EQUITY FINANCING AND FINANCIAL PERFORMANCE OF SMES IN GARISSA COUNTY, KENYA

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ABSTRACT:
Performance is a function of managers to utilize the resources of a firm to improve efficiency, effectiveness and financial performance. In today’s global environment, Small and Medium Enterprises have limited chances of accessing credit facilities from lending institutions owing to their relatively smaller sizes. The high amount of interest rates charged on loan facilities by lending institutions also limits the ability of SMEs to access credit facilities. In order to improve on their financial performance, SMEs have therefore resorted to equity financing as an alternative option of accessing funds apart from the use of debts that has proved to be too risky. The researcher aimed to determine the effect of crowd funding on financial performance of SMEs in Garissa County, Kenya. The study was submitted by market timing chain and pecking order Theory. Design of the study was descriptive. 3097 small and medium Enterprises in Garissa County were the target population. The respondents of the study were the finance managers, accountants and owners of SMEs. The study used a formula by Kothari (2004) to determine the sample size. Primary-data was collected by the use of a questionnaire. Statistical package of social science was used for analysis and both descriptive analysis and inferential statistics was presented. The findings was presented in tables, graphs and figures. The results indicated that the small and medium enterprises are very dynamic and consider crowd funding from different sources in the country. The small medium enterprises in Garissa County are committed in ensuring that the crowd funding are efficiently and effectively used. The study concluded that crowd funding significantly and positively effects the changes in financial performance.

Keywords: Crowd fundings, Financial Performance, Small and Medium Enterprise

CHAPTER ONE: INTRODUCTION

Faced with a challenge of remaining competitive in an increasingly turbulent business conditions, businesses have opted to the manner of financing as a driver of their performance. Organizations can finance projects either through use of debts and equities and the mix and composition of these two components form the capital structure of the company. Thus, all factors kept constant, an increased use of equities would imply a decrease in use of debts in financing of investment projects in an organization. Each source of fund that a company uses has some risks, for instance debts the use of debts would require the company to be paying interest to debt holders’ failure of which would result into bankruptcy proceedings to the company. The use of equities on the other requires the firm to pay dividends to shareholders, although there is no legal requirement that companies should pay shareholders the dividend amount (Nguyen & Rugman, 2015).

Thus, unlike debts where the firm should pay the stated interest and principal amount as and when they fall due, companies are under no obligation to pay equity shareholders their dividends. This has increased the degree of preference for equity as opposed to debt financing among most firms today. Musila (2015) sought to establish the influence of equity financing on financial performance. The key finding was that equity financing played a vital role in raising of funds for investment purpose was concerned. Wesonga, Raude and Wawire (2015) examined strategy of equity financing and its influence on the Kenyan SME performance. Salerno (2018) analyzed whether private equity financing influence performance of family owned SMEs. The finding showed that there is a positive results caused by financing through equity to the organizational financial performance.

Crowd fundings received from friends and family members at the startup of the company play an important role in influencing prosperity and future organizational financial performance. Performance of an organization. These crowd fundings are the external sources of finance to an organization and most of them are freely given. Apart from the crowd fundings, an organization can also plough back the amount of profits generated into the business instead of spending it into other projects. Plough back profit is therefore an internal source of financing investment projects in an organization. Plough back profit as an equity financing component is also less risky compared to other sources of financing in an organization (Yazdanfar & Öhman, 2015).

The increased recognition of equity as a source of financing investments and projects among firms is brought about by the fact that small organizations especially the SMEs have limited access to loans and other credit facilities offered by lending institutions including commercial banks. The high amount of rate of interest charged on loans and other credit facilities by lending institution also discourages SMEs from accessing and borrowing credit facilities from these institutions and thus decreased use of debts. To meet the gap in financing their projects, equity financing has gained relevance among SMEs today (Feng, Wang & Huang, 2015).

1.1.1 Small and Medium Enterprises in Garissa County

There are many challenges which are faced by small and medium Enterprises and may affect the growth and profitability of these firms and hence they reduce their ability to contribute effectively to the development in the future. The various challenges faced by the small and medium Enterprises include; poor training and experience of the sole proprietors, skills and education inefficiency, change of technology, lack of good market information, poor access to credit poor infrastructure and lack of good innovative techniques which will enable them produce standardized products (Mugure & wanjoji 2012). In Garissa County, lack of quality product was identified as one of the key challenges
to the small and medium Enterprises (Wanjohi, 2013). In connection to this study the success and growth of SMEs in Garissa County and women-owned Enterprises operating the County and the ability to use the funds well to support the changes and the proposals that will enable the company to remain competitive in the market will be the motivation of this study in order to improve the growth and production of quality products in the County.

Small and medium Enterprises in Garissa County win including professional services farming retail businesses. Professional services include doctors, lawyers and hospitality services. Some other small and medium Enterprises may include the public transport services offered by the Boda Boda. Majority of small and medium Enterprises mostly are run in urban places and that farming mostly is carried out in remote areas. In Garissa County SMEs carry out businesses in all areas and all sectors for instance young men, old women, educated and illiterate are all involved in small and medium Enterprises businesses. Most of the business in the county are run by family members or inherited businesses which are normally run by 2 to 3 employees sourced from the immediate family or close friends. NV County viscosity of training bodies with the only training bodies being KWFT, SMEP and Faulu microfinance Bank. The commercial banks in the area include cooperative Bank, Kenya, Commercial, Bank, Equity, Bank standard charted cooperative Bank, diamond trust and Barclays Bank. The SME sector operates in different industries ranging from health, hospitality industry, engineering among others. There are over 15,764 registered SMEs in Kenya (PPOA, 2017). The SMEs contribute, to economic, growth of the County through creation of employment. Over 10% of the revenue collected by the county governments comes from these SMEs. At the same time, about 30% of the population derives income and revenue from these SMEs. The main sectors include: retail chain distributions, food and beverages restaurants, open air markets, animal sales among others. There are 3097 registered SMEs in Garissa County, which are the engine of economic development and contribute to sustainable growth and employment generation. These SMEs also impact on entrepreneurial knowledge to owner/s. SME/s in Garissa-County further help in the restructuring of large firms by streamlining manufacturing firms as units. They offer them complementary services by influencing their monopoly in the market. On average, these SMEs have a turnover of Kshs. 200,000 on a monthly basis. SMEs in Garissa town will be targeted because they are faced with a number of challenges ranging from poor access to financial resources that would be used for expansion purpose. To remain competitive, these SMEs are therefore required to rely on equity financing for their investment and the study seeks to determine how this affects their financial performance.

1.2 Statement of Problem

Small and medium enterprises are considered as the backbone of the economy. Small and medium enterprise sector is well recognized worldwide due to its significant contribution in socio-economic development (Christensen, 2013). Market conditions have changed for Small and medium enterprises after economic reforms; organizations are in constant pressure to perform well, deliver quality and keep their operational cost low. Despite the significance of small and medium Enterprises their performance has been characterized by various challenges which includes lack of poor business records poor innovative skills and financial illiteracy. On average, these SMEs have a turnover of Kshs. 200,000 on a monthly basis. On average the turnover of Garissa is below Kshs. 100,000 with an average survival rate of 17% (Garissa County Report, 2017). The CMA (2010) has also identified that SMEs in Garissa suffer from constraints that lower their resilience to risk and prevent them from
growing and attaining economies of scale. Small and Medium Enterprises are unable to grow liquidity wise end in profitability is ability to solve solvency problems immense leads to the lost opportunities of business and results to failure to take advantage of low-cost loans (Badagawa, 2011).

Different studies have in deed confirmed the equity financing carries out vital tasks as far as financial performance of the firm is concerned. Tosca (2013) evaluated how private equity impacts on SMEs operating in Italy and the finding indicated that equity plays an important role in achieving financial performance of an organization. The study presents the contextual and empirical gap in that inferential statistics were not presented and that it concentrated on SMEs operations. Njagi, Maina and Kariuki (2017) did an assessment of equity financing and how it influences financial performance of SMEs and the key finding was that plough back profits, the use of Angel investors and contributions and crowd fundings from friends are key equity sources of financing in most SMEs. The study however focused on SMEs in Embu County and not in Garissa County.

A study by Wesonga, Raude and Wawire (2015) on strategies equity financings and how it influences performance with key focus on SMEs in Kenya. The finding was that equity financing strategy strongly and positively impacts on performance. The study however focused on SMEs operating in Kakamega County and not those in Garissa County that presenting a Geographical gap. Thus, although studies have been done on equity financing and financial performance, the studies however focus in different contexts away from Garissa County creating an empirical, contextual and conceptual gaps presented. To fill these gaps, the current aimed to assess the effect of crowd funding on performance of SMEs in Garissa County, Kenya.

1.3 Objective of the study
   i. To establish the effect of crowd fundings from friends on Financial Performance of SMEs in Garissa County, Kenya

1.4 Research Questions
   i. To what extent do crowd funding from friends affect financial performance of SMEs in Garissa County, Kenya?

1.5 Significance of the Study
The findings of the study would be important to the management team of SMEs, investors in these SMEs, future scholars and academicians. To the management of SMEs, the findings of the study will be important in determining the most suitable component of the equity financing which can maximize the wealth of their shareholders. To investors in the SMEs, the findings of the study will be important in determining the best combination of equities that would maximize the wealth of shareholders. To future scholars, the study will add to the existing literature on equity financing and its influence on financial performance.

CHAPTER TWO: LITERATURE REVIEW
2.1 Theoretical Review
2.1.1 The Pecking Order Theory
This theory was formulated by Donaldson (1961) followed by Myers (1984) and it argues that firms prefer to finance their new projects using a predetermined order; first by internal sources including
retained earning followed by use of debts and finally the issue of new equities. The theory argues that it is hard and defines what constitutes an optimal financing strategy. Internal source of funds take up the first position because they require no costs of floatation and no disclosure of the proprietary information of the firm.

After internal funds, debts take up the second option where it is assumed that debts in the capital structure maximize the wealth of shareholders by providing an interest tax shield. Debts however are relatively risky because the company will be required to pay the regular agreed interest rate and the principal amount when they fall due. Thus, in the event that the firm fails to pay the principal amount, it may lead to financial distress and subsequent bankruptcy and winding up proceedings by the lenders (Arrondo-García, Fernández-Méndez & Menéndez-Requejo, 2016). The issue of new shares would take up the last stage in financing because of the floatation costs that need to be paid by the company. Therefore, it is the relative costs of the various constituents of the sources of finance that determine which option would be ideal. The theory further suggests that firms maximize shareholders’ wealth by deciding to finance new investments with cheapest sources of finance available (Sheikh & Wang, 2010). The theory argues that instead of arranging for new debts, firms chose to use internal sources to finance its projects. Thus, managers acting in interest of shareholders will not issue new undervalued shares. Compared to equities, debts have preferential treatment and they are less exposed to information asymmetry. The theory suggests that profitable firms would likely be financed by internal sources and this explains why they have fewer debts in their capital structures. According to Mostafa and Boregowda (2014), small firms with greater opportunities for growth should issue more debts as compared to equity. Therefore, this theory supports use of crowd funding and retained earnings finances first.

2.2 Empirical Literature Review
Crowd funding refers to the amount of income that is voluntarily paid out by family members, friends and close acquaintances especially at the startup of the company. Financing of most nongovernmental organization is usually derived from crowd fundings. Hatega and Pitora (2018) sought to determine the interaction between corporate crowd funding and the value of the firm. Specifically, the study sought to determine how charitable contributions influence performance and the value of the firm. The study used a case of firms listed in Roman. The key finding was that corporate giving positively influences firm performance.

Blouin, Lee and Erickson (2018) sought to determine the influence of crowd fundings on financial performance. The study used a case of 3217 NGOs. The study investigated the disclosure practices of 3,217 nonprofits. Study’s dependent variable was crowd fundings, independent of other variables such as age, size, and fundraising expenditures. The key finding was that crowd fundings influence performance of the firm. Further, the study found that fundraising is also clearly related to the performance indicators shown in the 990 disclosures, particularly the program ratio of program expenditures to total expenditures.

Mwangi (2016) looked at donor funding and how it influences performance of microfinance institutions. The study employed a descriptive cross sectional survey design. In total, 57 MFIs were covered. To collect data, secondary sources were used over a period from 2011 all through to 2015. The analyzed findings indicate that donor funding positively influence performance of the firm.
Cheboi (2014) studied the influence of donor funding on organizational performance. The study used a case of government ministries in Kenya. The balance score card was used as a basis of determining performance at the ministry level. The study adopted a descriptive design targeting 42 ministries of the government. Secondary sources of data were used to collect information from respondents. Data was collected for a period from 2008 all through to 2013. The findings showed that an inverse link exists between donor funding and financial performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

Research design is a detailed arrangement or pattern of analysis of data that concur with the objectives of the study (Astalin, 2013). Descriptive research design was used in this study for it showed the effect of equity financing on SMEs financial performance.

3.2 Target Population

Yin (2017) posited that population is a group of related items or observations that are of interest to the researcher. The target population of the study consisted of 3097 SMEs in Garissa County and respondents were finance managers/accounts/owners of these firms. These SMEs fall into the following major categories in Table 1.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail chain distributions</td>
<td>880</td>
<td>28%</td>
</tr>
<tr>
<td>Food and beverages restaurants</td>
<td>970</td>
<td>31%</td>
</tr>
<tr>
<td>Open air markets</td>
<td>560</td>
<td>18%</td>
</tr>
<tr>
<td>Animal sales</td>
<td>495</td>
<td>16%</td>
</tr>
<tr>
<td>Others</td>
<td>192</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>3097</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Garissa County (2019)

3.3 Sample Size

Sample size involved selecting a representation of the entire population. The total population of the study was 3097. The advantages of choosing a sample size was to reduce the costs which may be incurred in collecting large data. The study adopted the formula by Kothari (2004) to determine the sample size; Kothari (2004) formulated in determining the sample size.

\[
n = \frac{Z^2 \cdot N \cdot \sigma^2 \cdot \hat{p}}{(N - 1)e^2 + Z^2 \cdot \sigma^2 \cdot \hat{p}}
\]

\[
n = \frac{1.96^2 \cdot 3097 \cdot 0.5^2}{(3097 - 1)0.05^2 + 1.96^2 \cdot 0.5^2}
\]

\[
= \frac{2974.3588}{7.74 + 0.9604} = 341
\]

Where; \(n\)=Size of the sample
\(N\)=Size of the population and given as 3097
e= Acceptable error given as 0.05
\( \sigma^2 = \) the standard deviation of the population and given as 0.5 where not known
Z= standard variation at a confidence level given as 1.96 at 95% confidence level.
The sample size will therefore be 341 SME managers/owners.

3.4 Data Collection Instrument.
Data sourced was only primary data. This data came from the SME’s owners or managers. A questionnaires was used to collect data.

3.5 Data Analysis
Coding into the statistical Package of Social Sciences was the first step of analyzing. Descriptive statistics was computed whereby frequencies, percentages, means and standard deviations which clearly showed both tables and figures. Regression analysis was carried out to determine inferential statistics. Financial performance was expressed as a function of angel investors, retained earnings, crowd fundings and ploughed back profit.
The following regression model was used

\[ Y = \beta_0 + \beta_1X_{it} + \varepsilon \]

Where:
Y = Financial performance
X_1 = Crowd fundings
\( \beta = \) constant,
\( \beta_{i1} = \) Regression Coefficient
\( \varepsilon = \) Error Term

CHAPTER FOUR: RESEARCH FINDINGS AND INTERPRETATION

4.1 Response Rate
The study targeted as a sampled population of 341 SME managers. 297 questionnaires were completely filled and returned to the researcher for data analysis. This represented a 87% response rate which according to Mugenda and Mugenda (2009) was an excellent response rate. 13% represented the respondents who partially filled the questionnaire, questionnaire which were incorrectly filled, questionnaires with contradictory responses and not filled at all questionnaires. Figure 1 presents the findings.
4.2 Level of Education * Age of the Respondents
The respondent sought to establish the highest level of education of the respondents. A cross tabulation was done between age of the respondents and the level of education. The results are presented in table 3.

Table 3: Level of Education * Age of the Respondents

<table>
<thead>
<tr>
<th>Highest Level of Education</th>
<th>18-25 Years</th>
<th>26-33 Years</th>
<th>34-41 Years</th>
<th>Above 42 years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate</td>
<td>12</td>
<td>16</td>
<td>11</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Diploma</td>
<td>31</td>
<td>46</td>
<td>74</td>
<td>24</td>
<td>175</td>
</tr>
<tr>
<td>Degree</td>
<td>12</td>
<td>25</td>
<td>16</td>
<td>16</td>
<td>69</td>
</tr>
<tr>
<td>Masters</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>29</td>
<td>42</td>
<td>13</td>
<td>297</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The findings in table 3 presents that majority (179) of the business owners the SME sector in Garissa County had diploma as the highest level of education. Majority of the diploma holders (74) aged between 34 to 41 years old. SME owners with degree certificate 69 in number with majority of them aging between 26 and 33 years old. SMEs owners or managers with diploma certificate 52 with majority under this category aging between 26 to 33 years old. Only one SME owner had master degree as the highest level of education. It is clear that Garissa County there are fewer SME owners with master's degree as indicated by majority having a diploma certificate as the highest level of education.
4.3 Business Operation Period
The study sought to establish how long the SME owners and operated various businesses. The results were presented in table 4.

Table 4 Business Operation Period

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3Years</td>
<td>10</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
</tr>
<tr>
<td>3-7 years</td>
<td>29</td>
<td>9.8</td>
<td>9.8</td>
<td>13.2</td>
</tr>
<tr>
<td>Valid 8-14 years</td>
<td>136</td>
<td>45.8</td>
<td>45.8</td>
<td>59.0</td>
</tr>
<tr>
<td>Over 15 years</td>
<td>122</td>
<td>41.0</td>
<td>41.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>297</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)

The results in table 4 indicates that majority (45.8%) of the SME businesses had been operated for a period of 8 to 14 years. The findings also indicate that many (41%) of the SMEs also had been operated for over 15 years. 9.8% of the SME owners and operated the business for a period of 3 to 7 years. 3.4% of the SME managers or owners had operated the businesses for less than 3 years. The results indicate that majority of the business had been in existence for more than 8 years and that the SME owners had the relevant skills to keep the business in operation for long.

4.4 Crowd Funding on Financial Performance
The study sought to establish the effect of Crowd funding on financial performance of small and medium Enterprises in the Garissa County. The findings were presented in the table 5.

Table 5: Crowd Funding on Financial Performance

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization is a very dynamic and considers crowd fundings from different sources</td>
<td>297</td>
<td>1.00</td>
<td>5.00</td>
<td>4.447</td>
<td>.92746</td>
</tr>
<tr>
<td>The organization is committed in ensuring that crowd funding are efficiently and effectively used.</td>
<td>297</td>
<td>1.00</td>
<td>5.00</td>
<td>3.924</td>
<td>1.16842</td>
</tr>
<tr>
<td>The size of investment considers crowd funding as the good form of capital</td>
<td>297</td>
<td>1.00</td>
<td>5.00</td>
<td>4.313</td>
<td>1.08204</td>
</tr>
<tr>
<td>The organization defines success on the basis of having the most unique or newest crowd funding</td>
<td>297</td>
<td>1.00</td>
<td>5.00</td>
<td>3.017</td>
<td>1.12359</td>
</tr>
<tr>
<td>The organization emphasizes acquiring crowd funding and creating new network.</td>
<td>297</td>
<td>1.00</td>
<td>5.00</td>
<td>2.689</td>
<td>.97814</td>
</tr>
</tbody>
</table>

Source: Survey Data (2019)
The results indicated that the small and medium Enterprises are very dynamic and consider crowd funding from different sources in the country (Mean of 4.4472 and a standard deviation of 0.92746). A high mean of 3.9243 and standard deviation of 1.16842 indicated that the smaller medium enterprises in Garissa County are committed ensuring that the crowd fundings are efficiently and effectively used. Majority of the small and medium enterprise owners consider crowd funding as a good form of capital as evidenced by a mean of 4.3135 and standard deviation of 1.08204. A mean of 3.0171 and a standard deviation of 1.12359 indicates that the organization moderately defines success on the basis of having the most unique or the newest crowd funding. Majority of the respondents (Mean=2.6891, Std deviation=.97814) disagreed that the organizations emphasize on acquiring crowd funding and creating new network as the majority of small and medium Enterprises argue that they rely on other sources of financing. The study supports Blouin, Lee and Erickson (2018) on determination of the influence of crowd fundings on financial performance. The key finding was that crowd fundings influence performance of the firm. Further, the study found that fundraising is also clearly related to the performance indicators shown in the 990 disclosures, particularly the program ratio of program expenditures to total expenditures.

The findings supports Mwangi (2016) findings on donor funding and how it influences performance of microfinance institutions. The analyzed findings indicate that donor funding positively influence performance of the firm. The study supports Cheboi (2014) who studied the influence of donor funding on organizational performance. The findings showed that an inverse link exists between donor funding and financial performance.

4.5 Financial Performance of SMEs in Garissa

The study sought to establish the financial performance of small and medium Enterprises in Garissa County, Kenya. Indicators of financial performance indicator return on assets and return on equity. The return on assets and return on equity data was collected from 2014 to 2018.

### Table 6 Financial Performance of SMEs in Garissa

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA 2014</td>
<td>297</td>
<td>9.00</td>
<td>62.00</td>
<td>26.5610</td>
<td>10.28987</td>
</tr>
<tr>
<td>ROA 2015</td>
<td>297</td>
<td>9.30</td>
<td>62.00</td>
<td>28.0684</td>
<td>12.00356</td>
</tr>
<tr>
<td>ROA 2016</td>
<td>297</td>
<td>9.30</td>
<td>62.00</td>
<td>27.8293</td>
<td>12.06192</td>
</tr>
<tr>
<td>ROA 2017</td>
<td>297</td>
<td>12.00</td>
<td>62.00</td>
<td>28.1886</td>
<td>12.04264</td>
</tr>
<tr>
<td>ROA 2018</td>
<td>297</td>
<td>12.00</td>
<td>62.00</td>
<td>28.0303</td>
<td>12.03412</td>
</tr>
<tr>
<td>ROE 2014</td>
<td>297</td>
<td>2.00</td>
<td>25.00</td>
<td>11.1108</td>
<td>5.04601</td>
</tr>
<tr>
<td>ROE 2015</td>
<td>297</td>
<td>2.00</td>
<td>23.00</td>
<td>11.4121</td>
<td>4.87643</td>
</tr>
<tr>
<td>ROE 2016</td>
<td>297</td>
<td>2.00</td>
<td>23.00</td>
<td>11.3145</td>
<td>4.84727</td>
</tr>
<tr>
<td>ROE 2017</td>
<td>297</td>
<td>2.00</td>
<td>23.00</td>
<td>11.2976</td>
<td>4.88132</td>
</tr>
<tr>
<td>ROE 2018</td>
<td>297</td>
<td>2.00</td>
<td>23.00</td>
<td>11.6209</td>
<td>4.88382</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>297</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Survey (2019)
The results on return on assets indicated that for the period between 2014 to 2018 the highest return experience by small and medium Enterprises was 62% while the minimum return on assets was 9%. This indicated a great variation as indicated by huge standard deviation which ranges from 10 to 12. The average return on assets who is between 26 and 28% and this indicates a good growth of small and medium Enterprises in Garissa County, Kenya.

The results on return on equity in 2014 to 2018 indicated that they were constantly at 11% as indicated by a mean which ranges from 11.1108 and 11.6209. The highest Return on equity for a period between 2014 to 2018 of the small and medium Enterprises was 25%. The minimum return on equity was 2% which was uniformly experienced for the 2014 to 2018. This clearly indicates that the performance of small and medium Enterprises in terms of return on equity in Garissa County, Kenya was low.

4.6 Regression Analysis
Regression coefficient presents the coefficients of the independent variables. These coefficients presents the changes of (Y) dependent variable in terms of the magnitude and direction as a result of changes in the specific independent variable. Table 4.7 presents the findings.

Table 4.7 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>5.432</td>
<td>1.890</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crowd fundings</td>
<td>.171</td>
<td>.079</td>
<td>.126</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey (2019)

Regression was \( Y = 5.432 + 0.171X_1 + \varepsilon \)

The findings in table 4.14 indicate that holding factors considered in the model (crowd funding) constant, financial performance would be 5.432 units. The coefficients of various independent variables were \( B_1=0.171 \). The findings on the effect of crowd funding on financial performance in Garissa County presented by the coefficient of \( X_3 (B_3=0.171, P=.030) \). The findings indicate that crowd funding significantly and positively effects the changes in financial performance. The findings indicate that a positive unit change in crowd funding will result to the positive unit change in financial performance. The coefficient indicates that a unit change in crowd funding will result to 0.171 units changes in financial performance of SMEs. The study supports Blouin, Lee and Erickson (2018) on determination of the influence of crowd fundings on financial performance. The study found that fundraising is also clearly related to the performance. The findings supports Mwangi (2016) findings on donor funding and how it influences performance of microfinance institutions. The analyzed findings indicate that donor funding positively influence performance of the firm. The study disagrees with Cheboi (2014) who studied the influence of donor funding on organizational performance. The findings showed that an inverse link exists between donor funding and financial performance.
CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.1 Conclusions
The study concluded that crowd funding significantly and positively effects the changes in financial performance. The study concluded that a positive unit change in crowd funding will result to the positive unit change in financial performance. The study concluded that ploughed back profit was insignificantly related to financial performance of SMEs in Garissa county, Kenya.

5.2 Recommendations
Based on the conclusions the study recommends that Small and medium enterprises owners should concentrate on utilizing efficient and effectively funds from crowd fundings and retained profits. This is because a unit change in either crowd fundings and retained earnings resulted to positive change in financial performances of SMEs. It was also established that the cost incurred in was too low in generating retained earnings and crowd funding funds. The study recommended that caution should be exercised in utilizing angel investors funds and ploughed back funds for their positive changes negatively affects financial performance.

REFERENCES


APPENDIX I: QUESTIONNAIRE
(Tick and fill were appropriate)

SECTION A: GENERAL INFORMATION

Gender
Male [ ]
Female [ ]

Level of education
Certificate [ ]
Diploma [ ]
Degree [ ]
Masters [ ]

What is your age bracket?
18 - 25 Years [ ]
26 - 33 Years [ ]
34 - 41 Years [ ]
Above 42 years [ ]

How long have you operated this business?
Less than 3 Years [ ]
3…7 years [ ]
8…14 years [ ]
More than 15 years [ ]

SECTION D: CROWD FUNDINGS
What is your level of agreement with the following statements that relate to crowd fundings? Use a scale of 1-5 where; 1 = not sure, 2= strongly disagree, 3 = disagree, 4 = agree, 5 = strongly agree.

<table>
<thead>
<tr>
<th>Crowd fundings</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The organization is a very dynamic and considers crowd fundings from different sources</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>The organization is committed in ensuring that crowd fundings are efficiently and effectively used.</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The size of investment considers crowd fundings as the best form of capital</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>The organization defines success on the basis of having the most unique or newest crowd funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organization emphasizes acquiring crowd funding and creating new network.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Appendix II: Secondary data collection Schedule

<table>
<thead>
<tr>
<th></th>
<th>Amount received</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>ROA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ROE</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>