

INFLUENCE OF EXTERNAL FINANCING ON GROWTH OF SMALL AND MEDIUM ENTERPRISES IN EMBU COUNTY, KENYA

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INTRODUCTION

- The role of SMEs are not only income and employment generating but also breeding ground for entrepreneurs, they have higher employment capacity and not capital intensive, and highly competitive, flexible and innovative (Abay, Tessema & Gebreegziabher, 2014). Micro, small and medium-sized enterprises (SMEs) are a major source of entrepreneurial skills, innovation and employment (Nyang'ori, 2010).

Micro enterprises together with small and medium enterprises contribute immensely to the economy of most countries in the world through creation of employment besides contributing to a country's Gross Domestic Product (Chimuneka & Rungani, 2011). In Kenya, the MSE sector employs around 2.3 million people and generates around 14% of the country's Gross Domestic Product (Nasireembe, 2007).



- Chepkemoui (2013) in a study on the effects of capital structure of small and medium enterprises on their financial performance, observed that due to fixed costs of external financing, smaller firms choose to refinance less frequently than larger firms because they are more affected by these fixed costs in relative terms. Hence, small firms choose to operate at a higher leverage level at a refinancing moment to compensate for less frequent rebalancing. 

STATEMENT OF THE PROBLEM

- In Kenya, the government has continued to lay emphasis on the growth of small scale business enterprise as an engine of growth and poverty alleviation. However, studies have noted that there is a problem of poor performance of these Small scale business enterprises in many parts of Kenya, and this is worrying because it is threatening sources of livelihoods are lost in the process resulting in increasing poverty.

- Lack of sufficient capital has been perceived to be one of the reasons why enterprises perform poorly. It is for this reason that this study was undertaken to investigate the influence of external financing on the growth of small and medium enterprises in Embu County, Kenya.



OBJECTIVE OF THE STUDY

- The aim of this study was to determine the influence of external financing on the growth of small and medium enterprises in Embu County, Kenya.



METHODOLOGY

- The study adopted a descriptive survey research design on the small and medium scale businesses selected from across the various sectors namely manufacturing, commerce, trading and service among others in Embu County. A sample of 202 was drawn from the SMEs in Embu County.



- A questionnaire was used to collect data after pre-testing if for reliability and validity. Data were analyzed using descriptive and inferential statistics and presented in charts and figures.



FINDINGS

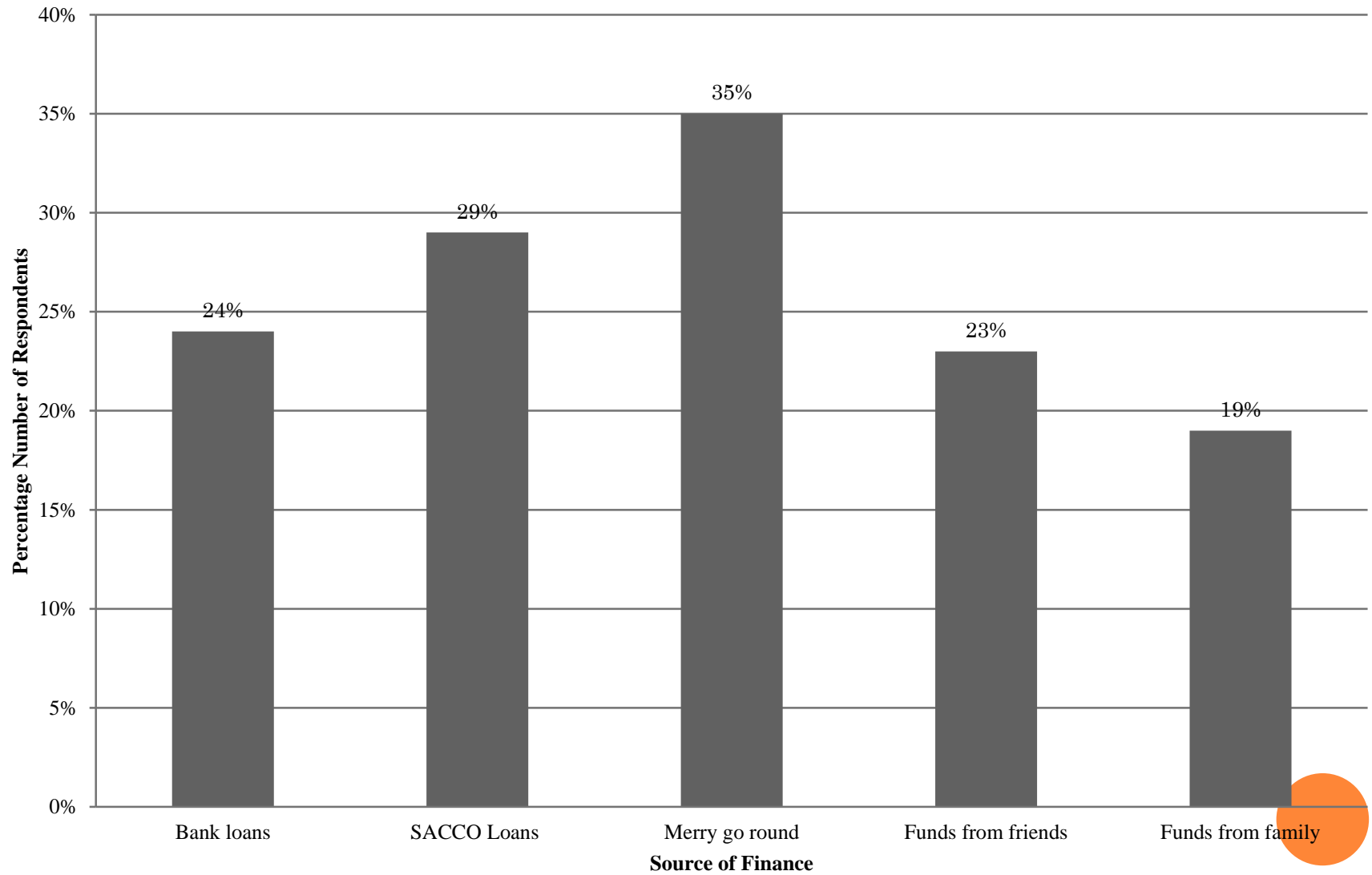
		Received Credits		No credit received	
		Frequency	%	Frequency	%
Gender	Male	48	57.1	73	61.9
	Female	36	42.9	45	38.1
Age	< 25	10	11.9	39	33.1
	25-35	33	39.3	31	26.3
	36-50	37	44.0	29	24.6
	>50	4	4.8	19	16.1



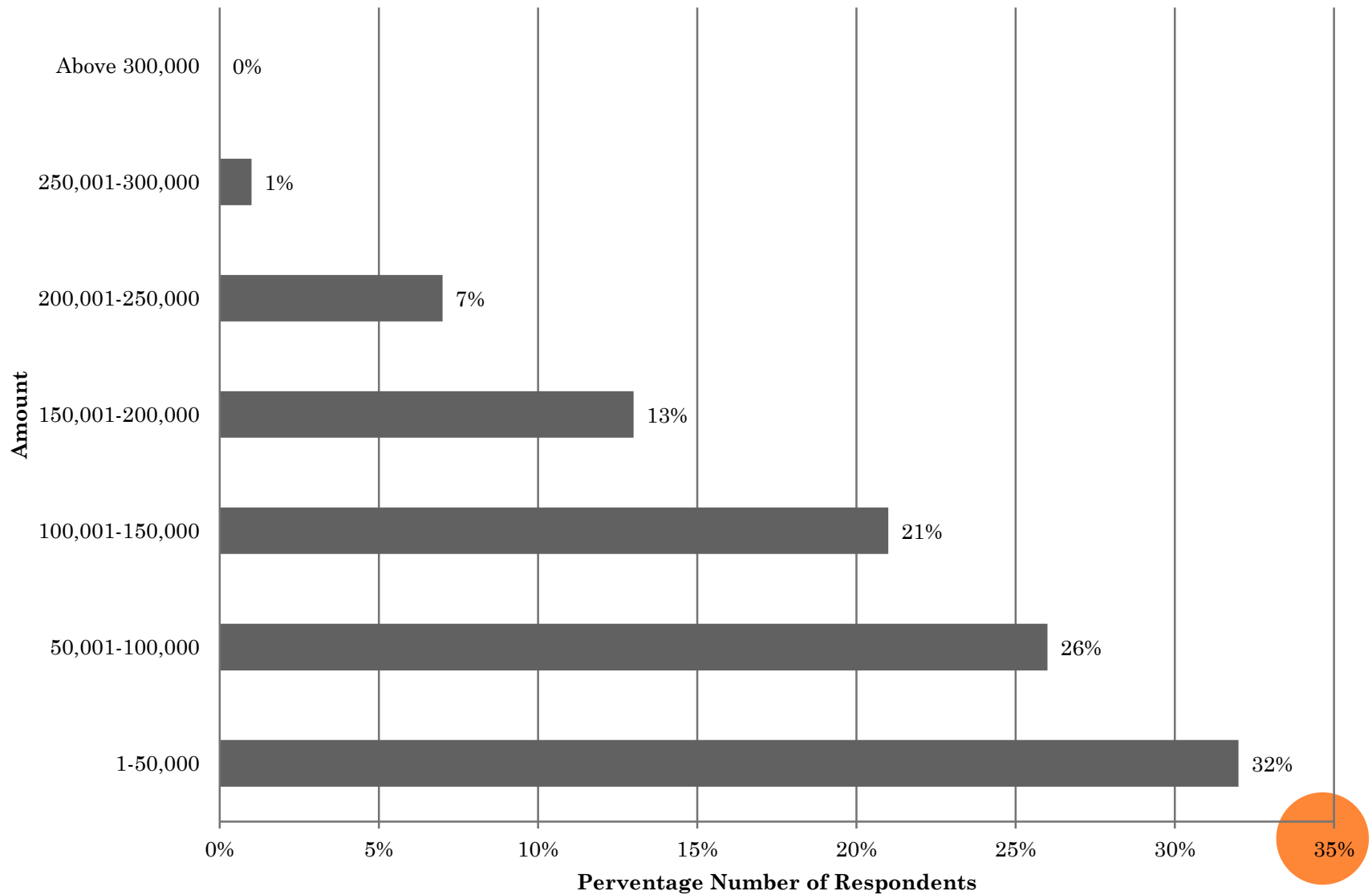
Business managers	elf	45	71.4	39	61.9
	Wife	4	6.3	5	7.9
	Husband	3	4.8	2	3.2
	Employee	8	12.7	6	9.5
	Son	2	3.2	5	7.9
	Other relative	1	1.6	2	3.2



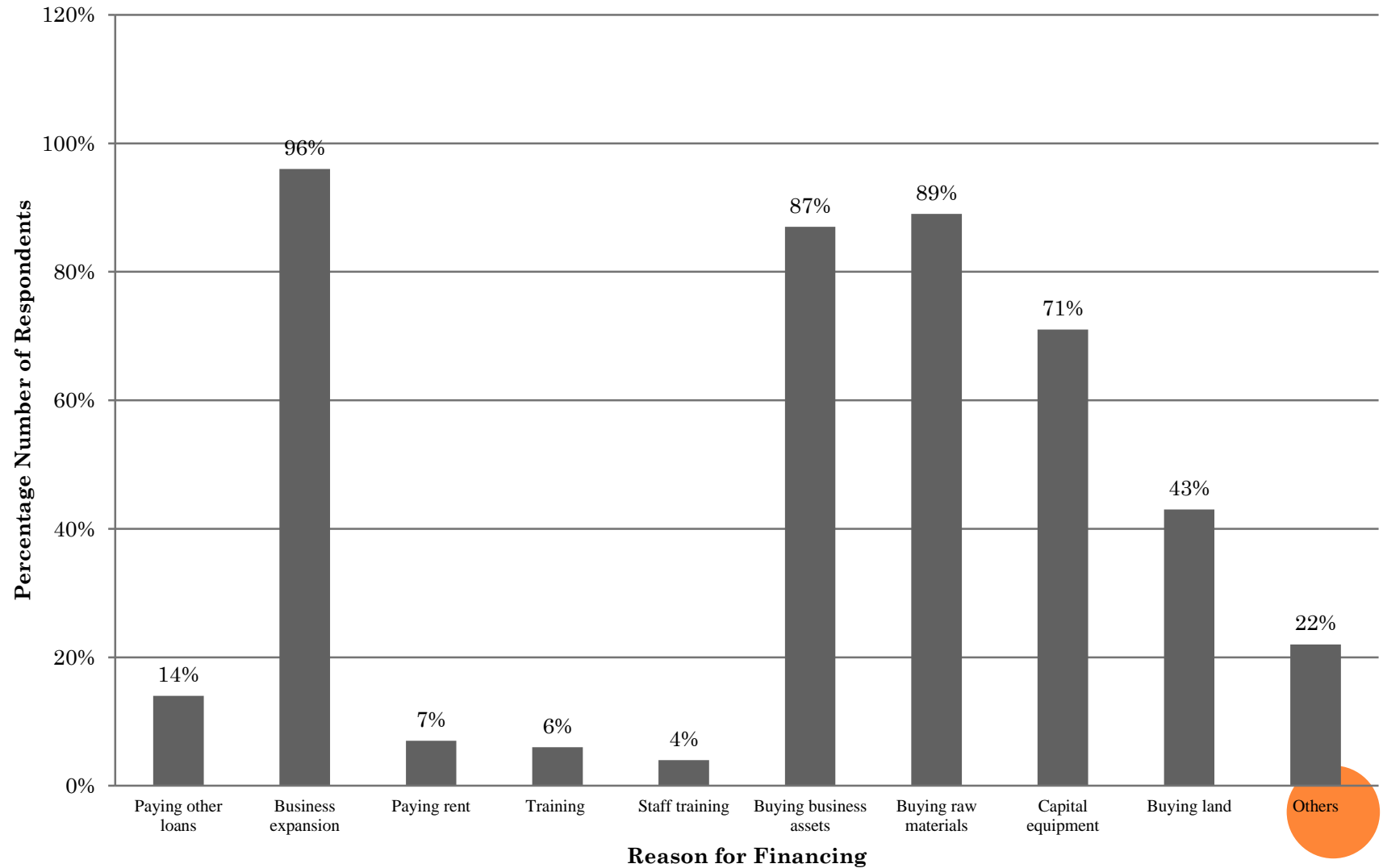
SOURCES OF EXTERNAL FINANCE



AMOUNT OF EXTERNAL FINANCING



REASONS FOR SEEKING ADDITIONAL CAPITAL



REGRESSION ANALYSIS

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	86149.07	5	17229.814	7.365	.000 ^b
Residual	460865.36	197	2339.42		
Total	547014.43	202			



- This led to the following model:

Growth=0.122+0.305 External equity financing

- The p-value (0.000) implied that the model was significant at 5% level of significance.



Conclusions

- Based on the findings from the research, the study concludes that most SMEs normally attract funding of at most Sh. 1-100,000 and this is normally for the purpose of business expansion, buying raw materials or buying business assets. The study also established that external equity financing has a significant influence on the growth of the SMEs.



Recommendations

- Based on the findings from the analyzed data, the study recommends that the providers of external financing should be encouraged to advance more finance to SMEs since this will improve their capital. Besides, they should also loosen the stringent rules of awarding loans. This is because the study observed that external equity financing has an influence on the growth of enterprises.



~THANK YOU~

