STRATEGIC DETERMINANTS OF ACCESS TO VENTURE CAPITAL AMONG SMALL AND MEDIUM SIZED ENTERPRISES IN NAIROBI COUNTY

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ABSTRACT

SMEs contribute considerably to the national GDP and to private sector employment, but they struggle to gain access to the funding needed to support business sustainability and growth. It is generally accepted that there is a high mortality rate of SMEs within the first two years of operation. One of the contributory factors to their failure is lack of funds to run their businesses. Venture capital provides the necessary funding, but SMEs lack understanding of the business value curve utilized by financiers to gauge the risk-reward characteristic of an investment. This study sought to investigate strategic determinants of access to venture capital in small and medium sized enterprises (SMEs) in Nairobi, Kenya. The study employed a descriptive research design and was guided by the following specific objectives; to ascertain how the level of information awareness affect access of venture capital in SMEs, to examine how the firms resources affects the access of venture capital in SMEs, to establish how business proposals developed influence the access of venture capital in SMEs, and to find out how entrepreneurial competence affect access of venture capital in SMEs. The target population of this study was the Finance Managers of all the registered SMEs who make tax returns to KRA in Nairobi County which amounts to 594. The population was grouped into four strata. Stratified random sampling technique was used to select a sample size of 119 respondents. A structured questionnaire was used for data collection. The study generated both qualitative and quantitative data where quantitative data was coded and entered into Statistical Packages for Social Scientists (SPSS Version 17.0) and analyzed using descriptive statistics and regression analysis. Data was presented using frequency tables and figures. The results of the finding indicated that level of information awareness affects access of venture capital financing in their company a great extent. In relation to firm's resources and its effects on access of venture capital financing of companies, the study found that it has a great effect on access of venture capital financing by SMEs. It was further deduced that business proposal affect access of venture capital financing in the companies to a very great extent. The study finally found out that entrepreneurial competence affect access of venture capital financing in the companies to a very great extent. Based on research findings, the study concludes that level of information awareness, firm's resources, business proposal and entrepreneurial competence affects access of venture capital financing in the companies. Based on research findings, and conclusions the study recommends the managers of SMEs in Nairobi County should aim at increasing their collateral which are a must factor requirement for them to access venture capital from formal credit facilities. The study recommends that managers of SMEs in Nairobi County should develop different channels for accessing important information such as twitter account, Facebook and Whatsapp application. The study also recommends that managers of SMEs in Nairobi County should attend the trainings on different aspects of firm management in order to improve in their level managerial competency. The study finally recommends that managers of SMEs in Nairobi County should possess a good credit experiences.

Key Words: *strategic determinants, access to venture capital, small and medium sized enterprises, Nairobi County*

INTRODUCTION

More than 99% of all enterprises in the world are small and medium-sized enterprises (SMEs.) SMEs consist of firms varying widely in size and characteristics; namely from very small start-up firms in an infant stage of development to established SMEs already quoted in the stock market. Most SMEs heavily depend upon bank loans and generally experience a 'financing gap', even in developed countries. The key SMEs finance providers in Kenya comprise Risk Fund Managers, Venture Capital Funds and Private Equity Funds, Banks, Investment Clubs, Development Finance Institutions, Leasing Companies and Technical Assistant Funds. Traditional venture capital funds, many of which are in their infancy in Kenyan market are an important source of capital for private equity transactions. The size of these funds in Kenya is estimated to be at least Kshs.25billion being invested in SMEs. Business angels also exist in Kenya and have participated in a number of private equity transactions.

SMEs play a pivotal role in the national economies of countries around the world and are considered to be an engine for growth in both developed and developing countries. The benefits of a vibrant SME sector include; creation of employment opportunities, strengthening of industrial linkages, promotion of flexibility and innovation and generation of export revenues (Rangamohan, 2007). SMEs have been the engine for growth in various developed and developing economies and they have always faced significant challenges, which include access to finance and financial management skills and support (Iwisi et al, 2013). This contributes to slow development and high mortality rates of small business in Kenya. Access to finance is particularly relevant for previously disadvantaged entrepreneurs who do not have access to collateral and networks of wealthy individuals who can provide angel financing.

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 & Nixson, 2000).However, venture capital has had a significant impact on Small and Medium Enterprises(SME) in the developed countries; small businesses have been and are the stepping stone of industrialization in these countries. Most SME's seek finance to improve cash flow or replace machinery or equipment of some kind. Whether you are starting a business from scratch or purchasing an existing business or franchise, there are a number of finance options available. Some of these options include; loan, fully drawn advance, venture capital, private investors such as business angels, crowd funding or own funding. The focus of this research is on venture capital.

Venture Capital is a form of "risk capital". In other words, capital that is invested in a project (in this case - a business) where there is a substantial element of risk relating to the future creation of profits and cash flows (Rangamohan, 2007). Risk capital is invested as shares (equity) rather than as a loan and the investor requires a higher "rate of return" to compensate him for his risk. Venture Capital is one source of non-bank financing, which is quite prevalent in developed financial markets for small or startup firms (Keuschnigg, 2012). Venture Capitalists are organized providers of financing for winning but risky business proposals by small and micro enterprise firms that have a promising but yet unproven idea. It is expected that many of the country’s small businesses whose growth has been constrained by shortage of capital or increased cost of borrowing have other source of finance.

Venture capital plays a pivotal role in the startup economy, providing vital funds to high potential early-stage companies. Venture capital is money provided by investors to startup firms and small business with perceived long-term growth potential. This is an important source of funding for startup firms that don’t have access to capital markets (Westerfield & Jaffe, 2010). Typically, it entails high risk for the investor but it has the potential for above-average returns. Venture capital can also be in form of managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships (Amcham, 2012). This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The disadvantage of this form of funding to entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.

Venture capital provides long-term, committed share capital, to help unquoted companies grow and succeed. It helps an entrepreneur either to start-up, expand, buy-into a business, buy-out a business in which he works, turnaround or revitalize a company (Crabbe & Carolin, 2012). Venture capital is different from raising debt or a loan from a lender. Lenders have a legal right to interest on loan and repayment of the capital, irrespective of the success or failure of the business. Venture capital is invested in exchange for an equity stake in the business. As a shareholder, the venture capitalist’s return is dependent on the growth and profitability of the business. This return is generally earned when the venture capitalist “exits” by selling its shareholding when the business is sold to another owner (Amcham, 2012).

Governments throughout the world are nowadays turning their attention to small-scale enterprises. This is because attempts to promote economic progress by establishing large industries have usually failed to improve the lives of the majority of the populations concerned (White Paper on International Development, 2000). Therefore, Small and Micro Enterprises (SMEs) are now viewed as important in even and equitable economic development. Kenya’s policy on SMEs as outlined in the Sessional paper number 2, (RoK, 2015) clearly show that the sector is not only a provider of goods and services but also a driver in promoting competition, innovation and enhancing the enterprise culture which is necessary for private sector development and industrialization. The sector should effectively respond to challenges of creating productive and sustainable employment opportunities, promoting economic growth and poverty eradication in the country.

One of the major constraints inhibiting the growth of SME sector is lack of access to credit. The limiting factors on SMEs acquisition of financial services include lack of tangible security coupled with inappropriate legal and regulatory framework that does not recognize innovative strategies for lending to SMEs (Konchella, 2012). 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. SMEs are perceived as high risk and commercially unviable by the Formal financial institutions. As a result most SMEs shy away from seeking credit from formal financial institutions in the country. Various types of assistance have been provided to SMEs to boost their growth and development by making them more profitable (Institute of Economic Affairs &Society for Economic Development 2001). Programs to enhance factors that influence development of SME especially the ones that relates to enterprise growth and development have been set up by several Organizations. These include business associations, voluntary organizations and other non- governmental organizations.
Venture capital operation has evolved from being a novelty to a level where it is now considered as a pivotal for economic development. Development of VC industry in various countries has taken different shapes and forms due to different scales of economic development and the premise upon which each industry has been fashioned. Institutional transformation in any economy is essential to the formation of a VC industry (Karaomorlioglu & Jacobson, 2000). The impact of venture capital on Western industrial economies in recent years has been immense, and continues to grow. It has backed new industrial enterprises that could not have taken shape in any other way (Keuschnigg, 2012). Venture capital has also facilitated large-scale restructuring through the division of large industrial organizations into smaller, more focused units. And thousands of venture capital investments have enabled small businesses to grow faster.

Venture capital can play a significant role in creating a dynamic and entrepreneurial business environment. It is a well-established part of the financial industry in the USA, the UK, and increasingly in continental Europe and elsewhere (Keuschnigg, 2012). Through the provision of risk capital alongside debt from banks and other sources, venture capital allows entrepreneurial managers with limited financial resources to start, to grow and to acquire businesses (Jagongo, 2012). It is the managerial skills and enterprise of the executive management, together with the financial resources and experience of the venture capital backers, which can combine to make a successful business venture and to create wealth for all the shareholders.

Africa faces the challenge to provide better economic opportunities to its citizens, through sustained growth led by the private sector and to alleviate the poverty that has long plagued the region. A strong private entrepreneurial sector plays a vital role in this respect, in particular the micro and medium-sized enterprises (SMEs) that provide many Africans employment, income and hope for a better future (Jagongo, 2012). SMEs contribute around two thirds of national income and provide the foundation for a stable middle class in many countries (Word Bank, 2013). They help form strong communities and are a powerful force for poverty reduction. Indeed, SMEs play a significant role in building economic stability and sustainability for the future. In order to promote the development of the private sector access to finance is crucial. This can take many different forms of bank loans to overdraft facilities. Unfortunately, Africa is still seen as a risky and expensive place to do business. Indeed, transactions costs are often higher than elsewhere (Calice et al, 2012).

STATEMENT OF THE PROBLEM

Strategy and strategic thinking are very important for a venture capital funded Company. Lack of finance has been regarded as one of the major problems contributing to slow development and high mortality rates of small business in Kenya (Muteti, 2005). World Bank report (2013) argues that lack of adequate financial management support is the second biggest weakness in the national environment of entrepreneurial activity. The main players in equity financing are development finance institutions (DFIs) and private investment firms. The five existing DFIs account for less than 1% of the assets of the banking sector and had lent only Kshs. 1,334.11 billion (approximately USD 14.53 billion) of credit to private sector from the country's banking sector by June 2012 (CBK, 2013). Hence these DFIs supplied only about 0.56% of the banking sector credit to the private sector.

The number of financial institutions offering credit services to SMEs is a constraint to the development of the sector. Kenya currently has 43 banks serving a population of 34 million people. Only 60% of Kenyans have access to banks or microfinance institutions with 30% of rural users having no access to banking services at all. (Kenya National Bureau of Statistics (KNBS), 2014).According to World Bank (2013) most foreign and local private bank shy away from providing venture capital to SMEs. This is only left to banks with state ownership which only accounts for 24.8% of the market. Most SMEs lack reliable financial data that allows financial organizations to scrutinize the health and prospects of the company. This is coupled by limited experience the entrepreneurs have.

Kinyanjui (2014) notes that SMEs in Kenya are under-capitalized and over-leveraged. Many entrepreneurs lack collateral acceptable to the banks. This means that venture capital financing is more suitable than debt financing and is one of the only options for entrepreneurs without collateral. Saunders and Allen (2010) notes that, 'the cost of providing basic banking services are often prohibitive, and credit is either unavailable or too expensive.' The reasons include, lack of credit history and collateral is a key constraint on extending credit, and small loan sizes also mean high transaction cost. This study thus focuses on strategic determinants of access to venture capital in small and medium sized enterprises in Nairobi County. A clear strategy is important for smaller firms to further enhance their performance. Nevertheless, despite of the importance of strategies in small firms for better performance and growth, only little research had focused on this area.

GENERAL OBJECTIVE

The general objective of this study was to establish the strategic determinants of access to venture capital among small and medium sized enterprises in Nairobi County.

SPECIFIC OBJECTIVES

1. To ascertain how the level of information awareness affect access of venture capital in SMEs in Nairobi County.
2. To examine how the firms resources affects the access of venture capital in SMEs in Nairobi County.
3. To establish how business proposals developed influence the access of venture capital in SMEs in Nairobi County.
4. To find out how entrepreneurial competence affect access of venture capital in SMEs in Nairobi County.

THEORETICAL REVIEW

Although a host of models have been proposed to aid strategic development, these models do not detail the processes needed to develop the required strategies, nor do they take into account the specific characteristics and limitations of SMEs. But this differentiation is vital, as small businesses are not just smaller versions of big businesses: unlike their larger counterparts, smaller businesses have less formal planning, fewer control functions, simpler organizational structures, and less-developed administrative systems.

Resource-Based View Theory

The resource-based view of the firm dates back to the seminal work of Penrose (1959) who conceptualized the firm as a collection of productive resources and viewed firm growth as a process of using these resources to exploit the firm’s productive opportunity and also increasing the firm’s resource base. Penrose defined productive opportunity as the collection of all possible productive possibilities entrepreneurs can identify and are willing and able to pursue. Because productive opportunities are unlimited, the firm's growth is limited by the existing resource base and the competence of management to exploit the resource base.

Penrose’s ideas did not receive much attention before Wernefelt (2014) introduced the term “resource-based” in his characterization of firms as collections of resources rather than sets of product-market positions. At the same time, Rumelt (1984) suggested that a competitive advantage is determined by the firm’s unique resources that are handled by the management: “… a firm’s competitive position is defined by a bundle of unique resources and relationships and that the task of general management is to adjust and renew these resources and relationships as time, competition, and change erode their value. After the writings of Rumelt (1984) and Wernefelt (2014) the resource-based view rapidly emerged.

The key idea of the resource-based view is that firm-specific skills, competencies, and other tangible and intangible resources are viewed as the basis for the competitive advantage of a firm. Because of environmental uncertainty, the firm-specific resources and capabilities are considered as a more sustainable basis for competitive advantage than product-market positioning. The essence of a firm's strategy lies in the ways that the firm uses existing resources and in the means the firm acquires or develops internally additional unique resources (Wernefelt, 2014). Barney's conceptual paper has become the cornerstone of contemporary research on the resource-based view. In this paper, Barney presents the two key axioms of the resource based view: Resources are distributed heterogeneously across firms, and these productive resources cannot be transferred from firm to firm without cost (Priem & Butler, 2013).

According to Teng (2007), in order to sustain long-term competitive advantage, resources must be valuable, rare, imperfectly imitable, and without strategically equivalent substitutes. The resource-based view has important implications for the formation and performance of inter organizational relationships of entrepreneurial firms. Barney and Clark (2007) agreed that resources of a firm are valuable only when they enable a firm to implement strategies that improve its efficiency and effectiveness. For the firm to enjoy a sustainable competitive advantage, the resources under its jurisdiction should be imperfectly imitable resource. In many cases firms with such kind of resource are often strategic innovators, for they can be able to engage in strategies that other firms cannot implement because they lack the relevant firm resource. The last requirement for the firm resource to be a source of meaningful performance is that these firms must be in possession of strategically equivalent valuable resources that are either rare or imitable. Firms with such resources are able to implement certain strategies that those firms without cannot implement.

The RBV was further developed recently by Dollinger et al. (2010) who considered the special circumstances arising from the relationship, alliances and networks of the enterprises. This expansion enables research to go beyond the limits of the physical resources and internal capabilities within an enterprise to understand how relationships, alliances and networks augment the management practices of the enterprises. Therefore, Dollinger et al (2010) concur the RBV categorically showed there are basically three important resources that a firm may possess. These resources must be imperfectly imitable by competing firms and rare, are of value and there are no strategically equivalent resources can be grouped into three important categories which are liquidity, human capital resources and the social network resources. These three important resources form the backbone of the RBV school of thought. The resource-based view highlights the role of resource complementarities influencing the alliance formation and access to financing (Hellmann, 2013).

Information Asymmetry Theory

Information asymmetry theory postulates that when two parties are making decisions or transactions, there exists a situation where when one party has more or better information than the other. Thus, information asymmetry may cause an imbalance of power between the parties. In this context, for example, the borrowers are more likely to get more information than the lenders. Information related with the risk associated with the investments is likely to be available to the borrowers. Matthews and Thompson (2008) observed that this may lead to the problems of moral hazard, where a party will take risks because they assume final cost of that risk, as well as adverse selection, where there are adverse results because parties have different/imperfect information; therefore, the problems may cause inefficiency related to the flow or transfer of funds from the lenders (surplus) to the borrowers.

Furthermore, for overcoming these issues, the financial intermediaries use three major ways such as providing the commitment for long-term relationship with the clients. The second way is through the sharing of the information. Lastly is through the delegation and monitoring of the credit applicants. When the customers borrow money directly from banks, the banks should consider the need for relevant information to be addressed and so as to redress the asymmetry of the information. It is argued that the acuteness of information asymmetries between banks and entrepreneurs is the main stumbling block to SME financing in Sub-Saharan Africa. However, the gap between banks and SMEs can be narrowed by developing financial systems that are more adapted to local contexts such as VC firms. In addition, avenues should be explored for sharing of risks and reduction of perceived risks by VC firms by promoting sustainable guarantee funds to facilitate better access to financing by SMEs (Lin, 2015).

Knowledge-Based View Theory

The knowledge-based view has emerged from the resource-based view of the firm. Distinguishing knowledge from other types of resources, this view of strategy considers knowledge as the strategically most significant resource of the firm. Its proponents argue that heterogeneous knowledge bases and capabilities among firms are the main determinants of sustained competitive advantage and superior corporate performance. The knowledge-based view of the firm depicts firms as repositories of knowledge and competencies. According to this view, the organizational advantage of firms over markets arises from their superior capability increasing and transferring knowledge. Knowledge creation and innovation result from new combinations of knowledge and other resources (Casson, 2013).

Although a variety of definitions of organizational learning have been proposed, a common notion for various definitions is that learning involves acquisition and exploration of new knowledge by the organization. Similarly, Argote (2012) depicted organizational learning as a process consisting of knowledge acquisition, retention, and transfer. Relationships with other organizations are therefore an important source of new information for organizations. Indeed, numerous studies have identified learning and knowledge acquisition as important motivations for entering inter organizational relationships. According to Ogula (2013), tacit knowledge is primarily seen through management actions rather than through specific explanations of what that individual knows. The knowledge-based view argues that because tacit knowledge is difficult to imitate and relatively immobile, it can constitute the basis of sustained competitive advantage.

There is also some empirical research examining the learning by entrepreneurs from their venture capital investors. Prasad (2005) analyzed a sample of 205venture capital backed firms and found systematic differences among new venture teams in their evaluation of learning assistance from their venture capital investors. They found that new venture teams with more industry experience and longer team tenure in the current venture were negatively related to both business management advice and operational assistance offered by their venture capital investors. Absorptive capacity is an important concept for inter organizational learning and thus for the present study. Absorptive capacity is the ability to recognize the value of new external information, assimilate it, and apply it to commercial ends. They argued that inter organizational learning leading to management competence is most effective when there is sufficient similarity in the basic knowledge of the firms (enabling effective communication) but simultaneously sufficient diversity in the special knowledge (non-redundancy makes knowledge valuable). The accumulation of knowledge and management competence through learning constitutes a driving force in the development and growth of young SMEs, because knowledge acquisition opens new financing opportunities and enhances the firm’s ability to exploit these opportunities.

Resource Dependency Theory

Resource dependency theory by Pfeffer and Salancik (1978) argues that no organization can survive alone. Resource dependence perspective argues that firms have to enter into inter-organizational relationships because they cannot generate all the necessary resources internally. Resource dependence perspective builds on social exchange theory (Blau, 1964) and explains dependence on inter-organizational relationships. Pfeffer and Salancik (1978) argued that when conditions of exchange and competition are uncertain and problematic, organizations attempt to establish linkages with elements in their environment through business proposals and use those linkages to access resources, to stabilize outcomes, and to avert environmental control. However, using external links to gain access to resources makes firms dependent on the environment.

Resource dependence perspective assumes that firms avoid environmental uncertainty, seek to reduce dependency on the environment, and anticipate reciprocity in resource exchange relationships (Emerson, 2012). The resource dependence perspective views the goal of organizations being the reduction of environmental uncertainty through resource sharing, while avoiding excessive dependence on external parties to resource exchange. The main goals of firms in managing inter-organizational relationships are minimizing dependence on others, controlling critical resources, and gaining access to critical resources.

The theory of resource dependency implies that venture capitalists assist the entrepreneurial firms to manage their dependency of external resources that are critical to the firms by giving access to these. This means that the venture capitalist reduces uncertainty regarding resources, relationships and strategy captured in the SME business proposals. These activities shall ease the corporate decisions by facilitating important resources (Wijbenga et al, 2015). The entrepreneurial firm's dependency of the resources presented above indicates the venture capitalist's control over the firm. Venture capitalists can use control systems to enhance their importance for the firm by identifying resources that are most appropriate to supply to the firm as depicted in the business proposal. Entrepreneurs tend to focus on the primary focus of the firm and venture capitalists can help firms to operate more efficiently by using a control system for cost.

EMPIRICAL REVIEW

The numbers of small scale traders are many, while the financial institutions with the services tailored for them are few. The loan requirements of the SME'S traders are different from those of the large businesses. This is due to fragile nature of the business among other considerations, such as size, management structure, the capital base etc. Jagongo (2012) thus argues that there is need to have many lending institutions whose lending policies are established with such factors in considerations. The few institutions with such considerations are faced by the many small scale traders whose financial demands they may not cater for. This reduces accessibility for those who cannot get credit. Jagongo (2012) argues that the problem 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. According to Konchella (2012), most banking institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint to SME's most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. Furthermore, most lending institutions are more inclined to lending to the large scale businesses that have higher success rate and repayment rate, the small scale businesses are relegated to the micro finance institutions (MFI's) and shylocks whose lending requirements may further discourage them.

Beck (2010) argues that a business plan outlines the structure of a business and as such it's very useful tool to a financier intending to finance a business venture. Business plan is viewed as a formal statement of a set of business goals, the reasons why they are believed attainable, and the plan for reaching those goals. It may also contain background information about the organization or team attempting to reach those goals. Curran (2009) argues that externally focused business plans target goals that are important to external stakeholders, particularly financial stakeholders. This makes a business plan an important tool in decision making of a financial on which business to fund. This is because the business goals captured info-profit business plans typically focus on financial goals, such as profit or creation of wealth. The entrepreneur's experience is considered important in accessing bank credit.

According to De la Torre (2010), specialized knowledge of the industry, particularly on technology and market is considered critical for venture performance. Knowledge gained from industry experience provides the entrepreneur with certain key competencies and inside information needed to recognize and exploit opportunities. Through work experience, people develop information and skills that facilitate the formulation of entrepreneurial strategy, the acquisition of resources, and the process of organizing. Industry experience is also important in reducing risks and uncertainty. Thus, industry experience is expected to be associated with entrepreneurial orientation

Venture capital funds generally seek out investments that are intermediate term, equity-related investments, target technology-based private firms, and invest in those rare firms that have the potential of going public or being acquired at a premium within a few years (Gompers & Lerner, 2001). This involves helping firms develop compensation and human resources policies; hiring key executives, such as the marketing president; and intervening to replace poorly-performing managers early enough to promote effective change. Although informal venture capital provides a different perspective in terms of sector coverage and degree of risks absorption, Sheffrin (2009) stress that the trend towards concentration of venture capital under the control of a few firms is increasing. Thus, it is possible to find a situation where a venture capital firm has a controlling stake in some SMEs.

SMEs contribute to output and to the creation of "decent" jobs, on the dynamic front they are a nursery for the larger firms of the future. The size and credit demand of SMEs also have outgrown the capacity of microfinance institutions, which offer small, short loans via group-lending methodologies. However, the capacity of the SME risk profile combined with the lender's lack of sophisticated risk assessment techniques makes many of them appear undesirable as credit customers among banks and other financial institutions. In Kenya, most SMEs are undercapitalized and over-leveraged (Kinyanjui, 2014). Moreover, many entrepreneurs lack collateral acceptable to the banks. This means that capital venture finance would be more suitable than debt finance and is one of the only options for entrepreneurs without collateral.

Despite these recommendable remarks there is lack of supporting literature, empirical evidence and tailored research to guide policy decisions on strategies to employ to facilitate access to venture capital in SMEs in Nairobi County. This research therefore sought to fill this information gap by providing information on the strategic determinants of access to venture capital in SMEs in Nairobi County by looking at how level of information awareness , firms resources, business proposals developed and entrepreneurial competence affect access of venture capital in SMEs.

RESEARCH METHODOLOGY

This research used descriptive design which describes the strategic determinants of access to venture capital in SMEs in Nairobi County. The population in this study comprised all the registered SMEs who make tax returns to KRA in Nairobi county. There were 594 SMEs targeted for this study who met this condition in Nairobi County. They were divided under four major categories which were: services (airline, hotels, education, health, commercial, general services and clearing and forwarding), wholesalers and retailers, manufacturing and agriculture and financial services (construction, financial services, Government, NGOs and real estates) (KRA, 2012). These SMEs were distributed across the administrative units. From these SMEs, all the finance managers constitute the target population because they were directly in charge of investment portfolio of these SMEs forming the unit of analysis in this study.

The sample size had 119 respondents from a total of 594 in the specific service sectors in Nairobi County. The sectors include; service industry, wholesalers and retailers, manufacturing and agriculture, and financial services. Stratified random sampling is unbiased sampling method of grouping heterogeneous population into homogenous subsets then making a selection within the individual subset to ensure representativeness. According to Orodho (2005), the extreme upper limit of the sample size is 2000 – 3000 while the extreme lower limit is 30 cases for statistical data analysis. According to Gay (1992), a sample of at least 20 per cent is justifiable for the study of less than 1,000 populations. On this strength, the researcher took a sample size of 119 SMEs. Consequently, the sample sizes of 119 finance managers therefore were satisfactory for the study, given cost and time constraints.

In this study, emphasis was given to primary data and secondary data analysis. The primary data was collected using questionnaires. Descriptive statistics using frequency distributions mean and standard deviation and percentages were used to analyze the data. Descriptive statistics which include frequencies distribution, percentages, and measure of central tendency such as means, mode and measure of dispersion which includes standard deviations were derived to inform the correlation analysis of the study variables. The study used Pearson's product moment correlation to measure the relationship between the independent variables and dependent variable. In addition, a multiple regression analysis was done where;

$$Y= \beta_0 +\beta_1X_1 + \beta_2X_2 + \beta_3X_3+ \beta_4X_4 + e$$

Whereby Y= Access to Venture Capital by SMEs, X_1=Level of Information Awareness, X_2 = Firm's Resources, X_3= Business proposal, X_4= Entrepreneurial Management Skills and Competence while $\beta_1, \beta_2, \beta_3, \beta_4$ are coefficient of determination, e is the error term and β_0 is the correlation coefficient.

RESEARCH RESULTS

Reliability Analysis

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved 20 finance managers. Cronbach Alpha was established for every objective which formed a scale.

Table 1: Reliability Analysis

	Cronbach's Alpha
Level of information awareness	.729
Firm's resources	.833
Business proposal	.751
Entrepreneurial management skills and competence	.765

The findings illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7. This therefore depicts that the research instrument was reliable and therefore required no amendments.

Pearson Correlation Analysis

Pearson correlation coefficient was used determine the strength and the direction of the relationship between the dependent variable and the independent variable.

Table 2: Correlation Matrix

		Access to venture capital	Level of information awareness	Firm's resources	Business proposal	Entrepreneurial management skills and competence
Access to venture capital by SMEs	Pearson Correlation	1				
	Sig. (2-tailed)					
level of information awareness	Pearson Correlation	.756	1			
	Sig. (2-tailed)	.032				
Firm's resources	Pearson Correlation	.675	.711	1		
	Sig. (2-tailed)	.017	.009			
Business proposal	Pearson Correlation	.567	.542	.44	1	
	Sig. (2-tailed)	.043	.014	.007		
Entrepreneurial competence	Pearson Correlation	.825	.565	.771	.715	1
	Sig. (2-tailed)	.003	.017	.015	.036	

From the table, level of information awareness has a positive correlation of 0.756 with access to venture capital by SMEs and is significant at 0.032. Firm's resources correlate with access to venture capital by SMEs with 0.675 and are significant at 0.017. Business proposal also strongly correlates positively with access to venture capital by SMEs with 0.567 and also significant with 0.043. Entrepreneurial competence has a positive correlation with access to venture capital by SMEs with 0.825 and also significant with 0.003.

Regression Analysis

Regression analysis shows how dependent variable is influenced with independent variable.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.881	0.776	0.765	2.338

Table 3 is a model fit which establish how fit the model equation fits the data. The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.765 implying that 76.5% of access to venture capital by SMEs is affected by the following variables; level of information awareness, firm's resources, business proposal, entrepreneurial competence leaving 23.5% unexplained. Therefore, further studies should be done to establish the other factors (23.5%) that influence the access to venture capital by SMEs.

Table 4: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1625.82	4	406.455	84.765	.000
	Residual	469.92	83	4.795		
	Total	2095.74	87			

The probability value of 0.000 indicates that the regression model was significant in determining how level of information awareness, firm's resources, business proposal, and entrepreneurial competence that influences access to venture capital by SMEs. The F calculated at 5 percent level of significance was 84.765. Since F calculated is greater than the F critical (value = 2.4645), this shows that the overall model was significant.

Table 5: Coefficients of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.987	0.432		2.285	.0245
Level of information awareness	0.754	0.293	0.714	2.573	.0116
Firm's resources	0.638	0.144	0.619	4.431	.000
Business proposal	0.584	0.239	0.472	2.444	.0163
Entrepreneurial competence	0.827	0.278	0.782	2.975	.0036

The established model for the study was:

$$Y = 2.564 + 0.754\ X_1 + 0.638\ X_2 + 0.584X_3 + 0.827\ X_4$$

The regression equation above has established that taking all factors into account (level of information awareness, firm's resources, business proposal, and entrepreneurial competence) constant at zero access to venture capital by SMEs is 2.564. All the variables were significant ($p<0.05$).

Level of Information Awareness

The results indicated that level of information awareness affects access of venture capital financing in the companies to a great extent. There was a strong, positive and significant relationship between Level of Information Awareness and access of venture capital financing ($r = 0.754$; $p = 0.0116$). The study further established that loan processing procedures affects access of venture capital financing in the companies to a very great extent. Number of lending institutions affects access of venture capital financing of the companies to a great extent. Furthermore, funding requirements, ease of access to credit facilities and cost of financing to SMEs was established to greatly affect access of venture capital financing of the companies. However, the study deduced that interest and related charges and availability of financers moderately affect access of venture capital financing of the companies. This is in accordance to findings that access to information is a basic condition for providing loans to firms. Often the problem of inadequate information is mentioned as one of the main aspects limiting bank finance to SMEs.

Firm's Resources

In relation to firm's resources and its effects on access of venture capital financing of companies the study found that it has a great effect on access of venture capital financing by SMEs. There was a strong, positive and significant relationship between firm's resources and access of venture capital financing ($r = 0.638$; $p = 0.000$). Furthermore, the study noted that improved trade contacts affects access of venture capital financing of companies to a great extent. Credit worthiness and asset base of enterprise was also found to have the great influence on access of venture capital financing of companies. The study however found that financial capital, social capital and human capital have a moderate effect on access of venture capital financing of companies. Almost all entrepreneurs start their businesses from their own savings or loans from relatives since they don't demand security. The financing conditions of a firm in its very early stage of development can imprint the firm's strategy, which may lead the young firm into a path-dependent competitive position. Firms that were not able to pursue desirable strategies may later find themselves unable to match those that could.

Business Proposal

It was deduced that business proposal affect access of venture capital financing in the companies to a very great extent. There was a positive and significant relationship between business proposal and access of venture capital financing ($r = 0.584$; $p = 0.0163$).The analysis also shows that structure of the business affect access of venture capital financing in the companies to a very great extent. Business strategy and goals were found to affect venture capital financing in the companies to a great extent. However size of the business and decision making tool affect access of venture capital financing in the companies to a moderate extent. The findings supports previous studies that states business plans plays a major role in SME financing in that they are viewed as appraisal tool by the lending institutions. Business plans are decision making tools and its content provides a way for venture capitalist to find promising projects. It's therefore important to have a good business plan that is convincing to the VC.

Entrepreneurial Competence

The study established that entrepreneurial competence affect access of venture capital financing in the companies to a very great extent. There was a strong, positive and significant relationship between entrepreneurial competence and access of venture capital financing ($r = 0.827$; $p = 0.0036$). In relation to aspects of entrepreneurial competence**,** technical skills were found to affect access of venture capital financing in the companies to a great extent. Other aspects that were found to have great effects on access of venture capital financing in the companies are entrepreneurship skills and financial management. However, marketing management was noted to have a moderate effect on access of venture capital financing in the companies. Lack of managerial competency is the main reason that new businesses fail. The lack of support services, or their relatively higher unit cost, was also found to hamper SMEs' efforts to improve their management capabilities. This is because consulting businesses are often not equipped with appropriate cost-effective management solutions for SMEs.

Access to Venture Capital by SMEs

The study noted that number of loans accessed had greatly improved for the last five years in the companies. Purpose of loans had also improved for the last five years in the companies. However types of loans and size of loans advanced remained constant for the last five years. This is supported by the fact that in majority of cases, these small enterprises are initially informal but gradually some of them survive and become formal businesses, thereby providing the foundation of modern private companies. The findings indicate that; first, management is independent: usually managers are also the owners. Second, Capital is supplied and an individual or small group holds ownership. Third, areas of operation are mainly local. Workers and owners are in one home community, but markets need to be located in the same community.

The study deduced that all the four variables combined contributed to 76.5% of access to venture capital by SMEs. The regression model was significant in determining how level of information awareness, firm’s resources, business proposal, entrepreneurial management skills and competence that influence access to venture capital by SMEs. Finally, it was revealed that entrepreneurial management skills and competence had the greatest effect on the on the access to venture capital by SMEs; followed by level of information awareness, and then business proposal had the least effect on access to venture capital by SMEs.

CONCLUSIONS

Based on research findings, the study concluded that level of information awareness greatly affects access of venture capital financing in the SMEs positively and significantly. The company that has a good access to information tends to have an ease access to venture capital financing as opposed to those companies that have poor access to credit information. Furthermore, it was established that with low cost of financing by lending institutions as well as short loan processing procedures will attract more companies which will be ready to seek credit facilities.

It was further concluded that firm’s resources greatly affects access of venture capital financing of companies significantly. The study deduced that most credit providers or institutions request the companies to submit their resources as collateral for them to advance loans. Firms with improved trade contacts and good credit worthiness have a good access to venture capital financing.

It was further concluded that business proposal greatly affects access of venture capital financing in the companies positively and significantly. The study also established that structure of the business, business strategy and goals, size of the business and decision making tool are some of aspects that credit lending institutions look into before advancing loans to the companies.

The study further concluded that entrepreneurial management skills and competence greatly affect access of venture capital financing in the companies positively. The study deduced that companies with employees that possess better technical skills, entrepreneurship skills, financial management skills and marketing skills have an ease access to venture capital financing.

The study inferred that all the four variables combined contributed to 76.5% of access to venture capital by SMEs. Finally, it was concluded that entrepreneurial management skills and competence had the greatest effect on the access to venture capital by SMEs; followed by level of information awareness, and then business proposal had the least effect on access to venture capital by SMEs. It was concluded that all variables were significant in predicting their effect on access to venture capital.

RECOMMENDATIONS

Based on research findings and conclusions, the study recommends the managers of SMEs in Nairobi County should aim at increasing their collateral which is one of the requirements for them to access venture capital from formal credit facilities. Assets owned by the company should be of high value to attract reasonable amount of capital from such credit facilities. Furthermore, the managers of SMEs should also raise the capital investment into the business. The study also advises the SMEs in Nairobi County to come together and form co-operative association by which they will pursue collective bargaining especially collective credit access.

The study recommends that managers of SMEs in Nairobi County should develop different channels for accessing important information such as twitter account, Facebook and Whatsapp. This communication channel will eases the information access hence enabling many SMEs to access capital venture information. The credit lending institutions are also advised to lower their financial charges in order to attract more entrepreneurs for credit advancement. The study again recommends that managers of credit institution should fasten the loan processing procedure since long and procedural loan process scare away most business person from accessing venture capital.

The study also recommends that managers of SMEs in Nairobi County should attend the trainings on different aspects of firm management in order to improve in their level of managerial competency. The training received by the managers will also lead to wide experience and knowledge of the business hence credit access will be ease due to celebrated experience the managers will poses. Apart from that, the managers of SMEs in Nairobi County should consider the nature of firm management in their businesses; the management tools should be clear and efficient. The study further recommends that up-to-date hands-on training be offered to the workers in this industry consistently to ensure that the performance of SMEs is maintained high at times. As well, it will ensure that innovation and business financing skills are acquired and utilized well.

The study finally recommends that managers of SMEs in Nairobi County should possess a good credit experiences, they have to ensure that whenever they are granted credit facilities they should make every effort to repay their debts since their credit history plays a role during loan appraisals. The study also recommend to managers of SMEs to always keep financial reports and business records since they are significant for future reference as well as tool for advancing loans from credit facilities. On this, the study makes the recommendation that the organization ensures that they engage in effective financial risk mitigation techniques to ensure that the risks involved within the financial market do not negatively impact on the performance of the organization. This is because when such risks are not considered, the organization will perform poorly in terms of business finance and as the study has established business performance has a greater effect on firm's access to venture capital and other forms of financing.

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