

**EFFECT OF VENTURE CAPITAL FINANCING ON GROWTH OF SMALL AND
MEDIUM ENTERPRISES IN NORTHERN DIVISION, MBALE CITY, UGANDA**

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M23M15/023

**A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE AWARD OF A DEGREE OF MASTER OF BUSINESS
ADMINISTRATION OF UGANDA CHRISTIAN UNIVERSITY**

December, 2025



**UGANDA CHRISTIAN
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DECLARATION

I Nyiramahirwe Agnes do declare that this research report, is entirely my original work compiled from the study carried out in Eastern Uganda, Northern Division, Mbale City and has never been submitted for the award of a Master's Degree in any institution.

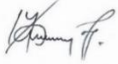


Sign.....

Date 01 / 11/ 2025

APPROVAL

This is to certify that this research report has been submitted for examination with my approval as a university supervisor.


Sign.....

Date: 27/12/ 2025

Mugisha John Steve

ACKNOWLEDGEMENT

The following people are being recognized in a special way and with sincere gratitude for their assistance and contribution throughout my research journey and success.

I am extending my sincere gratitude to my husband, Mr. Aturinda Brian for the unwavering support and encouragement. To my loving children, I am grateful for your understanding and patience throughout this academic journey. To you my siblings, thank you for the love and the unending support.

I also extend my sincere appreciation to Mr. Rwigema Oscar, for the advice and support which have been crucial to both my academic and personal development. I would also like extend my heartfelt thanks to my research supervisor Mr. Mugisha John Steve, whose advice and insights greatly influenced both this work and my growth as a researcher. I want to acknowledge my fellow graduates, whose camaraderie and shared experiences have made this journey all the more meaningful.

Finally, I would like to acknowledge Uganda Christian University, for providing me with the resources and environment necessary to pursue this research.

Thank you all for your contributions and support.

LIST OF ABBREVIATIONS

AVCA	African Private Equity and Venture Capital Association
EAVCA	East African Private Equity and Venture Capital Association
EU	European Union
GDP	Gross Domestic Product
ICT	Information and Communication Technology
KPMG	Klynveld Peat Marwick Goerdeler
OECD	Organization for Economic Co-operation and Development
PhD	Doctor of Philosophy
R&D	Research and Development
SME	Small and Medium-sized Enterprise
UBOS	Uganda Bureau of Statistics
UMTIC	Uganda Ministry of Trade, Industry and Cooperatives
USA	United States of America
VC	Venture Capital

TABLE OF CONTENTS

DECLARATION.....	2
ACKNOWLEDGEMENT.....	4
LIST OF ABBREVIATIONS	5
TABLE OF CONTENTS.....	6
LIST OF TABLES.....	8
LIST OF FIGURES	9
ABSTRACT	10
CHAPTER ONE: BACK GROUND.....	11
1.0 Introduction	11
1.1 Back ground of the study	12
1.2 Problem Statement	15
1.3 Objectives of the Study.....	16
1.4 Hypotheses of the study	17
1.5 Scope of the Study	17
1.6 Justification of the study.....	18
1.7 Conceptual framework.....	20
1.8 Operational terms.....	21
CHAPTER TWO: LITERATURE REVIEW.....	23
2.0 Introduction	23
2.1 Theoretical Review	23
2.2 Empirical review.....	25
2.3 Research Gap.....	34
CHAPTER THREE: RESEARCH METHODOLOGY	35
3.0 Introduction	35
3.1 Research Design and Rationale.....	35
3.2 Study Population.....	36
3.3 Definition and measurement of Variables	38
3.4 Research Instruments	39

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF RESULTS.....	44
4.0 Introduction	44
4.1 Descriptive analysis and response rate.....	44
4.2 Hypothesis Testing and analysis.....	47
4.3 Thematic analysis of qualitative data.....	65
CHAPTER FIVE: DISCUSIONS	68
5.1 Introduction	68
5.2. Discussions.....	68
CHAPTER SIX: CONCLUSIONS AND RECOMENDATIONS.....	75
6.0 Introduction	75
6.1 Summary findings	75
6.2 Conclusion	77
6.3 Recommendations.....	77

LIST OF TABLES

Table 1 shows role of respondent, SME period, registration status	45
Table 2 showing VC funding costs affect funds seeking behavior and justification	48
Table 3 showing comparison of interest rates and transparency of VC costs	49
Table 5 showing if support from venture capital firms improves SME business operations	61
Table 6 showing Partnerships between venture capital firm improve business network	63

LIST OF FIGURES

Figure 1 shows the Response rate.....	44
Figure 2 showing no of employees, type of industry and VC funding needs of the SMEs	46
Figure 3 showing affordability and effect of costs on scaling of business	47
Figure 4 showing the effect VC financing costs of seeking behavior for funding.....	50
Figure 5 showing satisfaction with VC funding method and cost unpredictability	54
Figure 6 showing VC preferred and method used for last 5 years.....	55
Figure 7 showing reason for preferred method.....	56
Figure 8 showing knowledge about VC financing terms and conditions	57
Figure 9 showing the influence of terms and conditions on financing decisions	57
Figure 10 showing the ability to select an appropriate financing strategy from options	58
Figure 11 showing management support received from venture capital firms	60
Figure 12 showing training, monitoring expert advice effect on SME growth	61
Figure 13 showing availability of the expert advice	62
Figure 14 showing distribution by feedback and guidance by VC firms	63
<i>Figure 15 showing correlation Venture Capital financing costs variables and SME growth</i>	<i>51</i>

ABSTRACT

The study examined the effect of venture capital financing on the growth of Small and Medium Enterprises (SMEs) in Northern Division, Mbale City, Uganda. A cross-sectional survey design employing both quantitative and qualitative approaches was used. Data were collected from 78 SME owners and employees selected from registered SMEs in Northern Division. Quantitative data were analyzed using the Statistical Package for Social Sciences (SPSS) through descriptive statistics, correlation, and regression analysis, while qualitative data were analyzed using thematic content analysis.

The study found that venture capital financing costs, financing methods, and management support significantly influence SME growth. Although perceived cost fairness was positively associated with affordability ($r = 0.230$, $p < 0.05$), high and unclear financing costs discouraged SMEs from accessing venture capital. SMEs mainly preferred upfront and syndicated financing, while the ability to evaluate financing strategies was positively related to financing method preference ($r = 0.407$, $p < 0.01$). The study further revealed that limited understanding of venture capital terms and inadequate management support reduced the effectiveness of venture capital in promoting business growth. Overall, high financing costs, inappropriate financing arrangements, and weak management support constrained SME revenue growth, profitability, and expansion.

The study concludes that venture capital financing significantly influences SME growth through its cost structure, financing methods, and management support mechanisms. Appropriate financing arrangements combined with strategic investor support enhance revenue growth, profitability, and employment creation among SMEs.

The study recommends improving awareness of venture capital financing opportunities, promoting transparent and affordable financing structures, strengthening venture capitalist involvement in business mentorship and strategic guidance, and enhancing SMEs' capacity to evaluate and select appropriate financing methods to support sustainable business growth.

CHAPTER ONE: BACK GROUND

1.0 Introduction

Small and Medium Enterprises (SMES) are vital drivers of economic development, fostering employment creation, income generation and innovation. In Uganda, SMEs constitute a significant proportion of the formal and informal economy but their growth is often constrained by limited access to finance. Traditional finance method such as bank loans, are frequently inaccessible to SMEs due to stringent collateral requirements and high interest rates, creating a financing gap that inhibits business expansion and sustainability.

Venture capital financing provides financial resources, managerial assistance, strategic direction and market connection which improve business performance. Empirical data on its effect on the expansion of SMEs, specifically in Mbale City, Northern Division in Eastern Uganda is not well documented and has not proper basis.

It's upon this background that this study seeks to investigate the effect of venture capital financing on the growth of SMEs, with growth measured by revenue, employment levels. The study focuses on three major aspects of venture capital financing including financing methods, Management support, and venture capital associated costs. This chapter outlines the background of the study, problem statement, research objectives and questions, scope of the study, significance, justification, and the conceptual framework.

1.1 Back ground of the study

1.1.1 Historical back ground

In these recent times, venture capital financing has emerged as a major financial model, characterized by its intricate and private information exchanges. Despite being financial intermediaries in the economy, venture capital firms have historically been essential in funding successful companies in competitive markets creating more jobs in the world (Bonini & Capizzi, 2019; Lerner & Leamon, 2023; Metrick & Yasuda, 2021). Venture capital has had on the performance of small and medium-sized enterprises (SMEs) over the last 20 years, especially in developed nations like the US, Canada, Europe, and China (Biney, 2018a; Hua et al., 2016a; A. I. Kato, 2023). (Biney, 2018a; Hua et al., 2016a; A. I. Kato, 2023).

With a concentration of deals in Nairobi, Kenya with support from the East African Private Equity & Venture Capital Association (EAVCA) and Silicon Savannah (EAVCA) (Obuya, 2018; Ogachi & Zoltan, 2023; Otieno, 2020). Despite the fact that the Uganda's VC market is still small, foreign venture capital firms are becoming more interested in Uganda as a promising location for private equity financing, along with Egypt, Ghana, and Tunisia (African Private Equity and Venture Capital Association, 2019).

1.1.2 Theoretical background

This study was guided by Agency Theory which explains the relationship between principals and agents. In venture capital financing, venture capital firms act as principals while SMEs act as agents. The theory argues that conflicts arise due to

information asymmetry and differing interests between investors and entrepreneurs (Zardkoohi et al., 2017).

Agency Theory explains how venture capital firms use contracts, monitoring mechanisms, board representation and equity arrangements to reduce conflicts and safeguard investments. The theory therefore provides an important foundation for understanding venture capital financing costs, financing methods and management support offered to SMEs.

Despite its relevance, the theory assumes that actors behave solely in self-interest and that formal contracts can resolve conflicts. Such assumptions may not adequately explain SME environments in Uganda where trust, informal arrangements and social factors strongly influence business decisions.

This study therefore adopts Agency Theory because it explains interactions between venture capital providers and SMEs and supports analysis of venture capital financing and SME growth.

1.1.3 Contextual background

Small and Medium Enterprises make up a significant amount of the Ugandan economy. They contribute to about 70% of the country's GDP, 90% of private sector employment, 80% of manufactured output, and 2.5 million jobs (Muriithi, 2017; Uganda Investment Authority, 2016; Uganda Ministry of Trade, Industry and Cooperatives (UMTIC, 2015). Their access to venture capital financing is still difficult especially the businesses that are growing quickly. To mitigate this, the Uganda Investment Authority hosted the by

first alternative finance conference with the goal of bringing VC market participants and promoting SME expansion via venture capital and private funding channels (UMTIC, 2015).

1.1.4 Conceptual background

Venture capital (VC) financing addresses the persistent equity gap faced by startups and small and medium enterprises (SMEs), by providing not only capital but also strategic support, managerial support, and access to networks essential for business growth and innovation. SMEs take advantage of the ambitious growth strategies without the immediate pressures of short-term profitability pertinent to the idea of patient capital which allows investors to accept longer time horizons for returns (OECD, 2018).

With the nature of the underdeveloped venture capital industry, regulatory hindrances and limited awareness among entrepreneurs, access to VC is still limited in Uganda and in areas like Mbale City. It is evident VC-backed SMEs perform better than those that are not using Venture capital in terms of sales turnover, profitability, and return on assets. This indicates the potential of VC funding for SME's growth (A. Kato & Chiloane-Tsoka, 2022).

Venture capital financing refers to a form of private investment provided to startups and Small and Medium Enterprises (SMEs) with high growth potential in exchange for equity participation and strategic involvement. Beyond financial support, venture capital financing includes managerial guidance, mentorship, networking opportunities and strategic support aimed at enhancing business performance and sustainability.

SME growth in this study refers to the expansion and performance improvement of SMEs measured using revenue growth, profitability and employment growth. Revenue growth reflects the firm's ability to increase sales and market share, profitability measures efficient utilization of resources, while employment growth reflects business expansion and job creation.

Therefore, this study conceptualizes that venture capital financing costs, financing methods and venture capital management support influence SME growth.

1.2 Problem Statement

In Uganda, the expansion of small and medium-sized enterprises (SMEs) has a major impact on the innovation, job creation and economic development (A. Kato & Chiloane-Tsoka, 2022). But, many SMEs still have ongoing financial issues that threaten long term viability and growth (Hussein Kakembo et al., 2021). In Uganda, more than one-third (33%) of the SMEs fail within the first year of operation (African Private Equity and Venture Capital Association, 2022). This is attributed limited financial access, inadequate market knowledge, lack of essential business skills, and high exposure to economic shocks (World Bank, 2023; Shaw, 2023; AVCA, 2022). KPMG (2023) highlights complex regulatory frameworks that limit the competitiveness and survival of new enterprises.

Despite the fact that Mbale city has microfinance institutions, many of these financial providers charge high interest rates and only grant credit access to already well-established business (Mbale City Production and Marketing Report, 2023). According to

UBOS (2022), startup capital and credit inaccessibility are major constraints especially among women and the youth business operators.

According to the existing research, VC can help close the financing gap, but its influence on the performance of SMEs is frequently limited by unfavorable regulatory frameworks, high capital costs and lack of supportive governance structures (Memba, 2015; Zafar & Mustafa, 2017). Not much research has been conducted in Uganda on the cost-benefit analysis of venture capital financing or the moderating effects of legal and regulatory frameworks between venture capital firms and SME growth.

Therefore, the purpose of this study is to investigate how venture capital financing methods affect the expansion of SMEs in Northern Division, Mbale City, Uganda. It seeks to determine whether institutional and regulatory factors affect venture capital's ability to support SME growth and whether it can function as a sustainable financing model in the face of current financial access constraints.

1.3 Objectives of the Study

The study considered both the general objective and specific objectives of the study.

1.3.1 General Objectives

To examine the effect of venture capital financing on the growth of small and medium enterprises (SMEs) in Northern Division, Mbale City.

1.3.2 Specific Objectives

- i. To determine the effect of venture capital financing costs on SME growth in Northern Division Mbale City.

- ii. To examine the effect of venture capital financing methods on SME growth in Northern Division Mbale City.
- iii. To assess the effect of venture capital management support on SME growth in Northern Division Mbale City.

1.4 Hypotheses of the study

1. H_{01} : The cost of venture capital financing does not significantly affect SME's growth?
2. H_{02} : Different venture capital financing methods have no significant effect on SME's growth?
3. H_{03} : Management support from Venture Capital Firms does not positively influence SME's growth?

1.5 Scope of the Study

The study was conducted in Northern Division, Mbale City, Eastern Uganda. It is an up-and-coming urban center noted its increasing concentration of small and medium-sized businesses (SMEs). The SMEs in this area operate across various sectors, including retail, agro-processing, services, and light manufacturing, and they contribute significantly to local employment and income generation. The research assessed the influence of venture capital financing techniques on the growth of SMEs. It provided a comprehensive understanding of the venture capital financing landscape and its effect on the growth of small and medium enterprises.

The major themes of the study were; venture capital financing costs, venture capital financing methods and management support provided by the venture capital firms. To

determine the growth of SMEs, the study used metrics such as increase in revenue, expansion of business activities, change in employment levels, number of years of business operation and survival rates.

The time scope of the study was based on the 2020 and 2023-timeframe, as this was a post-COVID-19 recovery phase where many SMEs were recovering from significant economic shocks caused by the Covid 19 pandemic. The shocks included disruptions in the business supply chains, reduced consumer demand and limited working capital. It offered a major basis and context for assessing how different venture capital financing techniques influence the growth of SMEs.

By focusing on SMEs that accessed venture capital and those that did not the study was able to identify the gaps in venture capital uptake, challenges in access, and the perceived or actual impact of venture capital-related services. This allowed the research to provide useful insights into how venture capital financing methods might be improved, implemented, or modified to aid in the development of SMEs more broadly in Northern Division, Mbale City.

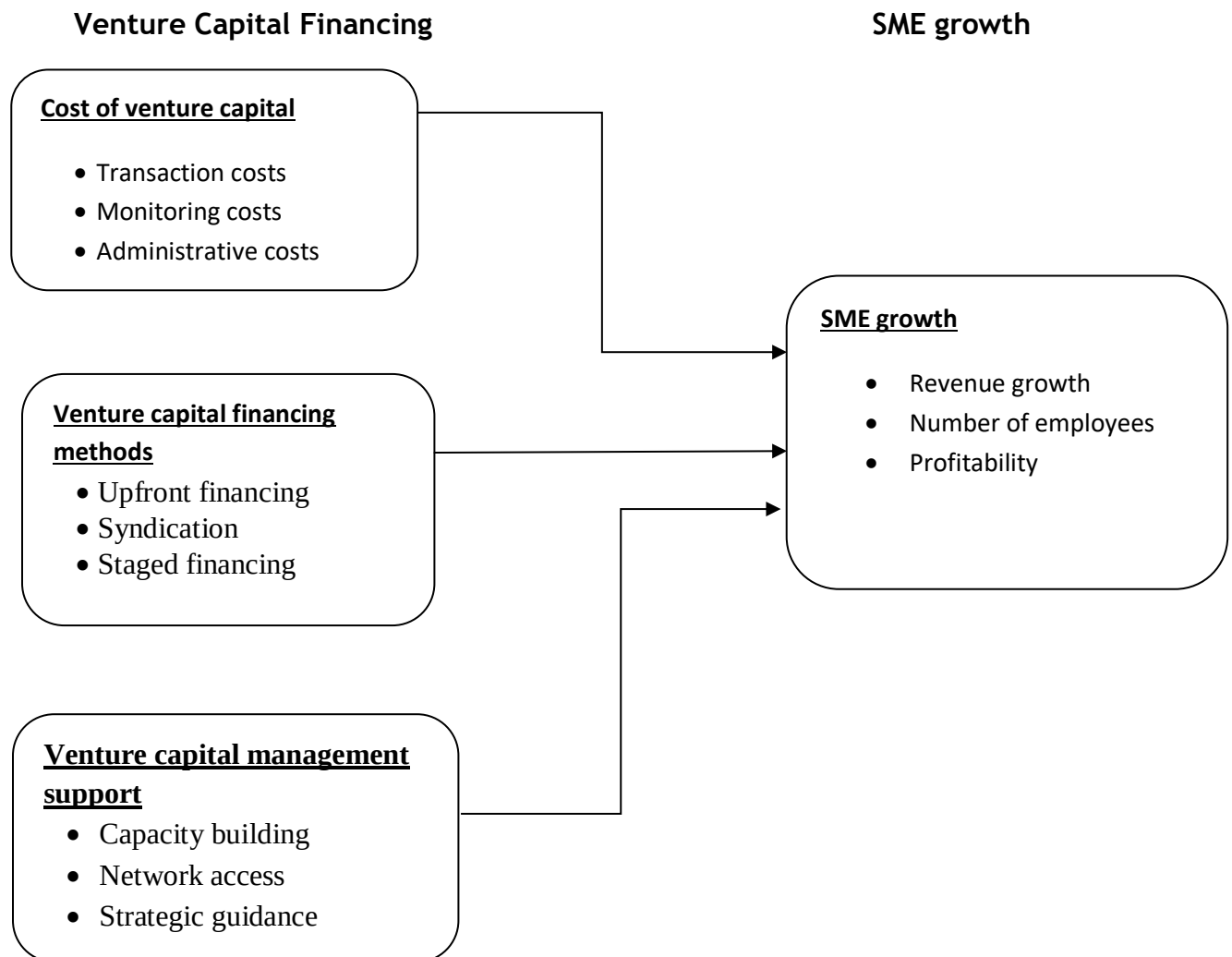
1.6 Justification of the study

A number of studies have looked at how venture capital (VC) can help small and medium-sized businesses (SMEs) in developing nations (Bonini & Capizzi, 2019; Memba, 2015; Otieno, 2020). Only One study looked at VC financing models in North African economies and discovered that their limited adoption was caused by institutional and regulatory obstacles.

A study by Otieno (2020), highlighted issues related to managerial support and governance. It gives a benchmark to assess managerial support provided by Venture capitalists enhances growth of SMEs. Similarly, the argument by KPMG (2017), on the importance of policy frameworks in facilitating VC investments across sub-Saharan Africa. All these put together, they provide a basis to understand how limitations such as lack of knowledge about the existing Venture Capital financing methods, high interest rates, and insufficient post-investment support services (AVCA, 2022; UBOS, 2022).

The literature on the combined effects of VC financing costs, financing strategies and management support on SME's growth in Urban areas outside Uganda's Capital city is lacking. Because Mbale City, where SMEs still struggle to find affordable financing and need alternative models like venture capital to drive resilience, expansion and long term sustainability. This makes this study timely and pertinent.

1.7 Conceptual framework



Source: Adopted from Duah, J.A.A (2014) and modified by the researcher.

Source: Researcher 2024

Figure 1 shows the relationship between the independent variable and dependent variable.

The type of venture capital financing used by SMEs influences the growth of SMEs as indicated by employment, revenue growth, and profitability. The cost of venture capital, which includes interest rates, management expenses, and opportunity costs, affects the expansion and job creation by influencing the profitability and the ability

to reinvest. The adequacy, timing, and risk-sharing of capital are determined by financing methods (upfront, syndication, and staged financing), which in turn affect revenue generation and the stability of the business. SME's competitiveness and growth are improved by management support (capacity building, network access, and strategic guidance), which fortifies managerial competence, market connections, and strategic decision-making. When put together, these aspects show how venture capital serves as a catalyst for the growth of sustainable SMEs in addition to being a source of funding.

1.8 Operational terms

Cost of Venture Capital: refers to the monetary and non-monetary costs associated with venture capital financing.

Management Costs (Monitoring, administrative, and equity dilution costs) : refers to expenses related to investors - required reporting, oversight and compliance.

Methods of Venture Capital Financing: refers to the ways in which SMEs receive venture capital.

Upfront Financing: refers to the initial, one-time capital investment given at the beginning of the venture.

Syndication: Capital pooled from multiple investors to fund an SME.

Staged Financing: Capital disbursed in phases based on business performance or milestones.

Venture Capital Management Support: The non-financial assistance provided by venture capitalists to enhance SME performance, measured through:

Capacity Building: Training, mentorship, and skills development for owners and staff.

Network Access: Connection to markets, suppliers, and strategic partners.

Strategic Guidance: Advice on business planning, operations, and competitive positioning

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

The chapter provides the theoretical review, empirical review and conceptualization of the variables of the literature under study. It focuses on how venture capital financing affect growth of small and medium enterprises (SMEs), by examining the influence of venture capital funding costs on SME growth, analyzing the effect of venture capital financing methods on SME growth and the contribution of management support provided by Venture Capital Firms to SME growth.

2.1 Theoretical Review

The study considered agency theory and the Penrose's theory of a firm's growth. These theories provided insights of the study variables. The theories are directly connected to aspects of venture capital financing and SMEs growth.

2.1.1 The Agency Theory

Agency Theory was developed by Michael C. Jensen and William H. Meckling and explains the relationship between principals and agents where one party delegates responsibilities to another (Jensen & Meckling, 1976). The theory argues that conflicts arise because principals and agents often pursue different interests and possess unequal access to information, creating information asymmetry (Zardkoohi et al., 2017).

In venture capital arrangements, venture capital firms act as principals by providing financial resources while SMEs and entrepreneurs act as agents responsible for managing business operations. Entrepreneurs frequently possess more information regarding firm performance and day-to-day activities than investors, which creates agency problems and increases uncertainty in investment decisions (Sapienza et al., 2000).

To reduce these agency conflicts, venture capital firms use governance mechanisms such as monitoring systems, contractual agreements, board representation and equity arrangements to align interests and safeguard investments (Sapienza et al., 2000; Bergh et al., 2019).

Despite its usefulness, Agency Theory assumes that actors behave primarily in self-interest and make rational decisions. Such assumptions may not fully apply in SME environments in developing countries like Uganda where informal relationships, trust and social factors influence business decisions (Sethuram et al., 2021).

This study adopts Agency Theory because it provides a useful framework for understanding how venture capital financing costs, financing methods and management support influence SME growth.

2.1.2 Penrose's firm growth theory

Penrose's Theory of Firm Growth was developed by Edith Penrose and argues that firm growth results from efficient utilization and development of internal resources and capabilities (Penrose, 2009). According to the theory, resources such as managerial skills, knowledge and organizational competencies determine a firm's capacity to expand and achieve sustainable growth.

The theory further emphasizes that managerial capacity influences how effectively resources are coordinated and integrated for organizational expansion. Penrose argues that businesses can only grow at a rate that management can effectively support and coordinate (Kor et al., 2016).

In relation to this study, venture capital financing contributes to SME growth not only by providing financial resources but also through managerial expertise, strategic

guidance and networking support that strengthen organizational capabilities and improve business performance (Kor et al., 2016).

Despite its relevance, Penrose's theory gives limited attention to external influences such as market conditions, institutional environments and financing structures that may affect SME growth (Kor et al., 2016). Therefore, this study incorporates venture capital financing as an external support mechanism influencing SME growth.

2.2 Empirical review

The empirical review of the literature was organized as per the objectives of the study.

2.2.1 Venture capital funding costs and SME growth

The cost of venture capital has a significant effect on the expansion and effectiveness of SMEs in developing nations. According to Pouzigha (2024), the higher the costs associated with venture capital financing methods, the more limited is the growth of SMEs. A study by (Kanu & Atimi-Yousuo, 2018) in Bayelsa State, demonstrated how these expenses and costs discourage new businesses from obtaining necessary capital limiting their ability to increase sales and expand business operations. Similarly, (Singla et al., 2018) found that high financing costs adversely influence the entrepreneurial decision-making, which in the long run deter the growth of SMEs in resource-constrained environments. According to (Lehner et al., 2015), alternative low-cost financing models, such as crowdfunding can improve capital accessibility for startups and enhance growth, particularly in the early stages of business development.

In this study, venture capital financing costs refer to costs associated with obtaining and maintaining venture capital investments including equity dilution costs, administrative costs, monitoring costs, compliance costs and transaction costs. High venture capital costs may reduce business profitability and limit SME growth opportunities.

The managerial and operational support provided by venture capitalists enhances the performance and growth of SMEs. However, it is noted by (Đalić et al., 2017), that high operational costs limit venture capitalists' capacity to provide mentorship and strategic advice to the SMEs they are working with. Factors such as; political instability, limited institutional infrastructure, and underdeveloped financial markets lead to inflated venture capital costs, hence deterring SME growth (Ejoh and Adetunji 2023). Similarly, (Kato, 2023), noted the importance of affordable venture capital in Sub-Saharan Africa and its potential to drive market internationalization and catalyze broader economic development.

According to (Wang et al, 2023), SMEs with skilled and experienced management and founding teams, effectively and efficiently utilize venture capital. This was complemented by (Adeshina and Mabhongo, 2024), who urged that startups with access to well-structured venture capital terms and those run by seasoned executives, reported higher levels of innovation and business sustainability. Phillips and McCoy, (2023), denotes that favorable venture capital acquisition terms and support enhance innovation outputs among SMEs. They argue that lower capital costs allow SMEs to allocate more resources to growth-oriented initiatives, such as research and product development.

According to (Lerner., 2023), lower capital costs and readily available financial instruments in developed markets foster higher levels of startup innovation and scalability. The competitiveness and long-term growth prospects of startups in emerging markets, on the other hand, are weakened by high funding costs and restricted access to patient capital.

2.2.2 Venture capital financing methods and SME growth

In the recent years, there has been a lot of focus on the role of venture capital financing in fostering the growth of small and medium-sized enterprises (SMEs). The choice of financing methods upfront financing, staged financing, and syndicated financing determine and predicts the growth of SMEs by influencing capital management, accountability, and long-term sustainability (Wang et al, 2023).

The analysis by (Nabunya et al, 2023), on the effect of upfront capital in startups, found out that startups that receive upfront capital in Uganda benefit from immediate liquidity, enhancing large-scale investments in technology, infrastructure, and increased production capacity compared to those using not using it. These investments boost initial business operations and improve their competitiveness. This was also noted by (Omondi et al, (2022), that upfront venture capital financing drives substantial early-stage growth among SMEs. They urged that business failure among SMEs with weak financial systems and internal controls most cases are due to poor management and quick depletion of the capital.

It was observed by (Tzempelikos and Heller., 2022), SMEs' flexibility may be constrained by its incapacity to offer opportunities for incremental growth, despite the fact that

initial capital infusion spurs rapid growth. Upfront venture capital financing approaches, in contrast to staged financing approaches, does not allow evaluation of SME performance at intermediate point. This which hinders SMEs from understanding their growth plans to better suit the needs of the market. The success of this venture capital financing method success largely depends on the SME's capacity for effective planning and disciplined financial management.

Small and Medium Enterprises use staged financing method, also known as milestone-based financing, to boost their businesses in stages. These stages are dependent on the achievement predetermined of the SME milestones. It is a funding strategy well known for encouraging and enhancing responsibility, lowering investor risk, and supporting long-term company expansion (Gompers and Lerner, 2021). He further urges that staged financing provides venture capitalists with the ability to assess startup's (SME) performance on a regular basis, which helps them to make decisions on whether to provide more funding or not. This method reduces the possibility of financial misallocation, promotes discipline and improves coordination among SMEs to achieve the defined growth goals.

To maintain a consistent cash flow in order to achieve short and long term business goals, there is need to set targets and activities of achieving them. Asiedu and Eschenfelder, (2023), contends that SMEs can only maintain consistent cash flows and stay focused on short-term goals while pursuing long-term objectives by linking capital disbursement plans to performance milestones. This was elucidated by (You and Yao, 2023), who articulates that staged financing method strengthens the relationships between capital investors and SMEs through fostering the continuous cooperation and

feedback. This enhances growth, build tactics and enhances long-term success. However, (Onyango et al;.2023), disagrees that this puts SMEs under strain. He stresses that in order for SMEs to meet funding requirements, the venture capital companies should prioritize short-term deliverables over innovative or long-term initiatives not to jeopardize business agility. This allows businesses to grow gradually while improving accountability by establishing milestones for performance evaluation.

Syndicated venture capital financing technique is another type of venture capital financing approach commonly used by SMEs. This approach involves a group of investors pooling their resources together and giving to an SME and majorly used where capital requirements exceed the capacity of individual investors. Under this approach, investors jointly oversee startups (SMEs)and share the financial load, which enhances governance and decision-making procedures (Cumming and Johan, 2020). They stress that SMEs that are supported by syndicated financing methods have better access to extensive networks, mentorship, and more resources, which promotes growth and long term scalability (Cumming and Johan, 2020).

Choudhury (2023), investigated the effects of syndicated financing on SMEs in Tanzania and discovered that only startups that received this type of funding reported faster growth and improvements in their operations. This is attributed to the various industry connections and knowledge bases that several investors have contributed, which aid SMEs in overcoming obstacles and breaking through into new markets. This was also noticed by (Kabiraj and Ghosh, 2023), who points out that that strategic investments and shared monitoring responsibilities enhance informed decision-making and less financial strain on startups.

Musoke and Rogerson (2024), indicate that one of the major disadvantage of syndicated financing, is the difficulty to balance and manage connections between several capital investors with different interests and power. They argue that capital investor disputes, competing goals, power influence increases the delays in reaching a consensus which impede SME response to market possibilities by delaying important business decisions. It is very crucial to note that the efficiency of syndicated venture capital financing depends on the alignment and coordination of the participating investors to enhance financial accessibility and strategic assistance to SMEs. Poor coordination and planning directly affects the SMEs strategic growth. It is evident that staged finance improves sustainability and accountability by linking funding to performance goals, which promotes incremental growth (Musoke and Rogerson., 2024). However, its rigidity and lengthy working procedures, puts SMEs under pressure to prioritize short-term goals to meet the capitalists needs than focusing on the long term strategic growth. Syndicated financing leverages networks, knowledge, and pooled resources to promote expansion, but decision-making may lag due to the complexity of sustaining investor relationships.

2.2.3 Venture capital management support and SME growth

The support provided and extended by the Venture capitalists is to enhance the early growth and development phases of the SMEs. The support provides strategic oversight for SMEs on the operations that meet the set goals and ensuring efficient and effective day to day business operations (Gompers and Lerner., 2021). They further observed that SMEs that receive the support from VC companies make prudent decisions and perform better than those that are not supported. Similarly, (Mason and Pierrakis, 2022), contends that investor-SME engagement enhances decision-making processes,

facilitates knowledge transfer, and ensures that SMEs adopt best management practices. Venture capital firms provide SMEs with operational guidance, development of strategic plans and propose effective management strategies that enhance business growth (Asiedu and Eschenfelder, 2023).

According to (Omondi et al.,2022), the value of mentorship supports SMEs to overcome early-development stage challenges, improve operational efficiency and devise effective market management strategies. Tzempelikos and Heller (2022), agreed that continuous mentorship enables SMEs to adapt to the changing and dynamic market conditions, fostering resilience and ensuring long-term sustainability. They have the same argument with (Nagunya et al, 2023), who contends that mentorship programs significantly contribute to the development of managerial competencies, enhancing entrepreneurs' ability to make informed decisions.

According to Cumming and Johan (2020), SMEs that are supported by VC firms, benefit from strategic alliances that spur innovation and growth. According to a study by Choudhury (2023), the networking opportunities made possible by venture capitalists significantly improve SMEs' performance through increased market access and development collaborations. Kabiraj and Ghosh (2023), notes that exposure to a variety of viewpoints and specialties inside these networks encourages creativity and helps SMEs find and seize new market possibilities, strengthening their competitive edge.

In order to ensure alignment with long-term growth objectives, venture capitalists should frequently and actively participate in forming the strategic direction and governance frameworks for SMEs. According to (Mason and Pierrakis, 2022), VC

participation in decision-making procedures improves operational effectiveness and accountability that improves performance results. It was noted by (Asiedu and Eschenfelder., 2023), that venture capitalists' strategic insights enhance capital allocation, market positioning, and overall competitiveness.

Despite the benefits of venture capital management support, there are still issues that may compromise its efficacy. Musoke and Rogerson (2024) states that venture capitalists and entrepreneurs may have different priorities or governance styles which may cause conflicts. Such conflicts can slow decision-making and affect SMEs' responsiveness to market opportunities. Onyango et al. (2023) states venture capitalists' overzealous supervision hinders innovation and increases over dependency by SMEs, which undermines the independence and inventiveness of entrepreneurs. These difficulties highlight the necessity of a cooperative and equitable partnership between SMEs and venture capitalists in order to guarantee success for both parties

2.3 SME growth

SME growth was conceptualized using three indicators namely revenue growth, profitability and employment growth. These indicators are commonly used because they provide measurable dimensions for evaluating business performance and organizational expansion (Ipinnaiye et al., 2017; Musah et al., 2018). Revenue growth reflects a firm's ability to increase sales, expand market opportunities and improve competitive position. Profitability indicates efficient utilization of business resources and long-term financial sustainability, while employment growth reflects organizational

expansion and contribution to job creation within the economy (Apuoyo, 2020; Hua et al., 2016).

Research by Bronzini et al. (2020), and Quas et al. (2020), denotes that SMEs that are supported by Venture capital firms have an average annual revenue gain of about (28%) compared to those that are not supported by VC firms (4.5%). Similar outcomes were noted by (Biney, 2018b; Hua et al., 2016c; Standaert et al., 2022), where SMEs that received support from Venture Capital firms, successfully expanded into new markets and diversify their product lines). These results show that increased market performance is directly correlated with capital injection and managerial support.

Businesses can expand into new markets, professionalize their HR procedures, and boost production capacity if supported by Venture capital firms. A study by (Hua et al., 2016), indicated that SMEs supported by VC firms has the potential to s create more jobs than those that are not supported or financed by VC firms. Increased number of employs or high employee retention rates are a sign of both corporate expansion and SMEs' role in the nation's job creation (Riikonen, 2022; Standaert et al., 2022). In emerging economies such as India, Kenya, and Nigeria, the growth in number of employee of an SME does not only reflect the scaling of individual firms but also demonstrates the broader socio-economic impact of venture capital in job creation and human capital development.

Profitability is another indicator of SME growth since it shows the measure of how well SMEs benefit from its resources as long-term earnings. Through both monetary and non-monetary support systems, including improved governance, operational optimization,

and strategic planning (Hua et al., 2016c; Standaert et al., 2022; Wilkinson, 2024). Studies by (A. Kato, 2021; Ni et al., 2014; Pavlova & Signore, 2021) show that venture capital improves long-term firm-level financial performance since VC-financed SMEs outperform their non-VC-backed counterparts in terms of returns on equity and assets.

2.3 Research Gap

The relationship between venture capital (VC) and SME growth has been extensively researched. However, there are still many unanswered questions, about combined effects of VC financing's structure, cost of VC, and management support on SME growth in developing countries such as Uganda, specifically, Mbale City, Northern Division. The majority of the research only looks at financing costs or overall capital availability, ignoring the ways in which various venture capital structures, such as staged or syndicated financing, interact with these costs to affect strategic SME choices. While some research recognizes the importance of VC management support, few studies look at how effective it is in different areas with lax enforcement and unofficial business environments. Although helpful in explaining investor-funder conflicts, the theoretical models (Agency Theory) make assumptions about complete contracts and rational behavior, which do not accurately represent the realities of many SMEs operating in countries like Uganda. In order to fill these gaps, this study examines how SME growth is affected by cost, financing strategies, and management support from venture capital financing firms in the particular socioeconomic context of Mbale City.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the study design and rationale, study setting and rationale, study population and sample size calculation, sampling procedure, inclusion and exclusion criteria, definition of variables, research instruments, data collection procedures, data management, data analysis, ethical considerations and plan for dissemination of the study results.

3.1 Research Design and Rationale

The study used a cross-sectional survey design which used quantitative and qualitative methods to investigate the influence of venture capital financing on SME growth in Northern Division, Mbale City, Eastern Uganda. This supports data collection at a single point in time for efficient and effective generalization across the study population. This enhanced the research strategy to obtain a picture of common financing methods and SME growth dynamics (Creswell & Creswell, 2023). The quantitative methods included the use of questionnaire surveys to collect statistical data on variables including; VC financing costs, types of financing methods used by SMEs, and management support offered to the SMEs. This approach supported in the establishments of trends and testing of the theories. Qualitative approaches included; use of semi-structured interview guides to capture lived experiences and perceptions in order to investigate deeper contextual insights. This improved the validity of the results because the qualitative information enables a more understanding of the relationship between venture capital funding and the growth of SMEs (Saunders et al., 2023).

3.2 Study Population

The study population comprised 210 SMEs operating in Northern Division, Mbale City obtained from the Mbale City Business Registry (2024). Owners, managers, accountants and staff involved in financial and operational decisions formed the study respondents. Five wards IUIU, North Central, Nkoma, Namakwekwe, and Nabuyonga were selected using proportional stratified random sampling, based on the concentration of registered SMEs as documented in the Mbale City Business Registry (2024). In each ward, SMEs were randomly selected from updated ward-level business registers. SMEs were chosen at random from the most recent ward-level business registers within each chosen ward.

3.2.1 Sampling and Sample size determination

Yamane's (1967) formula was used to calculate the study's suitable sample size. When the population is known and relatively small, this formula can be used to determine sample sizes. The formula is written as follows:

Yamanes Formula:

$$n = N / (1 + N(e)^2)$$

Where:

n = required sample size

N = population size (118)

e = level of precision (0.05)

Population, Sample Size, and Sampling Techniques

Table 1 Showing Population, Sample Size, and Sampling Techniques

Ward (Stratum)	SME Population (N _i)	Proportion (N _i /N)	Sampled SMEs (n _i)	Estimated Respondents (6 per SME)	Sampling Technique
IUIU Ward	40	0.19	4	24	Stratified random sampling
North Central Ward	50	0.24	5	30	Stratified random sampling
Nkoma Ward	45	0.21	4	24	Stratified random sampling
Namakwekwe Ward	45	0.21	4	24	Stratified random sampling
Nabuyonga Ward	30	0.14	3	18	Stratified random sampling
Total	210	1.00	20	118	

Source: Northern Division business registry (2024)

By applying a 5% level of precision ($e=0.05$), the sample size was determined as follows on a target population of 118 respondents:

$$\begin{aligned}n &= 118 / (1 + 118 * (0.05)^2) \\&= 118 / (1 + 118 * 0.0025) \\&= 118 / (1 + 0.295) \\&= 118 / 1.295 \\&= 91\end{aligned}$$

It was determined that the sample size of 91 respondents was adequate to represent the 118 target population within a reasonable margin of error.

3.2.2 Inclusion Criteria

Only the owners, managers, and accountants who were directly involved in financial decision-making and business advancement were chosen from the group of twenty (20). Included were only those who consented to take part and had at least a year of experience in their current role.

3.2.3 Exclusion Criteria

Those without prior expertise making financial decisions, those with less than a year of experience in their role, those without exposure to outside finance or venture capital, and those who did not provide informed permission were all eliminated.

3.3 Definition and measurement of Variables

Dependent variable

SME growth was the dependent variable measured through revenue growth, profitability, and employment growth.

Independent variable

Venture capital financing was the independent variable measured through:

- i. Venture capital financing costs
- ii. Venture capital financing methods
- iii. Venture capital management support

Venture capital financing costs included transaction costs, equity dilution costs, monitoring costs and administrative expenses.

Financing methods included upfront financing, staged financing and syndicated financing.

Management support included mentorship, networking support and strategic planning assistance.

3.4 Research Instruments

The study used a structured survey questionnaire to collect quantitative data from respondents (owners, managers, and accountants) of the selected SMEs. The questionnaire comprised of closed-ended variables that utilized a Likert scale (ranging from 1 = Strongly Disagree to 5 = Strongly Agree). This approach supported to collect different insights of respondents about their attitudes, perceptions, and experiences related to venture capital funding costs, financing methods and management support. The likert scale was also used to collect data about the SME growth indicators such as annual revenue, employment, and market expansion. The Likert scale format made data analysis easier and allowed for more nuanced measurement. The questionnaires were made to be clear, simple to complete, and in line with the goals of the study.

3.4.1 Quality control measures

A pretest was conducted on a small sample of SME owners and managers who were not involved in the final data collection in order to assess the questions' applicability, relevance, and clarity. Feedback from the pretest was used to correct errors and improve on the data collection tools.

In order to reduce interviewer bias and errors, data collectors were trained on the ethical issues, and methods for conducting the interviews.

On a daily basis, all the completed questionnaires were reviewed for completeness and accuracy. Any discrepancies realized were promptly addressed through follow-up with respondents where possible. Data entry used double-entry verification to minimize errors during digitization.

Interviews were audio recorded (with participant consent) during the qualitative data collection to guarantee accurate information capture. Transcripts were cross-checked for consistency. The study data's overall quality, validity, and reliability were improved by these combined measures.

3.4.2 Reliability of the Research Instruments

Reliability refers to the consistence of research instruments in measuring study variables (Amin, 2005). Cronbach Alpha coefficients of 0.70 and above were considered acceptable. Data were analyzed using Statistical Package for Social Sciences (SPSS).

3.4.3 Validity of the Research Instruments

Content validity was assessed using expert judgment. The Content Validity Index (CVI) was computed by dividing the number of relevant items by total items assessed.

3.4.4 Pretesting

Pretesting was conducted to assess the effectiveness and clarity of the research instruments before the actual data collection begins. A small sample of SMEs in a different Division of Mbale city, representative of the target population, was selected to test the questionnaires and interview guides. The pre-test helped to identify ambiguities or difficulties in the wording of the questions, as well as the overall

structure of the instruments. Feedback from the pre-test was analyzed to make necessary adjustments to improve the clarity and relevance of the instruments.

Before the full-scale data collection started, all problems found during the pre-test; such as misinterpreted questions or practical difficulties in administering the instruments were fixed. This guaranteed the validity and significance of the study's findings as well as the instruments' dependability.

3.5 Data collection procedures

A formal letter obtained from the Faculty of Business and Administration at Uganda Christian University (UCU) requesting to conduct data collection at the SMEs was addressed delivered to all the management of selected SMEs. This was after the research proposal was accepted and cleared by the Uganda Christian University Research Ethics Committee. The researcher explained the purpose, objectives and made sure that all the participants and respondents were sufficiently informed to voluntarily consent and be of the study.

The researcher assured the participants all the data collected was to be kept confidential and for research purposes only.

The completed questionnaires were examined to look for any mistakes or missing data at the conclusion of each data collection day. To guarantee that the data is accurate and comprehensive, any discrepancies were promptly fixed. All instruments were checked for completeness before submission for analysis, with ethical principles such as informed consent and confidentiality strictly observed (Bryman, 2021).

3.5.1 Data Management

Soft copy form of the data was kept in password-protected files and hard copies such as signed consent forms, filled questionnaires, and interview notes were kept in locked cabinets only accessible by the researcher. At the end of each data collection day, the completed questionnaires were reviewed for accuracy and completeness. In order to guarantee a reliable dataset, the data was cleansed before being stored to eliminate any inaccuracies. Respondents' identities and responses were anonymized to protect their privacy.

3.5.2 Data Analysis

Data was analyzed using both quantitative and qualitative methods. Quantitative analysis involved, Excel sheets and SPSS to generate inferential statistics and correlation and regression analysis to determine the degree and direction of the association between the variables under investigation. The qualitative analysis involved use of content analysis to generate themes.

3.6 Ethical Considerations

A letter of ethical approval was obtained from UCU's research ethics committee.

The study ensured that the participant's confidentiality by anonymizing all data, using unique study codes. The study ensured that all respondent and participants had informed consent and voluntarily participated in the study without coercing them.

Academic integrity was ensured by citing all sources for the material that did not belong to the researcher. The research ensured that the reporting complied to all the ethical rules and regulations of UCU such as anti-plagiarism.

Objectivity was upheld throughout the research process, ensuring unbiased analysis and interpretation. Key findings and recommendations will be shared with SMEs management for validation and potential implementation, while maintaining strict confidentiality of participant data (Saunders et al., 2022).

3.7 Dissemination plan

A thorough research report is developed and distributed to all the stakeholders including all the participating SMEs and Uganda Christian University. The results will be prepared for publishing in scholarly journals, business workshops that involve venture capitalists that concentrate on venture capital funding strategies and the expansion of SMEs. This guarantees that the study benefits the academic community and lays the groundwork for future research in the area.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF RESULTS

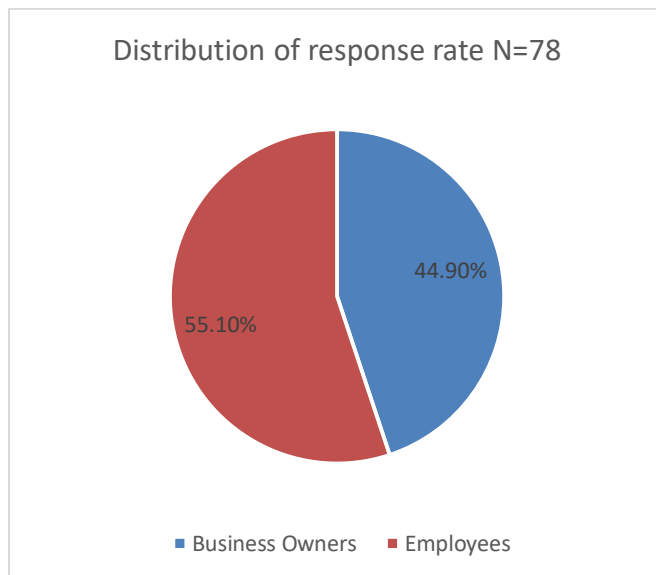
4.0 Introduction

This chapter presents the findings and results from the study. The analysis followed study objectives and research questions. The data was analyzed using descriptive statistics and regression and correlation methods.

4.1 Descriptive analysis and response rate

4.1.1 Response rate

Figure 1 shows the Response rate



Source: survey data (2025)

The response rate was 85.7%, with (35/78, 44.9%) as business owners and (43/78, 55.1%) as employees. According to the distribution the study included both strategic decision makers and operational actors with in SMEs. Capturing views from business (SME) owners' reveals how funding costs, expenses and financing methods directly affect

growth of the SMEs. The insights from the employees offered an understanding of how financial decisions affect the day to day business operations.

4.1.2 Demographic data of respondents and SME

This section details the demographic characteristics of the respondents and the SMEs.

Role of respondent, period, registration status

Table 2 shows role of respondent, period, registration status

Demographic Variable	Response	Freq (N=78)	Percent %
Role in SME	Owner	31	39.7
	Employee	46	60.3
Operating Years	Less than 1 year	24	31.0
	1-3 years	10	12.8
	4-6 years	28	36.2
	More than 6 years	16	20.7
Business Registration	Sole Proprietor	12	15.5
	Partnership	20	25.9
	Limited Company	46	58.6

Source: survey data (2025)

The largest number of respondents were employees, accounting for 60.3% (46/78), while the remainder were business owners (**Table 2**). According to this distribution, the insights from the employee were valuable for understanding how capital financing decisions influence and operational performance of the SMEs. Majority of the SMEs had been registered as Limited companies (46/78, 58.6%) and had been in operation for 4-6 years (28/78). This indicates that formalization of SMEs can enhance external financing and attract venture capital investments. This provided a meaningful context for examining how venture capital dynamics affect SME growth trajectories.

Number of employees, industry type, and VC funding need for SMEs

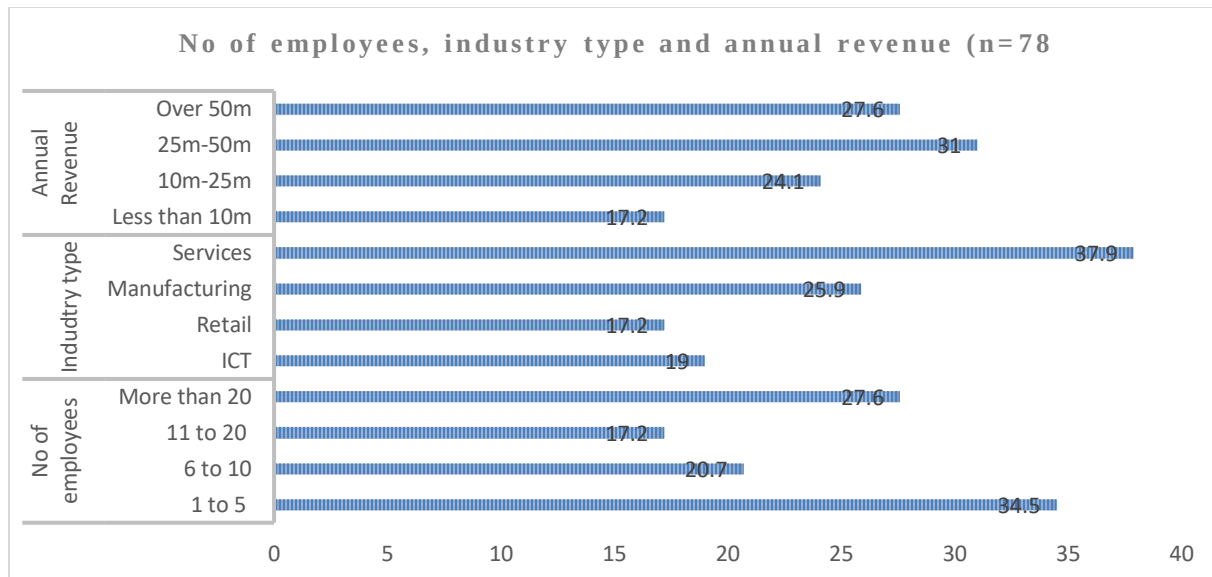


Figure 2 showing no of employees, type of industry and VC funding needs of the SMEs

Source: survey data (2024)

A larger proportion of the SMEs (27/78, 34.5%) had 1-5 employee. Majority of the SMEs were in services industry (24/78, 31%) with an annual revenue between 25m-50m. This profile suggests that the SMEs under study were relatively small but financially active, positioning them at a stage suitable for venture capital financing.

4.2 Hypothesis Testing and analysis

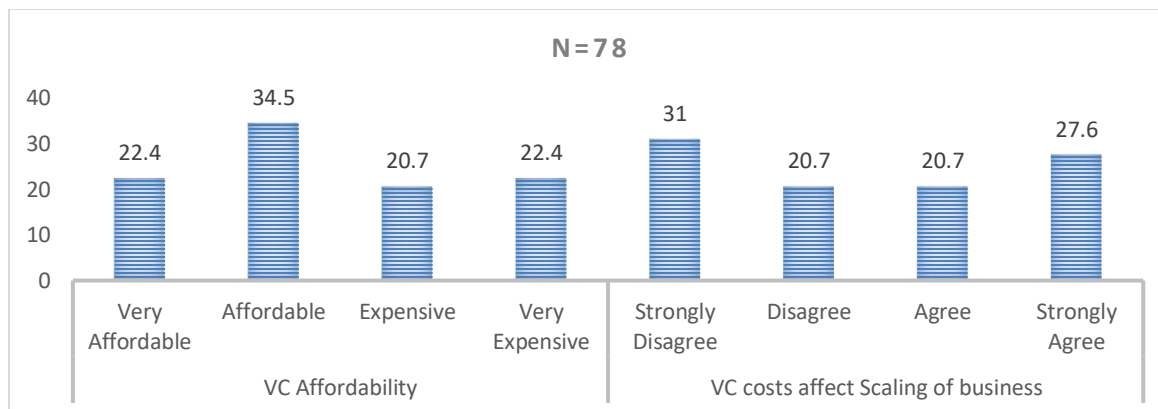
4.2.1 H₀₁: The cost of venture capital financing does not significantly affect SME growth.

Objective 1 of the study examined the effect of venture capital financing costs on SME growth. The results are presented below. The study tested the null hypothesis (H₀₁) that the cost of venture capital financing does not significantly affect SME growth.

4.2.1.1 Descriptive statistics

Affordability of VC and effect of costs on scaling the business

Figure 3 below illustrates the respondent's perception regarding the affordability of venture capital and whether associated costs impact business scaling.



Source: survey data (2025)

Figure 3 showing affordability and effect of costs on scaling of business

A slightly larger proportion (30/78, 34.5%) of respondents considered VC to be affordable and (16/78, 20.7%) considered it expensive. However, 31% of the respondents (24/78) strongly disagreed that VC financing costs have an impact on the

company's ability to grow. This indicates that despite the financial concerns, a significant number of entrepreneurs do not recognize venture capital costs as a major hindrance to SME growth. This clearly demonstrates the conflicting views of entrepreneurs.

Scaling of the SME and VC related costs

Views on whether VC funding expenses affect fund-seeking behavior and whether they are warranted are shown in Table 3.

Table 3 showing how VC funding costs affect the seeking behavior and justification

Variable	Response	Freq (N= 78)	%
VC funding costs affect business scaling	Strongly Disagree	27	32.8
	Disagree	17	22.4
	Agree	17	22.4
	Strongly Agree	17	22.4
VC funding costs are justifiable	Strongly Disagree	17	24.4
	Disagree	17	22.4
	Agree	17	22.4
	Strongly Agree	27	32.8

Source: survey data (2025)

The results show that about half of respondents strongly agreed that the Venture capital costs are justifiable. About (27/78, 32.8%), strongly disagreed that VC funding costs influence SMEs' fund-seeking behavior. This indicates that as some SMEs do not feel the impact of costs on financing choices and decisions, others view them as a fair exchange for the financial and strategic advantages that venture capital offers.

Comparison of interest rates and transparency of VC costs

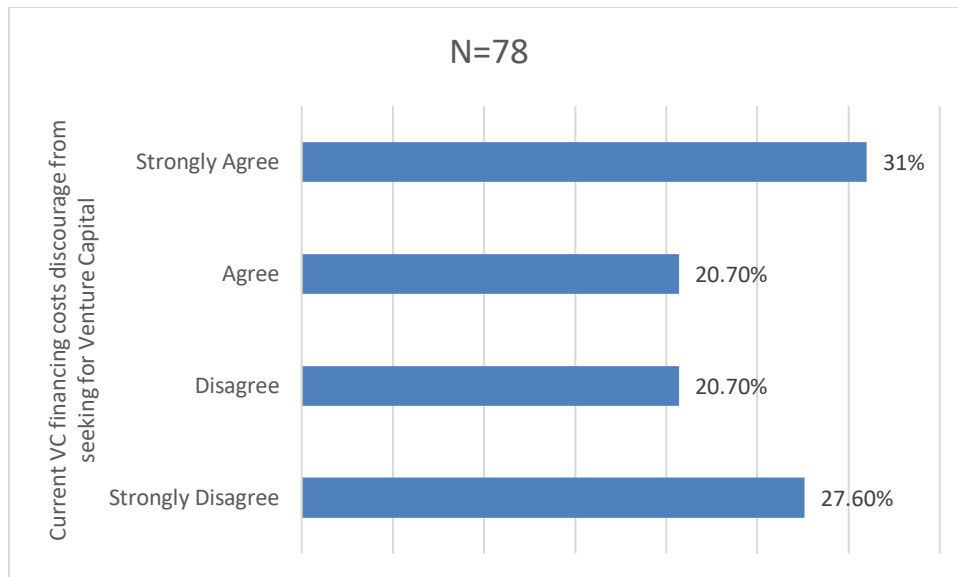
Table 4 showing comparison of interest rates and transparency of VC costs

Variable	Response	Freq (N= 78)	%
VC interest rates to other options	Much Lower	15	19.0
	Lower	32	41.0
	About the same	5	6.0
	Higher	15	19.0
	Much Higher	11	15.0
VC funding costs transparency	Not Transparent	16	20.7
	Slightly Transparent	20	25.9
	Transparent	20	25.9
	Very Transparent	22	27.6

Source: survey data (2025)

According to the study's findings, VC interest rates are relatively competitive because a sizable percentage of respondents (32/78, 41.0%) thought they were lower than those of other alternative financing options. Only 22 out of 78 respondents, or 27.6%, thought that VC funding costs were very transparent, indicating that even with attractive pricing, there are still issues with cost structures' transparency and clarity.

Effect of VC costs on fund seeking behavior



Source: survey data (2025)

Figure 4 showing the effect VC financing costs of seeking behavior for funding

The findings in figure 4 above show that a slightly higher percentage of respondents (24/78, 31%) strongly agreed that the costs of VC financing deterred them from looking for venture capital for their company. This highlights the cost as a major obstacle to SMEs' adoption of VC.

4.2.1.2 Correlation analysis

Correlations

	VC_Affordability	VC_Costs_Scale	VC_Discourage_Application	VC_Fees_Justifiable	VC_Cost_Unpredictability	VC_Interest_Comparison
VC_Affordability	1	-.165	-.106	.230*	.006	-.051
VC_Costs_Scale	-.165	1	.050	-.056	-.076	.155
VC_Discourage_Application	-.106	.050	1	.068	.002	-.230*
VC_Fees_Justifiable	.230*	-.056	.068	1	.129	-.007
VC_Cost_Unpredictability	.006	-.076	.002	.129	1	.057
VC_Interest_Comparison	.051	.155	-.230*	-.007	.057	1

*. Correlation is significant at the 0.05 level (2-tailed).

Source: survey data (2025)

Figure 5 showing correlation Venture Capital financing costs variables and SME growth

The results show that there is a statistically significant positive relationship between venture capital's affordability and the belief that its fees are reasonable ($r = .230$, $p < .05$). This suggests that SMEs that think VC is affordable are more likely to think its fees are reasonable, indicating that people's perceptions of the legitimacy of VC financing costs are significantly influenced by affordability.

4.2.1.3 Regression Analysis

The results demonstrate a negative correlation between discouragement from seeking venture capital funding and affordability ($r = -.106$) and interest rate comparison ($r = -.230$, $p < .05$). This implicitly shows that SMEs that observe VC financing as not hard to obtain, has favorable interest rates, use it most compared to others.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
5 (Constant)	1.901	.280		6.783	.000
VC_Fees_Justifiable	.212	.103	.230	2.063	.043

a. Dependent Variable: VC_Affordability

Source: survey data (2025)

Regression analysis shows that the perception of acceptable venture capital fees is a statistically significant predictor of venture capital affordability ($B = 0.212$, $p = 0.043$). It has been observed that if SMEs think VC fees are fair, they are more likely to think that venture financing is inexpensive. The model's constant ($B = 1.901$, $p < 0.001$) denotes the baseline affordability level under circumstances when the justifiability of fees is thought to be neutral or nonexistent.

4.2.1.3 Interpretation and conclusion

The descriptive results showed that one in three respondents (34.5%) believed VC financing was affordable, and 32.8% strongly agreed that VC charges were justifiable. On the other hand, 31% of respondents strongly disagreed that venture capital expenses prevented businesses from growing. These findings show that, although cost is still a

major factor, SMEs' views of fairness and value-added services have a considerable impact on their readiness to take venture capital investment.

Correlation analysis provided additional validation for these descriptive findings. The affordability of VC was positively and significantly correlated with the perception that fees are reasonable ($r = 0.230$, $p < 0.05$). The results indicate that SMEs that think VC fees are fair, are more likely to see venture capital as a financially accessible funding source.

SMEs that hesitate to pursue VC financing cannot be fully explained by perceived unaffordability alone. This is supported by results of the association between affordability and discouragement from seeking VC financing of ($r = -0.106$, not significant). The negative and strong correlation between discouragement and interest rate comparisons ($r = -0.230$, $p < 0.05$), highlights the unfavorable interest rates of other financing tools that significantly deter SMEs from seeking venture capital financing. This denotes the strategic importance of relative cost competitiveness in SME funding.

The regression analysis results indicate that perception about the significance Venture Capital costs and charges being is a predictor of affordability. ($B = 0.212$, $p = 0.043$). This result confirms the central role of fairness and transparency in VC cost structures among different venture capital firms. Therefore, when SMEs believe that VC firms' charges are proportional to the value and services offered, they are more likely to interpret VC as affordable and viable financing option.

The Null hypothesis (H_{01}) which assumed that VC financing costs do not influence on SMEs growth is rejected. The evidence suggests that VC financing costs do influence SME growth, but the effect is moderated by how SMEs perceive the affordability and fairness of the associated fees.

4.2.2 H_{02} : Different venture capital financing methods have no significant effect on SME growth.

4.2.2.1 Descriptive statistics

Objective 2 of the study analyzed the effect of venture capital financing methods on SME growth. The study tested the null hypothesis (H_{02}): Different venture capital financing methods have no significant effect on SME growth.

VC financing method satisfaction and cost predictability

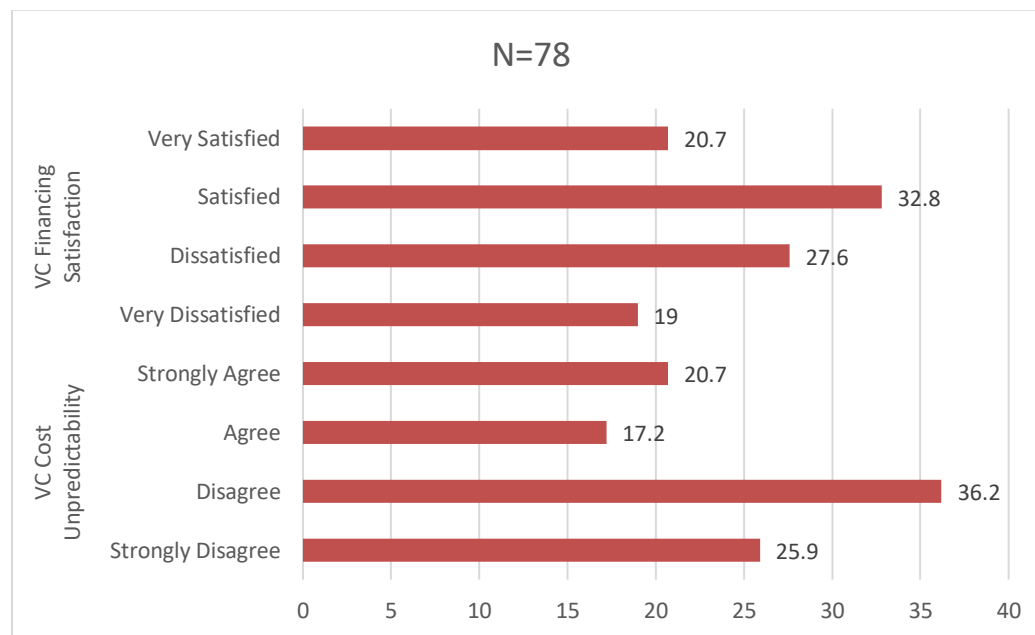


Figure 6 showing satisfaction with VC funding method and cost unpredictability

The results show that (26/78, 32.8%) of the respondents expressed satisfaction with by VC financing as a financing method, reflecting a moderate level of approval among SMEs. However, (28/78, 36.2%) disagreed that the VC costs unpredictability influences the decision to seek funding. This provides evidence that while satisfaction exists, uncertainty in cost strictures is not equally perceived as a decisive barrier.

Venture Capital preferred and method used for last 5 years

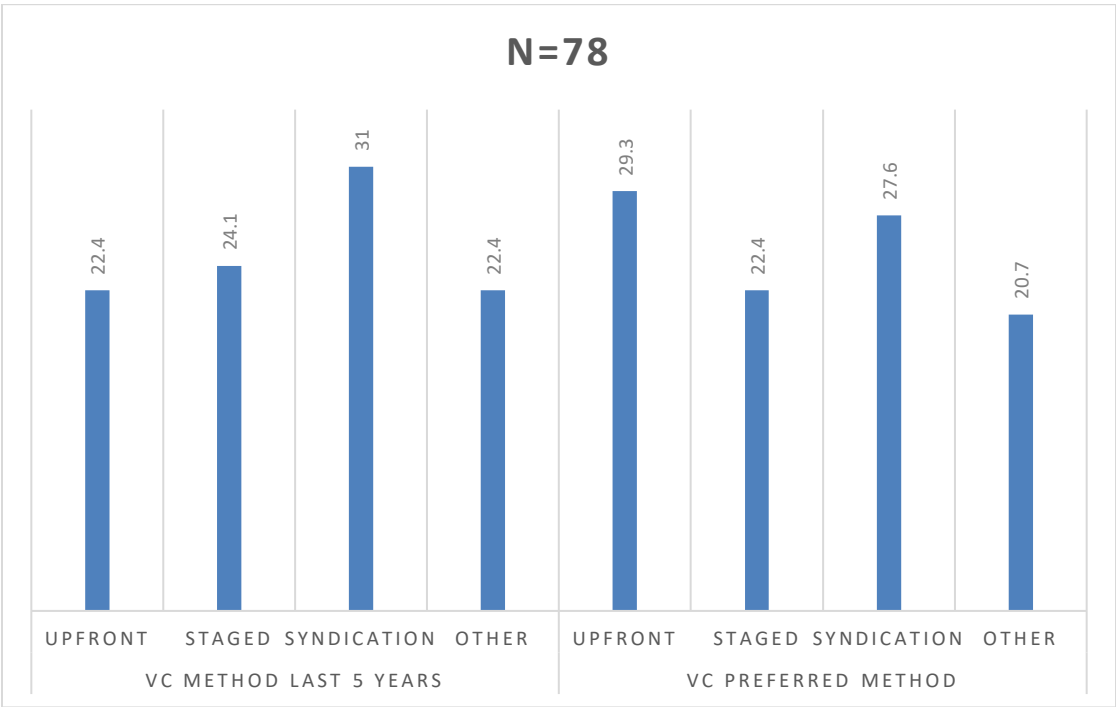


Figure 7 showing VC preferred and method used for last 5 years

Source: Survey data (2025)

The results demonstrate a tendency to favor structured or pooled funding arrangements that may offer greater financial flexibility and risk sharing, with syndication (24/78, 31%) and upfront (23/78, 29.3%) financing methods being the most popular VC financing methods among SMEs over the previous five years (Figure 6).

Reasons for preferring the V financing method

Figure 7 below shows that the most important criterion in choosing a funding type was business size (27/78, 35.1%). This implies that big, well-established SMEs may choose financing options based on their size, risk tolerance, and capital needs.

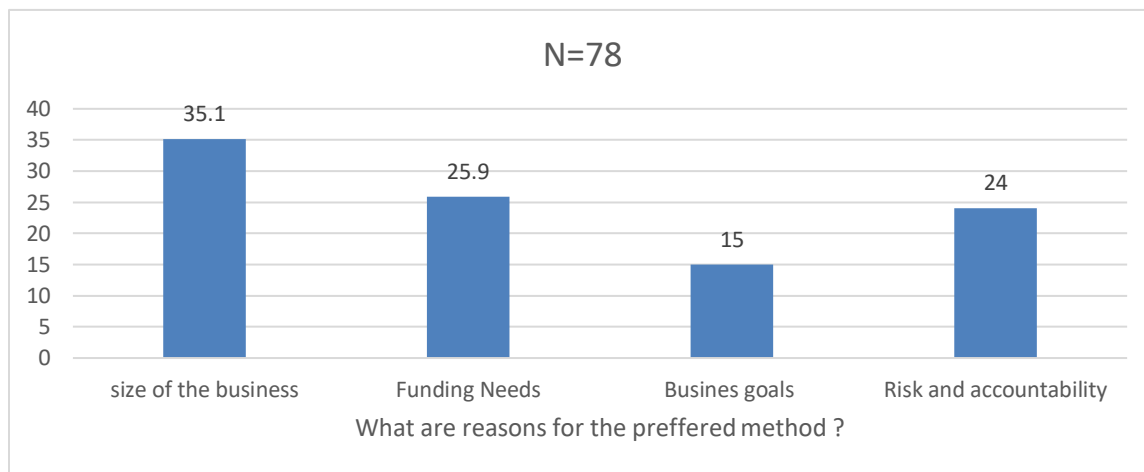
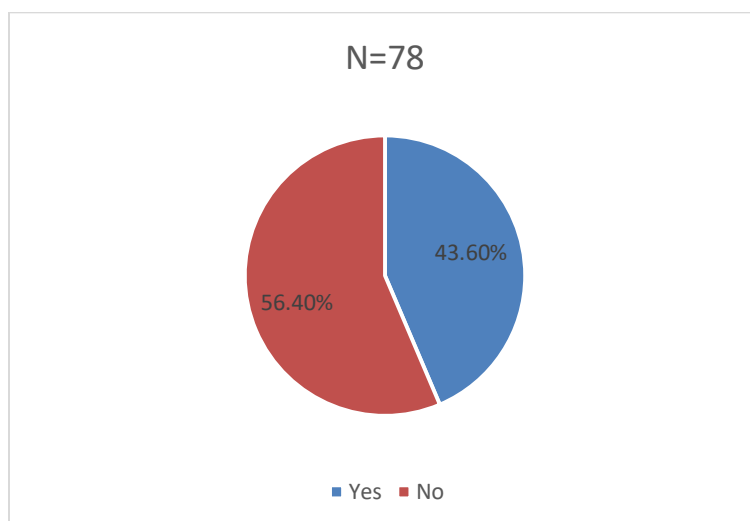


Figure 8 showing reasons for preferred method

Source: survey data (2025)

Understanding of VC financing terms and conditions



Source: Survey data (2025)

Figure 9 showing level of knowledge about VC financing terms and conditions.

According to the results, the majority of SMEs (44/78, or 56.4%) had sufficient knowledge to communicate with venture capital, which might help them prevent misalignment or misunderstandings and make well-informed decisions.

Influence of the terms and conditions on VC financing decisions

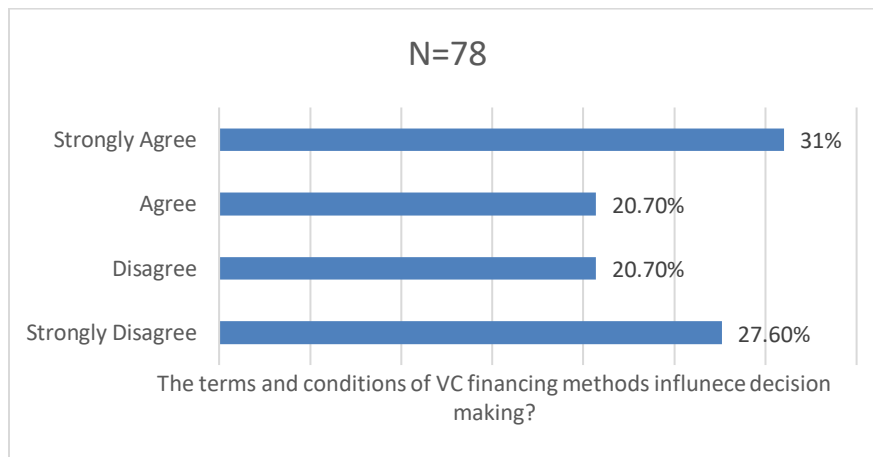


Figure 10 showing the influence of terms and conditions on financing decisions

The results show (24/78, 31%) of the respondents strongly agreed that VC financing terms and conditions influence the choice of VC financing method. This indicates the important role of contractual features in guiding SMEs financing decisions and method selection.

Ability to select most appropriate financing strategy from options

The study found that (24/78, 31%) strongly agreed that they possess the capacity to select an appropriate financing strategy from available options, showing that a notable

proportion of SMEs demonstrate financial decision making competence when navigating venture capital opportunities (**Figure10**)

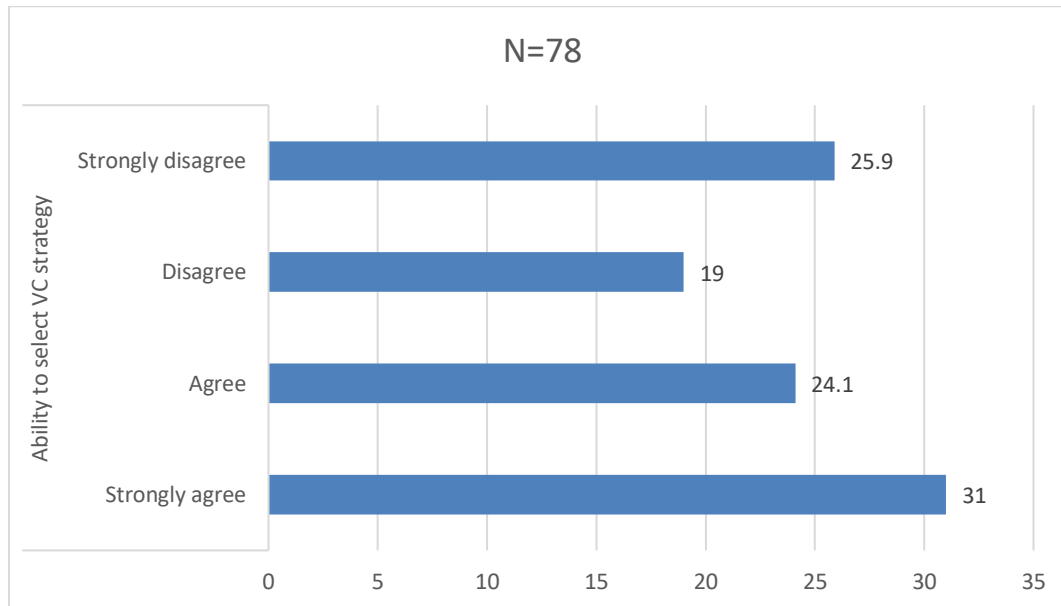


Figure 11 showing the ability to select an appropriate financing strategy from options

4.2.2.2 Correlation analysis

The results show that terms and conditions influence on decision making is negatively associated with reasons for selecting the VC method used for the previous times ($r = -0.270$, $p < 0.05$), implying that as SMEs place more weight on specific VC terms and conditions in their decision-making, they are less influenced by prior methods or generalized reasons for VC selection.

A significant positive correlation was found between the ability to evaluate financing strategy and Venture Capital method preferred ($r = 0.407$, $p < 0.01$), suggesting that SMEs that are more capable of evaluating financing strategies tend to have clearer

preferences as per the VC methods needed. Similarly, ability to evaluate financing strategy is negatively correlated with reasons for selecting the VC method used for the previous times ($r = -0.279$, $p < 0.05$), indicating that as the ability to evaluate financing strategies increases, SMEs are less likely to base their financing choices solely on previously used methods or simplistic reasons.

4.2.2.3 Interpretation and conclusion

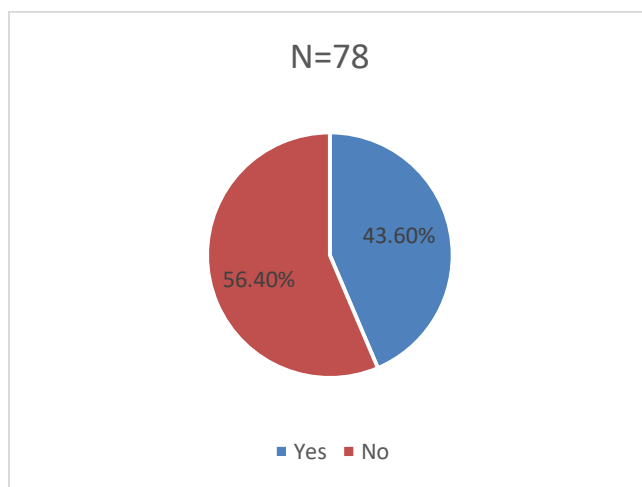
The study found that syndication (31%) and upfront financing (29.3%) were the most preferred VC methods. Over half (56.4%) of SMEs understood the terms, with 31% strongly agreeing that terms influenced financing decisions. Correlation analysis showed a positive relationship between strategy evaluation and method preference ($r = 0.407$, $p < 0.01$) and a negative relationship between term influence and reliance on prior methods ($r = -0.270$, $p < 0.05$). H_{02} is rejected: as VC financing methods significantly influence SME growth by aligning funding with operational and strategic priorities.

4.2.3 H₀₃: Venture Capital Management support does not positively influence SME growth.

4.2.3.1 Descriptive statistics

Objective 3 of the study assessed the contribution of VC Management Support to SME Growth. The results are presented as below.

Received management support from Venture Capital firms.



Source: Survey data (2025)

Figure 12 showing management support received from venture capital firms

A slightly high proportion (44/78, 56.4%) received management support from venture capital firms. This highlights that beyond financing, VC engagement provides strategic guidance that enhances SME performance and operational effectiveness.

Management support improves business operations

Table 5 showing if support from venture capital firms improves SME business operations.

Variable	Response	Freq (N=78)	%
Have you received VC management support from VC firms?	Strongly disagree	32	41.0
	Disagree	18	23.1
	Agree	12	15.4
	Strongly agree	8	10.3

Source: Survey data (2025)

The results show that (32/78, 41%) strongly agree that management support from VC firms improves the business operations, suggesting the positive impact of advisory and strategic assistance on MSE performance beyond mere financial investment.

Training programs and mentoring contribute to revenue growth

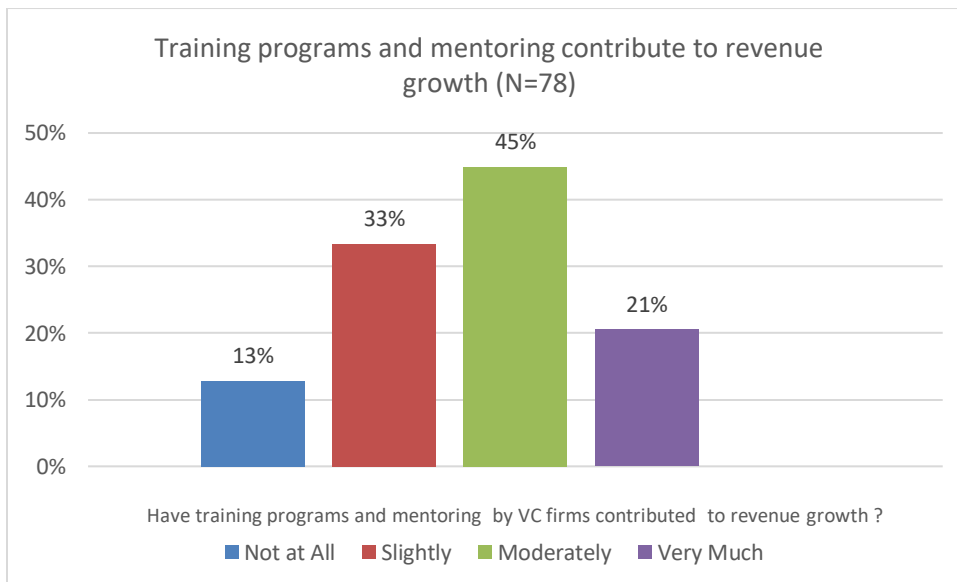


Figure 13 showing training, monitoring expert advice effect on SME growth

Source: Survey data (2025)

The highest number (35/78, 45%) moderately acknowledged that the training programs and mentoring provided by the venture capital firms. This indicates that while such support is recognized, there is variability in its perceived usefulness and reach among SMEs.

Availability of the expert advice



Source: Survey data (2025)

Figure 14 showing availability of the expert advice

Figure 13 above shows that venture capital expert advice availability stands out as a good (45/78, 58%) and only (13%) rated the availability very poor. This indicates that most SMEs have access to expert guidance, which can support informed decision making and effective utilization of VC resources.

Partnerships in venture capital firm and business network

Table 6 showing Partnerships between venture capital firm improve business network

Variable	Response	Freq (N=78)	%
Have partnerships formed improved business network	Not at All	20	25.9
	Slightly	28	36.2
	Moderately	14	17.2
	Very Much	16	20.7

Source: Survey data (2025)

The study results found that partnerships with venture capital firms slightly (28/78, 36.2%) improve business network, suggesting that VC engagement contributes to network expansion, which may enhance access to resources, markets and strategic opportunities.

Feedback and guidance by VC firms

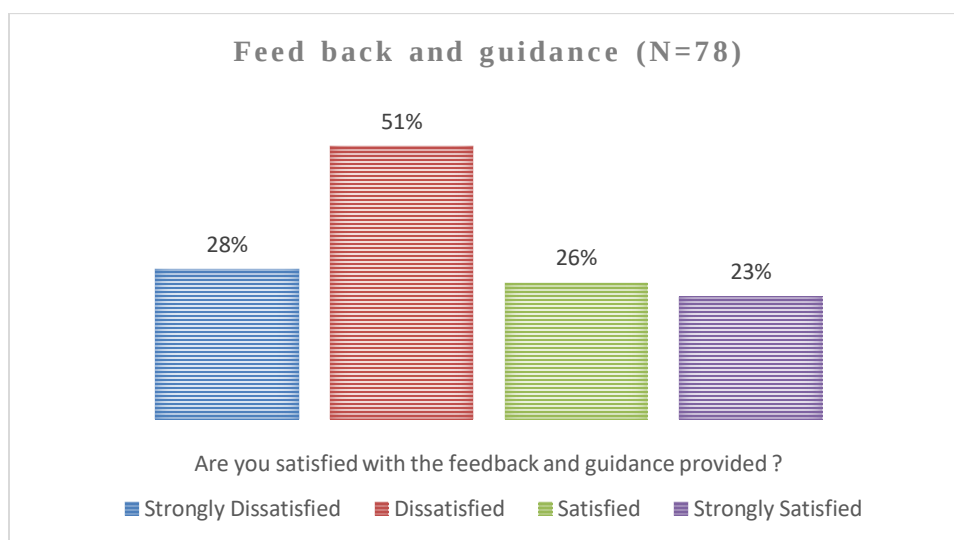


Figure 15 showing distribution by feedback and guidance by VC firms

Source: Survey data (2025)

The findings show that about half of the respondents (40/78, 51%), were dissatisfied with the feedback and guidance from venture capital firms. This concludes that a smaller percentage of business owners believe that the support and assistance offered is insufficient to meet their needs for business growth. This discontent suggests deficiencies in the caliber, applicability, or promptness of the firms' mentorship and guidance, which may hinder the efficiency of VC participation in promoting business expansion.

4.2.3.2 Correlation analysis

The majority of venture capital (VC) support variables, including training, expert advice, partnership networks, and feedback satisfaction, were shown to be weakly and insignificantly associated with improved SME operations ($p > .05$), according to the correlation analysis. However, a statistically significant negative correlation was observed between VC monitoring of performance and VC feedback satisfaction ($r = -.226$, $p = .047$), indicating that increased monitoring may reduce SMEs' satisfaction with feedback.

4.2.3.3 Hypothesis testing and conclusion

Descriptive statistics found that 56.4% of SMEs received some support, but only 10.3% strongly agreed it improved the SME operations. Training and mentoring moderately contributed to revenue growth (45%), and 58% rated expert advice positively, but 51% were dissatisfied with feedback provided to them. Correlation analysis showed weak, insignificant associations between most support variables and operational improvement

($p > 0.05$), with a negative correlation between performance monitoring and feedback satisfaction ($r = -0.226$, $p = 0.047$). H03 is rejected, as VC management support enhances growth only when targeted, relevant, and contextually appropriate.

4.3 Thematic analysis of qualitative data

Themes were created to examine and interpret the responses from the qualitative interview responses, offering a deeper understanding of the views and experiences of participants.

4.3.1. Challenges in accessing finance

The strict requirements set by financial institutions and venture capital firms make it extremely difficult for SMEs to obtain financing. The perceived high-risk profiles, lack of collateral, and lack of financial literacy are major limitations. Venture capitalists' demand for collateral which is observed by the respondents as a significant barrier. As it was stated, "*We struggle to explain our business strategy to banks.*" *To put it simply, we don't have the collateral they need* (ID 01). These limitations have a major impact on the operations and makes it difficult for SMEs to retain employees and grow the company. "Due to budgetary constraints, we have had to reduce our team and are unable to take advantage of market prospects." (ID 03).

4.3.2 Barriers related to regulation and documentation

SMEs find it very challenging to get finance due to the stringent standards set by financial institutions and venture capital organizations. Financial barriers include perceived high-risk profiles, a lack of collateral, and a lack of economic understanding. Respondents identified banks' demand for collateral as a major obstacle. As mentioned,

"We struggle to explain our business model to banks." Simply said, we lack the collateral they require (ID 01). The Business operations were mostly affected by limited financial support, which made it difficult to retain employees and expanding the business activities. *"We've had to decrease our team and are unable. to take advantage of market prospects due to budgetary constraints."* (ID 03)

4.3.3 Negativity of financial Institutions

Form the discussions key informants, it was noted that banks were biased in favor of larger companies. The respondents felt underappreciated and ignored despite the role they are doing to support the growth of the economy. As noted, *"Banks don't see our potential and see us as just another failed business waiting to happen"* (ID 04). This discontent was exacerbated by the idea that SMEs are high-risk businesses. "It appears that larger businesses receive all the attention, while SMEs are frequently disregarded or seen as high-risk." (ID 10). Strong, trustworthy relationships between SMEs and financial institutions were hampered by this unfavorable perception.

4.3.4. Costs and their influence of Venture Capital financing

It was observed that SMEs had different venture capital fundraising experiences. Even though venture capital provided immediate cash and strategic support, respondents found it challenging to handle long-term financial commitments. "There are occasions when the costs are so great that you wonder if the risk is worthwhile." "We were astonished by the high interest rates; they cut substantially into our profitability" (ID 08). (ID 06). Particularly under pressure to accept poor terms were businesses in severe

need of capital. "In several circumstances, we were forced to accept terms we weren't comfortable with because we needed the money fast." (ID 14).

4.3.5 Role of non-financial support and recommendations for improvement

Majority of the respondents confirmed that transformative potential of non-cash support, such as networking, skills-building, and mentorship programs offered by venture capital companies improve both financial and operational management. As mentioned "*We learned a lot from our VC's financial management training courses. I wish that were more common.*" (ID 01). "Our VC's coaching taught me how to manage my team and finances much better, which was transformative." (ID 21).

Suggestions were noted such as implementing flexible financing options with low interest rates, customized repayment terms, and streamlined application procedures could address most of the problems faced by SMEs. As indicated "*For some of us looking at expansion, it would be extremely beneficial if venture capital firms could provide more flexible terms.*" (ID 16). "*Simplifying the application process for funding and making requirements clearer would greatly assist us.*" (ID 14). More recommendations included; developing financing products tailored to SME needs and fostering an environment that supports long-term growth and innovation. "*We need better financing products tailored to the realities of small business operations.*" (ID 20).

CHAPTER FIVE: DISCUSSIONS

5.1 Introduction

This chapter discusses the study findings in relation to the study objectives, exiting literature and the guiding theories. The discussion focuses on how venture capital financing costs, venture capital financing methods and venture capital management support affect the growth of SMEs in Northern Division, Mbale City.

5.2. Discussions

The discussion is organized according to the study objectives namely: effect of venture capital financing costs on SME growth, the effect of venture capital financing methods on SME growth, and the effect of Venture Capital management support on SME growth.

5.2.1 Respondents Demographics

The slightly bigger of SMEs operated as limited corporations (58.6%) for about four to six years (36.2%). This contends that they are legally institutionalized, relatively stable enterprises that are likely seeking venture capital or other structured funding sources. However, a significant portion of SMEs may still be in the early stages of growth, which could limit their access to or ability to fully benefit from venture capital services due to their short financial histories and investors' perceptions of risk, as indicated by the relatively high percentage of younger businesses (31% operating for less than a year).

The SMEs operated with about 1 to 5 (34.5%) employees. This denoted their modest size and could be restricted capacity to use and manage complex financial models like venture capital. The services industry accounted for a larger percentage of SMEs

(37.9%). These findings agree with (Memba & Nyanumba, 2023), who found out that SMEs are often unable to successfully get or use venture capital financing due to structural limitations and a lack of financial literacy.

The demographic characteristics suggest that the majority of SMEs were relatively established businesses operating within formal structures. Such characteristics may influence their financing choices and ability to engage with venture capital arrangements. These findings provide contextual understanding of the respondents but do not independently explain SME growth outcomes.

5.2.2 Venture capital financing costs and SME growth

The results indicated that about (34.5%), of the SMEs agreed that Venture Capital is not expensive, despite only (31%) of respondents strongly disagreeing that VC expenses hinder business scaling. Similarly, results show that (32.8%) of respondents strongly felt that venture capital costs are fair in their business operations. This implied that SMEs had different perspectives.

It was noted that affordability is strongly predicted by reasonable VC fees, according to regression results ($B = 0.212$, $p = .043$). The correlation analysis results show that affordability and opinions such as VC costs being justified are positively correlated ($r = .230$, $p < .05$). It can be concluded that SMEs that understand and accept the rationale behind venture capital cost structures are more likely to consider venture capital financing as a viable source of business growth. The findings further suggest that uncertainty regarding transaction costs, administrative expenses and monitoring requirements discourages SMEs from pursuing venture capital financing. This implies

that transparent and affordable venture capital cost structures increase SME confidence and financing uptake.

Qualitative findings further indicated that unclear venture capital cost structures and limited negotiation power constrained SMEs' willingness to seek venture capital financing.

“Participants expressed concerns regarding transparency of administrative costs and investment conditions”.

This finding supports Agency Theory, which suggests that information asymmetry between investors and SMEs may create uncertainty and increase perceived investment risks.

A larger number of participants agreed that venture capital financing offers a strategic advantage to SMEs, such as promoting conservative growth strategies and strengthening financial discipline, in spite of these reservations. This is in agreement with the international studies (OECD, 2019; Memba & Nyanumba, 2013), that demonstrated that although venture capital (VC) provides valuable capital and expertise, its costs and complexity can be prohibitive for smaller, less experienced businesses.

This has a significant impact in that even though venture capital (VC) can help SMEs grow, its efficacy is weakened when cost structures are not explained clearly or adjusted to the capabilities of SMEs. Particularly for young, service-based businesses that predominate in the SME landscape, VC providers should place a high priority on

cost transparency, flexible terms, and SME education in order to increase uptake and effectiveness.

According to the data, VC financing costs do have an impact on SME growth, but this effect is mitigated by SMEs' views of fairness and affordability. Thus, the null hypothesis (H01: The cost of venture capital financing has no discernible impact on the growth of SMEs) is disproved. By guaranteeing cost transparency, flexible terms, and focused SME education, VC providers should prioritize transparent cost structures, clear communication of investment conditions and flexible financing arrangements that align with SME needs.

5.2.3 Venture capital financing methods and SME growth

The study show that only 32.8% of respondents were satisfied with their venture capital (VC) financing method, a slightly higher percentage (36.2%) disagreed that cost unpredictability influences their decision to seek VC funding, according to an analysis of the impact of VC financing methods on SME growth.

Over the last five years, SMEs most frequently used and favored syndication and upfront financing techniques, mostly due to business size considerations (35.1%). Surprisingly, 31% of SMEs strongly agreed that their financing decisions were significantly influenced by the terms and conditions of different venture capital techniques, while 56.4% of SMEs claimed to understand these terms.

The ability to assess financing strategies and preference for specific VC methods showed a positive correlation ($r = 0.407$, $p < 0.01$), whereas the influence of VC terms on financing decisions and reliance on previously used methods showed a significant

negative correlation ($r = -0.270$, $p < 0.05$). The study results are in agreement with (Gompers and Lerner, 2021), who noted how VC funding, particularly staged or syndicated funding, enhances performance monitoring and reduces risk. Similarly, (Choudhury, 2023) and Cumming & Johan, (2020), state that syndicated venture capital (VC) provides both financial support and essential business development resources; nevertheless, investor misalignment may lead to inefficiencies (Musoke & Rogerson, 2024).

Regression analysis results show that cost justifiability and affordability have a moderate positive relation ($r = 0.230$, $p < 0.05$) and that SMEs that believed VC costs were reasonable are more likely to find VC affordable ($B = 0.212$, $p = 0.043$). Conversely, the discouragement from seeking venture capital was negatively correlated with affordability ($r = -0.106$) and unfavorable interest rates ($r = -0.230$, $p < 0.05$). This concurs with findings of (Nabunya et al., 2023), who noted that upfront financing is only successful when supported by institutional trust and strategic planning. This is supported by the study's qualitative findings, that SMEs that valued networking and mentorship enhanced their internal capacity. As observed, strict VC terms, high interest rates, strict loan request procedures, and low financial literacy hindered access to credit among SMEs. This is in agreement with (Tzempelikos and Heller's, 2022), who noted that the high terms of venture capital hinder SMEs operational capacity that deters its growth. This informs the urgency need for inclusive, flexible, and contextually relevant venture capital frameworks that consider the realities of SME growth in developing countries like Uganda.

The null hypothesis if the study is rejected since there is evidence that different VC financing methods influence the growth of SMEs.

5.1.4 Management support and SME growth

The results indicate that only (41%) of SMEs strongly disagreed, with only 10.3% firmly believed that SMEs that used Venture Capital had improved company operations. It was noted that more over half (56.4%) claimed to have received management support from the venture capital firms.

The findings revealed that only (45%) of SMEs saw mentoring and training as essential to increasing income and the management support they receive did not seem to be meeting their needs. Although it appeared that VCs supply these services, their scope and mode of delivery was aligned with what SMEs actually wanted. This implies that there is potential because more than half of the respondents agreed to have received expert guidance in the day to day operations. However, in terms of networking, only (20.7%) of respondents agreed that their business networks improved their partnerships. A notable (25.9%) didn't not find any benefit of the networks at all. Remarkably, 51% of respondents said they were unhappy with the advice and comments they received, suggesting that the help offered did not match the needs or expectations of SMEs.

Majority of VC support features had weak and non-statistically significant relationships with SME operational improvements ($p > 0.05$). This suggests that even when support was given, it was not comprehensive, pertinent and effectively and efficiently utilized. It was noted that VC performance monitoring and feedback satisfaction had a significant negative correlation ($r = -.226$, $p = .047$). This was attributed to business owners

believing that the supervision provided by VC firms lacked meaningful, not helpful in communication. These results are consistent with Hellmann and Puri's (2002) findings who contends that VC engagement is most effective when it is tailored to the specific needs of entrepreneurs.

Chemmanur et al. (2011), were also in agreement with the SMEs being dissatisfied with feedback and the demanded for more adaptable, transparent, and SME-focused funding arrangements. They emphasize that VC firms can only truly spur growth provided their non-financial assistance is well-explained, appropriate for the situation, and developed alongside the company.

Managerial support from VC firms can boost the growth of SMEs, however its effectiveness depends of the contextual appropriateness, relevance and target groups. The null hypothesis: that management support from venture capita firms affect SME growth is accepted.

CHAPTER SIX: CONCLUSIONS AND RECOMENDATIONS

6.0 Introduction

This chapter provides the study's conclusions and recommendations.

6.1 Summary findings

The summary provides a thorough grasp of the study's findings by combining both the quantitative and qualitative results.

6.1.1 VC Financing Costs and SME growth

The study found out that growth of SMEs is deterred by high cost of capital structures. The results indicated a positive relationship between affordability and venture capital cost justifiability. This suggests that SMEs are more inclined to work with VC when they comprehend the reasoning behind VC expenses. However, it appears that many SMEs are discouraged and limited by the complicated and unclear venture capital cost structures, as evidenced by the negative correlations found between affordability and discouragement. This points to a real need for VC firms to step up their communication game and use simpler language, and be more upfront and clear about their fees.

The null hypothesis that VC funding costs have no real effect on SME growth is rejected. The study concludes that venture capital financing costs significantly influence SME growth through affordability perceptions and transparency of cost structures.

6.1.2 VC Financing methods and SME growth

SMEs used upfront financing and syndication financing methods, with which the decisions were mostly influenced by the size of the business. It was noted that respondents were genuinely satisfied with their venture capital deals, despite, more than half of them being unaware of the financing specifics. This indicated a level of satisfaction with these funding methods but not knowing the implication of each method.

The technique of weighing venture capital financing options was positively correlated with selecting the best financing approaches, however, it was not that adherence to old ways and techniques was adversely correlated with receptivity to new Venture Capital terms. All of this emphasizes how crucial it is to make wise choices, foster confidence in venture capital firms, and provide flexible funding that truly meets the needs of SMEs.

The null hypothesis that VC financing strategies have no effect on SME growth is rejected. The venture capital financing strategies influence the growth of SMEs.

6.1.3 Management support from VC Firms and SME growth

The results indicated that more than half of SMEs had received at least some sort of management support. The results indicated that growth was only in networking, training, and mentorship, pointing to a gap between what's offered and what SMEs actually need.

There was a notable dissatisfaction with VC firms' performance reviews and advice. This highlights issues in service quality or delivery. The support provided by VC firms needs to be practical, hands-on, and culturally attuned to truly boost SME development.

There's solid evidence that VC firms' management supports positively affects SME growth, when that support is truly useful, relevant, and tailored to the business's needs, it drives real development. The null hypothesis is accepted.

6.2 Conclusion

Slightly lower number of SMEs noted that management support from VC firms can improve their operations, despite the fact that over half reporting to have received. It concluded that SME growth was only revealed in connections, mentoring, networking and training, rather than revenue, this indicated that the management support offered was not critical in revenue growth.

The study concludes that management support is moderate and context-dependent as per SME needs. It was noted that professional advice and coaching improves SME competence, but inefficient delivery techniques reduce its effectiveness.

The study concludes that coordinated, transparent, and SME-aligned venture capital investment supports growth. The internal financial readiness and strategy clarity of SMEs have a greater impact on outcomes than do external factors alone.

6.3 Recommendations

For SMEs:

SMEs should Increase the internal financial preparedness through improved record-keeping, strategic planning, and financial expertise. This maximizes VC partnerships, increases the attractiveness to investors, and preparations take on VC costs head-on. SMEs should choose phased venture capital financing methods. This reduces the risks associated with large upfront payments and links funding to performance.

For Governments and Regulators:

The government through agencies such as UMRA, URA, URSB should provide priority to capacity-building on governance, financial planning, and accountability as well as awareness campaigns, particularly for underrepresented sectors in the rural locations. Public-private partnerships, co-investment initiatives, and risk-sharing mechanisms can facilitate SME access to venture capital that can boost their growth.

Government should also Implement regulations for transparent, adaptable, and locally specific venture capital systems that do not hinder growth of SMEs.

For SME Managers:

The management should make internal reporting, assessment, and monitoring stronger. financial decisions should be based on the stage of growth. Managers should encourage honest and open communication with VC partners to optimize management support and funding. Management should regularly assess how VCs affect their business important KPIs like revenue, efficiency, and innovation.

For VC Firms:

The venture capitalists should make the switch to adaptable, performance-based solutions such as staged or syndicated finance. They should Increase of venture capital uptake by educating SMEs about fees involved and they should be honest about cost of capital involved. The firms should enhance non-financial assistance, such as networking, business development, and practical training, to the unique requirements and stages of growth of SMEs. The venture capitalists should support more efficient and pertinent feedback loops and maintain regular communication with SMEs.

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APPENDICES

APENDIX I. Questionnaire for Survey

Questionnaire for Survey

My name is Agnes Nyiramahirwe, a Masters Student of Uganda Christian University, I am undertaking research to understand the effect of venture capital financing on the growth and sustainability of small and medium enterprises (SMEs) in Bugisu Region. The goal is to explore the suitability of different venture capital financing methods and how they influence business operations, funding costs, and access to management support.

I am working with a Team of Research assistants. As part of Masters research to understand the effect of venture capital financing of SMEs in Bugisu Region, your business enterprise has been selected by chance from all enterprises in the Northern City Division, Mbale City. I therefore kindly request you to spare some few minutes to get some important information that would enable me get an understanding of the operations of the venture capital backed firms. Your responses will provide valuable insights into the challenges and opportunities faced by SMEs when seeking venture capital funding, as well as inform strategies to improve the effectiveness of these financing mechanisms.

All information provided will be treated with utmost confidentiality and used solely for research purposes. We encourage you to answer each question honestly and to the best of your ability. Your participation is greatly appreciated and will contribute significantly to the success of this study.

Section A: Demographic Information

1. What is your role in the SME?

Owner

☐

Employee

☐

2. How long has your SME been operating?

Less than 1 year

☐

1-3 years

☐

- 4-6 years ☐
- More than 6 years ☐
3. How is your business registered?
- sole proprietor ☐
- Partnership ☐
- Limited Company ☐
4. How many employees does your SME currently have?
- 1-5 ☐
- 6-10 ☐
- 11-20 ☐
- More than 20 ☐
5. What industry does your SME operate in?
- Technology ☐
- Retail ☐
- Manufacturing ☐
- Services ☐
6. What is the annual revenue of your SME?
- Less than 10,000,000 ☐
- 10,000,000 - 25,000,000 ☐
- 25,000,000 - 50,000,000 ☐
- Over 50,000,000 ☐

Section B: Influence of Venture Capital Financing Costs on SME Growth

Indicate your level of agreement or satisfaction for each statement by ticking one box per questions.

8. How affordable do you find venture capital funding for your SME?
1. Very Affordable ☐
2. Affordable ☐

3. Expensive ☐
4. Very Expensive ☐
9. To what extent do you agree that venture capital funding costs affect your ability to scale your business?
1. Strongly Disagree ☐
2. Disagree ☐
3. Agree ☐
4. Strongly Agree ☐
10. Do you think that the fees associated with venture capital funding are justifiable compared to the benefits received?
1. Strongly Disagree ☐
2. Disagree ☐
3. Agree ☐
4. Strongly Agree ☐
11. How do you perceive the interest rates on venture capital loans in comparison to other financing options?
1. Much lower ☐
2. Lower ☐
3. About the Same ☐
4. Higher ☐
5. Much Higher ☐
12. How transparent are venture capital firms about their funding costs?
1. Not Transparent at All ☐
2. Slightly Transparent ☐
3. Transparent ☐
4. Very Transparent ☐
13. Current VC financing costs discourage from seeking for Venture Capital for your business.

1. Strongly Disagree

☐

2. Disagree

☐

3. Agree

☐

4. Strongly Agree

☐

Section C: Effect of Venture Capital Financing Methods on SME Growth

Indicate your level of agreement or satisfaction for each statement by ticking one box per questions.

15. How satisfied are you with the variety of financing methods offered by venture capital firms?

1. Very Dissatisfied

☐

2. Dissatisfied

☐

3. Satisfied

☐

4. Very Satisfied

☐

Has the unpredictability of venture capital costs influenced your decision to pursue funding?

1. Strongly Disagree

☐

2. Disagree

☐

3. Agree

☐

4. Strongly Agree

☐

16. Which method of venture capital financing has the venture capitalist(s) used to provide funds to your organization during the last five years?

1. Upfront

☐

2. Staged

☐

3. Syndication

☐

17. In your opinion, which of the methods of venture capital financing is suitable for your organization?

1. Upfront

☐

2. Staged

☐

3. Syndication

☐

18. Give reason for the choice of your answer in Question above

1. Size of business

☐

2. Funding needs

☐

3. Business goals

☐

4. Risk and accountability needs

☐

19. Do you understand the terms and conditions associated with different financing methods offered by venture capital firms?

1. Yes

☐

2. No

☐

20. The terms and conditions of VC financing methods influence decision making on the choices.

1. Strongly Disagree

☐

2. Disagree

☐

3. Agree

☐

4. Strongly Agree

☐

21. You are able to evaluate and select the most appropriate financing strategy from the available options?

1. Strongly Disagree

☐

2. Disagree

☐

3. Agree

☐

4. Strongly Agree

☐

Section D: Contribution of VC management support to SME growth

Indicate your level of agreement or satisfaction for each statement by ticking one box per questions.

22. Have you received any management support from the venture capital firms?

1. Yes ☐
2. No ☐
23. The management support from venture capital firms improved your business operations?
1. Strongly Disagree ☐
2. Disagree ☐
3. Agree ☐
4. Strongly Agree ☐
24. Have training programs and mentoring provided by venture capital firms contributed to revenue growth in your SME?
1. Not at All ☐
2. Slightly ☐
3. Moderately ☐
4. Very Much ☐
25. Do you think that regular monitoring and evaluation by venture capital firms have improved the overall performance of your SME?
1. Strongly Disagree ☐
2. Disagree ☐
3. Agree ☐
4. Strongly Agree ☐
26. How would you rate the availability of expert advice and management support provided by your VC firm?
1. Very Poor ☐
2. Poor ☐
3. Good ☐
4. Very good ☐
27. Have partnerships formed through your venture capital firm helped expand your business network?

1. Not at All

☐

2. Slightly

☐

3. Moderately

☐

4. Very Much

☐

28. Are you satisfied with the feedback and guidance provided by your venture capital firm?

1. Strongly dissatisfied

☐

2. Dissatisfied

☐

3. Satisfied

☐

4. Strongly satisfied

☐

Thank you for participating

APENDIX II. *Interview guide*

Interview guide for Qualitative interviews

1. What specific challenges has your SME faced in accessing finance, and how have these challenges impacted your operations?
2. Have there been any barriers related to paperwork or regulations that have hindered your access to financing? If so, please elaborate.
3. How do you perceive the attitudes of financial institutions or venture capital firms toward SMEs in your sector?
4. Can you describe your experience with the costs associated with obtaining venture capital financing (e.g., fees, interest rates, etc.)?
5. How have you balanced the costs of venture capital financing with the potential benefits for your business?
6. Has the expense of pursuing venture capital funding influenced your overall business strategy? If yes, in what way?
7. What types of venture capital financing methods have you utilized or considered for your SME?
8. Which financing method has had the most positive impact on your business growth, and what factors contributed to that success?
9. Are there particular financing structures or terms that you believe would enhance support from venture capital firms for SMEs?
10. How would you describe the management support you've received from your venture capital partners, and in what ways has it helped your business?
11. Can you provide examples of how training or mentoring from VC firms has influenced your management practices or operational efficiency?
12. What additional forms of support (beyond financial assistance) do you believe would be most beneficial for SMEs from venture capital partners?
13. What is your perception of the role of venture capital in the overall growth and development of SMEs in the Mbale region?
14. What specific recommendations would you provide to improve the effectiveness of venture capital financing for SMEs in Eastern Uganda?

15. How do you envision the relationship between SMEs and venture capital firms evolving in the future, particularly in your industry?

APPENDIX III: CONSENT FORMS

INFORMED CONSENT FORM FOR SMEs PARTICIPANTS

Title of the Study:

“Effect of Venture Capital Financing On the Growth and Sustainability of Small and Medium Enterprises (SMEs) In Bugisu Region.”

Researcher:

Agnes Nyiramahirwe, Master’s Student,

Uganda Christian University

Contact: 0776063163/0702335456

Email: namahirweagnes@gmail.com

Introduction

You are invited to participate in a research study titled “Effect of Venture Capital Financing On the Growth and Sustainability of Small and Medium Enterprises (SMEs) In Bugisu Sub- Region. Case of SMEs in Northern City Division.” The study is being conducted by Agnes Nyiramahirwe, Master’s Student at Uganda Christian University. This consent form provides detailed information about the study and your participation. Please read it carefully and take the time you need to understand it. Participation is entirely voluntary, and you may withdraw from the study at any time without any penalty or loss of benefits.

Background and rationale of the study

The influence of VC on SMEs performance is well-documented in developed economies like the U.S., Canada, Europe, and China (Wang & Zhu, 2022) and (Telnova et al., 2022). East Africa's VC market, particularly in Kenya, has seen growth supported by initiatives such as Silicon Savannah and EAVCA (Ogachi & Zoltan, 2023). Uganda's venture capital market, though smaller than its neighbors, is attracting international interest due to its promising SMEs, which are vital for economic growth (KPMG,2023). However, significant challenges in accessing funding hinder these businesses ability to scale and innovate, emphasizing the need to address these barriers to fully unlock their economic potential (World Bank, 2023).

Purpose of the study

The purpose of this study is to Examine the impact of venture capital financing on SME growth, focusing on SMEs in Eastern Uganda. The study will focus on venture capital funding costs, venture capital financing methods, and management support from VC firms.

Who will participate

You are invited to participate because you are a staff of an SME that has received venture capital funding and you are directly involved in the daily operations of the entity. Your insights are invaluable for understanding the barriers to effective loan recovery in microfinance institutions.

Study duration

The study will take approximately 30 to 45 minutes of your time, during which you will be asked a series of interview questions related to venture capital funding costs, venture capital financing methods, and management support from VC firms to SMEs.

Confidentiality and Data Protection

Your privacy is of utmost importance to us. All information you provide will be kept strictly confidential. Personal identifiers, such as your name, will be removed and replaced with codes to ensure anonymity. Only the researcher, trained assistants, and authorized team members will have access to the data, which will be stored securely in password-protected files and locked physical storage. At the conclusion of the study, all identifying information will be securely destroyed. If you choose to withdraw from the study, any data collected from you up to that point will be deleted and not included in the final analysis or report. The consent form will be translated into a language you understand to ensure that you are fully aware of your rights and the purpose of the study

Study Procedures

You will be asked to participate in a face-to-face interview. This will involve answering questions related to:

- venture capital funding costs, venture capital financing methods.
- The management support from VC firms towards your entity.

Benefits

Your participation will provide valuable insights that may help your entity and other institutions to improve to understand how Venture Capital Improves SME's growth.

Risks or Discomfort

The risks of participating in this study are minimal and similar to those encountered in your regular activities.

Compensation

There will be no compensation provided for participating in this research study.

Voluntary Participation / Withdrawal

Participation in this study is completely voluntary. You may withdraw at any time without any penalties or loss of benefits to which you are entitled.

Assessment of Understanding

Please check the box that best describes your understanding of this informed consent document:

☒ I have read the above-informed consent document and understand the information provided. I give consent to participate in this study and will sign the following page.

☒ I have read the above-informed consent document, but I still have questions. Therefore, I do not yet give my full consent to participate in the study.

Participant's Signature:

Date:

Signature of the researcher.

.....

Agnes Nyiramahirwe

Master's Student

Uganda Christian University

APPENDIX V. STUDY WORK PLAN

Activity	Time of the year							
	DEC 2024	OCT 2024	NOV 2024	NOV 2024	DEC 2024	DEC 2024	JAN 2025	FEB 2025
Proposal writing								
Data collection								
Data analysis								
First draft submission								
Final Report writing								
Dissemination of Findings								

APPENDIX VI. STUDY BUDGET

ITEMS	QUANTITY	UNIT COST	TOTAL
Flash	1	50,000	50,000
Internet Bundles	1	100,0000	100,000
Stationary			
• Papers	4 reams of paper	20,000	80,000
• Books	4	10,000	40,000
• Pencils	30	300	9,000
• Pens	1 BOX	10,000	7,000
• stapling machine and staple wires	1	40,000	40,000
Binding	4 books	45,000	80,000
Typing and printing	Rough and final copies	200,000	200,000
Transport costs for distributing and collecting questionnaires	1	1	200,000
Data analysis packages installation	1	100,000	100,000
Airtime	1	50,000	100,000
Research Assistants	2	300,000	600,000
TOTAL			1,516,000