profitability of the company	0	27.9	38.4	24.4	9.3	3.2	0.9
Effect on the working capital	0	3.5	11.6	79.1	5.8	3.9	0.5
Growth in the sales volume	0	3.5	16.3	58.1	22.1	4.0	0.7
Overall average						**3.8**	**0.7**

4.4 Inferential Statistics

The study adopted correlation analysis to examine the strength of the relationship between variables and multiple regression analysis to examine the nature of the relationship.

4.4.1 Correlation Analysis

As shown in Table 10, there was a positive and significant relationship between early stage financing and performance (rho = 0.776, p value<0.05). Secondly, there was a positive and significant relationship between expansion financing and performance (rho =0.786, p value <0.05). Thirdly, there was a positive and significant relationship between acquisition financing and performance (rho = 0.393, p value <0.05). A close scrutiny on the interrelationship between independent variables reveals that none of them had correlation coefficient greater than 0.7.

Table 10

Correlation Analysis

	Performance	Early stage financing	Expansion financing	Acquisition financing
Performance	1	.776**	.786**	.393**
Early stage financing		1	.438**	.285**
Expansion financing			1	0.135
Acquisition financing				1

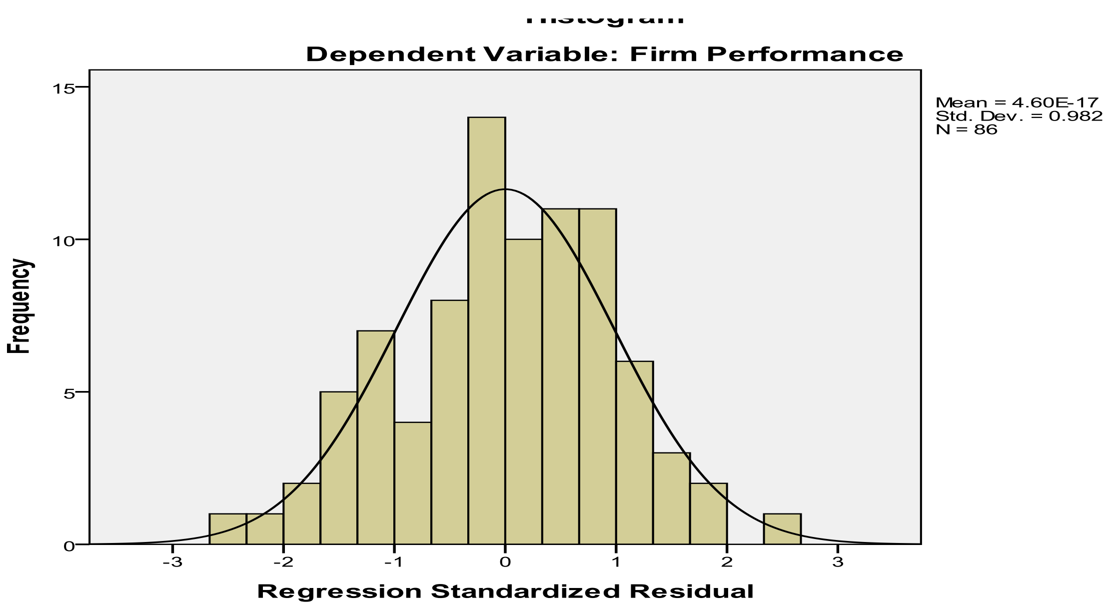
**. Correlation is significant at the 0.01 level (2-tailed).

4.4.2 Regression Analysis

The pictorial presentation in Figure 2 revealed that the error term was normally distributed since it had a mean of 0 and standard deviation of 1.

Figure 2

Normality Test



As shown in Table 11 both tolerance limits and variance inflation factors were used to test for multicollinearity and the study findings revealed that there was no collinearity between the independent variables since none of the VIFs coefficient was greater than 10 and all tolerance were greater than 0.1.

Table 11

Multicollinearity Test

	Collinearity Statistics	
	Tolerance	**VIF**
Early stage financing	0.757	1.322
Expansion financing	0.808	1.237
Acquisition financing	0.919	1.088

Results in Table 12 shows that performance of 100 medium sized companies can be explained by venture capital financing to the tune of 88% while the remaining percentage can be explained by other factors which were excluded in the model. It was paramount to note that there was no autocorrelation in the error term since Durbin Watson coefficient was 2.2 and within the acceptable range of 1.5 to 2.5 (Wooldrige, 2002).

Table 12

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
1	.94a	0.88	0.87	0.36	2.20

a. Predictors: (Constant), Acquisition financing , Expansion financing , Early stage financing

b. Dependent Variable: Performance

As shown in Table 13, early stage financing, expansion stage financing and acquisition financing all jointly has significant influence on performance of 100 medium sized companies in Kenya.

Table 13

Analysis of Variance

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	74.644	3	24.881	197.005	.000a
	Residual	10.356	82	0.126		
	Total	**85**	**85**			

a. Predictors: (Constant), Acquisition financing , Expansion financing , Early stage financing
b. Dependent Variable: Performance

As shown in Table 12 there was a positive and significant relationship between early stage financing and performance of 100 medium sized companies in Kenya (β=0.484, p value <0.05). This implies that a unit change in early stage financing increases performance by 0.484 units while holding expansion and acquisition financing constant.

Secondly, there was a positive and significant relationship between expansion stage financing and performance of 100 medium sized companies (β=0.549, p value < 0.05). This implies that a unit change in expansion stage financing increase performance by 0.549 units while holding early stage and acquisition financing constant.

Thirdly, there was a positive and significant relationship between acquisition financing and performance of 100 medium size companies in Kenya (β=0.18, p value <0.05). This implies that a unit change in acquisition financing increases performance by 0.18 units while holding early stage financing and acquisition financing constant.

Table 14

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.006	0.038		0.000	1
	Early stage financing	0.484	0.044	0.484	10.93	0.000
	Expansion financing	0.549	0.043	0.549	12.812	0.000
	Acquisition financing	0.18	0.04	0.18	4.487	0.000

a. Dependent Variable: Performance

$Y = 0.006 + 0.484{*}\ X_1 + 0.549\ {*}X_2 + 0.18{*}X_3$

$R^2 = 0.88$

Where Y= Performance X_1= Early stage financing X_2 = Expansion financing X_3 = Acquisition financing.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter discussions of the study findings in relation to theoretical and empirical literature documented in the past will be presented. After which conclusions and recommendations will be drawn. Finally, suggestions for future studies and limitations of the study will be discussed. In brief the study was guided by descriptive research design, census was used to draw 100 companies and both descriptive and inferential statistics were adopted in the study. Results of the study have revealed positive and significant relationship between early stage financing, expansion stage financing, acquisition financing and performance of 100 midsized companies.

5.2 Discussions of the Findings

5.2.1 Early Stage Financing and Performance of Midsized Companies.

Deducing from the findings of this study, there is a significant positive relationship between venture capital and performance of top-100 Mid-sized companies. However, much significant revolves around early stage and expansion stage as opposed to acquisition stage. The venture capitalist needed to trigger, maintain and to speed up the small enterprise's growth and its performance, and therefore to result in improved profitability. Thus, its primary role: it is the main contributor in getting rid of the most financial impediments that occur in the establishing phase of a new business.

The current findings were in agreement with Hamzah (2010) who suggested that venture capital assists investors to access equity capital to finance expansion of business while maintaining control. The expertise and extensive relationships of the venture capitalist through its network add value to the company and increase credibility with customers, and finally, the company gain access to the venture capitalist knowledge in accounting, budgeting, computer systems, and back-office operations. Bryce (2015) explains that in early stage venture capital financing agreement the venture capital firm will provide financing to enable a business to undertake a project and in return the venture capital company gets an ownership stake in the business. These results were in support of pecking order theory since Top 100 medium sized companies relied initially with internally generated finances prior to seeking external financing.

5.2.2 Expansion Stage Financing and Performance of Midsized Companies.

Results of the study revealed positive and significant relationship between expansion financing and performance though this phase is inhibited by lack of finances which calls for alternative sources. These findings mirrors past studies which argued that the growth of SMEs has been hampered by the lack of adequate knowledge and a well structured financial market for the mobilization of capital. The role of finance has been viewed as a critical element for the development of SMEs (Gakure, 2011). However, Esipisu (2010) stated that venture capital has had a significant impact on Midsized companies (SME) in the developed countries; small businesses have been and are the stepping stone of industrialization in these countries. But among the developing countries and especially Kenya venture capital has been present since independence yet industrialization is still slow. Moreover, the study supported trade off theory of capital structure since medium sized companies employed financing option which was more beneficial and cheaper to adopt.

5.2.3 Acquisition Financing and Performance of Midsized Companies.

Thirdly there was a positive and significant relationship between acquisition financing and performance of midsized companies. In pursuing an acquisition there are always key items to consider such as the continued growth opportunity provided by the target company which improves the performance, purchase price, and financing terms. Many acquisitions fail due to these priorities not being in line, say M&A experts (Soyibo, 2012). For instance, a common mistake buyers make is to focus on an attractive purchase price, rather than the strategic importance of the company's present and future growth plans. Gatheru (2010) argues that securing capital and the best financing terms for an acquisition can be daunting and challenging. The sub-prime lending crisis and sluggish economy over the past 24 months has created huge changes in the financial system. Many traditional lenders have modified their lending criteria, thus restricting available credit and the flow of capital to many entrepreneurs. Therefore, venture capital financing can breach this gap. These results were in support of agency theory since the management did not engage in business ventures which would contravene the main objectives of venture capitalists.

5.3 Conclusion

Based on the study findings the following conclusion can be drawn: there is need to embrace early stage financing of business entities. More so business angels should be invented in all sectors of the economy. Through this start ups will be able to access financing. Indeed, commercial banks and other financing institution ought to be sensitized on their role to breach the gap between deficit and surplus financing points, and develop customised loan products for start ups. This will ensure continued access of financing even to those whom cannot raise collateral security.

Secondly, the study concludes that there is need for midsized companies to form investment portfolios. This will ensure efficient risk management strategies. There is need for these companies to adopt alternative distribution channels, especially those which will not be capital demanding this will minimize possibilities of under capitalization or tying of huge amount of finances in noncurrent assets.

Thirdly, there is need for sensitization on adoption of acquisition and merger to expand business networks rather than use of traditional business expansion strategies. This will ensure that midsized companies can benefit from horizontal or vertical mergers. Indeed, this may create a link through which business networks can be expanded, market share increases and operational efficiency is attained.

5.4 Recommendations of the Study

Firms should focus their capital structure on end results as defined by growth. The order of preference reflected the relative costs of various financing options. Firms therefore should first use internal sources of finance as compared to expensive or costly external finance and that firms that are profitable and generating higher earnings are expected to use less debt than those that do not generate high earnings.

In order for a business to get approved for expansion financing they should be focused and have a detailed plan in place for the lender to see. This should be a complete business plan that captures the attention of the lender right off with a well written executive summary at the beginning. This is the first thing the lender will see, and will determine whether or not the rest of the loan gets considered.

In addition to the venture capital financing organizations should consider pooling together qualified management and other staff to ensure there is competence in utilization of the funding. The will ensure maximizing on shareholder value. This will create a pool of experts who can be called upon to evaluate viable merger and acquisition opportunities when they arise.

5.5 Suggestions for Further Studies

The current study drew respondent from 100 midsized companies there is need to do a comparative analysis between those companies which are included in the 100 and those excluded and are doing similar or related businesses. Secondly, there is need to consider the moderating role of gender, location and type of business on the nexus between venture capital and performance. Moreover, alternative data analysis, data source and research design should be applied to examine the consistency of the current study findings. Since there are different counties within which these companies operate a customized study should be carried out in the 47 counties as such to avoid drawing generalized study findings.

5.6 Limitations of the Study

The study relied on primary data which was drawn from employees; there were instances when some declined to respond to the questionnaire. This did not affect the final findings since the final response was reliable. The researcher was unable to authenticate the ranking criteria and there is need for future scholars to evaluate the ranking criteria before drawing data from such respondents. The study suffered the drawbacks associated from using a small sample there is need for future studies to see how they can increase their sample sizes. Finally, the study relied on questionnaires in future there is need to use quantitative means of data collection as such to have deeper understanding on the study details.

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APPENDICIES

Appendix I Letter of Introduction

Wangui Elizabeth Njoki

KCA University

Nairobi

Dear Respondent,

Re: Request for participation in research work

I am student pursuing a Master of Science Degree Programme KCA University, School of graduate studies and research. As part of my requirements for the award of the Master of Science Degree, a student is expected to carry out and submit a research project.

I am currently conducting a research on the "**effect of the stages of venture capital financing on the performance of top one hundred midsized companies in Kenya.**" The information will be treated with utmost confidentiality and will only be used for academic research purpose.

Yours Faithfully

Wangui Elizabeth Njoki

Appendix II Questionnaires

Please respond to the following questions. Obtained information is on the basis for developing a complete study being carried out. Tick or fill in the spaces provided.

SECTION A: GENERAL INFORMATION

1. Gender
   - Male [ ]
   - Female [ ]
2. Indicate the working experience
   - Below 1 year [ ]
   - 1-6 years [ ]
   - 7-11 years [ ]
   - Above 12 years [ ]
3. Indicate the highest level of education attained
   - Secondary [ ]
   - College [ ]
   - University [ ]
   - Other qualifications (specify) [ ]……………………………………….

SECTION B: Early Stage Financing

4. State the extent to which the following Early Stage financing components affect the performance of your company where:

1= No extent 2= Very Small extent 3= Small extent 4= Great extent 5= Very Great extent.

Early Stage Financing Component	**1**	**2**	**3**	**4**	**5**
Financing of initial rental costs					
Financing of product development costs					
Financing of initial marketing costs					
Financing of initial operation costs					
Financing of initial research costs					
Others Specify……………………..…………………………….)					

SECTION C: Expansion Financing

5. State the extent to which the following Expansion financing components affect the performance of your company where:

1= No extent 2= Very Small extent 3= Small extent 4= Great extent 5= Very Great extent.

Expansion Financing	**1**	**2**	**3**	**4**	**5**
Financing of distribution outlets					
Financing of new branches					
Financing in production capacity					
Financing in diverfication of market					
Others Specify……………………..…………………………….)					

SECTION D: Acquisition Financing

6. State the extent to which the following Acquisition financing components affect the performance of your company where:

1= No extent 2= Very Small extent 3= Small extent 4= Great extent 5= Very Great extent.

Acquisition Financing	**1**	**2**	**3**	**4**	**5**
Financing in buyouts					
Financing of mergers					
Financing of acquisitions					
Financing of partnerships					
Others Specify……………………..…………………………….)					

SECTION E: Performance of Midsized Companies

7. State the extent to which the following performance measures were affected by venture capital financing of your company where:

1= No extent 2= Very Small extent 3= Small extent 4= Great extent 5= Very Great extent.

Performance of Midsized Companies	**1**	**2**	**3**	**4**	**5**
Growth in the market share					
Growth in the assets of the company					
Increase in the profitability of the company					
Effect on the working capital					
Growth in the sales volume					
Others Specify…………………..…………………………….)					

Thank you for your responses

Appendix III Top 100 Midsized Companies

1. Diamond Property Mechants Ltd
2. Izmir Enterprises Limited
3. Soloh Worldwide Interenterprises Ltd
4. Advanta Africa Ltd
5. Hipora Business Solutions
6. General Cargo Services Ltd
7. Komal Construction Company Ltd
8. Allwin Packaging Intl Ltd
9. Tangazoletu Limited
10. Northstar Cooling Systems Ltd
11. Africa Practice Ea Ltd
12. Polgon Logistics Limted
13. Manix Ltd
14. Care Chemists
15. Well Told Story
16. Compulynx Limited
17. Aar Credit Service Ltd
18. Coastal Image Technologies Ltd
19. Sheffield Steel Systems Limited
20. Avtech Systems Ltd
21. Polucon Services (K) Ltd
22. Machines Technologies Ltd
23. Orange Pharma Ltd
24. Pindoria Holdings Ltd
25. Computer Pride Limited
26. Edn George Ea Limited
27. Valley Hospital Limited
28. Mandhir Construction Ltd
29. Patmat Bookshop Ltd
30. Software Technlogies Ltd
31. Trident Plumbers Ltd
32. Superior Homes Kenya Ltd
33. Pathcare Kenya Limited
34. Amex Auto & Ind. Hardware Ltd
35. Rushab Petroleum Limited
36. Phat! Music & Entertainment Ltd
37. Nationwide Electrical Ind. Ltd
38. Unique Offers Ltd
39. Prafulchandra & Brothers Ltd
40. Specicom Technologies Ltd
41. Kisima Drilling (Ea) Ltd
42. Executive Healthcare Solutions Ltd
43. Logistics Solutions Ltd
44. Alpha Fine Foods Limited

45. Classic Mouldings Ltd
46. Logistics Link Limited
47. Waterman Drilling Africa Ltd
48. Speciallized Aluminium Renovators Ltd
49. Chester Insurance Brokers Ltd
50. Kandia Fresh Produce Suppliers Ltd
51. Sigma Feeds Ltd
52. Kenya Bus Services Mgt
53. Emmerdale Ltd
54. Mic Global Risks Insurance Brokers Ltd
55. Total Solutions Limited
56. Bluekey Software Solution K Ltd
57. Muranga Forwarders Ltd
58. Impax Business Solutions
59. Warren Concrete Ltd
60. Sensations Ltd
61. Kenbro Industries Ltd
62. Powerpoint Systems Ea Ltd
63. Smart Brands Limited
64. Eurocon Tiles Products Ltd
65. Uneek Freight Services Ltd
66. Office Dynamics Limited
67. Jogian Interlink Limited
68. Dataguard Distributors Limited
69. Super-Broom Services Ltd
70. Kencont Logistics Services Ltd
71. Millbrook Garment
72. Palmhouse Dairies Ltd
73. Educate Yourself Limited
74. Orbit Engineering Limited
75. Kisima Electromechanicals Ltd
76. Riley Falcon Security Services Ltd
77. Bagda’s Auto Spares Ltd
78. Vinep Forwarders Limited
79. Economic Industries Limited
80. Fayaz Bakers Limited
81. Spenomatic Kenya Ltd
82. Maroo Polymers Limited
83. Norda Industries Limited
84. Skypex Supplies Limited
85. Master Fabricators Ltd
86. Iron Art Limited
87. Statprint Limited
88. Ideal Manufacturing Co. Ltd
89. Oil Seals And Bearing Centre Ltd
90. Varsani Brakelinings Ltd

91. Synergy Gases (K) Ltd
92. Rift Valley Machinery Services
93. De Ruiter East Africa Limited
94. Newline Ltd
95. R&R Plastics Limited
96. Vivek Investments Ltd
97. Ndugu Transport Company Ltd
98. Circuit Business System Ltd
99. Thika Cloth Mills Ltd
100. Hotel Waterbuck Ltd

Source: Small and Medium resource centre (2017)