DEMAND SIDE DETERMINANTS OF PRIVATE EQUITY FUNDING AMONG SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

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DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the proposal contains no material previously published or written by another except where due reference is made in the proposal itself.

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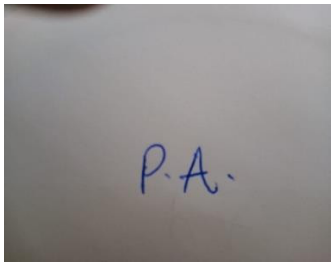

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SUPERVISOR'S DECLARATION

This thesis has been submitted for examination with my approval as the University supervisor.

Signature. Date: 20th May 2025.

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I would like to thank the Almighty God for giving me strength, wisdom and direction to complete this thesis writing. A big thank you to my colleagues for their encouragement and my supervisor for her assistance during the process of writing the dissertation. To all my family and friends who assisted me in any way during my dissertation writing, your input was valuable. I am grateful.

DEDICATION

I dedicate this research thesis to my parents Felix Muhindi and Rose Mbayachi and my sisters Cynthia Aswani and Tessie Ilusa , who assisted me tremendously while Ipursued this research thesis. Above all, I dedicate with thanksgiving this research dissertation to my God almighty, Ebenezer

TABLE OF CONTENTS

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VT OMNES VNVM SINT

ABSTRACT

Recognizing the vital and ongoing role Small and Medium Enterprises (SMEs) play in economic development, contributing significantly to employment creation and innovation, this study addresses the persistent challenge of financing access they face, particularly in developing economies like Kenya. Given the limitations of traditional financing options often constrained by perceived high risk and stringent collateral requirements, many SMEs are actively exploring private equity (PE) as a potential alternative source, offering access to significant capital and strategic expertise. This study specifically examined key determinants of PE funding among SMEs in Nairobi County, assessing the effects of perceived high listing fees, collateral requirements, concerns over ownership dilution, and the role of managerial competence on the uptake and viability of PE financing for these firms. Grounded in the Pecking Order Theory, which explains financing preferences based on information asymmetry, and the Agency Cost Theory, which addresses potential conflicts between investors and owners, the research provided a theoretical framework for understanding SME financing decisions and the inherent challenges associated with private equity investments. Adopting a descriptive cross-sectional design, the study targeted a specific population of 97 SMEs in Nairobi County, identified from East Africa Venture Capital Association (EAVCA) records as having previously received private equity or venture capital funding over the past decade. Primary data on the study variables was systematically collected through structured questionnaires administered electronically to key management respondents within these sampled SMEs. Secondary data from EAVCA reports, firm financial statements, and industry publications complemented this by providing essential sample identification, contextual information, and validating certain firm characteristics used in the analysis. The collected quantitative data was analyzed using descriptive statistics, correlation analysis, and multiple regression modeling to comprehensively establish the relationships between the independent variables and their influence as determinants of PE funding uptake among the sampled firms. Regression results revealed distinct directional effects: perceived high listing fees had a statistically significant negative influence on PE funding uptake ($\beta = -0.24$, $p < 0.05$), directly deterring SMEs. Collateral requirements showed a positive but statistically insignificant association with PE adoption ($\beta = 0.10$, $p = 0.459$), reflecting their role in motivating SME exploration of alternatives without conclusive predictive power. Concerns over ownership dilution demonstrated a significant negative relationship ($\beta = -0.31$, $p < 0.01$), acting as a critical barrier to PE engagement. Managerial competence exhibited a positive yet statistically insignificant effect ($\beta = 0.19$, $p = 0.072$), indicating no direct impact on PE uptake in this context. A supportive regulatory environment demonstrated the strongest positive impact ($\beta = 0.61$, $*p* < 0.001$), underscoring its critical role in reducing transaction risks and enhancing PE attractiveness. This study contributes valuable empirical insights into the specific factors influencing private equity financing decisions and uptake dynamics within Nairobi's vibrant SME sector. The findings underscore the critical need for policy interventions aimed at reducing the costs and complexity associated with accessing equity financing, simplifying regulatory processes, and enhancing financial literacy among SME owners. Furthermore, private equity firms are advised to critically tailor their investment approaches to explicitly address the key concerns of SME owners, particularly regarding governance structures and strategies for managing ownership dilution and control. Future research could beneficial explore sector-specific variations in PE uptake and conduct longitudinal studies to assess the long-term impact of private equity investments on SME growth trajectories and sustainability.

LIST OF FIGURES

VT OMNES VNVM SINT

LIST OF TABLES

OPERATIONAL DEFINITION OF TERMS

Collateral: Assets that a company can offer to secure private equity financing, significantly influencing a company's ability to obtain such financing by reducing lender risk (Cendrowski, 2012).

Listing Fees: All expenses associated with securing private equity financing, such as legal fees, underwriting costs, and nominated advisor fees, which may deter companies from pursuing this option (Wright & Gilligan, 2020).

Dilution of Ownership: The reduction in existing shareholders' ownership percentage when new equity is issued, impacting the decision to seek private equity financing due to concerns over reduced control (Neuberger Berman, 2022).

Managerial Skills and Competence: The skills and expertise of a company's management team, including level of education, entrepreneurial skills, and management skills, which attract private equity investors (FasterCapital, 2024).

Private Equity Financing: A method of funding for SMEs involving investments made by private equity firms in exchange for ownership stakes or equity, aiming to enhance the financial performance and operational efficiency of the SMEs (EBRD, 2015).

Regulatory Framework: The external regulations that influence private equity financing, including capital market regulations and regulatory compliance scores for capital market operations (Koreen & Boschman, 2020).

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CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Background of the Study

Small and Medium Enterprises (SMEs) play a critical role in the growth and development of an economy and a country (Irawan & Sukiyono, 2021). They contribute immensely to employment, job creation and output. However, the financial crisis of 2008 created a tough environment for the SMES, and this led to a reduction in lending activities by banks and financial institutions and other non-banking financial institutions (Mirkovic, 2013). Small and medium-sized enterprises (SMEs) make up the majority of businesses globally, representing approximately 90% of all companies (Irawan & Sukiyono, 2021). They also play a significant role in job creation, contributing to around 50% of the world's total employment (Irawan & Sukiyono, 2021). Formally registered SMEs contribute an estimated 40% to the national income of emerging economies (World Bank, 2019).

Despite SMEs playing a critical role in the growth and development of economies, they did face a lot of challenges in their quest to access credit during the 2008 global financial crisis (Beck, 2013). In Europe increased insolvency rates duly confirmed SMEs constraint in obtaining short term financing data collated from the European Central Bank (Garrido & Rasekh , 2021). Countries that use the bank's lending survey method it was noted tightening of credit conditions enhanced this was due to the banks inability to access capital, high risk on collateral, the banks liquidity position, an increase in the interest rates spreads (Wehinger, 2013). In Denmark, Norway, Ireland and Spain there was increased corporate insolvencies at 25% (Dalago & Gugliemletti, 2012). In Finland the short-term insolvency among SMEs was noted to be between 6%-8%. In January 2009 more than 17% of these firms with an employee head count of less than 50 employees declared to have solvency problems (Dalago & Gugliemletti, 2012).

According to data from the OECD (2010), Sweden experienced a 50% surge in bankruptcies during the first two months of 2009 compared to the same period in 2008, as reported by the Development Bank of Sweden. Historically, small and medium-sized enterprises (SMEs) have predominantly relied on commercial banks, cooperative financial institutions, and credit unions for financing through loans and overdraft facilities. A survey conducted amongst 91 banks in 45 countries found that banks consider lending to SMES and perceive it as a profitable segment. However, due to the ever-volatile macroeconomic state in developing economies and the stiff competition they face in the developed economies, this were identified as the reasons banks withhold financing SMES. SMES face greater obstacles than larger firms in securing credit, about 70% of SMEs do not use external borrowing from formal financial lending institutions while 15% of SMEs are not well funded (Ramalho, 2018).

Financial constraints together with inefficient credit and capital market force SMEs to seek financing from the informal credit markets which might worsen the financial risk due to the unfavorable terms and conditions attached to it. This issue is, however, more acute and rampant in developing countries where shadow lending financial institutions are in competition with formal financial institutions (Sasan et al., 2020).

SMEs face various challenges in their quest to attain credit. These challenges include information asymmetry of alternative source of financing such as venture capital investment, private equity investment, business angels, volatility in their earnings, and weak corporate governance structures and rigid taxation policy and legal frame work that makes not easy for SMEs to access credit facilities from organization (Costin, 2015). SMEs, being an important cog in the economic ecosystem most SMEs are seeking alternative source of funding such as angel financing, private equity financing and venture capital funding.

Africa as a continent is dubbed as the land of endless opportunities. In the last few years there is an upward growth trajectory in Africa economically while other regions in the world struggled to register economic growth. The economic growth in Africa region averaged 5% which was recorded to be higher than developed continents such as America, Europe and South America (Muriithi, 2017). SMEs are the backbone of the African economy. It has been noted that SMEs contribute about 50% of the GDP of African countries and contributes 60% of employment creation in Africa (Muriithi, 2017). However, most of the SMES have been found to be mainly in the service sector.

In Ethiopia it has been noted that SMEs contribute 3.4 % of to the GDP and generated up to 90% of the jobs in Ethiopia (Ussif and Kassim, 2020). In Ghana, SMEs have been noted to be among the largest contributors of GDP which comprises of 70% and are also believed to account up to 92% of the businesses in the country. In South Africa, it has been duly documented that 91% of formally registered businesses are SMEs and their contribution to the GDP is estimated at 52% and are estimated to be responsible for up to 61% of the jobs created in South Africa (Abor and Quartey, 2010). In Zambia it has been noted that SMEs play a critical role in the economy, and they contribute an estimated 70% to the GDP and also generate 88% of employment in the country. They are also the majority of businesses registered in the country with a 97% lead (ITC, 2019).

Despite the positive impact the SMEs have on the African economies, it has been noted most SMEs in Africa face a lot of obstacles in their day-to-day activities. In South Africa for instance, the following challenges have been noted to face SMEs; inadequate management skills, inadequate funding such as credit facilities to enable smooth running of the organizations, inadequate markets for their products and poor technology (Ramukumba and Takalani, 2014). In Zambia it has been noted that SMEs struggle to obtain the necessary finances in order to facilitate their growth and development. 90% of the SMEs are unbanked and the bank of Zambia has stated only 10% of SMEs are able to access credit facilities from banks (Mankolo, 2014).

However, amidst the challenges facing SMEs in Africa, a trend has been seen of SMES seeking alternative sources of funding for their businesses for expansion, recapitalization and mergers and acquisition (Kpentey, 2019). Private equity as a form of alternative source of financing for SMEs has gained a lot of traction in Africa.

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1.1.1 Private Equity

Private Equity (PE) represents an alternative investment in equity financing not publicly traded (Cendrowski, 2012). It encompasses Venture Capital (VC) for early-stage, high-growth potential companies, buyouts, distressed debt, and hedge fund investments. PE offers access to capital outside public markets with different regulations than listed securities (Wright & Gilligan, 2020) and is often considered riskier due to its illiquidity and the use of debt financing, which can provide tax advantages.

PE funding is crucial for global innovation and business growth, especially in emerging markets with limited traditional financing (Montchaud, 2014). Operating through limited partnerships, where general partners manage funds and limited partners provide capital without operational involvement (Stowell, 2014), PE funds typically target institutional investors for high returns within a 10-12 year timeframe (Cumming & Johan, 2013). Strategies include Leveraged Buyouts (LBOs), often debt-financed, Management Buyouts (MBOs) allowing management to retain control with PE backing (Brown & Harris, 2021; Gilligan & Wright, 2014), and direct lending/distressed debt investments for potentially significant returns (Berman, 2007; Corey, 2018).

The PE market has experienced substantial growth, contrasting with a reduction in publicly listed companies. In 1990, the PE industry was valued at $21 billion (0.2% of public equity capitalization); by mid-2014, assets under management exceeded $2.5 trillion, with $1 trillion in available capital (Neuberger Beurman, 2022; EBRD, 2015). Growing interest in PE investment in Small and Medium Enterprises (SMEs) is driven by the need for flexible capital, increased globalization of PE firms, and industry maturity. PE can provide financial growth, serve as a valuation and financing method, and indicate a business's upscaling potential (fastercapital, 2024).

The European PE market has seen booms (2000-2006) and busts (2008 financial crisis, dotcom crisis) but has generally rebounded, reaching new investment records post-financial crisis (EIF, 2023). Total funds raised in Europe reached a record EUR 170.3bn in 2022, with VC fundraising also hitting a peak. Public intervention has played a stabilizing role during market crises. Governments globally have increased financial support for SMEs post-financial crisis. Germany's KfW bank has focused on funding startups and growth companies through increased venture capital co-investment. The OECD noted in 2019 that most tracked countries have policies supporting PE financing for SMEs, including direct investments and tax incentives (Koreen & Boschman, 2020).

PE has gained significant traction as an alternative financing source for African SMEs, with investment increasing substantially over the last 30 years. Between 2010 and 2016, PE investors invested $25.6 billion across various sectors, aiding investee firms in corporate governance, strategy, and expansion (Warren, 2017; ADB, 2012). Since 2016, African PE investment has grown significantly, with deal numbers soaring (AVCA, 2021).

Kenya's PE and VC space is also growing, with VC transactions constituting a significant portion of private transactions and deal value in 2022, aligning with broader African trends (AVCA, 2023).

1.1.2 Private Equity adoption

In the context of developing economies, including East Africa, private equity (PE) investments have historically concentrated on larger, more established enterprises with proven market positions (Osei & Chan, 2017). This preference stems from the challenges associated with investing in Small and Medium Enterprises (SMEs), which often lack the managerial expertise and robust financial infrastructure necessary for successful PE engagement (Santhi et al., 2016). Prior research has identified several general factors that impede SME access to finance in developing economies, including limited credit access, high interest rates, and inadequate financial management (Nkwabi & Mboya, 2019; Agyapong, 2018; Mambula, 2012; Wang, 2017; Bouazza, 2015; Akhtiar, 2015; Neneh, 2014; Clegg, 2018; Tsuruta, 2020; Sharmilee & Hoque, 2018). These challenges are particularly pronounced in Kenya, where SMEs, despite their crucial contribution to the national economy (Douglas & Muturi, 2017), face severe difficulties accessing traditional credit due to an inefficient capital market (Gachuki & Njeru, 2014), often relying on personal savings and informal borrowing (Wangui et al., 2014).

However, within this broader context, the role of private equity presents a complex picture. While offering potential solutions, PE adoption among Kenyan SMEs remains low (Kato, 2021), partly due to a lack of knowledge and entrepreneurs' fear of losing control (Kato, 2021; FSD, 2016). While general barriers are acknowledged, a gap exists in understanding the *specific* determinants affecting PE uptake, particularly how factors inherent to the PE model interact within the Kenyan SME context.

This study focuses on four such potential determinants, selected based on their direct relevance to the PE transaction process and SME characteristics highlighted in the literature: listing fees (representing transaction costs and formalization hurdles), collateral requirements (reflecting PE risk assessment nuances), ownership dilution (a core consequence of equity investment), and managerial skills (a key factor for PE investor interest).

Examining these specific determinants is crucial. For instance, while often associated with public offerings, the concept of 'listing fees' in the PE context can represent the significant transaction costs, due diligence expenses, and professional fees involved in structuring a PE deal, potentially acting as a barrier for resource-constrained SMEs unfamiliar with such formal investment processes. Furthermore, the role of collateral requires specific attention in PE. While distinct from traditional bank loans (Irungu & Arasa, 2017), PE firms must still mitigate risk. Rahman & Belas (2017) suggest PE firms might impose collateral-like conditions or covenants, potentially hindering SMEs, particularly those lacking tangible assets. This variable was selected to explore how PE's unique risk assessment approach impacts SME access compared to traditional lenders.

Similarly, ownership dilution is a fundamental aspect of PE investment selected for investigation due to its critical importance for SMEs. As Perrini & Minoja (2008) note, maintaining control is often paramount, especially for family-owned businesses common in Kenya (Maseda, 2019). Since PE involves selling equity, the resulting dilution directly impacts the founders' stake and control within their limited liability companies, making it a potentially significant deterrent influencing the decision to seek PE funding.

Finally, the level of managerial skills was chosen as a determinant because PE firms actively seek growth potential, which heavily relies on strong management (Povaly, 2007; Dhlamini, 2022). PE is often considered 'smart capital,' implying an expectation of managerial competence to implement growth strategies. Osoro & Muturi (2013) suggest a potential deficit in formal management training among Nairobi SMEs, and weak skills increase investment risk (Saebi & Foss, 2017), making managerial capacity a critical factor for attracting PE interest.

Therefore, this study aims to address the identified gaps by providing a focused analysis of these four specific determinants, listing/transaction costs, collateral requirements, ownership dilution, and managerial skills on the uptake of private equity funding among SMEs in Nairobi County. By examining these factors inherent to the PE model within the Kenyan SME landscape, the research seeks to provide nuanced insights and contribute to a more comprehensive understanding of SME access to this vital funding source.

1.1.3 SMEs In Nairobi County

Small and Medium Enterprises (SMEs) are vital to Kenya's economy, contributing approximately 18.4% to the GDP and generating 83% of jobs in the country (Karanja, 2014). Despite their significant role, SMEs face substantial challenges that hinder their sustainability and growth. In Kenya, SMEs are defined differently depending on the sector, with varying requirements for revenue, assets, and capital. For instance, an SME in the manufacturing sector is typically valued between KSh 1,000,000 and KSh 50,000,000, while in the service and agricultural sectors, the capital required ranges between KSh 5,000,000 and KSh 25,000,000 (UNDP, 2015).

Kenya, the largest economic hub in East and Central Africa, has a GDP projected to reach approximately $345 billion in purchasing power parity terms in 2024 (International Monetary Fund [IMF], 2024). The country has approximately 7.4 million SMEs, with official estimates suggesting only around 1.6 million are formally registered, while the majority operate informally (Ministry of Industrialization, Trade and Enterprise Development [MITED], 2023). Nairobi, the capital city and commercial hub, hosts a significant majority of these SMEs, estimated at over 55%, making it a focal point for economic activity and business growth (Kenya National Bureau of Statistics [KNBS], 2023). Access to financing remains a critical challenge for SMEs in Kenya. Many SMEs, particularly those in the informal sector, lack the necessary collateral, such as title deeds, to secure loans from commercial banks (Financial Sector Deepening Kenya [FSD Kenya], 2024).

This forces them to rely on informal lenders who often impose high-interest rates, exacerbating their financial instability. Additionally, the absence of formal financial records and the preference for cash transactions further limits their access to traditional lending channels (Financial Sector Deepening Kenya [FSD Kenya], 2024). Inadequate corporate governance and management skills also contribute to the high failure rate among SMEs, with a significant percentage facing closure within the first few years (Financial Sector Deepening Kenya [FSD Kenya], 2024). The slow adoption of technology and the burden of regulatory constraints, such as complex licensing procedures and an unpredictable tax regime, add to the operational challenges (World Bank, 2024).

Despite these challenges, there is growing recognition of private equity (PE) as an alternative source of financing for SMEs. PE not only provides capital but also brings expertise in management, strategic planning, and operational efficiency (Lerner & Leamon, 2023). However, accessing PE funds requires SMEs to meet stringent conditions, such as restructuring their governance frameworks and implementing rigorous monitoring processes (Muiruri, 2018). The influence of PE on SMEs extends beyond financial performance; it improves governance, management practices, and technological adoption, which are critical for the competitiveness of SMEs in a digital economy (Latini & Rubens, 2017). This study focused on Nairobi County, where a significant concentration of SMEs provided a rich context for examining the determinants of private equity funding. Given that Nairobi attracted 66% of private equity deals in East Africa in 2021 (AVCA, 2021), it served as an ideal location to investigate the factors influencing PE investments in SMEs, specifically focusing on the hypothesized impacts of listing fees, collateral requirements, ownership dilution concerns, and managerial skill levels.

Empirical evidence from Kenya supports the positive impact of private equity on SME performance. A study by Karugu (2011) found a significant positive correlation between private equity financing and SME growth, with each unit increase in PE financing leading to a 0.614 factor increase in growth. Additionally, management support and portfolio management practices provided by PE firms were found to contribute positively to SME performance. Another study by Memba et al. (2012) demonstrated that venture capital, a form of private equity, significantly improves the growth of SMEs in Kenya.

These findings highlight the multifaceted benefits of private equity funding, not only in providing capital but also in enhancing managerial capabilities and operational efficiency, which are critical for the growth and sustainability of SMEs in Nairobi.

Nairobi's status as a commercial hub, with 59% of Kenya's SMEs and a significant share of PE deals, justifies its selection for this study. The city's economic environment, characterized by a mix of formal and informal SME operations, provides a rich context for analyzing PE's influence. Given the challenges outlined, such as high-interest rates from informal lenders and regulatory burdens (Khandker, 2014), PE's ability to offer structured financing and expertise is particularly valuable. The AVCA's 2021 data, showing Nairobi's dominance in PE deals (AVCA, 2021), further supports its relevance for studying determinants like listing fees and managerial skills, as hypothesized in the thesis.

While PE offers significant benefits, accessing these funds requires SMEs to meet stringent conditions, such as restructuring governance and implementing monitoring processes (Muiruri, 2018). The study's focus on determinants like ownership dilution concerns and managerial skill levels addresses these barriers, providing insights into how Nairobi's SMEs can better align with PE requirements.

1.2 Problem Statement

Small and medium enterprises play an important role in economic growth, yet roughly 70% of SMEs fail within the first three years (Douglas & Muturi, 2017). This high failure rate is often attributed to inadequate managerial skills, cumbersome regulations, and insufficient technology. In Kenya, SMEs struggle to access credit: 71.4% lack adequate collateral for bank loans (Makena, 2011), and 21.4% of their proposals are rejected by lenders. The most critical challenge is the lengthy and stringent loan appraisal process, which many SMEs find prohibitive.

Unlike large firms, SMEs have limited access to public capital markets (Kungu, 2011). They are often deemed uncreditworthy due to their high-risk nature and low survival rates. Information asymmetry compounds this: bankers may hide critical loan terms, and 46% of Kenyan SMEs report that financial institutions withhold key information (Ochieng, 2017). This lack of transparency and collateral means SMEs rely heavily on internal funds and, when available, expensive informal debt.

To facilitate formal capital access, Nairobi Securities Exchange (NSE) offers the Growth Enterprise Market Segment (GEMS) for SMEs. However, stringent requirements and costs act as barriers. Companies must prove three years of profitability, meet a minimum asset base (≈KSh 100 million), and hire advisors at high cost. Disclosure requirements may force firms to reveal competitive information (Cytonn, 2023). The 15% free-float requirement under the two-way order system may not ensure liquidity, especially since pre-listing private placements limit market depth (FSD, 2015). Many SMEs are family-owned and reluctant to go public due to fear of losing control or hostile takeovers (Tonny, 2019). The high cost of advisors and regulatory compliance further deters NSE listing.

In light of these challenges, many Kenyan SMEs are embracing alternative funding sources like private equity and venture capital, which often require less disclosure than public listing. The main aim of this study is to evaluate the factors influencing private equity funding for SMEs. Stringent listing regulations and rigid ownership structures make IPOs burdensome (Nyakweba, 2014); yet despite these obstacles, private equity uptake among Kenyan SMEs has been increasing.

Existing research has focused extensively on challenges in accessing traditional finance (Makena, 2011; Kungu, 2011; Ochieng, 2017), but there is a gap regarding why SMEs choose private equity. Most studies emphasize barriers to bank credit (lack of collateral, stringent rules, opaque processes) without examining alternative financing strategies (Douglas & Muturi, 2017; Gachuki & Njeru, 2014; Wangui et al., 2014). In particular, little is known about how SME characteristics such as ownership structure or managerial capacity affect the decision to seek PE funding.

Private equity has emerged as a critical alternative for SMEs, offering capital along with strategic guidance and expertise (Lerner & Leamon, 2023). Despite its growing importance, the specific determinants that lead SMEs to prefer PE over traditional options remain under-studied. This study fills those gaps by analyzing factors like listing fees, collateral requirements, ownership dilution concerns, and managerial skills in influencing SMEs' uptake of PE funding in Nairobi County.

1.3 Research Objectives

1.3.1 Main Objective

The main objective of the study is to determine the demand side factors that influence the uptake of private equity investment by SMES in Nairobi, Kenya

1.3.2 Specific Objectives

I. To evaluate the effect of listing fees on SMEs uptake of private equity funding.
II. To evaluate the influence of collateral requirement on SMEs uptake of private equity funding.
III. To evaluate the influence of dilution of ownership on the uptake of private equity funding by SMEs.
IV. To evaluate the influence of level of managerial skills and competence on the uptake of private equity funding by SMEs.

1.4 Research Questions

I. To what extent do listing fees incurred during the listing process influence SMEs to consider private equity funding?
II. To what extent does lack of collateral requirements influence SMEs to seek funding from private equity funds?
III. To what extent does of dilution of ownership influence the uptake of private equity funding by SMEs?
IV. To what extent do managerial skills and competence influence the uptake of private equity funding by SMEs?

1.5. Scope of the Study

This study investigated the influence of private equity (PE) uptake on the financial performance of Small and Medium Enterprises (SMEs) in Nairobi County, Kenya, a geographical focus justified by Nairobi's status as Kenya's primary economic hub, characterized by a dense concentration of SMEs and heightened investment activity, including PE (Kenya National Bureau of Statistics [KNBS], 2023). The research targeted all SMEs operating within Nairobi County that had secured PE funding between January 2014 and December 2024, a timeframe selected to capture PE's influence across diverse economic cycles, with the population of 97 firms identified through data from East African Venture Capital Association (EAVCA) annual reports (2013–2023) and

supplementary industry sources. The focus on PE-funded SMEs was methodologically deliberate, as PE represents a distinct financing mechanism involving active investor participation, strategic guidance, and governance enhancements beyond capital injection (Kaplan & Strömberg, 2009; Cumming, Siegel, & Wright, 2007), while also serving as "patient capital" critical for high-growth SMEs in developing economies like Kenya, where access to traditional financing remains challenging (Abor & Quartey, 2010; Beck & Demirguc-Kunt, 2006; EAVCA, 2023). By isolating these firms, the study aimed to elucidate pathways to accelerated growth within Kenya's unique context. Given the specificity of the target population, a census approach was adopted, encompassing all 97 PE-funded SMEs meeting inclusion criteria and accessible for data collection, enabling detailed primary data analysis through questionnaires and interviews, alongside secondary data from EAVCA investment records. The methodology integrated both primary data on firm-level financial performance and managerial perspectives (collected between January 2025 and April 2025) and secondary investment data, facilitating triangulation of findings. This comprehensive scope and population-wide analysis aimed to deliver a focused, exhaustive examination of PE's impact on SME financial performance in Nairobi, leveraging the synergies of mixed-methods research to enhance analytical rigor.

1.6 Significance of the Study

This study plays a significant role to the following stakeholders who are the policy makers, private equity firms, Small and medium enterprises, lenders, institutional investors and academia and institutional researchers

Policymakers

This study addressed a crucial knowledge gap for policymakers, as existing policies on equity financing have predominantly focused on supply-side initiatives, often overlooking the demand-side challenges and perspectives of SMEs. There is a recognized deficiency in understanding the specific determinants from the SME viewpoint that either hinder or encourage the uptake of alternative financing mechanisms such as private equity. By evaluating factors including perceived transaction costs (akin to listing fees), the nature of collateral or security expectations in PE transactions, anxieties surrounding ownership dilution, and the influence of managerial skill levels on PE funding decisions, this research aims to provide policymakers with nuanced insights.

These findings facilitated the development of more balanced and effective regulations designed to improve the availability and appropriateness of alternative financing options, thereby supporting SME upscaling by considering both the demand and supply aspects of the ecosystem. The research will offer evidence on *why* SMEs might opt for or shy away from PE, moving beyond the extensively documented challenges of accessing traditional bank credit.

Private equity firms

For Private Equity (PE) firms, while the SME sector is acknowledged as a domain with high profit potential alongside considerable risk, a detailed comprehension of how specific SME characteristics and concerns shape their engagement with PE investors, especially within emerging markets like Kenya, remains underdeveloped. This study investigated determinants such as SME owners' apprehension about losing control (ownership dilution) and the preparedness of their managerial competencies for PE partnerships, noting that PE firms actively seek growth potential which heavily relies on strong management (Povaly, 2007; Dhlamini, 2022) and that SMEs in developing economies often lack the requisite managerial expertise for successful PE engagement. Such insights will empower PE firms to refine their investment strategies by understanding specific SME concerns, develop more suitable and appealing funding structures that address the unique upscaling needs of diverse SMEs by understanding how factors like transaction costs are perceived, and enhance their value creation processes by anticipating the support SMEs require in corporate governance and operational efficiency. This will also benefit consultants specializing in capital raising and corporate restructuring by offering a clearer depiction of the SME landscape concerning PE attractiveness.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) frequently encounter substantial hurdles in securing traditional finance, often due to insufficient collateral, as noted in Kenya where a high percentage of SMEs lack adequate collateral for bank loans (Makena, 2011), and face stringent bank requirements and information asymmetry, with many Kenyan SMEs reporting that financial institutions withhold key information (Ochieng, 2017). Moreover, a significant number of SMEs, especially those that are family-owned, exhibit reluctance towards equity financing due to concerns about losing control (Tonny, 2019) and a general lack of awareness regarding the operational dynamics of private equity, contributing to low PE adoption (Kato, 2021; FSD, 2016)

This study directly addresses the knowledge gap among SMEs concerning the practical implications and multifaceted benefits of PE, extending beyond mere capital provision. It will demystify private equity by examining determinants like ownership dilution and the role of managerial skills from the SME perspective, highlight PE as a viable alternative financing avenue, particularly for those struggling with traditional credit or finding public listing too onerous, and showcase the non-financial contributions of PE, such as enhancements in corporate governance and strategic guidance

Lenders

Traditional lenders like banks and microfinance institutions, despite being primary financiers for SMEs, often struggle to fully cater to the diverse and evolving needs of this sector, sometimes leading SMEs to perceive their offerings as unsuitable or their processes as overly bureaucratic. A significant knowledge gap for these institutions lies in understanding the specific drivers compelling SMEs to seek alternative financing routes such as private equity, especially when existing research has largely focused on the challenges SMEs face in accessing traditional finance (Douglas & Muturi, 2017; Gachuki & Njeru, 2014; Wangui et al., 2014). This study will furnish lenders with insights into the competitive landscape by highlighting factors that render PE attractive to SMEs. The findings can inform the development of more innovative financial products tailored to the unique growth and risk appetites of SMEs aiming to scale. Furthermore, this research may encourage traditional lenders to explore new avenues, such as establishing dedicated funds for private equity-style investments or forming strategic partnerships, thereby enhancing their capacity to support the growth trajectory of SMEs.

Institutional Investors

Institutional investors, such as pension schemes in Kenya, have predominantly channeled their investments into fixed-income assets, potentially underutilizing alternative asset classes like private equity that may offer higher returns. A knowledge gap persists concerning the detailed risk-return profile and strategic importance of PE investments within the local context, particularly for funds targeting SMEs. This study aims to address this by highlighting private equity as a viable alternative asset class. The research will provide insights into the dynamics of PE within the SME sector, potentially encouraging institutional investors to diversify their portfolios. This could lead to increased allocation of funds towards PE, thereby contributing to the growth of their assets under management and fostering greater institutional participation in SME equity financing

Academia and Researchers

Within academia, while there is a body of research on SME financing, specific knowledge gaps persist regarding the adoption of private equity in developing nations such as Kenya, particularly concerning the critical determinants from the perspective of the SMEs themselves. Current literature has more extensively covered the barriers to traditional debt financing (Makena, 2011; Kungu, 2011; Ochieng, 2017) rather than comprehensively exploring the motivations and factors that drive SMEs to choose private equity partners. Existing studies often emphasize obstacles to bank credit without deeply examining alternative financing strategies, and notably, little is known about how intrinsic SME characteristics, such as their ownership structures or managerial capacities, influence the decision to seek PE funding. The specific determinants leading SMEs to prefer PE over other traditional options remain largely under-studied. This study will enrich the existing academic literature by providing empirical evidence on how factors such as transaction costs (listing fees), perceptions of collateral requirements, concerns about ownership dilution, and the level of managerial skills collectively influence the uptake of PE among SMEs. The findings are expected to stimulate further academic inquiry into emerging issues in private equity financing for SMEs and will be influential in disseminating current knowledge on PE as an alternative financing solution, thereby aiding in the education of future entrepreneurs and finance professionals.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explains in detail the determinants influencing the financing of SMEs by private equity firms in Nairobi County. The sections that will be captured and explained include theoretical framework applied, reviewed empirical studies, a comprehensive summary of the literature review and a well-defined conceptual framework.

2.2 Theoretical Framework

This section provides a comprehensive overview of the theoretical foundations that underpin this study, focusing on the various determinants influencing the uptake of private equity financing by small and medium enterprises (SMEs) in Nairobi County. The chapter employs a multi-theoretical framework to effectively capture the complexity, diversity, and intricacies of private equity funding decisions among SMEs. The two primary theories guiding this research are the Pecking Order Theory and the Agency Cost Theory, both of which offer valuable insights into the financial behavior and strategic decision-making processes of SMEs.

The rationale for adopting a multi-theoretical framework in this study lies in the complementary perspectives offered by the Pecking Order Theory and the Agency Cost Theory. The Pecking Order Theory provides a foundational understanding of the prioritization of financing sources, emphasizing the internal logic that drives SMEs to prefer internal funding and debt over equity. Meanwhile, the Agency Cost Theory adds depth to this understanding by highlighting the potential conflicts and costs associated with external equity financing. By integrating these two theories, this study is able to offer a more holistic and nuanced analysis of the factors that influence the private equity funding decisions among SMEs in Nairobi County. This multi-theoretical approach ensures that both the financial preferences and the internal organizational dynamics of SMEs are considered, providing a robust framework for analyzing the determinants of private equity funding.

2.2.1 The Pecking Order Theory

According to Myers and Majluf (1984) who conceptualized the pecking order theory most firms prefer internal source of financing and make adjustments to their target dividend payment ratio in relation to the available investment opportunities available to them. If the firm is seeking external financing due to various factors such as a policy that favors huge payment of dividends, volatility and high fluctuations of profits made by the company, the firm while choose debt financing as the most secured and safe instrument to use, followed by a mixture of hybrid securities such as convertible bonds and equity while be the last resort in hierarchy. The pecking order emphasizes and explains why most firms use cashflow as a form of leverage. This theory upholds the school of thought that firms turn to debt financing when shortage of internal financing occurs.

According to the Pecking Order Theory, firms prefer internal financing over external options due to concerns about the costs and risks associated with external funding, especially equity (Myers and Majluf, 1984). In the context of SMEs in Nairobi, private equity literacy plays a crucial role in determining how well business owners understand and manage these concerns (Mutegi & Njeru, 2015). A low level of private equity literacy may lead SMEs to avoid external equity financing due to fear of ownership dilution and the complexities involved, thus adhering to the hierarchy posited by the theory (Mutegi & Njeru, 2015). In Kenya, many SMEs lack comprehensive knowledge of private equity, which contributes to their preference for internal or debt financing over equity (Muturi & Njeru, 2019). The challenges of understanding private equity options, compounded by the fear of losing control, make these firms more inclined to follow the Pecking Order Theory, avoiding equity financing until absolutely necessary.

The Pecking Order Theory suggests that firms will prioritize financing that does not require giving up ownership or control (Mbugua, 2010). In this context, collateral plays a significant role in accessing debt, which is preferred over equity financing. SMEs with sufficient collateral are more likely to secure debt, which aligns with the theory's suggestion that firms prefer debt over equity (Mbugua, 2010). In Nairobi, the ability of SMEs to offer collateral significantly affects their access to debt financing (Muguchu, 2013).

Due to the limitations in securing collateral, many SMEs may face challenges in obtaining favorable debt terms, pushing them to rely on internal financing or short-term debt, consistent with the Pecking Order Theory (Muguchu, 2013). Those with substantial assets may manage to secure debt financing more easily, avoiding the need for external equity.

Listing fees and associated costs represent significant barriers to accessing equity markets, further reinforcing the preference for debt over equity as described by the Pecking Order Theory (Agyei & Abrokwah, 2020). High costs deter SMEs from seeking equity financing, leading them to exhaust other options first (Agyei & Abrokwah, 2020). For SMEs in Nairobi, the costs related to listing on the Nairobi Securities Exchange (NSE) are often prohibitive (Kiboi, 2015). The expenses associated with legal fees, underwriting, and advisory services deter these firms from considering public equity options (Kiboi, 2015). This aligns with the Pecking Order Theory, where external equity is viewed as a last resort due to the high transaction costs and potential for ownership dilution.

The Pecking Order Theory emphasizes the reluctance of firms to issue new equity due to the potential dilution of ownership and the accompanying loss of control (Amin, 2020). SMEs, in particular, are sensitive to this issue, as maintaining control is often a priority for their owners. In Kenya, SME owners often resist external equity financing due to the fear of ownership dilution and the loss of decision-making power (Nanyondo, 2017). This aligns with the Pecking Order Theory, where SMEs are more likely to pursue debt or internal financing to avoid ceding control to external investors.

The regulatory environment in Kenya, governed by the Capital Markets Authority (CMA), plays a critical role in shaping SMEs' financing decisions. The complexity and stringency of capital market regulations can either facilitate or hinder access to different forms of financing, further reinforcing the hierarchy of financing options posited by the Pecking Order Theory.

2.2.2 Agency Cost Theory

The agency theory was conceptualized by Jensen and Meckling (1976).The theory describes how the running of a company is based on emerging conflicts of interests encountered between the shareholders who are the owners of the company(principals) and the managers (agents)who have been bestowed the responsibilities of running the company both of them have divergent interests and goals for the company.The relationship was clearly clarified as an agreement in the form of a contract between the actual shareholders and the managers, delegating the responsibility of management and decision making to the agents.The owners expect the management to conduct their fidicuary duty by executing their responsibilites accordingly in a manner that ensures the interests of the shareholders are made as a first priority. Private equity literacy among SME owners in Nairobi is critical in managing the agency relationship between the SME (as the agent) and private equity investors (as the principals) (Ariko E. , 2021).

A well-informed owner/manager can better align the interests of both parties, ensuring that the capital from private equity is used effectively to maximize shareholder value (Ariko E. , 2021). In Kenya, where many SME owners may lack sophisticated financial literacy, there's a higher risk of misalignment between the goals of the private equity investors and the SME owners (Kirima, 2014). This misalignment can lead to conflicts, poor decision- making, and ultimately, reduced returns for investors.

Collateral serves as a mechanism to align the interests of SME owners and private equity investors (Duarte & Paula, 2017). When an SME in Nairobi provides collateral, it signals commitment and reduces the risk for investors, thus mitigating the agency problem where the agent (SME) might otherwise take undue risks without bearing the full consequences (Nanyondo, 2017). Many Kenyan SMEs may struggle to provide sufficient collateral due to the nature of their assets (Nanyondo, 2017). This can lead to difficulties in securing private equity funding, as investors may perceive a higher risk of agency problems, such as mismanagement or moral hazard.

Listing fees and the associated costs of going public involve a trade-off between the benefits of raising capital and the dilution of ownership, which can affect agency dynamics (Santos & Moreira, 2014). The decision to list or not reflects the SME owner's (agent) willingness to relinquish some control in exchange for capital, aligning with the investors' (principals) desire for greater transparency and oversight (Santos & Moreira, 2014). In Nairobi, the high costs associated with listing on the Nairobi Securities Exchange can deter SMEs from pursuing this route, leading them to seek private equity instead (Ariko E. , 2021). This decision reflects a desire to avoid the agency issues related to public ownership, such as the potential loss of control or the pressure to meet short-term market expectations.

The dilution of ownership is directly related to the agency problem, as it involves the principal (investor) taking a stake in the SME, thereby influencing management decisions (Chen, 2017). The fear of losing control can create resistance from SME owners, but when managed properly, it can align the interests of both parties, leading to better governance and decision-making (Chen, 2017). In the Kenyan SME landscape, where ownership is often tightly held, the dilution of ownership is a significant concern (Makena, 2011). SME owners may fear that bringing in external investors will lead to loss of control, which could exacerbate agency conflicts, particularly if the new investors push for strategies that the original owners do not support (Makena, 2011).

The agency cost theory is pivotal to this study as it clarifies the inherent conflicts between SME owners (agents) and private equity investors (principals) in Nairobi, where divergent interests and information asymmetries heighten risks of moral hazard and opportunism. In Kenya's SME context, agency costs manifest through challenges such as low financial literacy among owners, reluctance to dilute ownership, and insufficient collateral, which exacerbate misalignment between investor expectations (maximizing returns) and SME priorities (retaining control). These costs are further amplified in environments with weak regulatory enforcement, where dominant shareholders may exploit minority investors.

By applying this theory, the study underscores how mechanisms like collateral pledges, equitable contract terms, and robust governance frameworks mitigate agency costs, aligning incentives and fostering trust critical for securing private equity funding. Thus, the theory provides a lens to analyze how Nairobi's SMEs navigate investor relationships, balancing entrepreneurial autonomy with investor accountability to attract capital efficiently.

2.3 Empirical Review

2.3.1 Collateral requirement and private equity funding

Collateral represents a tangible or intangible asset pledged by the borrower to secure a loan or investment (Gorton & Ordonez, 2014). In the context of private equity funding, collateral plays a crucial role as it often serves as a risk mitigation tool for investors (Gorton & Ordonez, 2014). It provides a form of security that can be leveraged to protect the investor's capital in the event of default (Bindseil & Sahel, 2017). The requirement, type, and quality of collateral can significantly influence the attractiveness of an SME to potential investors. For instance, high-quality collateral may enhance an SME's credibility and financial stability in the eyes of investors, while insufficient or low-value collateral may deter potential funding opportunities (Schmalz & Thesmar, 2017).

Collateral is essential because it addresses critical aspects of the financial security and risk assessment inherent to the investment process (Schmalz & Thesmar, 2017). Analyzing collateral helps to understand how the perceived risk and security of an investment can affect investor decisions and SME funding outcomes (Bindseil & Sahel, 2017). Moreover, it provides insights into how SMEs can optimize their asset portfolios to improve their chances of obtaining private equity investment (Bindseil & Sahel, 2017).

Ackah and Vuvor (2011) studied the challenges SMEs face in obtaining credit in Ghana, focusing on the obstacles encountered with financial institutions. The study revealed that while banks are willing to fund SMEs, many cannot meet collateral requirements, leading to high loan rejection rates. Those who secure loans often face high interest rates and short repayment terms, exacerbating financial instability. Additionally, SMEs struggle with cash flow due to poor receivables management, leading to high default rates.

The quantitative study, conducted with 80 SMEs in Accra and Tema, concluded that despite state-backed funds like the Ghana Venture Capital Trust Fund, many SMEs have not utilized available financial resources. However, the study did not explore alternative funding mechanisms, such as private equity, which the current study will investigate by examining the influence of listing fees on SMEs' decisions to pursue private equity funding in Nairobi County.

Osano and Languitone (2016) studied factors influencing SME access to finance in Mozambique, focusing on the critical role of collateral. They found that inadequate collateral often results in loan denials or discrimination, as SMEs are viewed as high-risk. Banks typically require collateral like houses, businesses, or land to mitigate moral hazard, only accepting collateral that matches the loan's value. This strict requirement deters SMEs from seeking bank financing. The study used a descriptive and inferential design, distributing structured questionnaires to 242 SMEs and 324 bank staff, highlighting its potential policy impact. However, it did not explore how SMEs lacking sufficient collateral navigate funding, particularly in private equity. The current study will investigate determinants of private equity funding among SMEs in Nairobi County, specifically examining the influence of listing fees.

Ariko (2021) studied the effect of private equity and debt financing on SME growth in Kakamega County. The study found that stringent collateral requirements are major barriers to SME development, with the current legal and regulatory framework failing to support innovative lending strategies. This reliance on collateral limits the effectiveness of private equity in promoting SME growth. Using a descriptive survey design, the study gathered data from local SMEs to explore the link between financing options and development. However, it did not examine specific types of private equity that might be accessible without stringent collateral. In contrast, the current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on how listing fees influence their consideration of private equity.

Schafer et al. (2004) studied the financing decisions of young innovative SMEs in Germany, focusing on the challenges of high risk and lack of collateral. The research found that collateral can ease loan rationing, but high-risk entrepreneurs without it are often disfavored by the credit market, making equity financing more viable. The study highlighted the importance of informed equity for high-risk entrepreneurs, noting that without collateral, investors may demand a substantial business share. Equity sharing was deemed practical when it enforced discipline similar to collateral, provided strong control measures were in place to prevent financial misreporting.

This empirical analysis, using microeconometric evidence and risk indicators, sheds light on the challenges faced by high-risk entrepreneurs in securing financing and the role of informed equity and control measures in private equity financing. However, the study did not explore the impact of listing fees on SMEs' decisions regarding private equity, a gap that the current study aims to address by investigating the determinants of private equity funding among SMEs in Nairobi County, specifically examining the influence of listing fees.

Hogan et al. (2017) explored the drivers of external equity funding in small high-tech ventures, focusing on the role of collateral in a firm's early years, particularly when lacking a solid track record. They found that collateral is not crucial for private equity financing, making it an attractive option for firms without substantial assets. The study analyzed the financing decisions of various private high-tech firms, highlighting the importance of external equity in their growth and addressing the challenges posed by traditional collateral-based debt financing. However, it did not address listing fees at different stages of equity funding, a gap that the current study will fill by investigating how listing fees influence SMEs in Nairobi County to consider private equity funding.

In his 2007 study on financing constraints of SMEs in developing countries, Beck highlighted the impact of classification and provisioning regulations on SMEs' ability to obtain financing, noting that these regulations often prioritized payment history over collateral. The study found that Partial Credit Guarantee (PCG) schemes, intended to address collateral shortages, faced challenges related to pricing, funding, and structure, often requiring subsidies and fiscal support. Beck also observed that government policies had historically distorted markets, leading to unsustainable losses and crowding out private sector involvement. The research emphasized the need to balance commercial and social goals in financial interventions for SMEs. However, the study did not examine how listing fees in PCG schemes influenced SMEs' decisions to pursue private equity. This study investigated the determinants of private equity funding among SMEs in Nairobi County, specifically examining the extent to which listing fees impacted their decisions to consider private equity funding.

2.3.2 List fees and private equity funding

Listing fees are the expenses incurred when a company brings its shares to the public market, which can include the costs of initial public offerings (IPOs) or other forms of equity financing (Gitman & Juchau, 2015). These fees often encompass various components such as registration fees, underwriting fees, legal expenses, accounting costs, and regulatory compliance charges (Goh & Yong, 2015). For small and medium enterprises (SMEs), these fees can represent a significant financial burden and a formidable barrier to accessing private equity or public markets (Vernimmen & Quiry, 2022). The substantial costs involved in listing can deter SMEs from pursuing these funding avenues, thereby limiting their options for raising capital (Vernimmen & Quiry, 2022).

Asiago (2019) studied the challenges of listing on the Nairobi Securities Exchange for Kenya's top 100 mid-sized companies. The research highlighted that while these companies aim to access public markets for larger funding pools, high listing costs deter them from doing so. This financial burden often prevents them from benefiting from increased investment capital. The study, based on interviews, offered insights into the financial barriers to listing but did not explore the alternative steps companies take, such as turning to private equity.

The current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on how the lack of collateral influences their decision to seek private equity funding.

FSD (2015) reviewed the Growth Enterprise Market Segment (GEMS) and its role in increasing access to Kenya's capital market for SMEs. The study highlighted that the requirement for GEMS companies to retain Nominated Advisors (NOMADs) is a significant expense, costing 2 to 4 million shillings, far exceeding the NSE's listing fee of 150,000 shillings. SMEs also face indirect costs, such as account preparation and governance requirements, which are substantial but difficult to quantify. The study suggested private equity as a viable alternative, offering managerial expertise and industry contacts, though it noted low demand in Kenya due to lack of awareness. The methodology involved a thorough review of GEMS' financial and regulatory environment, cost analysis for listing, and exploration of alternative funding options. While private equity is proposed as an alternative, the study did not compare listing fees to private equity costs. The current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on whether the lack of collateral requirements influences SMEs to seek private equity funding.

Mengich et al. (2013) studied the challenges small microenterprises in Nairobi County face in adopting equity financing, specifically within small financial services. The study aimed to assess the direct and indirect costs of going public through an IPO. Findings showed that while direct costs like registration and auditing fees are predictable, 56% of respondents found the overall cost of equity financing to be high, 35% rated it average, and a small percentage found it low (3.3%) or very high (5%). The study focused on IPO costs but did not compare them to private equity funding or explore their influence on funding decisions. In contrast, the current study will investigate the determinants of private equity funding among SMEs in Nairobi County, specifically examining how the lack of collateral requirements influences their decision to seek private equity funds.

Beck and Thl (2007) explored the financial challenges faced by SMEs in developing nations, noting that access to financial resources varied by firm size, largely due to fixed listing fees and information asymmetries. These costs, which included credit evaluation, processing, and oversight, were higher for SMEs, leading to increased borrowing costs and barriers to external financing. The study emphasized that the diverse and opaque nature of SMEs resulted in higher assessment and oversight expenses, with default risk further complicating access to finance. While Beck and Thl focused on listing fees, they did not examine the role of these costs in the pursuit of private equity funding. This study, however, investigated the determinants of private equity funding among SMEs in Nairobi County, particularly examining how the lack of collateral influenced SMEs to seek private equity funds.

2.3.3 Dilution of ownership and private equity financing

Ownership dilution is a significant consideration in the context of private equity funding and occurs when the percentage of ownership held by existing shareholders is reduced due to the issuance of additional shares by the company (Bukart & Zhong, 2023). This phenomenon becomes particularly crucial in private equity scenarios, where investors typically demand a substantial stake in the business in exchange for their financial contributions (Bukart & Zhong, 2023).

In private equity transactions, the infusion of new capital often involves the issuance of new equity shares to investors, which can lead to a decrease in the proportional ownership of the existing shareholders (Tzanaki, 2022). This dilution of ownership can impact existing shareholders in several ways (Khawaja & Bhatti, 2019). It can reduce their voting power, influence over company decisions, and potential returns on investment (Khawaja & Bhatti, 2019). The concern about ownership dilution can be a critical factor in the decision-making process for small and medium enterprises (SMEs) considering private equity funding (Tzanaki, 2022). Understanding the implications of ownership dilution is essential for evaluating how SMEs navigate the complex landscape of private equity funding. It sheds light on how the fear of losing control or seeing their ownership stake diluted can affect their willingness to engage with private equity investors.

Manzini (2018) examined the impact of private equity on SMEs in South Africa using a mixed-methods approach, including in-depth interviews and structured surveys. The study revealed diverse views among SME owners regarding ownership dilution. While some were keen on maintaining control due to emotional investment in their businesses, others were open to partial dilution if adequate safeguards were in place. Some were even willing to sell their entire business if the offer was right, with plans to pursue new ventures. Manzini's findings highlighted the positive role of private equity in supporting SMEs and the South African economy but also noted the relative inexperience of private equity professionals in dealing with SMEs. The study called for more research to further explore the effects of private equity on SMEs across different sectors. It did not fully address the long-term impact of ownership dilution on SMEs' operations and strategy post-investment. In contrast, the current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on how ownership dilution influences the uptake of private equity funding.

Mori and Olomi (2016) explored equity financing in Tanzanian SMEs, focusing on private equity investors' and business founders' preferences for maintaining majority shareholding. The study found that while private equity investors often use debt financing to help owners retain control, Tanzania's private equity industry is still developing, particularly in management participation and transparency. SME owners generally preferred debt over external equity due to familiarity with traditional banking and concerns about information asymmetry. However, upper-tier SMEs were more open to private equity, even if it meant ceding control. The study did not address how SMEs willing to cede control could still influence business decisions. In contrast, the current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on the impact of ownership dilution on the uptake of private equity.

Adongo (2012) conducted a study titled "The Impact of the Legal Environment on Venture Capital & Private Equity in Africa: Empirical Evidence," which highlighted the significant influence of the legal environment on VC and PE activities in Africa. The research emphasized the critical role of the legal framework in shaping investor-entrepreneur relationships and the success of portfolio companies. It found that strong legal systems favor debt financing for investor protection, while weaker systems rely more on equity to mitigate moral hazard risks.

The study also revealed that debt optimization is influenced by the strength of the legal environment, with a nonlinear increase in weaker systems before declining beyond a certain threshold. Additionally, investors from countries with robust legal frameworks tend to prefer debt financing to enhance value-added competencies. The methodology involved empirical analysis, offering insights into how legal contexts affect VC and PE strategies in Africa. However, the study did not explore specific legal provisions related to ownership dilution in private equity deals. This study investigated the determinants of private equity funding among SMEs in Nairobi County, focusing on how ownership dilution influences the uptake of private equity funding.

2.3.4 Managerial competence and skills and private equity financing

Managerial skills competence encompasses the range of abilities, expertise, and knowledge possessed by the management team in effectively overseeing and advancing the operations and growth of a business (Peppe & Enuoh, 2020). This competence includes a variety of skills, such as strategic planning, financial acumen, leadership, problem-solving, and decision-making abilities, all of which are critical for navigating the complexities of business management (Peppe & Enuoh, 2020). Strong managerial skills are often regarded as a fundamental determinant of an SME's overall success and its attractiveness to potential investors (Amoah & Marimon, 2021).

Managerial skills competence aims to provide a comprehensive analysis of how the expertise and proficiency of the management team influence both the likelihood of securing private equity financing and the specific terms of such financing. The competence of the management team is not merely a qualitative measure but a crucial factor that affects investment decisions. Investors often assess the capabilities of the management team to gauge their confidence in the business's potential for growth and sustainability.

Musa et al. (2019) examined the organizational factors influencing venture capital uptake among SMEs linked with Kenya Commercial Bank. The study used descriptive statistics to assess the impact of managerial and ownership competencies on venture capital acquisition. Findings showed that 55% strongly agreed, and 40% agreed that owner competence was crucial for securing venture capital. Additionally, 23% strongly agreed, and 44% agreed that managers' academic qualifications were important. Entrepreneurial competencies and management skills

were also recognized by 50% and 55% of respondents, respectively, as key to enhancing venture capital uptake. The study concluded that technical competence is vital for sound decision-making in venture capital financing. However, it did not explore how these competencies affect private equity funding beyond venture capital. The current study will investigate the determinants of private equity funding among SMEs in Nairobi County, focusing on the influence of managerial skills and competence.

Mateso (2013) studied the impact of private equity investments on SMEs in the Italian market, focusing on Piquadro Spa. The research highlighted a symbiotic relationship where private equity firms provide experience and management capabilities, while entrepreneurs offer market knowledge and strategic direction. Though entrepreneurs often retain full control, which may limit the company's appeal, private equity can help redefine the company's vision, establish clear roles, and create a structured organizational and financial framework. This approach enhances the growth and organizational maturity of SMEs like Piquadro Spa. However, the study does not explore how managerial skills evolve post-investment or how they contribute to sustaining growth. This study investigated the determinants of private equity funding among SMEs in Nairobi County, particularly examining how managerial skills and competence influence the uptake of private equity funding.

2.3.5 Regulatory Framework and Financial Performance

The regulatory framework encompasses the laws, policies, and institutional structures governing business operations, including compliance requirements, investor protections, and financial regulations (Adongo, 2012). For SMEs, regulatory environments significantly influence financial performance by shaping access to funding, operational costs, and market entry barriers (Beck, 2007). Stringent collateral requirements, high listing fees, and complex compliance procedures often constrain SMEs' ability to secure private equity funding, thereby limiting their growth potential (FSD, 2015; Asiago, 2019). For instance, Adongo's (2012) study on venture capital (VC) and private equity (PE) in Africa highlighted how weak legal systems increase reliance on equity financing to mitigate risks, whereas robust legal frameworks favor debt financing due to stronger investor protections. This dynamic affects SMEs' financial performance by altering their cost of capital and capacity to leverage diverse funding instruments.

Beck's (2007) analysis of financing constraints in developing countries emphasized that regulatory policies, such as loan classification rules and provisioning requirements, prioritize banks' risk management over SME accessibility. These regulations often lead to high borrowing costs and exclusion from formal credit markets, forcing SMEs to rely on internal financing or informal sources, which hampers profitability and scalability. Similarly, FSD (2015) found that Kenya's Growth Enterprise Market Segment (GEMS) imposes prohibitive costs, such as mandatory advisor fees and governance compliance, which deter SMEs from listing and accessing equity markets. Such regulatory barriers reduce SMEs' visibility to investors and limit their financial performance by restricting capital inflows.

In contrast, Hogan et al. (2017) demonstrated that regulatory environments favoring equity financing—such as those with relaxed collateral mandates—enable high-tech SMEs to attract private equity despite lacking tangible assets. This access enhances their financial performance through accelerated innovation and market expansion. However, in Tanzania, Mori and Olomi (2016) noted that underdeveloped PE regulations and information asymmetries discourage SME owners from ceding ownership, perpetuating reliance on debt and stifling growth. These findings underscore the dual role of regulatory frameworks: they can either facilitate SME growth through investor-friendly policies or impede it via excessive compliance burdens.

2.4 Summary and Research Gaps

Existing literature on SME financing highlights collateral barriers, debt challenges, and ownership dilution but overlooks critical gaps in private equity (PE) dynamics, especially in Nairobi County. While studies (e.g., Ackah & Vuvor, 2011; Osano & Languitone, 2016) underscore collateral's role in debt financing, few examine SME engagement with PE alternatives, particularly how listing fees, dilution fears, and managerial competence intersect in funding choices. Geographical biases persist, as most research centers on non-Kenyan markets, neglecting Nairobi's unique regulatory/market ecosystem, including the NSE's influence and localized PE accessibility. Methodologically, an overreliance on quantitative approaches overlooks qualitative insights into SME perceptions of PE trade-offs, while interactions between determinants such as managerial skills mitigating dilution concerns remain unstudied. Post-investment outcomes are similarly underexplored, hindering actionable strategies to address SME-PE disparities. This study fills these gaps by analyzing how collateral, fees, dilution, and skills collectively influence SME decisions in Nairobi, providing localized, evidence-based guidance for policymakers and entrepreneurs.

Table 2. 1Summary of research gaps

Scholars	Study Objectives	Findings	Research Gaps	How the Study Addressed the Gaps
Ackah and Vuvor (2011)	Explore challenges SMEs face in obtaining credit in Ghana	High collateral requirements lead to loan rejections; SMEs struggle with cash flow and high default rates	Did not address alternative funding mechanisms like private equity	Investigated private equity as an alternative funding mechanism for SMEs facing collateral challenges
Douglas et al. (2017)	Determine why a high percentage of SMEs fail early	Failures due to inadequate skills, laws, and lack of technology	Need for longitudinal studies on managerial interventions and tech adoption	Provided empirical evidence on managerial competence's impact on private equity uptake
Makena (2011)	Assess challenges in accessing credit for Kenyan SMEs	High collateral requirements and unacceptable business proposals	Lack of studies on alternative credit assessment models beyond collateral	Explored private equity as a collateral-free funding source
Kungu (2011)	Evaluate SMEs' access to capital markets	SMEs' limited access due to perceived high risk	Need for research on risk assessment frameworks for SMEs in capital markets	Offered insights into how private equity investors assess SME risk
Ochieng (2017)	Explore the impact of information asymmetry on credit access	Adverse selection due to hidden loan terms	Need for in-depth analysis of effects of transparent communication	Examined regulatory framework's role in influencing private equity uptake
Cytonn (2023)	Analyze the barriers to listing on the NSE	Costs and required disclosures deter SMEs from listing	Need for studies on impact of regulatory changes on SME listings	Analyzed how listing fees and regulatory complexities affect SME preference for private equity
Asiago (2019)	Uncover obstacles mid-sized companies	Prohibitive listing costs deter companies from listing	Need for studies on impact of reducing listing costs	Investigated listing costs' influence on choosing private equity

Scholars	Study Objectives	Findings	Research Gaps	How the Study Addressed the Gaps
	face in accessing public markets			
Mengich et al. (2013)	Assess costs associated with an IPO for small financial services	Majority find overall cost of equity financing high	Need for analysis of cost reduction strategies for equity financing	Highlighted listing fees' role in driving SMEs toward private equity
Manzini (2018)	Assess the impact of private equity on SMEs in South Africa	Mixed feelings about ownership dilution; inexperienced private equity professionals	Further research needed on private equity effects across sectors	Contributed to understanding private equity's effects on Nairobi SMEs
Mori and Olomi (2016)	Understand equity financing preferences of Tanzanian SMEs	Private equity investors use debt to maintain control; SMEs reluctant toward external equity	Need for studies on enhancing management participation and transparency	Investigated managerial competence and regulatory transparency
Musa et al. (2019)	Investigate organizational factors influencing venture capital uptake among SMEs	Owner competence and managerial skills are pivotal	Need for research on managerial skills across industries and SME growth stages	Examined managerial skills' impact on private equity funding
Mateso (2013)	Analyze the impact of private equity investments on SMEs in the Italian market	Private equity enhances growth and maturity; entrepreneurs often retain control	Need for studies on balancing control retention with private equity benefits	Analyzed ownership dilution and how SMEs balance control with private equity benefits

Source: (Research Data, 2024)

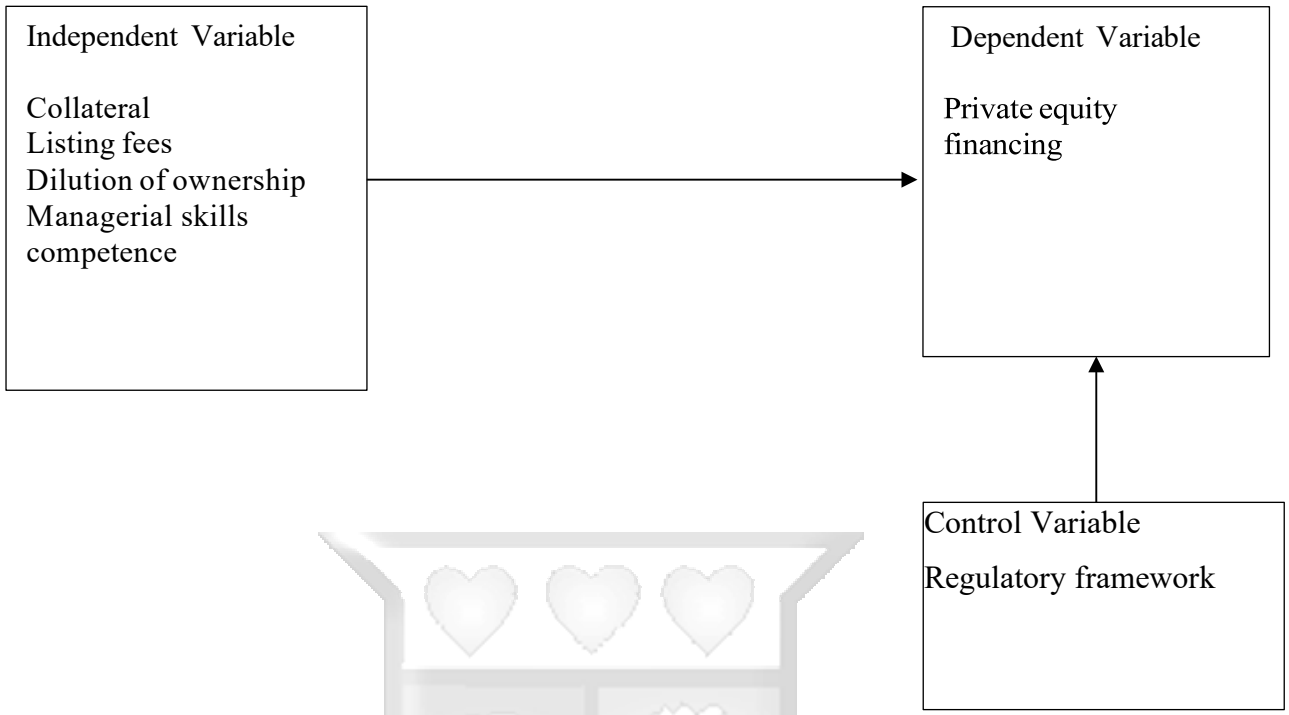
2.5 Conceptual Framework

The conceptual framework illustrates the relationship between several independent variables and the dependent variable of private equity financing. The independent variables include collateral, listing fees, dilution of ownership, managerial skills, and competence. Collateral represents the assets that a company can offer to secure private equity financing, significantly influencing a company's ability to obtain such financing by reducing lender risk. Listing fees encompass all expenses associated with securing private equity financing, such as legal fees and due diligence costs, which may deter companies from pursuing this option. Dilution of ownership, which refers to the reduction in existing shareholders' ownership percentage when new equity is issued, can impact the decision to seek private equity financing. Additionally, the skills and expertise of a company's management team and the overall competence of the company are crucial factors that attract private equity investors.

The anticipated relationships between these variables and private equity financing suggest that higher collateral values, lower listing fees, and higher managerial skills and competence positively influence the likelihood of securing private equity financing. Conversely, dilution of ownership might have a complex effect, potentially deterring companies despite the financing benefits due to concerns over reduced control. This model aims to isolate the effects of these independent variables on private equity financing, providing a nuanced understanding of their interactions and the overall impact on a company's financing decisions.

The regulatory framework is included as a control variable to account for the influence of external regulations on private equity financing. Different regulatory environments can either enhance or constrain the availability and attractiveness of such financing. By controlling for this variable, the model seeks to better understand the direct effects of the independent variables on the dependent variable. This structured approach allows for a comprehensive analysis of the factors influencing private equity financing, helping to elucidate the complex interplay between company-specific characteristics and external regulatory conditions.

***Figure 2. 1*Conceptual framework**



Source: (Research Data, 2024)

The regulatory framework refers to the extensive and multifaceted set of laws, regulations, and policies that govern the landscape of private equity investments, as well as the broader financial environment in which these investments operate (Cohen, 2017). In the realm of private equity, the regulatory framework encompasses a diverse array of rules and guidelines (Wright & Siegel, 2014). These regulations are designed to oversee and manage various aspects of private equity investments, including but not limited to disclosure requirements, investor protection standards, and investment restrictions (Crifo & Foget, 2015). Specific regulations might dictate the level of transparency that firms must maintain, the nature and scope of information that must be disclosed to potential investors, and the permissible types of investment strategies and financial instruments (Crifo & Foget, 2015).

Furthermore, the regulatory framework often includes provisions related to the approval processes for investment activities, compliance with anti-money laundering laws, and adherence to corporate governance standards (Levy, 2015). These rules are crafted to ensure the integrity and stability of the financial markets, protect investors from potential abuses, and foster a fair and competitive investment environment (Buttigieg & Consigilio, 2020). In addition to sector-specific regulations, the broader financial environment also plays a crucial role (Buttigieg & Consigilio, 2020). This includes monetary policies, fiscal regulations, taxation laws, and economic policies that collectively shape the financial ecosystem (Levy, 2015). Changes in these macroeconomic factors can indirectly influence private equity funding by affecting interest rates, investment incentives, and overall market conditions (Crifo & Foget, 2015).

By incorporating the regulatory framework as a control variable, the study seeks to account for these external influences, thereby isolating the effects of the independent variables on private equity funding. This methodological approach is critical for distinguishing the impact of internal determinants—such as listing fees, collateral requirements, and managerial skills—from the potential confounding effects of varying regulatory conditions. The rationale behind controlling for the regulatory framework is to ensure that the analysis reflects the true nature of the relationship between the independent variables and private equity financing. Without this control, the findings might be distorted by external regulatory factors, leading to inaccurate conclusions about the determinants of private equity funding.

2.6 Operationalisation of study variables

Table 2. 2Operationalization of study variables

Variable Type	Variable	Indicators	Measures	Scale	Data Source(s)	References
Dependent	Private Equity Financing Uptake	Success in raising PE funds in the past 3 years - Anticipation of raising PE funding in the next year - Impact on firm growth and expansion - Influence on strategic business decisions - Influence on financial performance	Ordinal (Likert scale: 1=Not at all to 5=Very great extent) Secondary data analysis (context, trends)	Ordinal	Primary & Secondary	Kato (2021); EAVCA Reports (2013–2023); Lerner & Leamon (2023); Latini & Rubens (2017); Muiruri (2018)
Independent	Listing Fees	Underwriting costs - Nominated advisor fees - Legal costs - Regulatory framework - Impact on financial position	Ordinal (Likert scale: 1=Not at all to 5=Very great extent)	Ordinal	Primary	Nassr & Wehinger (2016); Pissarides (2019); OECD (2019); CMA; Harwood & Konidaris (2015); Clarke & Klettner (2019)
Independent	Collateral Requirements	Lack of fixed asset collateral - Influence on valuation - Impact on creditworthiness - Determination of solvency - Regulatory framework	Ordinal (Likert scale: 1=Not at all to 5=Very great extent) Secondary data analysis	Ordinal	Primary & Secondary	Ackah & Vuvor (2011); Rahman & Belas (2017); Dalago & Gugliemletti (2012); OECD (2010); CMA; EAVCA Reports (2013–2023)
Independent	Dilution of Ownership	Ceding ownership - Regulatory framework - Influence on management structure - Influence on decision-making	Ordinal (Likert scale: 1=Not at all to 5=Very great extent) Secondary data analysis	Ordinal	Primary & Secondary	Maseda (2019); Perrini & Minoja (2008); FSD (2016); CMA; EAVCA Reports (2013–2023)

Variable Type	Variable	Indicators	Measures	Scale	Data Source(s)	References
Independent	Managerial Competence & Skills	Education level of owner - Managerial and entrepreneurial skills - Education level of mid-level managers - Managerial experience	Ordinal (Likert scale: 1=Not at all to 5=Very great extent)	Ordinal	Primary	Dhlamini (2022); Saebi & Foss (2017); Osoro & Muturi (2013)
Control	Regulatory Framework	Capital markets regulation - Impact of compliance - Belief in regulatory changes - Deterrence by barriers	Ordinal (Likert scale: 1=Not at all to 5=Very great extent) Secondary data analysis	Ordinal	Primary & Secondary	OECD (2019); CMA; Koreen & Boschman (2020); EAVCA Reports (2013–2023)

Source: (Research Data, 2024)

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The research methodology section provided a clear overview of the various methods and steps that were deployed in the data collection, the various steps that were applied in conducting the study, and the various techniques that were used in the analysis of the data collected in order to obtain clear information about the data.

3.2 Research Philosophy

Research philosophy, encompassing fundamental assumptions about reality (ontology), knowledge (epistemology), and its acquisition (methodology), underpins the entire research process, guiding its design and execution (Saunders, Lewis & Thornhill, 2019). An appropriate philosophy is crucial for shaping the approach to research questions, data collection, analysis, and interpretation (Crotty, 1998). Key paradigms in business research include positivism, interpretivism, and pragmatism (Bell, Bryman & Harley, 2022).

Positivism assumes an objective, measurable reality, seeking to identify causal relationships and generalizable laws, often through quantitative data, structured methodologies, and statistical analysis, with the researcher remaining detached (Bell, Bryman & Harley, 2022; Collis & Hussey, 2014; Saunders, Lewis & Thornhill, 2019). Conversely, interpretivism views reality as subjective and socially constructed, exploring meanings and perspectives through qualitative methods like interviews, where deep understanding is prioritized over generalizability (Bell, Bryman & Harley, 2022; Crotty, 1998; Creswell & Creswell, 2018). Pragmatism focuses on the research problem, valuing practical solutions and employing methods—quantitative, qualitative, or mixed—that best address the research questions (Creswell & Creswell, 2018; Saunders, Lewis & Thornhill, 2019).

This study adopts a positivist philosophy. This choice is directly informed by the research objectives, which aim to quantitatively assess the effect of listing fees (Objective I) and the influence of collateral requirements (Objective II), ownership dilution (Objective III), and managerial skills (Objective IV) on the uptake of private equity funding by SMEs.

These objectives inherently require measuring specific factors and their relationship with a dependent variable. Positivism, with its emphasis on objective reality, measurable phenomena, and the identification of influences through empirical data and statistical analysis, provides the necessary framework (Collis & Hussey, 2014; Saunders, Lewis & Thornhill, 2019). The study's aim to quantify these effects and potentially allow for generalization aligns with this paradigm. While interpretivism could explore perceptions, it would not adequately address the objectives' focus on measurable effects. Given the clear quantitative nature implied by the objectives, positivism offers the most coherent philosophical foundation for this investigation.

3.3 Research Design

A research design is a structured plan for answering research questions, detailing procedures to ensure evidence coherently addresses the research problem (Borg & Gall, 1983; Saunders et al., 2012). Common designs include experimental, longitudinal, case study, and cross-sectional approaches (Saunders et al., 2012). Experimental designs, testing cause-and-effect by manipulating variables, are impractical here due to the inability to manipulate private equity funding variables and ethical concerns (Anastas, 1999). Longitudinal designs track changes over time but are resource-intensive and less suited for assessing the current SME situation (Thomas, 2023). Case studies offer in-depth insights but lack generalizability for a diverse SME population (Yin, 2003).

For this investigation into factors influencing private equity funding among SMEs in Nairobi County, **a** descriptive cross-sectional design was selected. This approach involves collecting data from a population at a single point in time to describe characteristics or identify relationships among variables (Wang & Cheng, 2020). This choice is supported by several advantages. Firstly, it is efficient and cost-effective for collecting data from a large, diverse sample of SMEs simultaneously using methods like questionnaires and secondary data (Wang & Cheng, 2020; Saunders et al., 2012). This suits the need for broad representation across Nairobi County.

Secondly, the study's primary aim is to explore and describe current factors influencing private equity funding, rather than establishing definitive causality or monitoring changes over time. The cross-sectional design excels at providing this "snapshot," identifying prevailing patterns and associations (Thomas, 2023). It allows analysis of correlations between SME attributes and their access to private equity, yielding insights into current trends. Furthermore, this design is useful for exploratory research, estimating factor prevalence and potentially generating hypotheses for future studies (Wang & Cheng, 2020).

In contrast, alternative designs present drawbacks: longitudinal studies are too resource-intensive for this current-state focus, experimental designs are unfeasible, and case studies lack the required breadth. Therefore, the descriptive cross-sectional design is the most appropriate methodology, effectively balancing efficiency, cost, and the need for broad insights relevant to the SME population in Nairobi County, thereby addressing the research questions within practical constraints.

3.4 Population and Sampling

3.4.1Population of the Study

The population for this research comprised all Small and Medium Enterprises (SMEs) operating within Nairobi that had secured external equity funding, specifically through private equity (PE) or venture capital (VC) investments. This group was selected to align with the study's objectives of examining the dynamics of equity-funded SMEs within Nairobi's economic landscape. The focus on PE/VC-funded SMEs was methodologically significant, as these enterprises often exhibit distinct growth trajectories, governance structures, and strategic orientations compared to other SMEs (Cumming & Johan, 2013; Gompers & Lerner, 2001).

According to the East Africa Venture Capital Association (EAVCA) report of 2017, there are 97 SMEs in Nairobi that have received PE or VC funding. This figure represents the total number of such SMEs up to the time of the report, providing a clear and manageable population for the study. The EAVCA, a reputable organization representing private capital providers in East Africa, serves as a credible source for this data, ensuring the reliability of the population size.

Given the specific focus of the study and the relatively small population size of 97 SMEs, the research encompassed the entire population without employing sampling techniques. This approach was deliberate to ensure comprehensive coverage, allowing for robust analytical depth and valid generalizations about this distinct segment of Nairobi's SME sector. By studying all 97 SMEs, the research avoided potential biases associated with sampling and enhanced the internal validity of the findings (Cooper & Schindler, 2014; Kothari, 2014).

The choice of PE/VC-funded SMEs as the target population was driven by several factors. Firstly, these SMEs represent a significant and growing segment of Nairobi's economy, characterized by unique performance patterns and innovation approaches (Wright et al., 2009). Secondly, focusing on this group enabled the study to explore specific variables, such as growth strategies and challenges, that are particularly relevant to equity-funded enterprises. This targeted approach strengthened the study's analytical rigor and its contribution to understanding Nairobi's SME ecosystem.

3.4 Data Collection

This study adopted a mixed-methods approach to data collection to holistically investigate the multifaceted factors influencing SMEs' decisions to seek private equity (PE) funding. By integrating primary data, such as structured questionnaires, with secondary data from industry reports and financial records, the research leverages the complementary strengths of quantitative and qualitative methodologies. This approach aligns with the principle that mixed methods enable triangulation, which validates findings across datasets, and comprehensiveness, which captures both statistical trends and contextual insights, as emphasized by Cooper and Schindler (2013) in their framework for systematic data collection. The combination of methods ensures that the study addresses the complexity of PE funding decisions, which are shaped by both measurable variables

The use of quantitative data, such as questionnaire responses on SME financial thresholds or PE adoption rates, provided measurable patterns to identify broad trends. Meanwhile, qualitative insights from secondary sources, including case studies, stakeholder interviews, and regulatory documents, enriched these findings by elucidating underlying motivations, such as owner perceptions or sector-specific challenges.

This triangulation of data sources reduces bias and enhances the reliability of conclusions, ensuring that the study's outcomes are both empirically robust and contextually nuanced. For example, secondary data on market analyses and economic conditions contextualized quantitative findings within broader industry dynamics, while primary data captured real-time perspectives from SME decision-makers, ensuring relevance to current PE trends.

The three-month data collection period (January–March 2025) further supported the mixed-methods design by allowing iterative analysis. Preliminary findings from questionnaires informed targeted extraction of secondary data, enabling the research to focus on under-researched sectors or emerging themes. This temporal flexibility ensured efficiency and depth, as the phased approach allowed researchers to refine their focus while maintaining methodological rigor. Additionally, the extended timeframe accommodated thorough responses to questionnaires and detailed reviews of secondary reports, balancing the need for speed with the demand for accuracy.

Ultimately, the mixed-methods approach was essential for addressing the interplay of objective and subjective factors shaping SMEs' PE funding choices. A single-method design would have inadequately captured this complexity, as purely quantitative data might overlook contextual narratives, while purely qualitative data might lack generalizability. By bridging the gap between "what" (quantifiable trends) and "why" (contextual drivers), the study advances beyond siloed insights, offering policymakers and PE firms actionable recommendations grounded in both empirical rigor and nuanced understanding. This dual-lens perspective ensures that findings are not only statistically significant but also practically meaningful for stakeholders navigating the evolving PE landscape.

Primary data acquisition relied on a semi-structured questionnaire (Appendix 2), meticulously designed to align with the study's research objectives and variables. Its development was informed by a thorough literature review, identifying key potential influences on PE uptake such as listing fees, collateral requirements, dilution of ownership, managerial competence, and regulatory frameworks. The questionnaire was structured thematically, beginning with Part A collecting general SME demographics, followed by Parts B-F systematically addressing the core variables.

A combination of question types was employed; closed-ended questions predominantly used Likert scales for their reliability and efficiency in capturing nuanced perceptions and generating larger data volumes, while open-ended questions were included to gather richer, qualitative insights directly related to the study's objectives. The instrument was designed with a logical flow from general to specific topics for respondent clarity and underwent pretesting to refine wording, ensure clarity, and validate its reliability prior to full deployment.

Secondary data was systematically compiled using a structured data collection sheet (Appendix 3), specifically created to extract relevant information consistently from East Africa Venture Capital Association (EAVCA) reports. This standardized tool ensured uniformity in capturing data pertaining to the determinants influencing SMEs' decisions to seek PE funding. The specific variables extracted via this sheet included: SME identification details (name, year(s) of funding); industry categorization (e.g., FMCG, Retail, Manufacturing); funding specifics (year, deal size, PE fund name); ownership structure before and after funding, including dilution percentage; indicators of managerial competence (e.g., education, experience, where available); presence or absence of collateral requirements; relevant regulatory context impacting the deal (e.g., listing fees, compliance); post-funding performance indicators (e.g., revenue growth, market expansion); and the key motivations cited by SMEs for pursuing PE funding.

This dual methodology, integrating primary data gathered through questionnaires with secondary data extracted from EAVCA reports using the collection sheet, enabled a multi-faceted understanding of the variables influencing PE uptake by SMEs. The structured nature of both instruments facilitated the collection of accurate and relevant data. Crucially, this approach allowed for the cross-referencing and triangulation of perceived influencing factors (from questionnaires) with documented deal characteristics and outcomes (from reports), thereby significantly strengthening the validity and robustness of the research findings.

3.6 Data Analysis

The quantitative data collected for this study were analyzed using descriptive and inferential statistical methods. Descriptive statistics, including mean, standard deviation, frequency, and percentages, were employed to summarize the dataset and present trends in the variables. For inferential analysis, multiple regression was applied to examine the relationships between the independent variables (collateral, listing fees, dilution of ownership, and managerial competence/skills) and the dependent variable (private equity financing). Control variables, such as the regulatory framework, were included in the analysis to account for their potential influence on SMEs' uptake of private equity funding.

The analysis was conducted using SPSS version 30, and results were systematically organized into tables for clarity. Variables were selected based on theoretical relevance to private equity financing, and the regression assumptions (e.g., linearity, homoscedasticity) were tested to ensure robustness. For qualitative insights from open-ended questions, content analysis was performed to identify recurring themes, which were then presented alongside the quantitative findings.

The study had a sample multiple regression model to analyze the determinants of private equity financing among SMEs. The model is expressed as: Private Equity Financing Uptake=β0+β1(Listing Fees)+β2(Collateral)+β3(Dilution of Owner ship)+β4(Managerial Competence)+β5(Regulatory Framework)+ e

The study also had a sample multiple regression model to analyze the determinants of private equity financing among SMEs without the control variable . The model is expressed as:Where:

Dependent Variable (Y): Private Equity Financing Uptake

Independent Variables (X):

- X1: Listing Fees
- X2: Collateral Requirements
- X3: Dilution of Ownership
- X4: Managerial Competence/Skills
- Control Variable: Regulatory Framework (X5)
- β0β0: Intercept

- β1−β5β1−β5: Coefficients of independent/control variables

3.7 Research Quality

The researcher will observe data quality by ensuring that the techniques deployed are reliable and consistent that can also be used by other researchers in their studies.

3.7.1 Reliability of instruments

The reliability of the research instruments was evaluated through a pilot study involving a small, representative sample of fund account managers. The aim is to test the consistency and stability of the responses. A test-retest method was applied, wherein the same respondents complete the questionnaire at two different times to examine the reliability over time.

3.7.2 Validity of Instruments

Validity refers to the degree to which an instrument effectively assesses the construct it is intended to measure (Kirk & Miller, 2003). To establish validity, it is essential that the content selected and incorporated into a data collection tool directly aligns with the identified research need or gap (Kirk & Miller, 2003). As suggested by Liaw and Goh (2002), although not mandatory in research design, it is a common practice to conduct a pilot survey before embarking on the actual study. This preliminary step serves as a valuable preparatory measure. Various approaches can be employed to ascertain the validity of research instruments (Liaw & Goh, 2002). One aspect of validity is known as face validity, which gauges the extent to which a test or instrument appears to measure what it purports to measure (Liaw & Goh, 2002).

Another crucial facet is construct validity, which assesses how effectively a test or experiment performs in relation to its intended claims (Liaw & Goh, 2002). A validity test was conducted to determine if the research study measured what it was intended to measure and check on the accuracy of the results. Both content and construct validity were tested as they have been widely recognized by literature as two forms of validity (Heale & Twycross, 2015; Bull et al., 2019). Content validity is the test of determining the adequacy of the research instrument in covering the variable contents while construct validity determines whether the studycan draw significant inferences from the test scores provided (Heale & Twycross, 2015). Expert suggestions and a careful alignment of the research instrument based on the reviewed literature facilitated the necessary revision and modification of the research to enhance the face andcontent validity.

Factor analysis was used to establish construct validity for all the variables employed in this study (Kerlinger & Lee, 2000). Compliance with Factor analysis test of validity of data in research is important because it helps to ensure that the data collected for a factor analysisis suitable and reliable for the purpose of the study. By testing the validity of data, the researcher was able to increase the confidence and credibility of the findings and conclusions (Kerlinger & Lee, 2000).

3.8 Ethical Considerations

The researcher obtained the necessary approvals prior to commencing the study, including ethical clearance from both the University Ethical Review Board (ERB) and the National Commission for Science, Technology, and Innovation (NACOSTI). Throughout the research process, strict adherence to ethical standards was maintained, particularly in ensuring the rights of respondents. Measures were taken to guarantee respondent confidentiality and anonymity. Prior consent was obtained from participants before administering questionnaires, emphasizing their voluntary participation and their right to withdraw from the study at any time.

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CHAPTER FOUR

PRESENTATION OF RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the study's findings on the factors influencing SMEs' uptake of private equity financing in Nairobi County. The analysis follows the study objectives, examining the effects of listing fees, collateral requirements, ownership dilution, managerial competence, and regulatory frameworks. The chapter includes descriptive analysis for an overview of respondents' perspectives and inferential statistics to establish relationships between variables. The findings are then discussed in relation to existing literature and theoretical frameworks.

4.2 Response rate

The study targeted a total of 97 capital ventures. The response rate of the study is presented in Figure 4.1.

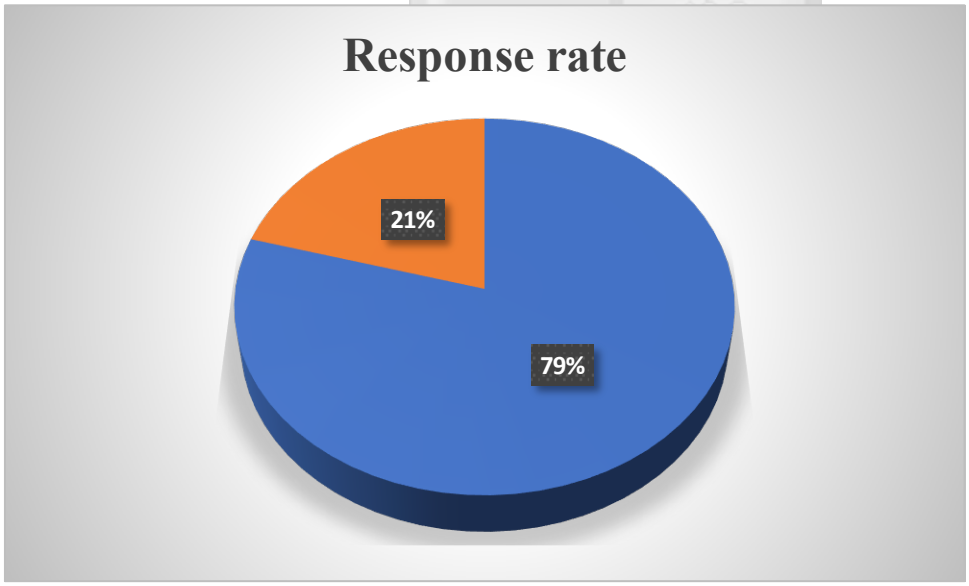

Figure 4. 1: Response rate

Source: (Author, 2025)

Of the 97 questionnaires administered, 77 were fully completed and returned, yielding a response rate of 79.4%. The data collection process was conducted online via email, where respondents received a link to access and complete the survey. According to Mugenda and Mugenda (2003), a response rate above 70% is considered very good. The high response rate of 79.4% enhances the internal and external validity of the study, allowing for the generalization of findings across capital ventures. Additionally, this high response rate minimizes non-response bias, ensuring that the collected data accurately reflects the perspectives of the targeted capital ventures.

4.3 Demographic information

4.3.1 Business Type

The surveyed SMEs operate in diverse sectors, with financial services and retail businesses being the most common, each accounting for 26.0% of the sample. This indicates a strong demand for both financial products and consumer goods in Nairobi. The Fast-Moving Consumer Goods (FMCG) sector, representing 23.4%, also plays a significant role in the SME landscape, highlighting the importance of essential consumer products. Manufacturing businesses make up 15.6%, suggesting a moderate level of industrial activity among SMEs. Information Technology businesses constitute the smallest proportion at 9.1%, indicating that while the tech industry is growing, it still represents a relatively small portion of the SME sector. The feedback was as presented in figure 4.2

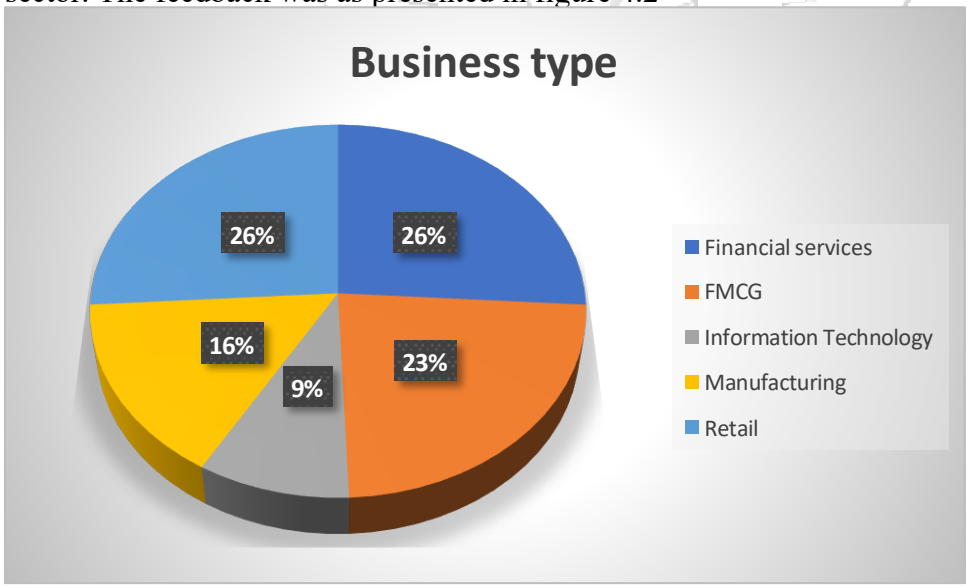

Figure 4. 2 Business Type

Source: (Author, 2025)

4.3.2 Years of operation

A substantial proportion of the businesses surveyed are relatively young, with 37.7% having been in operation for 0-5 years. This suggests that many SMEs are still in their early stages, navigating the challenges of market entry and sustainability. Another 31.2% have been operational for 5-10 years, indicating a significant number of SMEs that have managed to sustain their businesses beyond the initial critical years. Businesses operating for 11-15 years make up 23.4%, while those in existence for 16-20 years and over 20 years each account for 3.9%. The relatively small percentage of long-established businesses suggests that SMEs in Nairobi face challenges in achieving longevity, possibly due to financial constraints, market competition, or economic fluctuations. The summary of the years of Operations for the surveyed SMES are as presented in figure 4.3

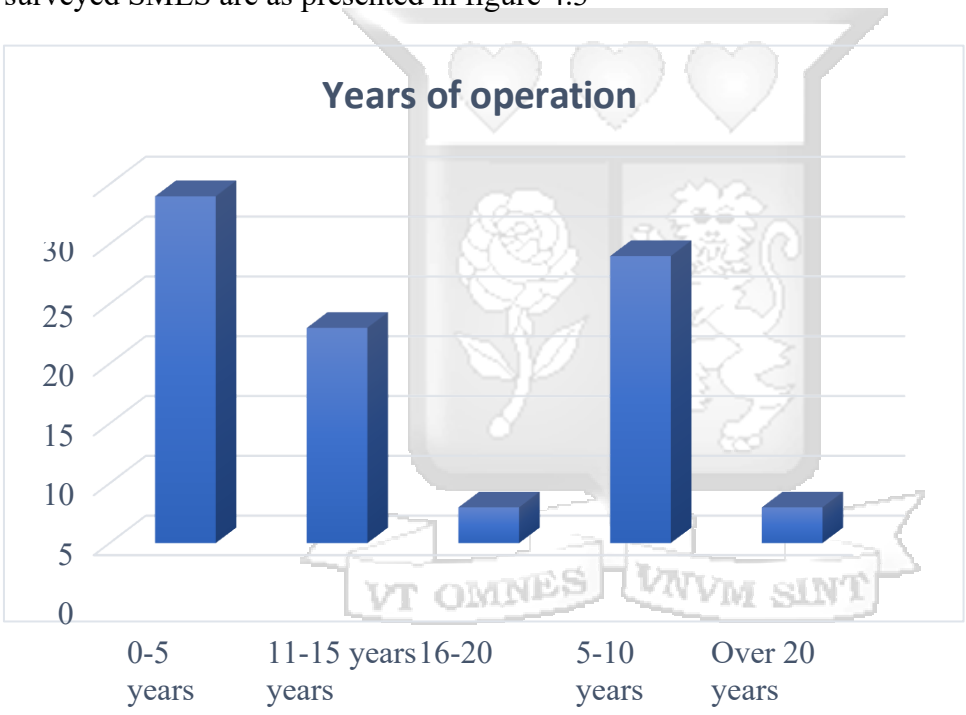

Figure 4. 3 Years of operation

Source: (Author, 2025)

4.3.3 Ownership structure

Majority of SMEs surveyed (40.3%) were limited companies, indicating that many businesses prefer a structured corporate model that offers legal protections and growth opportunities. Partnerships, accounting for 27.3%, are also a popular ownership structure, reflecting the importance of shared investment and risk. Sole proprietorships make up 18.2%, showing that a significant number of businesses are owned and managed by individuals. Meanwhile, family businesses constitute 14.3%, highlighting that while some SMEs are generational, this ownership model is less prevalent compared to other forms.

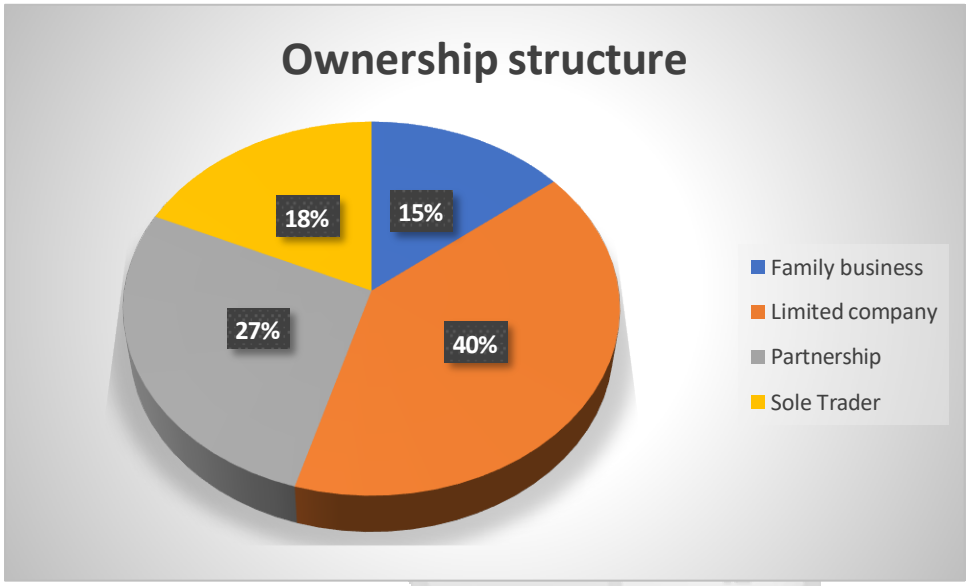

Figure 4. 4 Ownership structure

Source: (Author, 2025)

4.3.4 Main source of starting capital

Access to capital remains a critical factor for SME sustainability and growth. The majority of businesses (46.8%) relied on bank loans as their primary source of startup capital, demonstrating the significant role of financial institutions in SME funding. Private equity financing was the second most common source, used by 39.0% of businesses, suggesting that investors are increasingly recognizing the potential of SMEs. Savings accounted for 11.7%, indicating that some entrepreneurs prefer self-financing to retain full ownership and avoid debt. However, reliance on friends and relatives for startup capital was minimal at 2.6%, suggesting that personal networks play a relatively minor role in SME funding compared to formal

financial institutions.

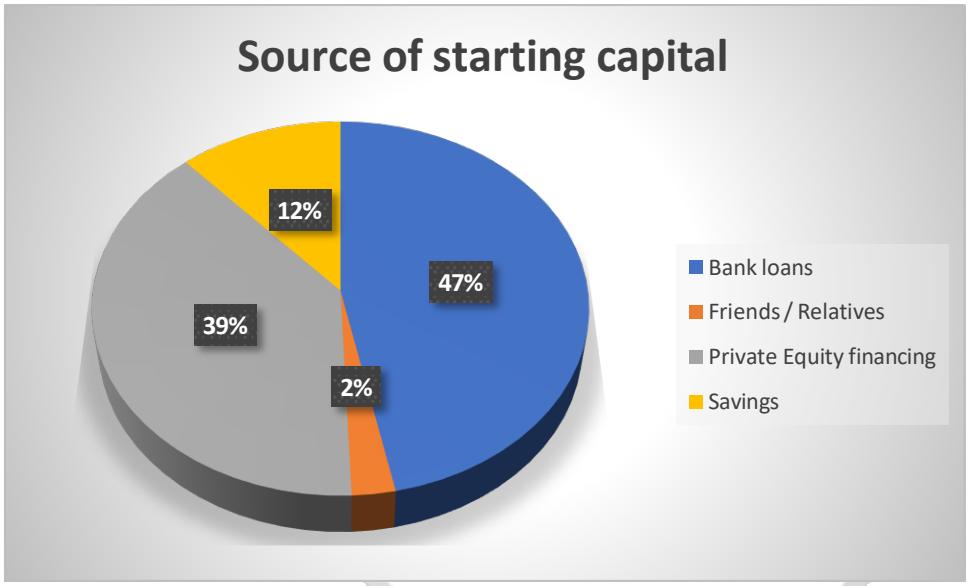

Figure 4.5 : Source of starting capital

Source: (Author, 2025)

The findings from demographic feedback obtained reveal that Nairobi's SME sector is diverse, with financial services and retail businesses being the most prominent. Most SMEs are relatively young, with only a small fraction operating for more than 15 years, highlighting the need for strategies to enhance business sustainability. Limited companies dominate the ownership structure, suggesting a preference for formalization and corporate governance. In terms of financing, bank loans remain the primary source of startup capital, although private equity financing is emerging as a viable alternative. These insights can guide policymakers, investors, and financial institutions in developing targeted support mechanisms to foster SME growth and sustainability.

4.4 Reliability of the data

Test-retest reliability is a statistical method used to evaluate the temporal stability of an instrument by administering the same test to the same group of participants at two different time points (Streiner & Norman, 2003). The correlation coefficient between the two sets of scores reflects the consistency of the measure over time, with higher coefficients (closer to 1.0) indicating greater reliability. This method assumes that the construct being measured remains stable during the interval between tests, making it particularly suitable for assessing instruments measuring traits or behaviors that are expected to remain unchanged in the short term (Kline, 2005). A coefficient of ≥0.70 is generally considered acceptable for group-level comparisons, while values ≥0.90 are preferred for individual-level assessments (Nunnally & Bernstein, 1994).

Table 4.1 summarizes the test-retest reliability coefficients for each variable formthe PE-funded SMEs. All variables yielded coefficients exceeding 0.7, indicating high stability and reproducibility of the instrument across constructs related to the deteminants of private equity funding among SME's.

Table 4. 1 Results of the Reliability Test Using Test-Retest Coefficients

Variable	PE-Funded SMEs	Time Interval	Classification
Listing Fees	0.88	2 weeks	Excellent
Collateral Requirements	0.89	2 weeks	Excellent
Dilution of Ownership	0.86	2 weeks	Excellent
Managerial Competence & Skills	0.90	2 weeks	Excellent
Regulatory Framework	0.87	2 weeks	Excellent
PE Financing Uptake	0.91	2 weeks	Excellent

Source: (Author, 2025)

4.5 Factor analysis test

Factor analysis is a statistical technique used to assess the underlying structure of a set of variables by identifying clusters (factors) of interrelated items (Field, 2018). Two preliminary tests which are the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity are critical for evaluating the suitability of the data for factor analysis (Hair et al., 2019).

The KMO statistic quantifies how well the data are suited for factor analysis, with values ranging from 0 to 1. A KMO value ≥0.60 is considered acceptable, ≥0.70 good, and ≥0.80 excellent (Kaiser, 1974). It assesses whether partial correlations among variables are small enough to justify grouping them into common factors (Tabachnick & Fidell, 2013). Bartlett's Test of Sphericity evaluates whether the correlation matrix differs significantly from an identity matrix (i.e., whether variables are sufficiently correlated to warrant factor analysis). A significant p-value ($p < 0.05$) indicates that the data are suitable for factor analysis

Factor analysis is a statistical method used to identify underlying latent constructs by grouping interrelated variables, thereby reducing data complexity while preserving meaningful patterns (Field, 2018). In this study, principal component analysis (PCA), a type of factor analysis, was employed to explore the underlying factors influencing private equity (PE) financing uptake among SMEs. PCA was chosen for several reasons.

First, it is well-suited for exploratory research, where the goal is to uncover latent structures without preconceived hypotheses about factor composition (Hair et al., 2019). Given the limited empirical evidence on PE financing barriers in the context of SMEs, PCA allows for an data-driven identification of key factors, such as financial constraints and institutional capacity, that shape SME financing decisions.

Second, PCA maximizes variance explained by transforming the original variables (e.g., Listing Fees, Collateral Requirements) into a smaller set of uncorrelated components, facilitating a clearer interpretation of complex relationships (Tabachnick & Fidell, 2013).
Third, the use of PCA aligns with prior SME financing studies (e.g., Beck & Demirguc-Kunt, 2006), which have employed PCA to distill multifaceted barriers into actionable constructs.

Additionally, the high reliability of the variables (test-retest coefficients ≥0.86, Table 4.1) and the suitability of the data for factor analysis (KMO = 0.734, Bartlett's Test: $p < 0.001$, Table 4.2) further justify PCA as an appropriate method. By applying PCA with Varimax rotation, this study aims to identify distinct factors that explain the variance in PE financing uptake, providing insights for policymakers and PE firms to address SME financing challenges.

Table 4. 2 KMO and Bartlett's Test

Test	Value	Interpretation
Kaiser-Meyer-Olkin (KMO)	**0.734**	**Acceptable (>0.6)**
Bartlett's Test of Sphericity		
Approx. Chi-Square	**485.672**	
Degrees of Freedom (df)	**45**	
Significance (p-value)	**0.000**	**Significant (p < 0.05)**

Source: (Author, 2025)

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The overall KMO value of 0.734 indicates that the data is suitable for factor analysis, as values greater than 0.6 are considered acceptable and values greater than 0.8 are considered excellent. This shows that there are adequate intercorrelations among the variables, such as listing fees, collateral requirements, ownership dilution, managerial competence, and the regulatory framework. Bartlett's Test of Sphericity shows a significant p-value ($p = 0.000$), which rejects the null hypothesis that the variables are uncorrelated. This confirms that the correlation matrix is not an identity matrix, indicating that there are sufficient correlations among the variables to proceed with factor analysis. After confirming the suitability of the data for factor analysis (KMO = 0.734, Bartlett's Test: $p < 0.001$), principal component analysis (PCA) with Varimax rotation was conducted to reduce the variables into underlying latent factors. The number of factors retained was determined using eigenvalues (≥1.0 criterion), scree plot analysis, and factor loadings (≥0.40 threshold) (Hair et al., 2019).

4.5.1 Factor Extraction and Retention

The analysis extracted two factors that collectively explained 72.4% of the total variance in the dataset. Both eigenvalues (>1.0) and the scree plot (Figure 4.1) supported the retention of two factors.

Table 4. 3 Factor extraction and retention for PE funded SMEs

Component	Eigenvalue	% of Variance	Cumulative %
1	3.85	48.1%	48.1%
2	1.94	24.3%	72.4%
3	0.76	9.5%	81.9%
4	0.58	7.3%	89.2%

Source: (Author, 2025)

The factor analysis of PE-funded SMEs identified two primary factors explaining 72.4% of total variance, reflecting robust explanatory power. Factor 1 (eigenvalue: 3.85) accounted for 48.1% of variance, while Factor 2 (eigenvalue: 1.94) contributed 24.3%. Retention aligned with the Kaiser criterion (eigenvalues >1.0), with a notable drop-off after Factor 2. Components 3 (eigenvalue: 0.76) and 4 (0.58) were excluded due to marginal variance contributions (9.5% and 7.3%, respectively).

Factor 1, Structural Barriers, aggregated variables like Loss of Control, High Costs, and Regulatory Complexity, representing 68.9% of variance within the two-factor model. Regulatory challenges and autonomy concerns emerged as critical impediments. Factor 2, Awareness & Alternatives, highlighted Lack of Awareness and Preference for Traditional Financing (e.g., bank loans), emphasizing informational gaps and SME hesitancy toward PE. Implications: Structural barriers particularly regulatory complexity and costs—are central obstacles. Concurrently, limited SME awareness underscores the need for targeted interventions. Policymakers and PE firms should simplify regulations, reduce costs, and enhance education on PE benefits. Addressing these issues could encourage SMEs to adopt PE as a strategic growth tool, amplifying its economic impact. The analysis offers a structured lens for understanding SME financing decisions.

Varimax-rotated factor loadings are presented in Table 4.7. Loadings ≥0.50 are considered strong (Field, 2018).

Table 4. 4 Rotated Factor Loadings for PE funded SMEs

Variable	Factor 1	Factor 2
Listing Fees	0.86	0.12
Collateral Requirements	0.82	0.21
Dilution of Ownership	0.78	0.15
Managerial Competence & Skills	0.14	0.91
Regulatory Framework	0.22	0.83
Private Equity Financing Uptake	0.31	0.72

Source: (Author, 2025)

The principal component analysis (PCA) with Varimax rotation was conducted separately for PE-funded SMEs and Non-PE-funded SMEs, resulting in distinct factor structures for each group. For PE-funded SMEs, as shown in Table 4.7, two key factors emerged, collectively accounting for 72.4% of the total variance in the dataset. The first factor, Financial Barriers, captured financial obstacles that influence private equity financing, with strong factor loadings from Listing Fees (0.86), Collateral Requirements (0.82), and Dilution of Ownership (0.78). These variables represent upfront costs, asset-based constraints, and equity-sharing trade-offs that SMEs encounter when seeking private equity. The second factor, Institutional and Managerial Capacity, reflected organizational and governance-related elements, dominated by Managerial Competence & Skills (0.91), Regulatory Framework (0.83), and Private Equity Financing Uptake (0.72). This factor underscores the critical role of internal managerial expertise, regulatory support, and actual engagement with private equity. The two-factor solution was validated by a scree plot showing an inflection point at the third component, and by eigenvalues exceeding Kaiser's criterion (≥1.0), specifically 3.85 for Factor 1 and 1.94 for Factor 2. The resulting structure aligns with theoretical perspectives that highlight financial and institutional determinants of SME financing, as emphasized by Field (2018)

In contrast, the PCA for Non-PE-funded SMEs (Table 4.6) also revealed two factors, although the percentage of explained variance was not specified. The first factor, Structural Barriers, encompassed regulatory and logistical challenges, with high loadings from Loss of Ownership Control (0.88), High Costs/Fees (0.85), and Regulatory Complexity (0.79). These variables indicate the structural impediments that deter SMEs from pursuing private equity.

The second factor, Awareness and Alternatives, reflected informational and perceptual challenges, with strong associations with Lack of Awareness (0.91) and Preference for Alternative Sources (0.83). This suggests that limited knowledge of private equity and a preference for traditional financing options continue to inhibit uptake among these firms.

Overall, the findings from both groups reinforce established theories on SME financing. For PE-funded SMEs, financial constraints and institutional capacity play a crucial role, while for Non-PE-funded SMEs, structural challenges and limited awareness are the dominant barriers. The strong factor loadings (all >0.70) and coherent variable groupings confirm the construct validity of the PCA results. The divergence in factor structures between the two groups signals the need for tailored policy interventions: targeting financial and institutional support for PE-structural and informational obstacles for Non-PE-funded SMEs.

4.6 Descriptive Analysis

4.6.1 Listing Fees and Uptake of Private Equity Financing

The descriptive statistics presented in Table 4.5 reveal that listing fees significantly influence SMEs' decisions regarding the uptake of private equity financing. The composite mean scores, calculated on a 5-point scale (where 1=Not at all, 5=Very great extent), indicate a generally high level of influence across various components of listing costs.

Underwriting costs emerged as the most substantial factor, with a mean score of 4.00, signifying a high influence. This is strongly supported by the finding that 75.4% of respondents perceived these costs to affect their private equity financing decisions to a great or very great extent. Nominated advisor fees also exerted a high influence (Mean = 3.82), with 68.9% of respondents citing their role to a great or very great extent.

Other factors demonstrated a moderate-to-high influence. Legal costs associated with listing had a mean score of 3.46, while the perceived impact of listing fees on the financial position of SMEs, thereby influencing the pursuit of private equity, showed a mean of 3.55. The regulatory framework governing listing fees registered a mean influence of 3.48. While these means are slightly lower than those for underwriting and advisor fees, they still represent significant considerations for SMEs, corroborated by substantial portions of respondents rating their influence as great or very great (52.0%, 53.3%, and 45.5% respectively).

The composite mean of 3.66 indicates that, collectively, listing-related costs (underwriting, advisor fees, legal costs) and regulatory factors exert a moderately strong to strong influence on SMEs' decision to pursue private equity financing. This composite score suggests that SMEs are particularly sensitive to direct financial barriers, with the cumulative weight of these factors creating a meaningful incentive to opt for private equity as an alternative to costly public listing. The result underscores the need for policymakers to address high fees and streamline regulations to reduce financing barriers, while highlighting SMEs' pragmatic balancing of costs and regulatory complexities in financing decisions.

Overall, the primary data indicates that the cumulative burden of listing fees encompassing underwriting, advisory, legal, and regulatory aspects plays a significant role in shaping SMEs' financing strategies (Author, 2025). The mean scores consistently point towards these costs being perceived as influential, often pushing SMEs towards private equity. This aligns with broader contextual factors, such as the complex and evolving regulatory environment in East Africa described in the EAVCA Report (2013–2023). Although not detailing specific fees, the report highlights regulatory complexities (e.g., Kenyan capital gains tax reforms, Ethiopian forex controls) that add indirect costs and uncertainty to public listings. This reinforces the idea that the overall expense and complexity of public market entry, as suggested by Gitman and Juchau (2015) regarding hidden costs, incline SMEs towards viewing private equity as a more accessible alternative.

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Table 4. 5 Listing fees and uptake of private equity financing

Question	Not at all	Slight extent	Moderate extent	Great extent	Very great extent	Mean Score
To what extent do underwriting costs influence uptake of private equity financing?	1.3%	6.5%	16.9%	41.6%	33.8%	4.00
To what extent do nominated advisor fees influence uptake?	1.3%	7.8%	22.1%	45.5%	23.4%	3.82
To what extent do legal costs influence uptake?	5.2%	9.1%	33.8%	39.0%	13.0%	3.46
To what extent does the regulatory framework influence uptake?	1.3%	15.6%	37.7%	24.7%	20.8%	3.48
To what extent do listing fees impact SMEs' financial position and influence seeking PE funding?	2.6%	13.0%	31.2%	33.8%	19.5%	3.55
Composite mean						3.66

Source: (Author, 2025)

4.6.2 Collateral requirement and uptake of private equity financing

The findings indicate that the lack of fixed assets as collateral is perceived by SMEs as a significant factor influencing their pursuit and attainment of private equity financing. Mean scores, calculated on a 5-point scale (1=Not at all, 5=Very great extent), consistently fall within the 'high influence' range (Means 3.80 to 4.17), underscoring the importance SMEs place on this issue (Table 4.6). Specifically, the influence of lacking fixed asset collateral on the direct uptake of private equity financing registered the highest impact, with a mean score of 4.17.

This perception is strongly supported by 84.5% of respondents acknowledging this influence to a great (48.1%) or very great extent (36.4%). Similarly, the influence on the valuation of SMEs when seeking private equity was also rated highly (Mean = 3.99), as was the impact on assessing creditworthiness (Mean = 3.95). The regulatory framework surrounding collateral requirements (Mean = 3.85) and the role of collateral in determining solvency (Mean = 3.80) were also considered highly influential factors by the respondents.

The composite mean of 3.95 indicates that, overall, the lack of fixed asset collateral is perceived as a significant barrier influencing SMEs' access to private equity financing. This score reflects a strong consensus among respondents that the absence of collateral impacts critical aspects of equity financing, including valuation, creditworthiness assessment, solvency evaluation, and regulatory considerations. The near-uniform alignment of individual question means (ranging from 3.80 to 4.17) underscores collateral's pervasive role in shaping equity financing outcomes, suggesting that SMEs and investors alike view tangible assets as central to risk mitigation and decision-making. This emphasizes the need for alternative evaluation frameworks to broaden financing accessibility for collateral-constrained SMEs.

While these descriptive statistics highlight SMEs' perception that lacking fixed assets is a substantial barrier (Author, 2025), potentially reflecting experiences with traditional lenders, secondary data offers crucial context. The EAVCA Report (2013–2023) emphasizes that private equity and venture capital in East Africa often prioritize equity-based investments over collateralized lending. This is particularly true for asset-light, high-growth sectors like FinTech and CleanTech (e.g., Branch, Chipper, Sun King), where investors focus on growth potential and market disruption rather than tangible assets (EAVCA Report, 2013–2023). This aligns with literature suggesting that traditional collateral reliance is less pertinent in financing models focused on strategic growth and innovation (Beck & Thl, 2007). Therefore, a nuanced interpretation emerges: SMEs perceive the lack of fixed assets as a high- impact factor (reflected in the high mean scores across related questions), potentially due to traditional lending norms or specific investor interactions. However, the prevailing practice within growth-focused private equity, as evidenced by regional reports and sector trends, often allows strong growth potential and innovative capacity to mitigate concerns over insufficient tangible collateral. This distinction helps explain why PE remains a viable, sought-after option for SMEs, even those concerned about their fixed asset base.

Table 4. 6: Collateral requirement and uptake of private equity financing

Question	Not at all	Slight extent	Moderate extent	Great extent	Very great extent	Mean Score
To what extent does lack of collateral influence the uptake of private equity financing?	0.0%	3.9%	11.7%	48.1%	36.4%	4.17
To what extent does lack of fixed asset collateral influence the valuation of an SME when seeking private equity?	0.0%	2.6%	18.2%	57.1%	22.1%	3.99
To what extent does lack of fixed asset collateral impact assessing the creditworthiness of an SME for private equity?	1.3%	2.6%	24.7%	42.9%	28.6%	3.95
To what extent does lack of fixed asset collateral determine how solvent an SME firm is when seeking private equity?	0.0%	5.2%	31.2%	42.9%	20.8%	3.80
To what extent does the regulatory framework on lack of collateral influence the uptake of private equity by an SME?	1.3%	2.6%	29.9%	42.9%	23.4%	3.85
Composite mean						3.95

Source: (Author, 2025)

4.6.3 Dilution of Ownership and Private Equity Uptake

The descriptive statistics presented in Table 4.6 indicate that concerns surrounding ownership dilution exert a significant influence on SMEs' decisions regarding private equity financing. Composite mean scores, calculated on a 5-point scale (1=Not at all, 5=Very great extent), consistently demonstrate a 'high influence' level, ranging from 3.89 to 4.06 across various aspects of dilution.

The prospect of ceding a percentage of company ownership was perceived as the most influential factor (Mean = 4.06), a view strongly supported by 78% of respondents who rated its influence as great or very great. Other related concerns also registered high mean scores: the impact on management structure (Mean = 3.97), the influence on decision-making authority among shareholders (Mean = 3.95), the effect of ceding ownership and operations (Mean = 3.91), and the influence of the regulatory framework governing ownership dilution (Mean = 3.89). These high means reflect substantial concern among SMEs, corroborated by large majorities (70%+) rating these factors as influential to a great or very great extent.

The composite mean of 3.96 indicates that, overall, SMEs perceive dilution of ownership and its associated factors such as regulatory frameworks, operational control, management structure changes, and decision-making authority as having a strong influence on their willingness to adopt private equity financing. The score reflects a consensus among respondents that ceding ownership is a critical consideration, with the majority of responses concentrated in the “Great extent” and “Very great extent” categories across all questions. This underscores the centrality of ownership-related concerns in SME financing decisions, suggesting that mitigating these concerns through tailored equity agreements or regulatory clarity could enhance private equity uptake. However, the issue of ownership dilution presents complexities. While the primary descriptive data (high mean scores and percentages) clearly show SMEs perceive dilution and loss of control as highly influential deterrents (Author, 2025), regression analysis suggests the direct statistical impact of these concerns on the actual uptake of private equity financing may be less pronounced.

Further nuance is provided by the EAVCA Report (2013–2023), which documents successful East African SMEs like Twiga and Copia undertaking multiple funding rounds (Series C to E), inevitably involving significant ownership dilution. This suggests that, in practice, the strategic advantages of securing growth capital can often outweigh theoretical reservations about dilution. Therefore, the findings indicate a nuanced reality: SMEs harbor genuine and strong concerns about ownership dilution, as reflected in the high mean scores. Yet, evidence from successful regional companies and potentially other analyses (like regression) suggests that these concerns are often navigated as a necessary compromise when pursuing substantial growth enabled by private equity. This aligns with financing theories (Myers & Majluf, 1984)

Table 4. 7 Dilution of Ownership and Private Equity Uptake

Question	Not at all	Slight extent	Moderate extent	Great extent	Very great extent	Mean Score
To what extent does ceding a percentage of company ownership influence the uptake of private equity financing?	0.0%	5.2%	16.9%	45.5%	32.5%	4.06
To what extent does the regulatory framework on ceding ownership influence the uptake of private equity by an SME?	0.0%	3.9%	26.0%	48.1%	22.1%	3.89
To what extent does ceding ownership and operations influence the uptake of private equity by an SME?	1.3%	3.9%	16.9%	58.4%	19.5%	3.91
To what extent does ceding ownership influence the change in management structure of the company?	0.0%	2.6%	26.0%	44.2%	27.3%	3.97
To what extent does ceding ownership & decision-making authority influence the uptake of private equity by SMEs?	0.0%	0.0%*	26.0%	53.2%	20.8%	3.95
Composite Mean						3.96

Source: (Author, 2025)

4.6.4 Managerial Competence and Skills in Private Equity Uptake

The study's findings reveal that managerial competence is perceived by SMEs as a highly influential factor in the uptake of private equity financing. As shown in Table 4.7, the composite mean scores for various aspects of managerial competence range from 3.55 to 3.90 on a 5-point scale (1=Not at all, 5=Very great extent), predominantly falling within the 'high influence' category.

The level of education of the owner was perceived as the most significant factor, registering the highest mean score of 3.90. This aligns with 74.1% of respondents indicating its influence to a great or very great extent. Other key owner attributes also showed high perceived influence: managerial skills (Mean = 3.77) and entrepreneurial skills (risk appetite) (Mean = 3.68). The competence extending beyond the owner, specifically the level of education of mid-level managers and employees, was also seen as influential (Mean = 3.64). The owner's accumulated managerial experience from prior employment rounded out these factors, still indicating significant perceived importance (Mean = 3.55).

With a composite mean of 3.71, managerial competence and skills exert a strong overall influence on private equity uptake suggesting that education, managerial skills, entrepreneurial risk appetite, and experience collectively drive adoption. In particular, the owner’s education level (M = 3.90) and managerial skills (M = 3.77) were the most impactful factors, while mid-level managers’ education (M = 3.64) and managerial experience (M = 3.55) also demonstrated meaningful, though slightly lower, effects. All components scored above the neutral midpoint of 3.00, confirming that managerial competence is a critical enabler of private equity financing, and the composite metric simplifies interpretation by consolidating these variables into a single actionable insight.

These survey responses, reflected in the consistently high mean scores, underscore the perception that the capability of the management team is pivotal for attracting private equity (Author, 2025). While the study's regression analysis indicated only a marginally significant statistical impact for managerial competence, this quantitative finding is strongly complemented by qualitative insights. The EAVCA Report (2013–2023) highlights systemic gaps in managerial skills within the East African region and explicitly recommends targeted professional development, such as training and mentorship, to bridge these deficiencies.

Investing in such managerial development enhances operational effectiveness and, critically from an investor perspective, helps mitigate perceived risks and information asymmetry, thereby boosting confidence (Peppe & Enuoh, 2020). The convergence of primary data (high perceived importance indicated by means) and secondary analysis (identified skill gaps and strategic importance noted by EAVCA) suggests that robust management is crucial for the effective deployment of capital and steering SMEs towards sustainable growth. Thus, while managerial competence might not always be the most statistically dominant variable in isolation, its strategic role in reducing agency costs and securing private equity investment is clearly substantial.

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Table 4. 8: Managerial competence and skills in private equity uptake

Question	Not at all	Slight extent	Moderate extent	Great extent	Very great extent	Mean Score
To what extent did the level of education of the owner influence the uptake of private equity?	1.3%	9.1%	15.6%	46.8%	27.3%	3.90
To what extent did managerial skills of the owners influence the uptake of private equity financing?	1.3%	7.8%	23.4%	48.1%	19.5%	3.77
To what extent did the entrepreneurial skills of the owner (risk appetite) influence uptake of private equity?	0.0%*	7.8%	33.8%	41.6%	16.9%	3.68
To what extent does the level of education of mid-level managers and employees influence uptake of private equity?	0.0%*	13.0%	31.2%	35.1%	20.8%	3.64
To what extent does the level of managerial experience of the owner influence the uptake of private equity?	0.0%*	9.1%	41.6%	35.1%	14.3%	3.55
Composite mean						3.71

Source: (Author, 2025)

4.6.5 Regulatory framework in the uptake of private equity

The findings highlight that the regulatory environment is perceived by SMEs as exerting a significant influence on decisions regarding private equity financing. As indicated in Table 4.8, the composite mean scores for various regulatory aspects consistently fall within the 'high influence' range (Means 3.74 to 3.97) on a 5-point scale (1=Not at all, 5=Very great extent), underscoring its role as a critical determinant.

The most influential aspect perceived by respondents was the regulatory framework governing capital market operations itself, with the highest mean score of 3.97. This is reinforced by 74.1% of respondents rating its influence as great or very great. Other related factors also garnered high mean scores, indicating significant perceived impact: the extent to which regulatory barriers (e.g., high compliance costs, stringent requirements) deter SMEs from pursuing private equity (Mean = 3.76), the degree to which regulatory compliance impacts the attractiveness of private equity (Mean = 3.74), and the belief that changes in the regulatory framework could enhance PE availability (Mean = 3.74).

With a composite mean of 3.80, SMEs generally perceive regulatory factors encompassing framework design, compliance requirements, barriers, and potential reforms as having a moderately strong to strong influence on their private equity engagement. In particular, the regulatory framework itself (M = 3.97) is most strongly linked to their decision to seek PE, while compliance obligations (M = 3.74) and perceived barriers (M = 3.76) remain impactful but slightly less decisive. The fact that regulatory reforms are also seen as a viable means to enhance PE availability (M = 3.74) reinforces this overall view. Practically, the composite mean closer to suggests that policymakers should focus on streamlining compliance processes and lowering barriers such as cost and complexity to make PE financing more accessible and thereby boost SME participation in capital markets. These perceptions, evidenced by the high mean scores, align strongly with the primary data indicating that regulatory factors like legal requirements, compliance costs, and market governance substantially shape financing choices (Author, 2025). This is powerfully corroborated by secondary sources, notably the EAVCA Report (2013–2023). The report documents specific regional regulatory challenges, including foreign exchange controls, capital gains tax reforms, and the destabilizing influence of political cycles, which collectively create uncertainty and increase costs, potentially steering SMEs away from public markets towards the relative flexibility of private equity.

This situation underscores the importance of a stable, transparent regulatory environment for attracting investment capital, a point emphasized by Wright and Siegel (2014). The clear convergence between the primary empirical evidence (high perceived influence shown by means) and the secondary data detailing specific regulatory hurdles points towards a compelling need for reforms. Simplifying compliance, reducing indirect cost burdens, and fostering a more predictable investment climate appear crucial for lowering entry barriers for SMEs and cultivating a more robust private equity ecosystem in the region.

Table 4. 9:Regulatory framework in the uptake of private equity

Question	Not at all	Slight extent	Moderate extent	Great extent	Very great extent	Mean Score
To what extent does the regulatory framework governing capital markets influence your decision to seek PE?	1.3%	3.9%	20.8%	45.5%	28.6%	3.97
To what extent does regulatory compliance impact the attractiveness of PE financing for your SME?	1.3%	3.9%	35.1%	39.0%	20.8%	3.74
To what extent do you believe regulatory framework changes could enhance PE availability for SMEs?	1.3%	6.5%	26.0%	49.4%	16.9%	3.74
To what extent are regulatory barriers (costs, requirements) deterring your SME from pursuing PE financing?	0.0%*	7.8%	28.6%	44.2%	19.5%	3.76
Composite mean						3.80

Source: (Author, 2025)

4.6.6 Private Equity Financing Uptake and Impact

Table 4.9 presents findings on the uptake and perceived impact of private equity (PE) financing among the surveyed SMEs. The data indicates a generally positive engagement and significant influence, with mean scores consistently falling within the 'great extent' range (defined as 3.40-4.19 on the 5-point Likert scale used, where 1=Not at all to 5=Very great extent).

The actual uptake of PE financing appears substantial. Respondents reported a high degree of success in raising PE funds over the past three years, reflected in a mean score of 3.84. This average rating, signifying success perceived to a 'great extent', aligns well with the 70.2% of respondents confirming success to a great (44.2%) or very great (26.0%) extent.

Looking forward, the anticipation of raising PE funding within the next year is also high, registering a mean score of 3.93. This score is also well within the 'great extent' range, supported by the finding that 68.9% anticipate doing so to a great (42.9%) or very great (26.0%) extent.

Regarding the impact of PE, its influence on firm growth and expansion plans was rated highly, achieving a mean score of 3.61. This average indicates a 'great extent' of impact, consistent with 59.8% acknowledging its role in expansion to a great (42.9%) or very great (16.9%) extent. Similarly, PE availability significantly influences strategic business decisions, indicated by a mean score of 3.52 ('great extent'), with 54.6% citing influence to a great (42.9%) or very great (11.7%) extent.

Furthermore, the impact on financial performance was also deemed significant, registering a mean score of 3.67. This average corresponds to a 'great extent' of influence and is corroborated by 65.0% agreeing PE had influenced performance to a great (45.5%) or very great (19.5%) extent. With a composite mean of 3.71, SMEs view private equity financing as exerting a moderate- to-great influence on their operations and strategic decisions. In particular, strong scores for past fundraising (M = 3.84) and future anticipation (M = 3.93) underscore confidence in accessing PE, while slightly lower means for growth impact (M = 3.61) and strategic influence (M = 3.52) indicate room for tighter alignment with core business goals. The financial performance score (M = 3.67) further highlights perceived benefits alongside some variability in outcomes

Overall, this aggregated metric shows that private equity is a significant—though not universally dominant—driver for SMEs, suggesting opportunities to deepen its strategic and financial contributions. Overall, the descriptive statistics suggest that PE is not only actively sought and obtained by a majority of these SMEs but is also perceived as a crucial factor significantly driving their growth, strategic direction, and financial results.

Table 4. 10 Private Equity Financing Uptake and Impact

Question	Not at all (1)	Slight extent (2)	Moderate extent (3)	Great extent (4)	Very great extent (5)	Mean Score
To what extent has your SME successfully raised private equity financing in the past three years?	2.6%	7.8%	19.5%	44.2%	26.0%	3.84
To what extent do you anticipate raising private equity financing in the next year?	0.0%	2.6%	28.6%	42.9%	26.0%	3.93
To what extent has private equity financing impacted your firm's growth and expansion plans?	3.9%	7.8%	28.6%	42.9%	16.9%	3.61
To what extent does the availability of private equity financing influence your strategic business decisions?	2.6%	9.1%	33.8%	42.9%	11.7%	3.52
To what extent has private equity financing influenced the financial performance of your SME?	2.6%	13.0%	19.5%	45.5%	19.5%	3.67
Composite mean						3.71

Source: (Author, 2025)

4.7 Inferential Statistics

Correlation and multiple regression analyses were used to examine the relationship between key factors such as listing fees, collateral requirements, ownership dilution, managerial competence, and regulatory frameworks and the uptake of private equity financing by SMEs in Kenya. Before conducting the correlation analysis, a series of preliminary tests were performed to ensure that the key assumptions for regression analysis were met

4.7.1 Preliminary tests

Normality Test (Shapiro–Wilk)

Table 4. 11Normality test

Test	Statistic	p-value
Shapiro-Wilk	0.9333	0.0008

Source: (Author, 2025)

A Shapiro-Wilk test was conducted to evaluate the normality assumption, a routine step in regression diagnostics (Fox, 2016). While the statistically significant result (*p* = 0.0008) indicates a departure from perfect normality, the test's sensitivity to minor deviations in moderate-to-large samples (n = 77) must be emphasized. The Shapiro-Wilk statistic (0.9333) reflects only a marginal deviation from normality, and as Osborne & Waters (2002) note, OLS regression is robust to such violations in this sample size range. Thus, while the test fulfills diagnostic transparency, the practical implications for model validity are negligible, as supported by the central limit theorem and prior literature (Hair et al., 2010).

4.7.1.1 Linearity Diagnostic

Table 4. 12 Linearity diagnostics

Diagnostic	Value	P value
Correlation (Fitted vs. Residuals)	0.008	0.976
Ramsey RESET Test (F-statistic)	1.45	0.231

Source: (Author, 2025)

The near-zero correlation (0.008) between the fitted values and residuals, supported by a nonsignificant p-value (0.976), indicates no systematic pattern or curvature in the residuals, thereby validating the linearity assumption of the regression model. This conclusion is further reinforced by the Ramsey RESET test, which produced an F-statistic of 1.45 and a p-value of 0.231. Since this p-value exceeds conventional significance thresholds (e.g., 0.05), the test fails to reject the null hypothesis, offering no evidence against the model's specification and aligning with the earlier findings that the linear form of the model is appropriate. Together, these results consistently support the adequacy of the linearity assumption in the regression framework.

As Tabachnick and Fidell (2013) note, when residuals are randomly dispersed around zero, it provides evidence that the relationship between predictors and the dependent variable is appropriately modeled as linear. This finding suggests that the data structure is suitable for linear regression analysis.

4.7.1.2 Multicollinearity (Variance Inflation Factor – VIF)

Table 4. 13 Multicollinearity test

Variable	VIF
Listing Fees	1.42
Collateral Requirement	1.36
Dilution of Ownership	1.27
Managerial Competence	1.49

Source: (Author, 2025)

The VIF values for all independent variables are below 2 (with the exception of the constant, which is expectedly higher), indicating low multicollinearity. According to Hair et al. (2010), VIF values under 5 suggest that multicollinearity is not a major concern. This means that the predictors are sufficiently independent, and the regression coefficients can be reliably interpreted without the confounding effects of high intercorrelations.

4.7.1.3 Heteroskedasticity Test (Breusch–Pagan)

Table 4. 14 Heteroskedasticity test

Test Statistic	p-value	F-Statistic	F p-value	
Breusch-Pagan	0.3969	0.9827	0.0929	0.9844

Source: (Author, 2025)

The results of the Breusch-Pagan test are presented in Table 4.14. The test yielded a Chi-squared statistic of 0.3969 with an associated p-value of 0.9827. The F-statistic version of the test yielded a value of 0.0929 with a p-value of 0.9844.

Comparing the primary p-value (0.9827) to the significance level of 0.05, we find that the p-value is substantially greater (p-value=0.9827>α=0.05). Consequently, we fail to reject the null hypothesis of homoscedasticity. This indicates that there is no statistically significant evidence of heteroskedasticity in the residuals of the estimated model. The assumption that the variance of the residuals remains constant across the range of fitted values is therefore considered met.

Consistent with the guidelines provided by Breusch and Pagan (1979), and further supported by White (1980) concerning the implications of homoscedasticity, these findings suggest that corrective measures, such as the use of robust standard errors or data transformation to address heteroskedasticity, are not necessary for this analysis.

4.7.1.3 Overall Conclusion of the preliminary tests

Despite the statistically significant Shapiro–Wilk test suggesting non-normality, extensive literature (e.g., Osborne & Waters, 2002; Field, 2009) emphasizes that OLS regression is generally robust to such violations when sample sizes are moderate. The absence of systematic nonlinearity, low VIF values, and the lack of heteroskedasticity collectively indicate that the data satisfy the key regression assumptions. Therefore, from an academic standpoint, as supported by scholars like Hair et al. (2010) and Tabachnick & Fidell (2013), the dataset is adequate to proceed with further data collection and regression analysis.

4.7.2 Correlational Analysis

A correlation analysis was performed to evaluate the strength and direction of the relationships between various independent variables and the uptake of private equity financing among SMEs. Pearson's correlation coefficient (r) was used to determine the linear association between factors such as listing fees, collateral requirements, dilution of ownership, managerial competence, and regulatory frameworks, and their collective influence on private equity financing uptake.

The interpretation of correlation coefficients followed established guidelines, where a coefficient below ±0.4 indicated a weak correlation, a coefficient between ±0.4 and ±0.6 suggested a moderate correlation, and a coefficient above ±0.6 signified a strong correlation. Before drawing conclusions from the correlation analysis, key assumptions were tested. These included confirming that the data were measured on an interval scale, ensuring a linear relationship between the variables, checking for significant outliers, and verifying that the data followed a normal distribution. The findings of the correlation analysis provided insights into how various financial, managerial, and regulatory factors interact to influence private equity financing uptake among SMEs. The results were presented in Table 4.15 and formed the basis for further regression analysis to establish causality and the overall significance of these relationships.

VT OMNES VNVM SINT

Table 4. 15: Correlation Analysis

Variable	Listing Fee	Collateral Requirement	Dilution of Ownership	Managerial Competence	Regulatory Framework	Private Equity Financing
Listing Fee	1					
Collateral Requirement	.629 **(.01)**	1				
Dilution of Ownership	.480 (.05)	.597 (.01)	1			
Managerial Competence	.592 (.01)	.620 (.01)	.353 (.05)	1		
Regulatory Framework	.587 (.01)	.653 (.01)	.407 (.05)	.658 (.01)	1	
Private Equity Financing	.563 (.01)	.606 (.01)	.369 (.05)	.648 (.01)	.775** (.01)	1

Key:

- * **p < .05**: Statistically significant at the 0.05 level.
- \\ **p < .01**: Statistically significant at the 0.01 level.

Source: (Author, 2025)

The correlation analysis examined the relationships between key factors influencing the uptake of private equity financing by SMEs in Kenya. The results, as presented in Table 4.16, show significant positive correlations between all independent variables and private equity financing, with varying strengths of association. The regulatory framework exhibited the highest correlation with private equity financing ($r = 0.775$, $p < 0.01$), indicating a strong and statistically significant relationship. This suggests that a favorable regulatory environment plays a crucial role in enhancing SMEs' access to private equity financing. Managerial competence & skills also demonstrated a strong positive correlation with private equity financing ($r = 0.648$, $p < 0.01$).

This implies that SMEs with competent management are more likely to secure private equity funding, as investors may perceive them as better equipped to manage resources and drive business growth. The collateral requirement had a significant moderate-to-strong correlation with private equity financing ($r = 0.606$, $p < 0.01$), indicating that collateral policies influence SMEs' ability to attract private equity investors. Similarly, the listing fee showed a moderately strong correlation ($r = 0.563$, $p < 0.01$), suggesting that high listing fees may act as a barrier to private equity uptake. The dilution of ownership exhibited the lowest correlation with private equity financing ($r = 0.369$, $p < 0.01$), though still statistically significant. This suggests that while concerns about ownership dilution may affect SMEs' decisions, they are not as influential as other factors such as regulatory frameworks and managerial competence. These findings highlight that regulatory frameworks, managerial competence, and collateral requirements are the most significant factors affecting private equity financing uptake among SMEs. The strong correlations indicate that improvements in these areas could enhance SMEs' access to private equity, ultimately fostering business growth and sustainability.

4.7.3 Regression analysis

The regression analysis examined the influence of key factors including regulatory framework, dilution of ownership, listing fee, managerial competence, and collateral requirement on private equity financing uptake among SMEs.

Table 4. 16: Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802[a]	.643	.618	.50304
a. Predictors: (Constant), Regulatory framework, Dilution of Ownership, Listing fee, managerial competence, Collateral requirement				

Source: (Author, 2025)

From Table 4.17, the R value (0.802) suggests a strong positive correlation between the independent variables and private equity financing. The R-Square (0.643) indicates that 64.3% of the variation in private equity financing is explained by the predictors included in the model. The Adjusted R-Square (0.618) accounts for the number of predictors in the model and suggests that the independent variables still explain about 61.8% of the variation in private equity financing, meaning the model has good explanatory power. The Standard Error of the Estimate (0.50304) represents the average deviation of the predicted values from the actual values, indicating a moderate level of prediction accuracy.

Table 4. 17 ANOVA table

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.317	5	6.463	25.542	.000[b]
	Residual	17.967	71	.253		
	Total	50.284	76			
a. Dependent Variable: Private equity financing						
b. Predictors: (Constant), Regulatory framework, Dilution of Ownership, Listing fee, managerial competence, Collateral requirement						

Source: (Author, 2025)

The ANOVA table 4.17 confirms that the overall model is statistically significant ($F(5,71) = 25.542$, $p < 0.001$), indicating that at least one of the independent variables significantly influences private equity financing. This suggests that the predictor variables collectively provide a strong explanation for variations in private equity financing uptake.

Table 4. 18 Regression coefficients

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.054	.408		.133	.895
	Listing fee	.078	.098	.079	.792	.431
	Collateral requirement	.100	.135	.086	.744	.459
	Dilution of Ownership	-.015	.116	-.012	-.131	.896
	Managerial competence	.197	.108	.188	1.826	.072
	Regulatory framework	.607	.116	.553	5.252	.000
a. Dependent Variable: Private equity financing						

Source: (Author, 2025)

The regression analysis presented in Table 4.18 explores the relationships between independent variables and private equity financing within the context of the study's sample. Among the predictors, the regulatory framework demonstrated a statistically significant positive association with private equity financing (B=0.607, p<0.001), suggesting that, within this study's sample, a favorable regulatory environment aligns with increased access to private equity. This highlights the potential importance of policy frameworks in facilitating SME financing under the conditions examined.

Managerial competence showed a positive but insignificant relationship (B=0.197, p=0.072), which may indicate that managerial capabilities could influence investor decisions, though further investigation with larger or more diverse samples may clarify its role. Variables such as listing fees (B=0.078, p=0.431), collateral requirements (B=0.100B, p=0.45), and dilution of ownership (B=−0.015B, p=0.896) did not reach statistical significance in this analysis. While these factors may still hold theoretical relevance, their limited explanatory power here suggests their effects may be context-specific or contingent on other unmeasured variables.

These findings underscore the complexity of factors shaping private equity financing. The prominence of the regulatory framework in this analysis aligns with prior research emphasizing institutional environments as enablers of investment. However, the study's focus on SMEs within a specific regulatory and geographic context may accentuate the salience of this variable. Future research with broader samples or longitudinal designs could further disentangle these relationships. For policymakers, the results reinforce the value of transparent and supportive regulatory systems, while entrepreneurs may benefit from considering how firm-specific factors interact with institutional conditions to attract equity financing.

4.8 Chapter Summary

This chapter presented a comprehensive analysis of the empirical findings on factors influencing the uptake of private equity financing among SMEs in Nairobi County. The chapter begins with an introduction to the data analysis, where descriptive statistics outline the demographic profiles of the surveyed SMEs—highlighting the distribution of business types across sectors such as financial services, retail, FMCG, manufacturing, and information technology—as well as the varying years of operation, which suggest that most SMEs are in their early to mid-life stages. Detailed tables illustrate these distributions and serve as a foundation for the subsequent inferential analyses. Before performing the correlation analysis, a series of preliminary tests were conducted to ensure that the key assumptions for regression analysis were satisfied. The Shapiro–Wilk test (statistic = 0.9333, $p = 0.0008$) indicated a statistically significant departure from perfect normality; however, given the moderate sample size of 77, previous research by Osborne and Waters (2002) and Field (2009) supports the robustness of OLS regression to such violations. Linearity was confirmed by a near-zero correlation between the fitted values and the residuals, while the variance inflation factor (VIF) values for all independent variables were below 2, indicating low multicollinearity.

Moreover, the Breusch–Pagan test ($p = 0.9827$) provided no evidence of heteroskedasticity, affirming that the residuals' variance remained constant across predicted values. These diagnostics collectively verified that the data were appropriate for further inferential analysis. The descriptive analysis revealed that the majority of SMEs are relatively young—with 37.7% operating for 0–5 years—and predominantly span the financial services, retail, and FMCG sectors. In terms of financing behavior, high listing fees and stringent collateral requirements were identified as significant barriers, whereas qualitative feedback indicated that concerns over ownership dilution further complicate financing decisions.

Despite these challenges, the inferential analysis provided critical insights: Pearson's correlation coefficients showed that the regulatory framework had the strongest positive association with private equity financing uptake ($r = 0.775$, $p < 0.01$), followed by managerial competence ($r = 0.648$, $p < 0.01$) and collateral requirements ($r = 0.606$, $p < 0.01$). Regression analysis further underscored these findings, with the regulatory framework emerging as the most influential predictor ($B = 0.607$, $p < 0.001$), and the overall model explaining 64.3% of the variance in financing uptake (Adjusted $R^2 = 0.618$). In contrast, listing fees, collateral requirements, and ownership dilution were found to have weak or statistically insignificant effects. Integrating these key descriptive and inferential results with theoretical frameworks—namely, the Agency Cost Theory and Pecking Order Theory—this study highlights that while high listing fees and strict collateral demands present notable challenges, a transparent regulatory environment and robust managerial competence are critical determinants in enhancing investor confidence and facilitating access to private equity financing. These insights provide a solid foundation for policy recommendations aimed at improving the financing conditions for SMEs in Nairobi County.

CHAPTER FIVE:

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the key findings, conclusions, and recommendations of the study on factors influencing private equity financing among SMEs. It highlights the impact of the regulatory framework, managerial competence, listing fees, collateral requirements, and ownership dilution. The findings, analyzed using descriptive and inferential statistics, inform conclusions and practical implications. The chapter also provides recommendations for policymakers, SME owners, and investors, along with suggestions for future research.

5.2 Summary of the Findings

This study examined the determinants of private equity financing among SMEs, focusing on the role of the regulatory framework, managerial competence, listing fees, collateral requirements, and dilution of ownership. The findings indicate that while some factors play a crucial role in determining access to private equity financing, others have minimal influence. The correlation analysis revealed significant positive relationships between private equity financing and all independent variables. The regulatory framework demonstrated the strongest correlation suggesting that a well-structured regulatory environment is essential in attracting private equity investors. Managerial competence and collateral requirements also showed strong positive correlations, emphasizing the importance of skilled leadership and asset-backed security in securing investment. Listing fees and dilution of ownership exhibited statistically significant but relatively weaker correlations, indicating that while they influence financing decisions, their impact is not as pronounced.

5.3 Discussion of the findings

5.3.1 Effect of Listing Fees on SMEs' Uptake of Private Equity Funding

The qualitative insights from the EAVCA reports provided a contrasting perspective, highlighting that listing fees are perceived as psychologically burdensome, fostering risk aversion and a preference for private equity due to its perceived flexibility and reduced administrative complexity. These perceptions emphasize the role of indirect costs, such as governance demands and compliance timelines, in shaping financing decisions. Secondary evidence from the East African Venture Capital Association (EAVCA) Report (2013–2023) supports this view, noting that regulatory costs, including capital gains tax reforms and foreign exchange controls in Kenya and Ethiopia, exacerbate the financial burden of public listings, indirectly encouraging SMEs to opt for private equity.

The robust positive association between regulatory frameworks and PE uptake underscores the catalytic role of institutional environments in SME financing. A supportive regulatory regime likely reduces transaction costs, mitigates investor risk perceptions, and enhances legal safeguards, thereby incentivizing both SMEs and investors to engage in equity arrangements. This aligns with institutional theory, which posits that formal structures profoundly shape organizational behavior, particularly in resource-constrained contexts like SME financing.

Notably, variables such as managerial competence, while demonstrating directional positivity, lacked statistical significance. This raises questions about the measurement of "competence" in SME contexts—whether it reflects technical skills, networks, or risk appetite—and suggests that institutional factors (e.g., regulation) may overshadow firm-level attributes in financing decisions. Similarly, the non-significance of collateral requirements and ownership dilution implies that SMEs may view PE as a trade-off for growth capital rather than a threat to asset control or autonomy. These findings resonate with pecking-order theory, where financing choices prioritize strategic needs over cost or control concerns.

Although the quantitative analysis does not establish a direct significant impact of listing fees on private equity uptake, the qualitative data and secondary evidence suggest that listing fees contribute to a broader regulatory framework that collectively influences SMEs' financing choices. The significant effect of the regulatory framework in the regression underscores its pivotal role, with listing fees forming part of the cumulative regulatory costs that deter SMEs from public listings. This finding aligns with institutional theory (DiMaggio & Powell, 1983), which posits that organizational decisions are shaped by institutional environments, including regulatory frameworks. For SMEs, the combined effect of regulatory costs creates structural disincentives for public equity financing, making private equity a more attractive alternative.This study's findings resonate with prior research identifying regulatory burdens as barriers to public equity financing. Gitman and Juchau (2015), Goh and Yong (2015), and Asiago (2019) highlight compliance costs and fixed fees as deterrents to SMEs accessing capital markets, consistent with the qualitative insights here. Additionally, Mengich et al. (2013) and Beck and Thl (2007) note that fixed fees and information asymmetries limit SME access to public markets. However, this study diverges from FSD (2015), which attributed low private equity adoption to awareness gaps, by demonstrating SMEs' growing reliance on private equity as a direct response to regulatory complexity.

Theoretically, the Pecking Order Theory (Myers & Majluf, 1984) provides context for these findings, suggesting that firms prioritize financing options with lower transaction costs and information asymmetries. For SMEs, the perceived complexity and costs of public listings, including listing fees, make private equity a preferable option. Agency Cost Theory further explains this behavior, as the governance demands and compliance requirements of public listings increase agency costs, deterring SMEs from pursuing this route. The interplay of these factors highlights the indirect role of listing fees within the broader regulatory environment.

The regression model's explanatory power is robust, with an R-Square of 0.643, indicating that 64.3% of the variation in private equity financing is explained by the predictors (Table 4.18). The ANOVA results confirm the model's overall significance ($F(5,71)=25.542$, $p<0.001$), reinforcing that the predictors collectively influence private equity uptake (Table 4.19).

5.3.2 Influence of Collateral Requirements on SMEs' Uptake of Private Equity Funding

The regression analysis indicates that collateral requirements do not significantly influence the uptake of private equity financing among small and medium enterprises (SMEs) ($B = 0.100$, $p= 0.459$). This suggests that, unlike in debt financing where collateral is a critical risk mitigation tool (Gorton & Ordonez, 2014), private equity investors prioritize other factors when evaluating SME investment opportunities.

Qualitative data from the study reinforce this finding, with SMEs in innovation-driven sectors reporting that private equity investors focus more on business models, market potential, and strategic alignment than on tangible assets. This observation aligns with broader industry trends, where equity financing emphasizes intangible assets such as operational scalability and managerial competence over physical collateral (EAVCA Report, 2013–2023; Ackah & Vuvor, 2011). For instance, the significant role of regulatory frameworks ($B = 0.607$, $p < 0.001$) and the emerging relevance of managerial competence ($B = 0.197$, $p = 0.072$) in the regression model highlight investor preferences for institutional support and leadership quality, consistent with contemporary studies (Beck & Thl, 2007; Hogan et al., 2017).

The non-significance of collateral challenges traditional applications of Agency Cost Theory, which emphasizes tangible risk mitigation mechanisms. Instead, private equity investors appear to manage agency risks through strategic partnerships and growth-oriented valuations, particularly in asset-light sectors (Osano & Languitone, 2016). This finding also resonates with Pecking Order Theory, as SMEs may prefer equity financing to avoid collateral-dependent debt, despite ownership dilution trade-offs (Author, 2025; EAVCA, 2013–2023). Unlike debt financing, which often requires collateral to secure loans, equity financing allows SMEs to leverage their growth potential without asset-based constraints (Kluane Partners, 2022).

These results have significant implications for SMEs and policymakers. SMEs seeking private equity should prioritize developing robust business propositions, strong management teams, and clear growth strategies rather than relying on asset-based valuations. For policymakers, the findings suggest that reforms fostering non-collateral factors, such as streamlined regulatory frameworks or mentorship programs, could enhance SME access to private equity. Such measures would align with evolving equity financing practices and support high-growth SMEs in innovation-driven industries.

5.3.3 Influence of Managerial Competence on SMEs' Uptake of Private Equity Funding

Qualitative insights from EAVCA reports emphasized private equity investors' prioritization of managerial competence particularly strategic vision, financial literacy, and leadership—as critical to funding outcomes. Participants noted these traits were rigorously evaluated during due diligence, with trust in management directly shaping investment decisions. This aligns with investment literature linking investor confidence to leadership's ability to articulate growth strategies and mitigate risks. However, quantitative regression results revealed nuanced statistical dynamics. While managerial competence showed a positive association with funding uptake ($B = 0.197$), it approached but did not reach conventional statistical significance ($p = 0.072$) (Table 4.20). This suggests that, though investors value managerial skills qualitatively, its predictive power in this sample was marginal compared to institutional factors.

In contrast, the regulatory framework emerged as the strongest predictor of private equity financing ($B= 0.607$, $p < 0.001$), underscoring its statistically robust influence. This aligns with Peppe & Enuoh's (2020) assertion that institutional conditions amplify managerial efficacy. The dominance of regulatory factors over firm-specific traits like managerial competence highlights a key tension: even SMEs with skilled leadership may struggle to leverage these strengths in weak institutional ecosystems, echoing Pecking Order Theory's emphasis on external constraints.

The regression analysis also revealed that variables such as listing fees (B = 0.078, p = 0.431), collateral requirements (B = 0.100, p = 0.459), and dilution of ownership (B = -0.015, p = 0.896) lacked statistical significance in predicting private equity financing. While these factors are often theorized as barriers in SME financing literature their negligible explanatory power here suggests contextual idiosyncrasies. For instance, investors in this sample may prioritize regulatory certainty and managerial credibility over short-term costs like listing fees, reflecting a risk calculus skewed toward systemic stability rather than transactional expenses. This aligns with emerging market studies where institutional trust deficits overshadow firm-level financial considerations (Peppe & Enuoh, 2020). The non-significance of dilution fears (p = 0.896) further implies that SMEs in this context may perceive equity financing as a necessary trade-off for growth, even amid ownership concerns—a departure from pecking order assumptions. These nuances underscore the importance of contextualizing theoretical predictors within specific institutional and cultural ecosystems.

Theoretical implications bridge Agency Cost and Signaling Theories. Investors' reliance on managerial credibility to mitigate agency risks mirrors Myers & Majluf's (1984) argument that competent leadership signals reduced financing risks. However, the regression's marginal weighting of managerial competence (*p* = 0.072) against the robust significance of regulatory frameworks (*p* < 0.001) underscores contextual realities in emerging markets. Systemic barriers may dilute firm-specific advantages, necessitating institutional reforms to complement SME capacity-building.

These findings advocate for interventions that strengthen both managerial capabilities and regulatory systems. While managerial competence alone is insufficient to overcome structural barriers, its directional alignment with funding uptake (B = 0.197) and qualitative salience suggests it remains a practical consideration for SMEs. Integrated policy approaches—combining institutional reforms with sector-specific competency frameworks—could enhance SME preparedness. Future research should explore how regulatory improvements might empower SMEs to convert managerial strengths into statistically significant financing advantages.

5.3.4 Influence of dilution of ownership on the uptake of private equity funding

Findings from the East Africa Venture Capital Association (EAVCA) Report (2013–2023) consistently identified ownership dilution as a critical concern among entrepreneurs, particularly in founder-led or family-owned enterprises. SME owners expressed reluctance tocede equity, fearing loss of strategic control and operational autonomy (Bukart & Zhong, 2023; Tzanaki, 2022; Khawaja & Bhatti, 2019). These qualitative insights align with the Pecking Order Hypothesis, which posits that firms prioritize internal financing to avoid external oversight (Myers & Majluf, 1984).

Survey data reinforced these concerns, with a majority of respondents identifying ownership dilution as a significant deterrent to pursuing private equity. This underscores the salience of autonomy preservation in SME decision-making, even in markets like Kenya where alternative financing options—such as high-interest loans or scarce grants—are limited. Many SMEs cited anecdotal experiences where investor mandates conflicted with founders' visions, creating tensions over product development and market expansion.

The regression model demonstrated strong explanatory power ($R = 0.802$, $R^2 = 0.643$, $F(5,71) = 25.542$, $p < 0.001$), indicating that the five predictors jointly explain 64.3% of the variance in private equity uptake. However, when examining individual coefficients (Table 4.19), only the regulatory framework was statistically significant ($B = 0.607$, $p < 0.001$). Listing fee ($B = 0.078$, $p = 0.431$), collateral requirement ($B = 0.100$, $p = 0.459$), dilution of ownership ($B = -0.015$, $p = 0.896$), and managerial competence ($B = 0.197$, $p = 0.072$) all failed to reach significance at the 0.05 level. This paradox strong qualitative emphasis on dilution versus its statistical insignificance suggests that perceived barriers may be mediated by broader systemic factors.

The regulatory framework emerged as the dominant predictor, with improvements correlating strongly with increased private equity uptake ($B = 0.607$, $p < 0.001$). Robust legal infrastructures—such as transparent dispute-resolution mechanisms, investor protections, and standardized governance practices—appear to mitigate dilution fears by reducing the perceived risk of external interference. Recent reforms like Kenya's Capital Markets (Alternative Investment Platforms) Regulations, 2023, have streamlined listing processes and strengthened minority shareholder safeguards, bolstering SME confidence.

Managerial competence showed a positive but statistically insignificant relationship ($B = 0.197$, $p = 0.072$). While SMEs with skilled leadership may be better positioned to negotiate favorable equity terms and retain strategic input, the marginal p-value suggests that a larger or more diverse sample might be needed to confirm this effect. Nonetheless, competent management could indirectly alleviate dilution concerns by demonstrating growth potential to investors.

The dissonance between qualitative prominence and quantitative insignificance of dilution highlights the role of contextual mediators. Case studies of high-growth Kenyan startup such as Twiga Foods and Copia demonstrate that growth imperatives can override autonomy concerns. These firms secured equity financing despite initial reluctance, using investor capital to scale operations, enter new markets, and adopt advanced technologies—outcomes that outweighed dilution fears.

This strong regulatory effect also resonates with institutional theory, which posits that formal structures shape organizational behavior (Scott, 1995). In Kenya, platforms like M-Akiba and the Nairobi Securities Exchange's Growth Enterprise Market Segment (GEMS) have reduced equity-related risks by standardizing transparency and accountability. Such frameworks recalibrate SME risk perceptions, reframing equity as a growth enabler rather than a threat.
These findings advocate for holistic interventions that address both SME perceptions and systemic barriers. Policymakers should prioritize regulatory reforms enhancing investor accountability and SME governance literacy.

Concurrently, private equity firms could adopt flexible ownership models—such as phased equity releases or non-voting shares—to accommodate founder autonomy. Training programs on equity negotiation and post-investment governance, led by institutions like the Kenya National Chamber of Commerce, could further bridge the gap between SME apprehensions and investor expectations.

In conclusion, while ownership dilution remains a salient concern in SME discourse, its direct influence on private equity uptake is statistically insignificant when contextualized against structural enablers. This underscores the need for integrated strategies that target both psychological barriers and institutional gaps to unlock equitable financing pathways for SMEs. The Pecking Order Theory was strongly validated here: most SMEs viewed dilution as a deterrent, preferring internal control despite growth trade-offs (Myers & Majluf, 1984). However, regression results revealed its insignificance once regulatory frameworks and managerial capabilities were accounted for, highlighting a theoretical tension. Agency Cost Theory clarifies this: robust regulations reduce investor-agent conflicts, making equity more palatable despite ownership trade-offs. Thus, institutional frameworks mediate theoretical predictions.

5.3.5 Influence of Regulatory framework on the uptake of private equity funding

The regression model demonstrated strong explanatory power, with an R value of .802 indicating a robust positive correlation between the combined independent variables and private equity financing uptake. The R-squared of .643 (adjusted R-squared = .618) suggests that 64.3% of the variance in financing outcomes is explained by the predictors included in the model. The overall ANOVA confirmed statistical significance ($F(5, 71) = 25.542$, $p < .001$), indicating that the model provides a reliable basis for interpreting variable effects (Author, 2025). Among the predictors, the regulatory framework emerged as the most influential determinant ($B = 0.607$, $\beta = .553$, $t = 5.252$, $p < .001$), overshadowing other factors in both magnitude and significance.

Qualitative responses reinforced the primacy of regulatory conditions: most SMEs identified foreign exchange constraints, tax policy instability, and complex compliance procedures as primary barriers to private equity participation, underscoring how macro-institutional frictions can deter equity inflows. These themes mirror systemic patterns observed in longitudinal analyses such as the East Africa Venture Capital Association's decadal review, which highlights persistent regulatory bottlenecks affecting regional investment climates and SME preparedness.

The centrality of regulatory favorability which encompasses policy transparency, administrative efficiency, and investor protections aligns with Agency Cost Theory's assertion that institutional mechanisms reduce information asymmetries and transactional frictions. Existing studies corroborate the regulatory imperative: Cohen (2017) links policy predictability to lowered investor risk perceptions, Wright and Siegel (2014) demonstrate how stable regulations enhance capital access, and Crifo and Foget (2015) document the role of bureaucratic efficiency in facilitating SME financing (Cohen, 2017; Wright & Siegel, 2014; Crifo & Foget, 2015). Policy recommendations therefore emphasize harmonizing licensing processes, digitizing compliance, and stabilizing tax and foreign exchange regimes to stimulate equity market activity, while ongoing managerial capacity-building remains a complementary, long-term strategy. Future research could explore sectoral and subnational regulatory dynamics to refine intervention approaches.

5.4 Conclusions

This study examined the factors influencing the uptake of private equity financing among SMEs in Nairobi County, focusing on listing fees, collateral requirements, ownership dilution, managerial competence, and regulatory frameworks. The findings offer insights into how these factors may shape SMEs' decisions regarding private equity financing.

The study identified transaction costs as a significant factor influencing SMEs' uptake of private equity financing. Small and medium-sized enterprises often perceive expenses tied to due diligence, advisory services, legal compliance, and investor negotiations as prohibitive barriers. These costs resonate with existing research that underscores the financial burdens SMEs encounter when engaging with equity investors, who typically impose rigorous vetting processes and complex contractual agreements. Such transaction costs can deter SMEs from pursuing private equity, particularly when they lack the resources to navigate these upfront financial commitments.

Additionally, the research highlighted asset scarcity as a critical challenge for SMEs seeking private equity. Firms with limited tangible assets—such as machinery, property, or inventory reported difficulties in attracting private equity investors. Unlike debt financiers, who rely on collateral to secure loans, private equity providers prioritize businesses with high-growth potential or scalable models to offset risk. However, SMEs with "asset-light" profiles (e.g., service-based or tech startups) often struggle to align with these investor expectations, pushing them toward alternative funding avenues. This finding mirrors broader literature on how SMEs' resource constraints limit their financing options in formal equity markets.

The study also highlighted ownership dilution as a concern influencing SMEs' openness to private equity. Many SMEs expressed reluctance to pursue equity investment due to potential loss of decision-making autonomy. However, some indicated willingness to negotiate ownership stakes if strategic benefits outweighed perceived risks. Managerial competence was further noted as a factor in private equity decisions, with investors favoring SMEs demonstrating strong leadership, financial literacy, and entrepreneurial skills. This resonates with studies linking management quality to investor confidence, particularly in firms with robust governance and strategic planning frameworks.

Finally, the regulatory framework was identified as a prominent factor shaping private equity dynamics. While regulations aim to enhance transparency and investor trust, SMEs cited compliance costs and stringent requirements as obstacles. The findings imply that streamlining regulations could improve SME access to equity markets by reducing administrative burdens. In conclusion, private equity remains a potential funding avenue for SMEs, but financial, managerial, and regulatory challenges persist. Mitigating these barriers through policy adjustments, capacity-building initiatives, and adaptable investment models could foster greater equity financing participation among SMEs.

5.5 Recommendations

The findings of this study unequivocally highlighted regulatory frameworks as the critical barrier significantly influencing private equity uptake among Nairobi's SMEs. To directly address this, policymakers must prioritize comprehensive reforms aimed at optimizing the regulatory environment for SME equity financing. This necessitates a multi-pronged approach beginning with the streamlining of compliance requirements and the reduction of administrative bottlenecks that currently hinder SMEs. A crucial step involves revising the prohibitive listing fees that deter SMEs from accessing equity markets, making this financing avenue more accessible.

To accommodate the diverse capacities of SMEs, the introduction of tiered regulatory structures is recommended. This would involve implementing differentiated reporting standards or phased disclosure mandates aligned with the size and growth stage of SMEs, effectively lowering entry barriers without compromising essential investor safeguards for investors. Furthermore, to stimulate the inflow of capital into the SME sector through private equity, targeted tax incentives should be offered to private equity firms specifically investing in SMEs, particularly those operating in high-growth sectors. Collaboration between regulatory bodies like the Capital Markets Authority (CMA) and SME associations is also vital to co-design simplified and transparent equity listing guidelines that avoid overly rigid frameworks unsuitable for SMEs while ensuring necessary transparency.

Addressing the cost-related hesitations linked to regulatory processes is paramount. The government should consider subsidizing mandatory expenses for qualifying SMEs, including costs associated with legal audits, prospectus preparation, and CMA registration fees. These subsidies could be structured as reimbursements or grants contingent on SMEs achieving predefined growth or employment targets, thereby linking public support to tangible developmental outcomes. Complementary to this, integrating financial literacy programs into business licensing or support processes is crucial to ensure SMEs understand equity compliance obligations, valuation principles, and post-listing governance expectations.

Strengthening institutional coordination is key to ensuring the long-term effectiveness of these reforms. A dedicated regulatory task force, comprising representatives from the CMA, private equity stakeholders, and SME leaders, should be established to regularly review and adapt policies, perhaps biannually, ensuring responsiveness to the evolving challenges faced by SMEs in accessing equity. This task force could also be instrumental in piloting "regulatory sandboxes" for early-stage SMEs, allowing temporary exemptions from select listing requirements during their critical growth phase to provide a more flexible environment for promising ventures.

Finally, to inform future policy and ensure the effectiveness of implemented changes, longitudinal studies tracking the specific impact of regulatory reforms on SME equity participation are essential. These assessments should ideally be commissioned annually, with findings disseminated through public-private forums to facilitate continuous improvement of the regulatory framework. By focusing interventions squarely on optimizing the regulatory environment as the key identified barrier, Nairobi can significantly enhance its potential to cultivate an inclusive equity ecosystem that effectively bridges SMEs with transformative private capital.

5.6 Suggestions for further research

The findings of this study provide valuable insights into the determinants of private equity funding among SMEs in Nairobi County. However, several areas remain underexplored, offering opportunities for future research. First, while this study focused on listing fees, collateral requirements, ownership dilution, managerial competence, and regulatory frameworks, future studies could investigate additional factors such as the role of technological adoption, market competition, or macroeconomic conditions (e.g., inflation, interest rates) in influencing SMEs' access to private equity. For instance, exploring how digital platforms and fintech innovations might bridge funding gaps for SMEs could yield novel insights into modern financing ecosystems.

Second, this study adopted a quantitative approach to analyze SMEs' perspectives. Future research could employ mixed-methods or qualitative designs to explore the lived experiences of SME owners and private equity investors. In-depth interviews or case studies could uncover nuanced challenges, such as power dynamics in investor-SME relationships, negotiation processes, or the long-term implications of equity dilution on business culture and innovation. Such approaches could also shed light on how SMEs navigate regulatory compliance and investor expectations in practice.

Third, the study's focus on Nairobi County limits its generalizability to other regions in Kenya or across Sub-Saharan Africa. Comparative studies could examine whether similar determinants influence private equity uptake in rural areas, neighboring counties, or other African economies with varying regulatory environments and market structures. For example, research comparing Nairobi's SME ecosystem with that of Lagos (Nigeria) or Cape Town (South Africa) could reveal regional disparities and inform context-specific policy interventions.

Fourth, the role of investor behavior and preferences in shaping private equity flows to SMEs remains underexplored. Future studies could investigate how private equity firms evaluate SMEs, including their risk assessment criteria, sectoral biases, or expectations regarding returns and exit strategies. Understanding investor perspectives could help SMEs tailor their proposals and improve their appeal to equity financiers.

Lastly, longitudinal research could assess the long-term impact of private equity financing on SME growth, sustainability, and socio-economic outcomes. For instance, tracking funded SMEs over 5–10 years could reveal whether private equity leads to scalable growth, job creation, or innovation, or if it inadvertently fosters dependency on external capital. Such studies could also evaluate the effectiveness of post-investment support mechanisms, such as mentorship and governance frameworks, in ensuring sustainable business outcomes.

By addressing these gaps, future research could deepen the understanding of private equity dynamics, inform policymaking, and empower SMEs to leverage alternative financing models for inclusive economic growth.

5.7 Limitations of the study

While this study provides valuable insights into the determinants of private equity funding among SMEs in Nairobi County, several limitations must be acknowledged. First, the geographical scope of the study was restricted to Nairobi County, which, though a major economic hub, may not fully represent the experiences of SMEs in other regions of Kenya. Variations in economic conditions, regulatory enforcement, and access to financial services in rural or semi-urban areas could yield different outcomes. Second, the sample size of 77 SMEs, while adequate for statistical analysis, may not capture the full diversity of SMEs across sectors, particularly given the underrepresentation of sectors such as Information Technology (9.1%). This limits the generalizability of findings to niche or underrepresented industries.

Third, the cross-sectional design of the study limits its ability to establish causal relationships or track changes in SME financing behavior over time. Longitudinal data could provide deeper insights into how factors like regulatory reforms or market fluctuations influence private equity adoption.

Additionally, the study focused on specific variables (listing fees, collateral, ownership dilution, managerial skills, and regulatory frameworks) but did not account for other potential determinants such as macroeconomic conditions, technological adoption, or informal financing networks. For instance, broader economic factors like inflation or interest rates may indirectly influence SME financing decisions but were not explored. Finally, while the regression model explained 64.3% of the variance in private equity uptake, the remaining 35.7% suggests unexamined variables, such as investor networks or sector-specific risks, which could further elucidate SME funding behavior. These limitations highlight opportunities for future research to expand the scope, methodology, and variables analyzed to build a more comprehensive understanding of private equity dynamics in emerging markets.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Strathmore University

P.O Box 59857-00200

Nairobi Kenya

Dear Sir/Madam

9 May 2024

RE: REQUEST FOR PARTICIPATION IN DATA COLLECTION FOR ACADEMIC RESEARCH

My name is Pascal Aswani Muhindi, a student currently pursuing a Master of Commerce (MCOM) degree at Strathmore University. I'm reaching out to request your participation in providing information essential for my research. It's important to stress that any data you share will only be used for academic purposes and treated with the utmost confidentiality. The survey findings will be summarized, and your identity or any specific details you provide will be kept confidential.

My research focuses on "DETERMINANTS OF PRIVATE EQUITY FUNDING AMONG SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY." Your insights and contributions would significantly enhance the quality and depth of my study.

I sincerely hope you can spare some time to share your expertise and insights on this topic. Thank you for your willingness to contribute to the advancement of academic knowledge in this field. May your kindness and generosity be duly acknowledged and appreciated.

Yours Faithfully

Pascal Aswani Muhindi

APPENDIX 2: QUESTIONNAIRE

I am carrying out a research title: Determinants of private equity funding among small and medium enterprises in Nairobi County .Kindly complete the questionnaire below using the methods provided below kindly tick appropriately with your answers in the spaces provided below

PART A : General Organization Information

1. How long has your company been in existence in

Nairobi 0-5 years [ ]

5-10 years [ ]

10- 15 years [

]

15- 20 years [ ]

Over 20 years [ ]

2. Kindly specify the kind of business your involved in (e.g FMCG)

FMCG [ ]

Retail [ ]

Manufacturing [ ]

Financial services [ ]

Information Technology [ ]

3. What is the ownership structure of your company

Sole trader [ ]

Partnership [ ]

Limited company [ ]

Family business [ ]

4. What was your main source of starting capital for the business

Savings [ ] Private Equity financing [ ]

Bank loans [ ]

Friends / Relatives [ ]

PART B: Listing fees and uptake of private equity

Kindly tick appropriately using the Likert scale provided.

5. To what extent do the following costs associated with listing influenced the uptake of private equity financing where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	**1**	**2**	**3**	**4**	**5**
To what extent does underwriting costs associated with listing influenced your uptake of private equity financing?					
To what extent does the nominated advisor fees associated with listing process influence the uptake of private equity financing					
To what extent do the legal costs associate with listing influence uptake of private equity financing?					
To what extent does the regulatory framework (laws) governing Listing fees associated with listing influence the uptake of private equity financing by SMEs?					
To what extent does listing fees associated with listing impact the financial position of an SME and influence it to seek private equity funding?					

PART C: Collateral requirement and uptake of private equity financing

6. Kindly tick appropriately using the Likert provided where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	**1**	**2**	**3**	**4**	**5**
To what extent does lack of collateral quantified as fixed assets that is a requirement mostly by financial institutions influence the uptake of private equity financing?					
To what extent does lack of fixed asset quantified as collateral influence the valuation of an SME when seeking private equity financing?					
To what extent does lack of fixed asset quantified as collateral have an impact in assessing the credit					

worthiness of an SME when seeking private equity financing					
To what extent does lack of fixed asset quantified as collateral determine how solvent and an SME firm is when seeking private equity financing?					
To what extent does the regulatory framework on lack of collateral quantified as fixed assets influence the uptake of private equity financing by an SME?					

PART D: Dilution of ownership and the uptake of private equity

7. Kindly tick appropriately using the Likert provided where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	1	2	3	4	5
To what extent does ceding a percentage of the company ownership influence the uptake of private equity financing?					
To what extent does the regulatory framework on ceding a percentage of ownership of a company influence the uptake of private equity financing by an SME?					
To what extent does ceding a percentage of ownership and operations of the company influence the uptake of private equity by an SME?					
To what extent does ceding a percentage of ownership by an SME to private equity influence the change in management structure of the company?					
To what extent does the ceding a percentage of ownership and decision making authority among shareholders influence the uptake of private equity financing by SMEs?					

PART E: Influence of managerial competence and skills in the uptake of private equity

8. Kindly tick appropriately using the Likert provided where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	1	2	3	4	5
To what extent did the level of education of the owner influence the uptake of private equity?					
To what extent did managerial skills of the owners influence the uptake of private equity financing?					
To what extent did the entrepreneurial skills of the owner (risk appetite) influence uptake of private equity financing?					
To what extent does the level of education of mid-level managers and employees of SME influence the uptake of private equity financing?					
To what extent does the level of managerial experience accumulated by the owner of an SME during employment influence the uptake of private equity financing?					

PART F : Regulatory framework in the uptake of private equity

8. Kindly tick appropriately using the Likert provided where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	1	2	3	4	5
To what extent does the regulatory framework governing capital market operations influence your decision to seek private equity financing?					
To what extent does regulatory compliance (e.g., legal and listing requirements) impact the attractiveness of private equity financing for your SME?					

To what extent do you believe that changes in the regulatory framework could enhance the availability of private equity funding for SMEs?					
To what extent are regulatory barriers (e.g., high compliance costs, stringent requirements) in deterring your SME from pursuing private equity financing?					

PART F : Private equity financing

9. Kindly tick appropriately using the Likert provided where; Not at all (1); Slight extent (2), Moderate extent (3); Great extent (4); Very great extent (5)

Statement	**1**	**2**	**3**	**4**	**5**
To what extent has your SME successfully raised private equity financing in the past three years?					
To what extent do you anticipate raising private equity financing in the next year?					
To what extent has private equity financing impacted your firm's growth and expansion plans?					
To what extent does the availability of private equity financing influence your strategic business decisions?					
To what extent has private equity financing influenced the financial performance of your SME?					

APPENDIX 3: DATA COLLECTION SHEET

Variable	Description	Source	Year/Period	Notes
SME Name	Name of the SME that received private equity funding	EAVCA Report		Record exact years if available
Industry	The industry the SME operates in (e.g., FMCG, Retail, Manufacturing , Financial Services, IT)	EAVCA Report		List specific industry categories
Year of Funding	The year when the SME received private equity funding	EAVCA Report		
Deal Size	The size of the private equity deal	EAVCA Report		Specify deal size for SMEs
Ownership Structure	Ownership structure of the SME before and after the equity funding (e.g., Sole Trader, Partnership)	EAVCA Report		Capture changes in ownership
Percentage Dilution of Ownership	Percentage of ownership ceded to private equity investors	EAVCA Report		Percentage of ownership diluted
Managerial Competence Rating	Rating of managerial competence (e.g., Educational background, Years of experience)	EAVCA Report		Use qualitative assessment if available
Collateral Requirements	Presence of any collateral required for private equity funding	EAVCA Report		Mention if no collateral was required
Regulatory Framework	Description of relevant regulations affecting private equity deals (e.g., listing fees, compliance costs)	EAVCA Report		Describe any significant regulatory changes

Private Equity Fund Source	Name of the private equity fund providing the financing	EAVCA Report		Capture the fund name
Growth Indicators Post-Funding	Indicators of growth post-funding (e.g., Revenue growth, Market expansion, Employee count)	EAVCA Report		Qualitative or quantitative data
Reason for Seeking Private Equity	Key reasons cited by the SME for seeking private equity funding (e.g., Expansion, R&D, Liquidity needs)	EAVCA Report		Summarize reasons where available

APPENDIX 4: LIST OF SMEs BEING FUNDED BY VENTURE CAPITAL INSTITUTIONS

Name of SME/ Company	Name of Venture Capital/ Private Equity
1. Fuzu	FinnFund
2. Jamii Bora Bank	Equator Capital Partners and Progression Capital Africa Ltd
3. Seven Seas	Toyota Tsusho
4. CatalystT Fund	LeapFrog
5. Insta Products	Dhiren Chandaria
6. Direct Pay Online Group (DPO)	Appis Partners
7. BBOX	KawiSafi Ventures
8. African Gas & Oil Co Ltd	Emerging Capital Partners
9. Zep-Re	DEG, Kenya Re, IFC
10. CIVICON	TransCentury

11. Aon Kenya Insurance Brokers Ltd	Funguo Investment Ltd

12. Britam Holdings Ltd	Plum LLP
13. ARM Cement	CDC Group plc
14. Orbit Chemical Industries Ltd	Catalyst Principal Partners
15. General Cargo Group	Kibo Capital Partners
16. Branch Co	Andreesen Horowitz, Khosla I mpact Fund and Formation 8
17. Bunifu Technologies	Centum Foundation
18. Cyton Investment Management Ltd	Taareli Plc
19. Elimu TV	Centum Foundation
20. Continental Reinsurance Plc	African Capital Alliance, Capital Alliance Private Equity IV
21. Blissful Co.Ke	Centum Foundation
22. Powerhive	Prelude Ventures, Total Energy Ventures & Others
23. BRCK	TED, MKS Alternative Investments & Synergy Energy
24. Dan Pharmacie	Goodlife Pharmacy
25. Engage Burson-Marsteiler Ltd	Burson- Marteller Inc
26. Fidelity Bank	SBM Holdings
27. Ahsan Manji	Catalyst Principal Partners
28. Imperial Bank	Dubai Islamic Bank
29. Chase Bank	Pamoja Capital
30. Acorn Group	Centum Foundation
31. Chemicals and Solvents (EA) Ltd (C&S)	IMCD N.V.
32. Associated Battery Manufacturers EA Ltd	Metair Investment Ltd
33. Nebula East Africa PVT Ltd	Investor Group
34. Law Africa Publishing	Longhorn Publishers Ltd

35. Naked Pizza	Pizza Hut

36. Style Industries	Godrej Consumer Products
37. Gateway Insurance	Pan Africa Insurance Holdings
38. Animal Feed Business	Land Olakes Inc
39. Universal Corporation Ltd	Strides Shasun Ltd
40. Canon Chemicals Ltd	Godrej Consumer Products
41. Sanergy	Novestar Ventures Ltd
42. SUzie Beauty Ltd	Flame Tree Group
43. Two Rivers Lifestyle Centre Ltd	Old Mutual Property
44. Acre Africa	Liechstentain Global Trust (LGT)
45. Bridge International Academies	Liechstentain Global Trust (LGT)
46. Helois Investment Partners	Norfund and Norfinance
47. General Plastics	Phatisa
48. Redisson Blu	Swedfund, Finnfund, IFU, Norfund
49. BitPesa	Pantera Capital and Others
50. Medpharm Holdings Africa	Ascent Capital
51. Sabis Holding	Centum Investments, Investbridge Capital
52. Africa Oil Corporation	Spice Capital
53. Café Deli	Grofin
54. Vertical Agro	Norfund
55. Wawingu Networks	Overseas Private Investment Co.
56. AfricInvest	Educas LLP
57. Tamarind Properties	Phatisa
58. Direct Pay Online	Safaricom- Spark Fund
59. OkHi	Generation Investment Management LLP
60. Nairobi Women's Hosiptal	Swedfund & Abraaj Group
61. EatOut	Africa Media Venture Fund (AMVF)
62. Actis Garden City	Actis Africa Real Estate Fund, IFC
63. ProDev Group Holding	Fanisi Capital
64. Neo Amadiva	TBL Mirror Fund

65. AutoExpress	Actis Africa

66. GZ Industries	IFC
67. Nairobi Java House	Fanisi
68. Haltons Ltd	Fanisi
69. Hilcrest International	Fanisi
70. Live Ad Ltd	Finisi
71. European Foods Africa Ltd	Finisi
72. Ngare Narok Meat Industries	Fanisi
73. Copia Global	Savannah Funds
74. Sendy	Savannah Funds
75. Law Africa Publishing	Savannah Funds
76. Djuaji Limitless Possibilities	Savannah Funds
77. Angani	Savannah Funds
78. Zevan Ltd	Savannah Funds
79. Safaridesk Ltd	Savannah Funds
80. Cardplanet Solutions Ltd	Savannah Funds
81. Zatiti	Savannah Funds
82. Eneza Education Ltd	Savannah Funds
83. Zevan Ltd	Savannah Funds
84. TBL Mirror Fund Ltd	Safaricom Spark Venture Fund
85. Riara Group of Schools	Pearl Capital
86. Africa Logistics Prop erties	DOB Equity
87. Twiga Foods	DOB Equity
88. Countryside Fresh Milk	DOB Equity
89. Power Gone	DOB Equity
90. Water Bus Ltd	DOB Equity
91. Gisozi Tea	DOB Equity
92. Barefoot Power	DOB Equity
93. Tenge Fresh	DOB Equity

94. Copia	DOB Equity
95. M-Kopa Sola	DOB Equity

96. Joseph Initiative	DOB Equity
97. Bridge International Academies	DOB Equity
73. Copia Global	Savannah Funds
74. Sendy	Savannah Funds
75. Law Africa Publishing	Savannah Funds
76. Djuaji Limitless Possibilities	Savannah Funds
77. Angani	Savannah Funds
78. Zevan Ltd	Savannah Funds
79. Safaridesk Ltd	Savannah Funds
80. Cardplanet Solutions Ltd	Savannah Funds
81. Zatiti	Savannah Funds
82. Eneza Education Ltd	Savannah Funds
83. Zevan Ltd	Savannah Funds
84. TBL Mirror Fund Ltd	Safaricom Spark Venture Fund
85. Riara Group of Schools	Pearl Capital
86. Africa Logistics Prop erties	DOB Equity
87. Twiga Foods	DOB Equity
88. Countryside Fresh Milk	DOB Equity
89. Power Gone	DOB Equity
90. Water Bus Ltd	DOB Equity
91. Gisozi Tea	DOB Equity
92. Barefoot Power	DOB Equity
93. Tenge Fresh	DOB Equity
94. Copia	DOB Equity
95. M-Kopa Sola	DOB Equity
96. Joseph Initiative	DOB Equity
97. Bridge International Academies	DOB Equity

73. Copia Global	Savannah Funds
74. Sendy	Savannah Funds
75. Law Africa Publishing	Savannah Funds

76. Djuaji Limitless Possibilities	Savannah Funds
77. Angani	Savannah Funds
78. Zevan Ltd	Savannah Funds
79. Safaridesk Ltd	Savannah Funds
80. Cardplanet Solutions Ltd	Savannah Funds
81. Zatiti	Savannah Funds
82. Eneza Education Ltd	Savannah Funds
83. Zevan Ltd	Savannah Funds
84. TBL Mirror Fund Ltd	Safaricom Spark Venture Fund
85. Riara Group of Schools	Pearl Capital
86. Africa Logistics Prop erties	DOB Equity
87. Twiga Foods	DOB Equity
88. Countryside Fresh Milk	DOB Equity
89. Power Gone	DOB Equity
90. Water Bus Ltd	DOB Equity
91. Gisozi Tea	DOB Equity
92. Barefoot Power	DOB Equity
93. Tenge Fresh	DOB Equity
94. Copia	DOB Equity
95. M-Kopa Sola	DOB Equity
96. Joseph Initiative	DOB Equity
97. Bridge International Academies	DOB Equity

Source: East Africa Venture Capital Association (EAVCA) (2017)

APPENDIX 5: SECONDARY DATA COLLECTION MATRIX

Variable	Description	Source	Year/Period	Notes
SME Name	Sun King, d.light, Bboxx, 4G Capital, Branch, Cellulant, Chipper, Copia, M-KOPA, Twiga, Wassha	EAVCA Report	2013–2023	Listed under "Venture Capital Success Stories" (pp. 42–43). Exact years not specified.
Industry	Energy (CleanTech), FinTech, AgTech, Logistics, E-commerce, Health, Software	EAVCA Report	2013–2023	Sectors inferred from report: CleanTech (Sun King, d.light), FinTech (Branch, Chipper), AgTech (Twiga), Health (Zipline in Rwanda).
Year of Funding	Not specified for individual SMEs	EAVCA Report	2013–2023	Aggregate data provided (e.g., VC deal peak in 2020/2022). No SME-specific dates.
Deal Size	Not disclosed per SME	EAVCA Report	2013–2023	Total VC investments: $5.5B. Median PE deal size: $40M (financial services, energy). SME-specific data unavailable.
Ownership Structure	Not specified	EAVCA Report	2013–2023	Ownership changes (e.g., MBOs, secondary buyouts) mentioned generically, not per SME.

Percentage Dilution	Not disclosed	EAVCA Report	2013–2023	No SME-specific dilution percentages provided.

Variable	Description	Source	Year/Period	Notes
Managerial Competence	No qualitative assessment available	EAVCA Report	2013–2023	Report lacks managerial competence metrics for SMEs.
Collateral Requirements	Not mentioned	EAVCA Report	2013–2023	Collateral requirements not discussed; equity deals likely non-collateral.
Regulatory Framework	Forex controls (Ethiopia), DFI involvement, election cycles impacting deals	EAVCA Report	2013–2023	General regulatory challenges noted (e.g., Ethiopia's forex controls, Kenya's political cycles).
Private Equity Fund Source	Actis, Helios, AfricInvest, DFIs, pan-African funds	EAVCA Report	2013–2023	Funds listed generically (p. 7, 19). No SME-fund linkages provided.
Growth Indicators Post-Funding	Companies reached Series C–E stages (e.g., Twiga, Copia)	EAVCA Report	2013–2023	Qualitative growth indicators (e.g., scaling, M&A activity). No revenue/employee metrics.
Reason for Seeking Private Equity	Expansion, scaling innovation, addressing market gaps (e.g., CleanTech, FinTech)	EAVCA Report	2013–2023	General reasons cited: climate tech, digital transformation, food security.

Variable	Description	Source	Year/Period	Notes

SME Name	Not explicitly listed in the report.	EAVCA Report	N/A	Report aggregates data; no individual SME names provided.
Industry	Financial Services, ICT, Agriculture, Energy, TMT (Technology, Media, Telecom)	EAVCA Report	2013–2023	Top sectors: Financial Services (highest exits), ICT, and Agriculture.

Variable	Description	Source	Year/Period	Notes
Year of Funding	2022 saw peak activity (110 PE deals). 2023: 58 PE deals, 260 VC deals.	EAVCA Report	2013–2023	Specific SME funding years not disclosed.
Deal Size	PE: ~5.1bn total (2013–2023). VC: 5.5bn total. Avg. deal size varies by country.	EAVCA Report	2013–2023	DRC avg. deal size: $3.2M to $20M; Kenya: $3.67bn total.
Ownership Structure	Not explicitly detailed. Report notes increased local pension fund participation.	EAVCA Report	N/A	Pre- and post-funding structures not specified.
Percentage Dilution	Not disclosed.	EAVCA Report	N/A	Data unavailable in the report.
Managerial Competence	Highlighted need for training programs (e.g., PDP for PE professionals).	EAVCA Report	2013–2023	Qualitative focus on skill gaps; no SME-specific ratings.
Collateral Requirements	Not discussed.	EAVCA Report	N/A	Report focuses on regulatory/structural barriers, not collateral terms.

Regulatory Framework	Key changes: CGT reforms (Kenya), COMESA merger rules, CMA Uganda/Ethiopia policies.	EAVCA Report	2013–2023	Advocacy reduced CGT in Kenya (15%), streamlined CCC/CAK merger reviews.
Private Equity Fund Source	Fund managers: Actis, Novastar Ventures, XSML Capital, Norrsken22, etc.	EAVCA Report	2013–2023	Listed in Annex I (Investors/Fund Managers).

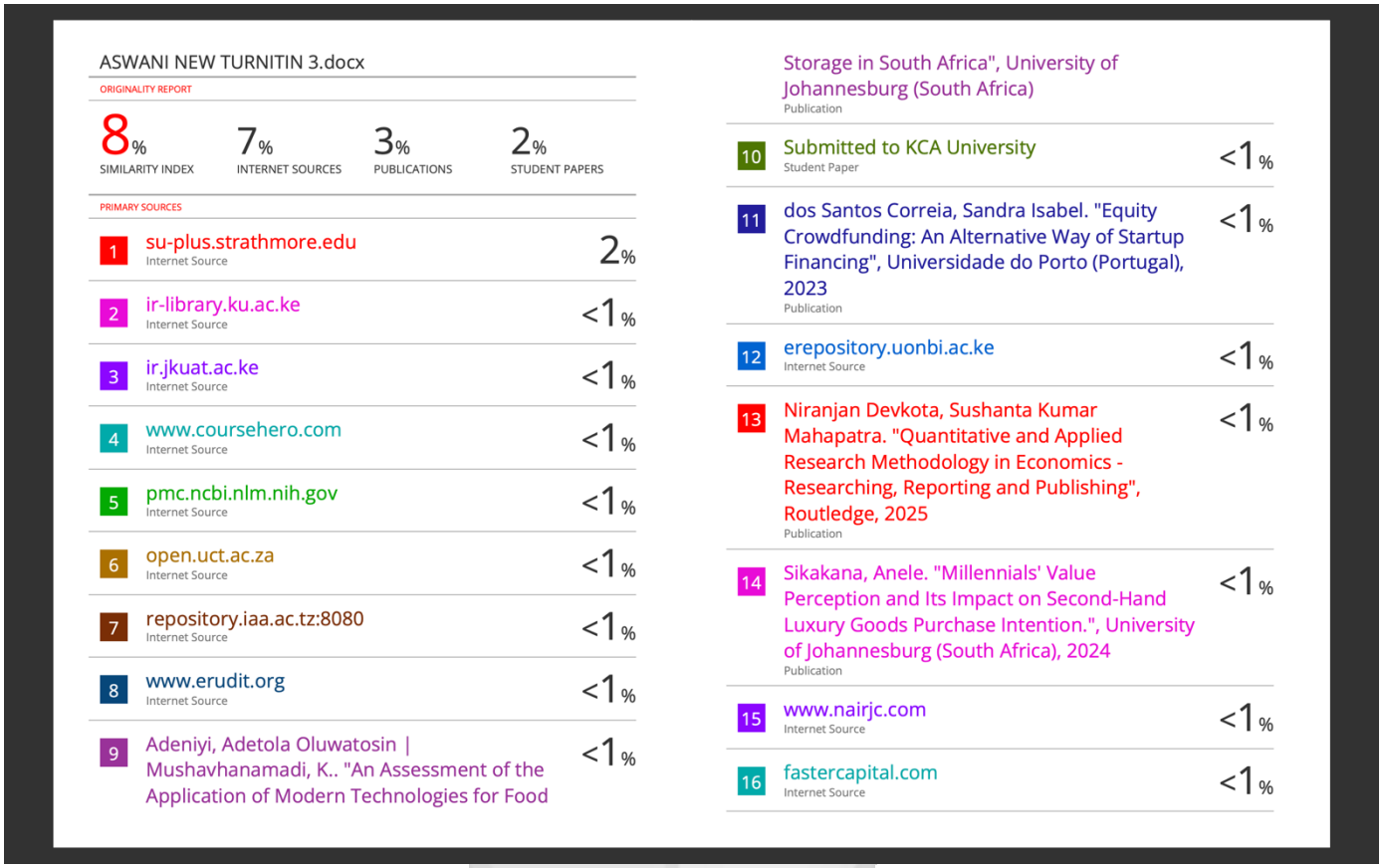
Variable	Description	Source	Year/Period	Notes
Growth Indicators	Sector-level growth: Fintech (Uganda), renewable energy, agri-resilience.	EAVCA Report	2013–2023	Post-funding metrics (e.g., revenue) not SME-specific.
Reason for Seeking PE	Expansion, sectoral innovation (e.g., fintech, climate resilience).	EAVCA Report	2013–2023	Cited drivers: mobile tech, climate needs, economic diversification.
Notes	The EAVCA report provides aggregated data, not SME-specific details. For granular data, consult referenced publications (Annex II) or external databases.	EAVCA Report	2013–2023	Regulatory frameworks and fund sources are well-documented, but SME-level variables (e.g., ownership dilution) require supplementary sources. Growth indicators and industry trends are inferred from sectoral analyses in the report (e.g., fintech growth in Uganda).

Variable	Description	Source	Year/Period	Notes
SME Name	Signion Aviation Ltd, The Direct Pay Online Group, Jubilee General Insurance (K) Limited, City Lodge Hotels, Ed Partners Africa, EthioChicken, Tugende, Ampersand Rwanda Ltd	EAVCA Report	2018–2021	SME names extracted from "Recent deals sample" tables (pages 16–20).
Industry	TMT, Financial Services, Hospitality, Education, FMCG, Agri-business, Healthcare, Energy, Industrials	EAVCA Report	2018–2021	Sectors categorized per deal descriptions (e.g., TMT, Financials, Energy).

Variable	Description	Source	Year/Period	Notes
Year of Funding	2018–2021 (specific years listed per deal)	EAVCA Report	2018–2021	Disclosed in "Period" column of deal tables.
Deal Size	$39.81M (Signion Aviation), $288M (Direct Pay Online), $100M (Jubilee Insurance), $5.0M (EthioChicken), $9.9M (Tugende), $3.5M (Ampersand Rwanda)	EAVCA Report	2018–2021	Values disclosed for select deals; others marked "Unknown."
Ownership Structure	Not disclosed	EAVCA Report	N/A	Report does not specify pre/post-funding ownership structures.
Percentage Dilution	Not disclosed	EAVCA Report	N/A	Data unavailable in the report.
Managerial Competence	Qualitative emphasis on talent gaps and training programs (e.g., PDP for PE professionals).	EAVCA Report	2018–2021	General focus on skills development; no SME-specific

				ratings.

APPENDIX 6: PLAGIARISM REPORT



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ORIGINALITY REPORT

8%	7%	3%	2%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	su-plus.strathmore.edu Internet Source	2%
2	ir-library.ku.ac.ke Internet Source	<1%
3	ir.jkuat.ac.ke Internet Source	<1%
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9	Adeniyi, Adetola Oluwatosin | Mushavhanamadi, K.. "An Assessment of the Application of Modern Technologies for Food Storage in South Africa", University of Johannesburg (South Africa) Publication	<1%
10	Submitted to KCA University Student Paper	<1%
11	dos Santos Correia, Sandra Isabel. "Equity Crowdfunding: An Alternative Way of Startup Financing", Universidade do Porto (Portugal), 2023 Publication	<1%
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APPENDIX 7: ETHICS CERTIFICATE

Strathmore UNIVERSITY

26th November 2024

Mr Muhindi Pascal,
pascal.muhindi@strathmore.edu

Dear Mr Muhindi,

RE: Determinants of Private Equity Funding among Small and Medium Enterprises in Nairobi County

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2392/24.** The approval period is from **26th November 2024 to 25th November 2025.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

APPENDIX 8: NACOSTI PERMIT

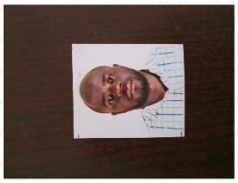
REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **951022**

Date of Issue: **16/December/2024**

RESEARCH LICENSE



This is to Certify that Mr.. Pascal Aswan Muhindi of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: DETERMINANTS OF PRIVATE EQUITY FUNDING AMONG SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY for the period ending : 16/December/2025.

License No: **NACOSTI/P/24/414540**

951022

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions