

**ANALYSIS OF CONSTRAINTS FACED BY SMALL MEDIUM ENTERPRISES IN
USING CROWDFUNDING AS A SOURCE OF START-UP CAPITAL IN NAKURU
COUNTY, KENYA**

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ABSTRACT

Small Medium Enterprises (SMEs) in Kenya face difficulty in accessing formal financing. This therefore means that there is a capital gap existing in Kenya which particularly affects the limited opportunities for establishment and development of new business ventures. The concept of crowdfunding could be a solution to this capital gap. This study sought to analyze the constraints faced by Kenyan SMEs in using crowdfunding as a source of start-up capital. The study was based on three theories, the agency theory, the stakeholder theory and the static trade-off theory. The study adopted a descriptive survey design because the objective of the study was systematic description of facts surrounding the use of crowdfunding. It targeted Chief Executive Officers (CEOs) of crowdfunding platforms and entrepreneurs who had used crowdfunding to finance their business ventures. Self-administered structured questionnaires were distributed to a sample of 125 entrepreneurs operating small businesses within Nakuru County. Stratified proportionate sampling coupled with simple random sampling and snowball sampling were applied in selecting the respondents. Once the data had been collected it was processed, coded and analyzed using descriptive statistics with the aid of Statistical Package for Social Sciences (SPSS) computer software tool. The results were presented using frequency tables, graphs and percentages. The research findings indicated that, a good percentage of SMEs have embraced crowdfunding with 49% of them having secured funds through this system. These SMEs highlighted risk of idea stealing, desire by financial supporters to gain control in the venture, lack of intellectual property rights and legal issues to be the major constraints that would stop them from tapping into the crowdfunding. The conclusion drawn from the study was that the constraints surrounding crowdfunding affect to a larger extent its use as a source of financing. The study also indicated that as much as SMEs are using crowdfunding, they still prefer the use of the traditional sources like banks. Based on the results of the study and the conclusions, the following key recommendations were made: Crowdfunding is a very good alternative to traditional fundraising. In order to be successful, the campaign has to be carefully designed upfront and executed with a lot of dedication. Credibility of projects generally increases when there is a team of multiple project initiators. It is important that they publish updates during the fundraising period in order to sustain this credibility. Crowdfunding platforms should facilitate and guide project initiators in such a way that they can easily optimize the success drivers. Crowdfunding platforms should facilitate and guide project initiators in such a way that they can easily optimize the success drivers.