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VENTURE CAPITAL FINANCING AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMES) IN MUKONO MUNICIPAL COUNCIL

SSEMAKULA MUHUSIN

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A RESEARCH PROPOSAL TO BE SUBMITTED TO THE FACULTY OF MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A BACHELOR OF BUSINESS ADMINISTRATION OF BUSITEMA UNIVERSITY

MAY 2022

DECLARATION

I **Ssemakula Muhusin** do declare that this research proposal is my original work and it has not been submitted to any other university or institution for an academic award.

APPROVAL

This research proposal will be submitted to Busitema University for examination as a partial fulfillment for the award of a Bachelors degree of Business Administration in Accounting and Finance option with my approval as Academic Supervisor.

NAME: MR. KALENZI ABBEY

SIGNATURE..

DATE...

DEDICATION

I dedicate this research to my dear daughter **Namakula Hamirah** who has always kept me focused through the struggle. May the almighty God bless her abundantly. I extended my appreciation to all my family members in particular **Mr. Ssemwogerere Muhamad** and **MS Nanteza Nassim** my parents who have struggled to support me in this cause, colleagues and Busitema fraternity as a whole.

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I finally thank the SMEs of Mukono Municipal Council for the support rendered to me while carrying out this study

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ABREVIATIONS

VCF	Venture Capital Finance
GDP	Gross Domestic Product
IEA/SID	Institute of Economic Affairs and Society for National Development
UNBS	Uganda National Bureau of Statistics
ROCE	Return on Capital Employed
ROI	Return on Capital Invested
SME	Small and Medium Enterprise

ABSTRACT

Most of the existing literature on financial performance determinants of companies suggests that capital structure decisions are of paramount importance. This is likely to be particularly so due to the present financing constraints. However, very few studies focus on startups, probably due to their lack of track record.

The situation is more severe in the SMEs case since no focus is given on the matter to SMEs startups in the literature. Once startups can give a good contribution to improve industrial performance, there seems to be a need for a better understanding of the financing constraints of startups, how they can be overcome and, also, to what extent startups' financing decisions have influence on their financial performance.

This work contributes to this problematic by studying the impact of capital structure on startups financial performance, based on information for the years 2010 and 2011 of a sample of 21 SMEs startup firms. The startups' sample was obtained from startups incubated in SMEs performance. This study is based on a linear regression model explaining the influence of the capital structure (the key explanatory variable) on financial performance (measured by relative sales' financial performance).

The regression also includes other (control) variables considered important to explain the complex financial performance phenomenon of companies. These variables are firm's size, age and liquidity. The estimation results clearly show that the debt-to-equity ratio, the measure used for capital structure, and the age of startups have a negative impact on sales' financial performance, while liquidity and size have a positive one. The results suggest that the amount of debt raised by startups should be controlled, and that they should move rapidly from the exploratory to the execution phase in order to favor the financial performance of the company.

CHAPTER ONE

1.0 Introduction

This chapter comprises of the background of study, Statement of the Problem, Purpose of the study, Research objectives, Research questions, Scope of the Study, Content Scope, Geographical Scope, Time Scope, Significance of the Study, Conceptual frame work, Assumptions of the study, Limitations the study, Definition of terms used in the study

1.1 Background to the study

SMEs have attracted a lot of attention globally in past few years due to their significant contributions to the economies of both the developed and developing countries (Asiedu, 2016). In Europe, SMEs are the backbone and engine of the European economy, almost 85% of net new jobs from 2002-2010 were created by SMEs (European Union, 2012). China is one of the developed countries that enhanced venture capital financing and 60 percent of the SMEs in China adopted to it (Xi, 2018)

In Africa SMEs are efficient and prolific job creators, the seeds of big businesses, and the fuel of national economic engines. From an economic perspective, however, SMEs are not just suppliers, but also consumers (Abor and Quartey, 2010). SMEs make up approximately 50% of the gross domestic product of south Africa, they have a higher production output than large companies, greater capacity to innovate, a more direct impact on cultural and social issues, and a greater role to play in the future growth of an economy (Belinda, 2011).

Current literature suggests that the growth of the Venture Capital Financing (VCF) industry in developed and transitional economies is attributable to the private equity investors' efforts to add value to the portfolio companies, with a greater focus on SME growth (Rusu & Toderascu 2016). However, Uganda's VCF industry is new and underdeveloped equated to Kenya, the VCF market leader in the East African block. Relatively few empirical studies exist to underpin the influence of VCF on SMEs' growth.

The VCF market in Uganda represents an infinitesimal fraction of the overall quantity of fund investment in the East African block. In an effort to assist SMEs gain more knowledge, widen their networks with the VCF firms and enhance their success for raising patient capital needed to propel their business growth, Uganda Investment Authority organized the first ever alterative

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