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FACTORS INFLUENCING THE FINANCING CHOICE AMONG CREATIVE ENTERPRISES IN NAIROBI COUNTY, KENYA: THE MODERATING ROLE OF GOVERNMENT SUPPORT

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ADMISSION NO. 152503

A THESIS SUBMITTED TO STRATHMORE UNIVERSITY BUSINESS SCHOOL IN PARTIAL FULFILMENT FOR THE DEGREE OF MASTER OF SCIENCE IN DEVELOPMENT FINANCE OF STRATHMORE UNIVERSITY

DECEMBER 2025

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

.....Kevin Kariuki Kahariri .... [Name of Candidate]



.... [Signature]

.....01-02-2025..... [Date]

Approval

The thesis of Kevin Kahariri was reviewed and approved by the following:

Name of Supervisor: Dr. Muli Maingi

Faculty Affiliation: Lecturer, Strathmore University Business School.

Signature: _____ _____08-12-2025_____

DEDICATION

I dedicate this project to my family, my supervisors and my fellow colleaques for the moral and financial support and encouragement during the entire period of my study. Their support was significant in the success of this project. I also dedicate this project to the creative industry community in Nairobi that has supported this project in various capacities. Thank you.

ACKNOWLEDGEMENT

I wish to give thanks to God for the wisdom and good health that has enabled me complete my project successfully. Gratitude also goes to my supervisor, Dr. Muli Maingi for the immense academic guidance and moral support which has gone a long way in ensuring success of my project. Special gratitude also goes to my tutors at Strathmore Business School who have immensely contributed to the success of this project. I also wish to give thanks to my colleagues for the valued support and encouragement and also to my family for the financial and moral support throughout the period of study. Thank you all.

ABSTRACT

In Nairobi County, Kenya, creative businesses' sustainability and expansion depend critically on their financial decisions. The aim of this investigation was to look at the elements affecting financing choices for creative enterprises. Based on the Life Cycle Theory of Financing and the Pecking Order Theory, the research investigated using government support as a moderating factor how growth possibilities, ownership, asset tangibility, and financial literacy affect financing decisions. Targeting 100 creative businesses across ten creative industry sub-sectors, categorised by UNCTAD, the study used a descriptive correlational research design. Structured questionnaires gathered data; PLS-SEM was used for analysis. This investigation is aimed to provide insightful analysis of the financing practices of creative businesses and guide policy and financial institutions on the creation of initiatives catered to this sector. From the results, the study found out that ownership control determines significantly financing choices among the creative enterprises under study. Growth opportunities is an insignificant determinant of financing choice among the creative enterprises under study. Asset tangibility determines significantly financing choice among the creative enterprises under study. Financial literacy determines significantly financing choice among the creative enterprises under study. The investigation concluded that government support does not have a moderating effect on the determinants of financing choice for creative enterprises. The study recommends that entrepreneurs adopt more formalized and diversified ownership structures. Creative businesses under study should align their financing choices with scalable and sustainable business models. The creative businesses under study should strategically utilize their intangible assets such as intellectual property, brand equity, and digital content as part of their financing strategies. The study further recommended that it is essential for the businesses under study to prioritize financial literacy as a foundational element of entrepreneurial success.

Key words: financing choice, growth opportunities, ownership control, tangibility of assets, financial literacy, governmnet support, creative businesses, Nairobi County, Kenya.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP – Gross Domestic Product

IP – Intellectual Property

KIPPRA – Kenya Institute for Public Policy Research and Analysis

KNBS – Kenya National Bureau of Statistics

PLS-SEM – Partial Least Squares Structural Equation Modelling

POT – Pecking Order Theory

SACCO – Savings and Credit Cooperative Organization

SME – Small and Medium Enterprise

TOT – Trade-Off Theory

WIPO – World Intellectual Property Organization

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DEFINITION OF TERMS

Alternative Financing - Refers to non-traditional methods of funding, such as crowdfunding, digital credit, and grants, which are increasingly utilized by creative enterprises (FSD, 2021).

Creative Enterprises - A creative enterprise is a business that operates within the cultural and creative industries (CCIs), focusing on producing or distributing creative content, artistic expression, or intellectual property (UNESCO & Ernst & Young, 2015).

Financial Literacy - This is the capability to understand and put into practice financial skills, such as personal money management, budgeting, and making investment decisions (Munyuki & Jonah, 2021).

Government Support - Includes financial and non-financial assistance from public institutions to foster the growth of enterprises, such as grants, subsidies, training programs, and policy interventions (Aslam et al., 2023).

Growth Opportunities - Potential avenues for business expansion, including entering new markets, increasing revenue, or leveraging innovative business models (Lewis & Churchill, 1983).

Micro, Small, and Medium Enterprises (MSMEs) - Businesses categorized based on size, turnover, number of employees and are typically characterized by limited access to financial resources compared to large corporations. (KNBS,2016)

Pecking Order Theory (POT) - A financial theory suggesting that businesses prioritize internal financing, then debt, and lastly equity financing, based on cost and risk considerations (Myers & Majluf, 1984).

Partial Least Squares Structural Equation Modeling (PLS-SEM) - A statistical method used for analyzing complex associations between observed and latent variables, commonly applied in business and social sciences research (Hair et al., 2018).

Tangibility of Assets – The existence of physical or intellectual property assets that can serve as collateral or play a role in shaping a business's financing decisions (Serrasqueiro, 2011).

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Before the COVID-19 pandemic, it was projected that the creative economy could make up 10 percent of the global Gross Domestic Product by 2030 (Global Solutions Initiative (G20), 2021). This sector plays a significant role in providing informal employment opportunities, with approximately 300 million individuals being employed, especially young people aged between 15 and 29 (Datta et al., 2023; Global Solutions Initiative(G20), 2021). Furthermore, the World Economic Forum notes that in the UK, the creative sector officially generates 29.5 million jobs (Santiago, 2015). The creative sector showed more resilience than other service sectors following the COVID-19 epidemic; its exports in 2020 dropped only 1.8% compared to a 20% drop in general service exports (United Nations Conference on Trade and Development, 2022). Examining trends from 2006 to 2020, data shows that export of creative goods (United Nations Conference on Trade and Development, 2022) had the most significant and continuous increase among Least Developed Countries (LDCs) (United Nations Conference on Trade and Development, 2022).

According to UNESCO and Ernst and Young (2015), cultural and creative industries encompass activities primarily focused on activities with heritage, artistic and cultural significance, commercialization, distribution, promotion or reproduction of services and goods. Additionally, they define the creative economy sub-sectors to include visual arts, television, radio, performing arts, magazines and newspapers, films, music, gaming, books, architecture and advertising.

As digitisation and the creative arts industry grow, Kenya's services sector has a lot of job opportunities for young people and economic growth prospects (KIPPRA, 2020). Kenya was named the most important economic and creative hub in East Africa by the British Council (2016) as the report praised the country's strengths in areas like music, theatre and performing arts, filmmaking, radio and TV, and community and street art. Based on a World Intellectual Property Organisation copyright-based businesses accounted for 5.32% of the total GDP, or KSH 1.6 trillion at basic prices, and helped KSH 85.2 billion

contribute to the economy in 2007 (Nyarik et al., 2007). The analysis recommended, however, that the real contribution of these sectors to GDP might be more than 7% given certain research restrictions. Moreover, the analysis showed that these sectors gave 62,131 people jobs—about 3.26% of the whole workforce including public and commercial sector workers (Nyarik et al., 2007).

More recently, a Kenya National Bureau of Statistics (2023) analysis on the economic impact of the Kenyan cinema business revealed that it created 42,823 jobs and KSH 44.1 billion to GDP (0.3% of the total GDP). With 75% of the entire population below 35 years of age, Kenya's youth are expected to gain from the expansion of the creative industry which according to Datta et al. (2023) employs a majority of the 15–29 age range.

Afrexim Bank (2022) revealed that the financing gap in Africa's CCIs results from a mismatch in investment processes among creatives and investors rather than from a lack of capital or investor interest. The study further reveals that effective investments result from creatives knowing exactly the best investment model for their companies (Afrexim Bank, 2022). Thus, it is important to know how creative enterprises come to the chosen funding solutions (Manyala, 2016; HEVA, 2016). Moreover, the industry faces a challenging business environment characterised by stringent regulations, high licensing fees, and inadequate infrastructural facilities and space for SME operators (Manyala, 2016). It is essential for the government to lead an inclusive policy reform process involving the private sector of the creative industry. The Kenya Creative Economy Policy (2023) emphasises the importance of a participatory approach and collaboration between the government and the private sector to boost growth and development in the creative industry through innovative funding mechanisms.

The European Investment Fund (2020) CCS Financing Overview highlights various financial instruments available to cultural and creative sector SMEs, including venture capital and private equity funds, debt financing options like bank loans and invoice factoring, as well as crowdfunding and grants from CCS institutions. Additionaly, the British Council's (Newbigin, 2014) guide highlights crowdfunding, social impact investment, collaborative financing, public and private grants, and venture capital or angel investment as key financing options for the creative industries.

Social and aesthetic considerations often justify government investment for the Cultural and Creative Industries (CCIs) (Getzner, 2017). Ensure access to cultural experiences, promote cultural freedom, and improve efficiency to boost economic opportunities (Getzner, 2017). In response, the Department of Sport, Arts, and cultural (2023) launched the Mzansi Golden Economy Strategy (MGE) to promote social cohesion, job creation, and economic growth in the arts, cultural, and heritage sector. This strategy aims to increase employment, productivity, and global competitiveness in the arts industry in South Africa through targeted investments (Department of Sport, Arts, and Culture, 2023).

In the UK public sector offers plenty of credit facilities and grants, sometimes even interest-free, which are targeted towards creative enterprises (Corporate Finance Faculty & Creative Industries Federation, 2015). Institutions in the public sector funded by the government, like Arts Council England, Creative England, and Arts Impact Fund provide grants and concessional loan facilities focused on financing the creative industries (Corporate Finance Faculty & Creative Industries Federation, 2015). UK Department for Business Innovation and Skills (2011) also notes that a fifth of the funds from angel investors in the UK go to the creative industry.

1.1.1 Creative Enterprises Financing

Business Development Bank of Canada (2023) says that creative businesses often have to spend a lot of money on content creation, production, and marketing before they can start making money. Corporate social investment, which is required of big businesses, is the major way that the private sector helps the South African creative industry get money (Kimani & Affonso, 2020). Grants are the primary source of funding for African creative industries, according to USAID and Prosper Africa (2022) research. Most innovative companies in Kenya, according to another HEVA Fund (2021) report, obtain their money from personal finances, loans from family and friends, and loan sharks utilising personal assets as security.

Creative industries often face challenges such as asymmetrical information, and navigating the dynamics is crucial for achieving financial stability and sustainability (Caves, 2003). The European Union (2013) carried out a survey on the access to finance for the creative industries that revealed internal or self-generated capital and public

subsidies formed the preferable choice of finance for 3,477 respondents of the study. Additionally, 76% of respondents indicated that loans from banks and other formal institutions are not a key source of finance for them. The European Union (2013) study also reveals that this generalisation does not hold when analysing individual subsectors like the audio-visual sector, which showed loans from banks make up 40% of the financing mix. Finally, the survey also reveals that creative enterprises did not look for external financing because the process is time-consuming and complicated; they had sufficient internal financing, and they had insufficient assets to offer as collateral. A similar study by Idea Consult (2012) in Belgium reveild that 78% of respondents in creative industries went to a bank for credit while 14% went to family and friends.

According to the OECD (2022), there is a positive link between public spending on culture and cultural participation in some European countries. This means that more public funding can lead to more people going to both publicly funded and non-publicly funded cultural events, like films and live performances. This suggests a complementarity between public and private spending, where enriched offerings from publicly funded institutions can stimulate greater participation in other cultural sectors. UNESCO & The World Bank (2021) state that restructuring the tax system applied to art and culture encourages creative innovation and fosters a wider range of artistic voices and projects.

A study by FSD (2021) on the Kenyan creative industry revealed that family and friends made up 58.1% of the funding sources, with bank loans making up a negligible share. However, 78.8% of the respondents had an account with a regulated financial institution. The study also shares that 54.5% of the participants needed between ksh 100,000- ksh 1,000,000 and that 72.7% of respondents were not aware of any government initiatives to support the creative sector.

1.1.2 Determinants of Financing Choice

Traditionally, theories including the Trade-off Theory which emphasises tax benefits and bankruptcy costs and the Pecking Order Theory, which argues SMEs prioritise internal funds before seeking external debt or equity have been used to analyse capital structure decisions in SMEs (Rhyne & Brigham, 1979; Myers & Majluf, 1984). But research shows that these models don't fully capture the complexity of developing economies and the

creative sector. In such sectors, problems like few physical assets, relying too much on personal connections, and not having much formal collateral can make it hard to get traditional funding (Sirmon & Hitt, 2003; Mac a Bhaird, 2010). Ogutu (2021) investigated the problem of access to financing for creative and cultural industries where he highlighted a demand side concern including informality, perceived complexity of loan products and lack of collateral as part of the obstacles. Ogutu (2021) also raises access to credit supply side such like excessive interest rates and ignorance of the creative sector investment procedure.

According to Lewis and Churchill's (1983) Small Business Growth Model, finance requirements vary depending on a company's development stage. Still, its relevance to creative businesses is little known, particularly in cases when owner-driven strategies and intangible intellectual property rule.

As Osei-Assibey et al. (2012) show, tangibility affects collateral requirements. Ghanaian SMEs with mostly intangible or low-value assets find it difficult to get loans, thereby depending on internal finances or microfinance (Osei-Assibey et al., 2012). Portuguese service-sector SMEs with little physical assets showed a preference for short-term debt (Serrasqueiro, 2011). Improving credit access calls for financial literacy. Good recordkeeping and budgeting greatly reduce information asymmetry, according to Hussain et al. (2018). Furthermore, found by Munyuki and Jonah (2021), was a relationship between better business success in Cape Town and increased literacy levels. Credit choices may be influenced by growth prospects. According to Jensen and Meckling (1976), companies with great future potential usually stay away from large debt to keep flexibility. Neves et al. (2020) on the other hand show that financing expansions during times of economic austerity depends on short-term debt. The ownership structure is noteworthy where Gebru (2009) showed Ethiopian partnerships and private limited companies are prone to embrace mixed financing and Borgia and Newman (2012) showed that the fear of external control motivates Chinese SME owners to minimise external borrowing.

Though awareness of these elements is growing, current research offers little data on how financial literacy, ownership control, intangible assets, and growth opportunities all affect

financing choice decisions in the creative sector (Afri-Exim Bank, 2022; FSD, 2021). Specifically, the influence of government support as a moderating factor in the financing decisions of SMEs.

1.1.3 Government Support

Government support for SMEs is seen, according to Nguyen-Thi-Huong et al. (2023), in subsidies, tax breaks, infrastructure development and capital accessibility. Jugend et al. (2018) posit that tax breaks are a major factor that encourages companies to make smarter investments and grow in certain areas where the cost of investment is high. Furthermore, as emphasised by Chundakkadan & Sasidharan (2020) non-financial help provided by governments includes direction in marketing innovations, support for research and product development, and training in the use of new equipment.

In the example of China and government assistance to small enterprises, Atherton & Price (2008) find that the State promotion law launched in 2003 introduced activities, programs and services to help SMEs company development. Additionally, state interventions such as the almost 2000 loan guarantee agencies are meant to serve SMEs as large banks prefer to lend to state-owned enterprises (Atherton & Smallbone, 2010). For the Island country of Mauritius, Sambajee & Dhomun (2015) report that government support exists in the form of an equity fund that was begun to support the diversification of SMEs to different industries and fill the financing gap that existed.

Wang et al. (2021) explores the various forms of support from government to SMEs post the COVID-19 pandemic. They state that tax breaks and providing a predictable business environment are necessary actions to boost both the demand and supply side resulting in confidence in the economy. Furthermore, they also suggest interest rate subsidies to banks to incentivise them to lend more to SMEs. Lastly, they suggest government support in the form of an early-stage start-up loan that can be turned to equity in later seed funding.

Under the Department for Culture, Media and Sport (2025) the United Kingdom announced a 60-million-pound support package to the creative industries that would go towards building infrastructure, grants and funds to directly support firms in music, fashion and film. In the United States of America, government support has mainly begun from a legislative angle where bills are that are passed aim to provide direct funding to

the creative sector, offer grants and offer employment through public creative projects (Americans for the arts, 2025).

South Africa's film industry which is known for making successful films, brings in about $300 million a year with the government as the main investor (African Business, 2014). The Department of Trade and Industry (DTI) offers tax credits of 20% to 25% for international films and 20% to 35% for co-productions (African Business, 2014). On the other side of the African continent, the Nigerian film industry produces over 2000 films each year, makes over $70 million, and accounts for 1.4% of GDP, many writers point to a lack of government support for its growth and success (Oyekanmi, 2017; Madichie, 2010; Awodipe, 2023). It also reported that President Goodluck Jonathan initiated a $200 million government loan and $17–18 million grant through "Project ACT-Nollywood" in 2011 to improve film production training (Omohlorlah, 2020).

To assist SMEs the Kenyan government has implemented the Credit Guarantee Scheme, which aims to derisk SMEs seeking access to funding and the Youth Enterprise Fund, which was created to assist young business owners by providing loans, market research, and business skills training (KIPRA, 2023). Nevertheless, it is important to acknowledge that the Kenyan government offers only a limited amount of support to the arts and crafts industry, relying exclusively on the Ministry of Youth Affairs, Creative Economy, and Sports. This lack of dedicated policy translates into inadequate funding and infrastructure, hindering the growth of the creative sector (Manyala, 2016).

1.1.4 Creative Enterprises in Kenya

The creative industry in Kenya has experienced notable transformation in recent years, characterised by an increasing number of enterprises and organisations that contribute to the development of a vibrant and diverse creative ecosystem (FSD, 2021). Creative enterprises in Kenya encompass diverse sectors such as fashion, film, music, visual arts, and digital media, each presenting distinct challenges and opportunities (The British Council, 2016). Kenya's film industry is the most advanced in the creative sector, with organised enterprises drawing local and international support and market opportunities with the advent of online distribution channels such as Showmax and Netflix (Manyala 2016).

The Kenyan Ministry of Youth Affairs, Creative Economy and Sports (2023) asserts that the creative industries in Kenya serve as a crucial engine for economic growth, enhancing the nation's GDP and creating employment opportunities, particularly for the youth. Numerous collective organisations and associations in the Kenyan creative sector have significantly contributed to advocating for the rights and interests of creative professionals by providing resources, networking opportunities, and platforms for showcasing their work (Foundation, Baraza Media Lab & WYLDE International, 2022). Organisations involved include the Kenya Film Commission, the Music Copyright Society of Kenya, and the Kenyan chapter of the Music in Africa Foundation (Baraza Media Lab & WYLDE International, 2022). Moreover, various supporting stakeholders including NGOs, agencies of government and private sector partners, have contributed to the development of the creative enterprise ecosystem in the country (FSD, 2021). The creative economy demonstrates significant informality, as numerous individuals and enterprises function outside the formal sector and participate in the gig economy (Gachara et al., 2021; Genesis Analytics et al., 2019; FSD, 2021).

1.2 Statement of the Problem

The Kenyan creative sector is vibrant and diverse, encompassing sub-sectors such as crafts, design, film, music, performing arts, photography, and visual arts (The British Council, 2016). These creative enterprises play an essential role in building cultural cohesion, expressing cultural identity, contributing 5.3% to the GDP and generating jobs. The creative sector in Kenya is primarily informal, with an estimated 275,375 creative enterprises, of which only 44,614 (16%) are formally registered (FSD, 2021). In 2020, Kenya's Ministry of Sports, Culture and Heritage introduced a stimulus package worth 100 million Kenyan shillings ($940,000) to support artists, actors, and musicians financially during the COVID-19 pandemic (Ilado, 2020).

A report by Afri-Exim Bank (2022) strongly states that Africa's creative and cultural industries (CCI) face a financing gap not due to a shortage of capital or investor interest but because both creatives and investors often lack understanding of the investment processes involved. Afri-Exim Bank (2022) also states that successful credit sourcing occurs when entrepreneurs in CCIs fully understand the CCI investment process.

Additionally, results from a survey by KNBS (2023) show that 56.8% of businesses in the arts sector shut down within their second year with limited know-how on how to apply for loans being one of the main problems. Interestingly, research from FSD (2021) shows that 63.3% of creatives have a bank account that they use for business transactions. However, 58.1% of creative entrepreneurs fund their enterprises through family and friends (FSD, 2021).

Despite a majority of creative entrepreneurs having bank accounts, loans from banks do not feature as a notable financing option for creatives who want to fund their business needs. However, other flexible choices of finance have emerged as alternative choices of finance for creative entrepreneurs with digital lenders like MPESA making 16% of the preferred financing sources (FSD, 2021; Ogutu, 2021). Other alternative finance options include digital credit, crowdfunding, chamas, Saccos, family, friends and angel investors. It is thus important to understand why creative entrepreneurs are leaning away from traditional finance and moving towards alternative financing options (Ogutu, 2021). Ali et al. (2024) and Ondicho et al. (2013) strongly support that financing choice has a strong role to play in the success of a business. FSD (2021) also make reference to the unique nature of assets in the creative economy which are mostly made up of intangible assets which increases the difficulty when seeking finance from traditional financial institutions.

The pecking order theory (Myers & Majiuf, 1984) indicates that small and medium-sized enterprises (SMEs) have a ranked preference for sources of financing, favouring internal funds initially, followed by debt, and considering equity as the least favourable option. This preference arises from the information gap between SME owners and outside investors, along with the intention to retain control. According to this theory, more profitable SMEs with greater retained earnings tend to depend less on external sources of finance. In contrast, RBV highlights that a entity's distinct set of resources and capabilities shapes its financing decisions (Wenerfelt, 1984). SMEs possessing valuable, rare, and hard-to-replicate resources may enjoy improved access to external funding due to their competitive edge and potential for growth. Nevertheless, SMEs frequently lack the tangible assets necessary to serve as collateral for bank loans. Instead, their key resources tend to be intangible (e.g. human capital, reputation), which are harder for external

investors to value. This can lead SMEs to rely more heavily on relationship-based financing from sources that can better assess their intangible resources. Together, these theories highlight how factors like profitability, growth, asset structure, and managerial capabilities shape SMEs' financing patterns.

The pecking order theory (Myers & Majiuf, 1984) suggests that SMEs follow a hierarchical preference for financing sources, prioritizing internal funds first, then debt, and equity financing as a last resort. This hierarchy is driven by information asymmetry between SME owners and external investors. The Life Cycle Theory of Financing is prominently attributed to Berger and Udell (1998) complements this by highlighting how financing needs evolve as SMEs progress through different growth stages. In the early stages, SMEs rely heavily on internal sources and informal financing from family/friends. As they grow, they gain better access to bank loans and other debt instruments. Only in later stages do SMEs typically access external equity financing (Berger & Udell, 1998).

Following research on the financing behaviour of creative enterprises from FSD (2021), Afriexim Bank (2022), Ogutu (2021) and Gachara et al. (2021), the key question of how creative enterprises decide on the choice of financing has not been conclusively studied. For clarity, although the topic of choice of financing for MSMEs has been studied before, understanding how the creative industry makes financing decisions remains a grey area. This is especially given that SMEs in the creative sector face challenges in accessing credit mainly because their assets are intangible compared to other ordinary SMEs. Specifically, the conceptual gap this research seeks to investigate is the moderating effect of government support, or lack of it, as the government is paying close attention to the sector, evidenced by creative industry bills in parliament and budgetary allocations at the county level.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study is to investigate the factors influencing the financing choice among creative businesses in Nairobi County, Kenya

1.3.2 Specific Objectives

The following specific objectives were studied to understand the general objective:-

i. To assess the effect of growth opportunities as creative businesses are choosing financing.

ii. To determine the influence of ownership control whilst creative businesses are choosing financing.

iii. To establish the influence of tangibility of assets at the time that creative businesses are choosing financing.

iv. To examine the effect of financial literacy when creative businesses are choosing financing.

v. To assess the moderating effect of support from the governmnet on the determinants of financing choice for creative businesses.

1.4 Research Questions

i. Do growth opportunities affect the choice of financing among creative businesses?

ii. Does ownership control affect the choice of financing among creative businesses?

iii. Does tangibility affect the choice of financing among creative businesses?

iv. Does financial literacy affect the choice of financing among creative businesses?

v. Does support from the governmnet have a moderating effect on the determinants of financing choice among creative businesses?

1.5 Scope of the Study

The research seeks to investigate the determinants of financing choice for creative enterprises as well as the role of government support as a moderating factor in the decision making. Nairobi City County has been selected as the research location because of the limited resources present for this study as well as the presence of enough creative

enterprises to have a viable sample size (FSD, 2021; KNBS, 2016). Furthermore, the city has a developed infrastructure on both the demand and supply sides, thereby promoting the expansion and sustainability of creative businesses more successfully than in other areas of Kenya (Hivos, 2018).

The research concentrated on owners of creative businesses with a minimum one-year operational history. This selection criteria guarantees participants have enough knowledge in finance decisions and can offer well-informed opinions on their previous and present financial actions. Included are creative businesses from many subsectors within the cultural and creative sectors, as defined by the United Nations Conference on Trade and Development (UNCTAD, 2024). These subsectors include rsearch and development; web services, computer, software and video games; visual, music and performing arts; design: manufacturing of design goods, fashion design, graphic, product and crafts; publishing and books; natural and cultural heritage, photography and multimedia; audiovisual, architecture, marketing and advertising. Covering these several subsectors helps the research to reflect differences in financing practices affected by different business models, asset structures, and industry-specific development trends.

1.6 Significance of the Study

1.6.1 Creative Enterprise Owners

Introducing data-backed evidence on how creative enterprises make their financing choice can enable different players in the ecosystem, like the government and other non-profit organisations, to deliver financial literacy programs targeted towards creative entrepreneurs. Additionally, the different financial players can also make financial products targeting creative entrepreneurs.

1.6.2 Financial Service Providers

From this study, financial service providers would get deeper insights into how financing choices of creative enterprises are made. These insights can be used to ensure that different gaps are catered to when designing products for creative enterprises.

1.6.3 Government and Development Partners

With the creative industry contributing significantly to the GDP and providing jobs to the young population, government policy and development partner efforts can benefit from the insights of this study, as marginally increasing the credit being offered to creative enterprises can create a snowball effect that leads to growth in the economic output of the sector.

1.6.4 Researchers in academia

This investigation contributes to the body of knowledge on financing choices within the creative industry, specifically in Kenya. It offers empirical insights into the determinants of financing for creative enterprises using the quantitative research methodology. Additionally, this study adds to the scarce body of knowledge related to the Kenyan creative industry.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, we break down the determinants of choice of financing for creative industry enterprises in Nairobi, Kenya. Additionally, we cover the literature from academics in this field that focuses on the empirical and theoretical dimensions of choice of financing for creative industry entreprises. Finally, this chapter analyses literature gaps from previous research and offers a conceptual framework that speaks to the hypothesis.

2.2 Theoretical Review

In past literature, various theories have been used to explain the financing choice decisions of SMEs. This study focuses on the creative industry enterprises that operate as SMEs in Nairobi, Kenya. This study focused on the Pecking Order Theory (POT) and the Life Cycle Theory of Financing. This approach would bring into context the various dimensions that SME work in and the complex financing decisions they have to make at different stages of the business growth cycle.

2.2.1 Pecking Order Theory

The pecking order theory (POT) is greatly attributed to its early proponents, Myers and Majluf (1984), who postulated that business owners and managers would lean towards internal financing options first before considering external financing options such as debt and equity. However, it is noted that Myers and Majluf (1984) concluded a study by Donaldson (1961) that observed that management preferred internal generation of funds to external funds apart from when large bulges of investment were required. This was mainly linked to information asymmetry between the market and the firm, which would sometimes lead to the undervaluation of the firm (Donaldson, 1961). Other factors, such as the risk and time it takes to access/issue a finance instrument, contributed to the hierarchical aspect of the theory (Donaldson, 1961).

As mentioned by FSD (2021), most businesses in the creative industries exist as MSMEs that follow the hierarchical financing model as proposed by the theory. However, this is not conclusive due to the lack of collateral and the various challenges faced by creative

enterprises (FSD, 2021). Additionally, the Afri-Exim Bank (2022) has expressed that creative enterprises in Africa lack a proper understanding of the investment process which has led to family and friends being the significant source of financing at 58.1% (FSD, 2021). With some of the critical limitations of creative industry enterprises being informality (Gachara et al., 2021), the move from internal sources of finance to debt and equity might be a hurdle. However, the alternative sources of financing that are not fully dictated by the business formality have given creative enterprises an avenue to fund business needs. In addition, it is noted that enterprises with more tangible assets are more likely to access external debt financing if they can be used as collateral (Sulistianingsih & Santi, 2023) but the asset structure of most creative industry enterprises is built on intellectual property which would direct entrepreneurs to seek out alternative or internal financing sources.

Findings from Delikanlı & Kılıç (2021) found that the financing decisions of SMEs in Turkey corroborate with the theory with SMEs opting for internal financing sources first. This is supported by other authors who share similar findings (Mittal & Raman, 2020; Sulistianingsih & Santi, 2023; Sbeti & Moosa, 2012). Other studies (Chirinko & Singha, 2000) have shown a lack of support for the theory and the patterns for external financing while others like Fama & French (2005) find inconsistent the theory and how and when firms issue equity. Finally, POT has been described as a large firm theory with some authors stating that the theories mainly apply to large organisations. However, Lopez-Gracia & Sogorb-Mira (2008) have validated that theory can help validate SME capital structure decisions.

This investigation also uses government support as a moderating variable. The theory speaks to a hierarchy in funding options for businesses which can be affected by government support as an action to improve the demand and supply side of credit for SMEs (Fung & Zhang, 2007). Dilution of control as studied by Borgia & Newman (2012) is also a key factor that hinders SMEs from getting external financing. Information asymmetry between lenders and borrowers can be affected by financial literacy and asset tangibility which can affect how SMEs transition to the different hierarchy levels as proposed by POT (Osei-Assibey et al., 2012; Hussain et al., 2018).

The Trade-off theory (TOT), a challenger to the POT, also falls in the same bracket of large firm theories. It assumes companies would allocate resources based on the tax benefits of debt with bankruptcy cost creating an optimal debt ratio (Modigliani & Miller, 1963). Authors with separate views have shown that TOT does not apply to SMEs as they are not keen on an optimal debt ratio (Brounen et al., 2004). As such it shall not feature in this research as a key theory to explain the financing choice of SMEs.

The theory is significant to the investigation as it underscores the significance of internal financing options for the creative enterprises under investion. It informs the creative enterprises on the importance of utilizing internal financing options for financing their creative businesses.

2.2.2 Life Cycle Theory of Financing

Life Cycle Theory of Financing is prominently attributed to Berger and Udell (1998) who expounded on earlier propositions by applying the idea of organizational life cycles to firm financing. Firms evolve from inception, growth to maturity or possible decline. Throughout this process, their access to and preferences for financing systematiocally changes. The theory explains how informational capacity, size and age shape the cost and availability of funds shape organisational prerefences.

Firms in different life cycle stages rely on distinct and different sources of funding. In early stages of development, firms tend to depend on informal financing, personal savings or internal funding because of limited credit history and high-risk perception by lenders (Mac an Bhaird & Lucey, 2011). However, as firms grow and gain credibility and trust, they gradually access public equity markets, venture capital and bank debt. The theory further posits that financing choices are path dependent that is early reliance on certain sources affects later options and investor relationships. Hence, financing is dynamic, evolving with the firm's development, financial transparency and market acceptance (Gregory et al., 2005).

The theory has been criticised by a number of scholars. Critics indicate that the theory oversimplifies financing beahaviour by assuming firms progress through stages that can be predicted which in reality, many businesses experience irregular growth patterns. The theory underestimates the influence of other factors such as availability of alternative

financing, attitudes towards debt and institutional environment that may affect the expected financing patterns. The theory may not adequately account for managerial agency and strategic choice, reducing financing decisions to passive responses to life cycle constraints (Mac an Bhaird & Lucey., 2011).

The theory provides a useful framework to categorize firms by development stage and predict their financing patterns. Start-up businesses may be heavily reliant on informal capital due to perceived risk and limited collateral while more established enterprises could access bank loans or development finance. However, given the unique challenges like limited formal venture capital and a vibrant informal economy. This could help reveal how contextual factors and entrepreneurial agency shape financing choices beyond the life cycle model.

2.3 Empirical Review

2.3.1 Tangibility of Assets

The creative industry/enterprises use the term intellectual property when describing the ownership of (intangible) assets (FSD, 2021). These assets range from cameras, paintings, musical compositions, sculptures and are not limited to inventory in the form of designer clothes and jewelery etc. However, this asset might be considered unorthodox when looking for credit as financial institutions are not used to this form of collateral (FSD, 2021).

Osei-Assibey et al. (2012) conducted a study in Ghana stating overriding evidence reveals that the majority of SMEs are unable to provide collateral to financial institutions or have collateral that has a low value when looking for credit. This is because the assets present in most SMEs are simple tools and movable assets with little value. Therefore, the study deems asset structure as an insignificant determinant for SME financing, unless SME owners are using tangible household assets. Additionally, the investigation's findings support the pecking order theory where early-stage enterprises prefer internal sources of finance and as the enterprise grows, the appetite for introducing formal and external financing would be more apparent. This outcome is also supported by Wasiuzzaman et al. (2020). However, they noted that microfinance institutions served as a secondary source to attain credit when traditional banks rejected credit applications. We must understand

the creative industry nuances of collateral and how they affect their financing choice, especially for developing nations and the different creative industry sub-sectors. This would give us a clearer picture of how the financing is influenced by the collateral tangibility. As it stands, this study fails to show us how government support has affected the financing choice and the results cannot be generalised to the creative industry.

A study conducted in Portugal by Serrasqueiro (2011) on decisions of the strutcure of capital of SMEs in the service and manufacturing sectors revealed that service sector SMEs rely more on short-term debt, whereas manufacturing SMEs have greater flexibility in adjusting long-term debt to align with their target debt ratio. This is because of the level of tangible assets that manufacturing SMEs have access to compared to service SMEs that have intangible assets and less collateral. This means that creditors would associate the service sector SMEs with higher risk levels compared to the manufacturing sector. Similar to the service sector, the creative industry is characterised by intangible assets which might nudge creative entrepreneurs to seek more flexible credit options as posited by Osei-Assibey et al. (2012). Despite the investigation focusing on the service sectors which have similarities to the creative industries from a business model perspective, Serrasqueiro (2011) presents a comparison to the manufacturing SMEs and bases the study on size, age and profitability of SMEs. This study however fails to look at other variables such as financial literacy and ownership which greatly impact the financing choice of SMEs.

Contrary to the studies above on capital structure, Delikanlı & Kılıç (2021) conducted a study on SMEs in Turkey from 2007 to 2018 that found no link was identified between financial debt and asset structure. Due to the high inflation in Turkey at the time this data was taken the relts may not be conlusive and genralisd to a more stable economy with less inflation. The study also fails to investigate government support which is a crucial variable to understand financing choice for MSMEs. Benkraiem & Gurau (2013) also found asset tangibility is negatively related to short-term and total debt but positively correlated to long-term debt. This study focused on French-listed firms between 2003 and 2006 that were non-financial and used OLS fixed-effect regressions to analyse the data. The creative industry is comprised of different subsectors that might require different financial time frames. For example, book publishers might require a huge initial outlay for printing and

marketing, film producers might require a huge initial investment for film production and fashion enterprises might require inventory finance for materials and accessories. The film producer and book publisher might require longer-term finance compared to the fashion business which requires short-term financing.

A study in Austria on 606 SMEs found that family-run firms fixed assets have less correlation to the debt ratio compared to the non-family firms (Burgstaller & Wagner, 2014). The study goes ahead to reveal that descendant-run family firms have less leverage as the level of tangible assets increases. Furthermore, Burgstaller & Wagner (2014) hypothesise this is because private leverage and soft facts life relationships, management style, reputation and trust are more important.

2.3.2 Financial literacy

According to Borgia and Newman (2012), an owner or manager's education level can indicate to lenders the nature of the business's financial practices, improving its access to external finance. Munyuki and Jonah (2021) argue that financially literate entrepreneurs are more likely to make better managerial and financial decisions. A study by FSD (2021) found that Kenyan creative enterprises fail to articulate their business model and monetisation strategy making it harder for lenders to extend credit.

Hussain et al. (2018) explored financial literacy, access to credit, and growth in 37 Birmingham SMEs using purposive sampling and noted that financial literacy lowers monitoring costs and optimises capital arrangements, helping SMEs expand. The study found that financial institutions value financial management education for business growth.

Munyuki and Jonah (2021) examined entrepreneurship and financial literacy. The study indicated that financial literacy improved company performance for Cape Town-based young entrepreneurs. Participants were interviewed and surveyed in mixed-method research. Using purposeful sampling six respondents were selected for the interview and a survey was given to 36 young entrepreneurs. Although the study was conducted in an impoverished community, the respondents were noted to have levels of formal education. This limits the generalisation of this study.

Soto et al. (2022) examined 165 Spanish family businesses across generations to see how financial literacy affects company growth. They used secondary data from Bureau Van Dijk's SABI database and carried out data analysis using least squares regression. The results show that CEO financial literacy boosts business growth. However, it is noted that second-generation family firms had a larger correlation between financial literacy of CEO and entity growth than first- and third-generation ones.

Naili et al. (2024) examined SMEs' financial practices and found that a university degree substantially affects financing decisions across all funding alternatives except financial markets. Doctorate holders are more likely to prefer long-term bank loans than individuals with bachelor's degrees or lower, which highlights that highly educated people seek long-term financing sources.

Fuming et al. (2021) examined relationships between MSEs' readiness to use online financial services for borrowing in China. Online surveys were used for data collection, and partial least square analysis was used to examine 632 respondents' data. Results showed that MSEs led by entrepreneurs with a high school education or less are more likely to have poor financial practices and more fraud. Similar to Naili et al. (2024), the study also reveals that MSEs led by college-educated entrepreneurs are more prepared to borrow greater sums for longer durations, which leads to business sustainability.

2.3.3 Growth Opportunities

The World Bank (2024) states that Kenya's GDP shot to 5.6% in 2023, surpassing a 4.9% growth in 2022. Against this background, Kenya's creative MSMEs have plenty of chances for expansion in their field (FSD, 2021). A report by FSD and Safaricom (2024) states that 7.4 million MSMEs mainly sought finance for expansion to untapped markets and marketing. Debt financing and growth opportunities are negatively correlated, according to Jensen & Meckling (1976) and Gaud et al. (2005) thus, companies with great future growth potential should mostly rely on internal financing to preserve more financial flexibility and minimise reliance on debt, as well as to minimise agency issues.

Using panel data from 2010 to 2016 on Portuguese firms, Neves et al. (2020) confirm in a study conducted under the EU government austerity, that short-term debt would be the main choice for funding prospects. The panel data used for this study was from 37 large

firms and 4233 SMEs. The results from this study, given the austerity measures in the EU region at the time and the lack of a balanced comparison of the MSME firms and the large companies, pose a limitation on the generalisation of the study.

Benkraiem and Gurau (2013) did an extensive study on how different business traits influence the capital structure of small and medium-sized French companies (SMEs). Their studies found a shockingly strong link between a company's overall and long-term debt levels and its expansion suggesting that expanding businesses are probably going to use more debt to drive their growth activities. By means of a correlation coefficient of zero, the study revealed no appreciable associaation between company growth and short-term debt, therefore suggesting that short-term financing had no bearing on the dynamics of development of these companies. Given funding company expansion is essentially a long-term process, these outcomes imply that SMEs with great growth potential are more likely to have more leverage, especially in long-term debt. However, the results from this study are from a developed nation whose data might be different compared to many developing countries. Additionally, the study focuses on debt and equity and fails to recognize alternative financing as captured in this study.

2.3.4 Ownership

Business organisations exist in multiple legal forms eg. limited partnership, sole proprietorship, private limited company etc. (KNBS, 2021). FSD (2021) reports that 275,375 creative enterprises exist as MSMEs in Kenya. SME financing decisions are greatly influenced by ownership which is more centralised and the ownership structures present are lean compared to large organisations and firms (Borgia & Newman, 2012: Matthews & Barton, 1989). A study on 300 SMEs in China by Borgia & Newman (2012), found that owners and managers who are concerned that using external debt for financing might reduce control and flexibility over their decision-making power are more inclined to restrict the level of external debt in their company’s capital structure. This is supported by Hutchinson (1995). The main limitation of the study by Borgia & Newman (2012) remains that the findings cannot be generalised to a different demographic given the institutional context of China.

A similar study carried out in Ethiopia by Gebru (2009) showed similar results where partnerships and private limited companies compared to sole proprietors lean towards external financing and a financing mix even if the internal sources of financing are not completely used. This in turn does not support the POT hierarchy of financing preferences. However, the study noted that the POT was supported as SMEs with higher entrepreneurial skills would first exhaust internal funds. The study used questionnaires and a logic regression model to analyse 120 MSMEs from the Tigray regional state of Ethiopia. The study noted a methodology limitation as the data was collected from only one regional state in Ethiopea and has no qualitative data to build the strength of the quantitative data.

Naili et al. (2024) examined the influence of ownership on the financing sources for 524 Senegalese SMEs. Their study showed that ownership significantly affects financing preferences for all sources except equity (retained earnings, financial markets, investment finance). While it may seem surprising, Senegalese managers might accept ownership dilution for better financing access. Alternatively, external equity may not be easily available, leading to indifference about its impact. Owners prefer self-financing over non-owners, but this reflects fund availability rather than a desire to retain ownership, as self-financing options are often more accessible. The context specific findings might not be applicable to other developing nations due to the differences in financial systems across the world.

Hussain et al. (2024) investigated the financing choices of women-owned SMEs in China. The study revealed that these SMEs mostly rely on debt financing, and this decision is affected by how much ownership is held by women, foreigners and the government. The study also demystifies that women-led financing decisions are risk averse but rather affected by other factors. Additionally, female CEOs tended to choose long-term debt over short-term debt. The study used Generalised Least Squares (GLS) and Binomial Logistic Regression to look at data from 2,700 small Chinese businesses across different sectors. One major limitation is that the study's use of secondary data might lead to skewed results that result from data inaccuracies fron the firm level data.

2.3.5 Government support

By examining 45 scientific publications and 23 pieces of literature, Muchira (2023) investigated the influence of digital media and the creative economy on youth employment in Kenya. Using MS Excel 2021 for qualitative data analysis found that Kenya's creative sector suffers from restricted financing options and poor government frameworks. The study also highlighted the lack of government support, as a strategic investor in the creative sector, in the local young potential development hampered by this deficiency. Finally, the writer encouraged the private sector to boost financial inclusion in the creative sector as young people who intend to launch creative businesses have limited collateral or savings and promoted synergy between the public and private sectors. This study lacked any quantitative data and focused on a limited geographical scope. This might lead to a statistical bias in findings as the results are missing systemic trends that could be used by policymakers and other interested parties.

Aiming at analysing the efficacy of government-funded initiatives meant for small and medium businesses (SMEs), Mbah et al. (2020) carried out a study in Nigeria. 363 enterprises answered surveys, and results showed that although the companies knew about government financing programs, only a small fraction could really obtain the money. The government programs meant to support entrepreneurs in this research included the development of industrial estates, SMEs' credit programs, a financing organisation for SMEs, and training courses for entrepreneurs. Furthermore, noted by the scholars (Mbah et al., 2020) was the lack of sufficient information the government might have given SMEs to inspire their involvement in initiatives financed by the government. Notwithstanding industry opinion on government support, the Central Bank of Nigeria started the creative industry financing program that provides several creative businesses financing with favourable terms including moratoriums and low interest rates (International Trade Administration, 2023; Madichie, 2010). Although the study by Mbah (2023) was robust, it lacked in-depth analysis into the other types of government support such as subsidies, tax holiday and technical skills training programs.

Using a Likert scale-styled questionnaire, Aslam et al. (2023) did research on 320 SMEs in Pakistan, looking at how government support affected them. The results emphasise how

important the SMEs are to the economy and how long-term sustainability depends on government assistance. Furthermore, underlined in the research is the need for government intervention, as earlier cases of SMEs failing were connected to insufficient support. Particularly, the study looked at factors like financial knowledge and financial access. In conclusion, if the government offers sufficient financial literacy training and workshops, SMEs might improve their performance and understanding of finances. Key limitations of this study are the non-random sampling method used and the focus on one city, Lahore. Combined, these limitations reduce the generalisation of the learnings from this study. The study's uniqueness cannot go unrecognized as it touches on a developing economy and sustainability practices SMEs can follow.

Rosyadi et al. (2022) conducted interviews with government officials, players in creative industry SMEs, and activists focusing on the creative economy in Indonesia using qualitative and case study methods. The aim of the investigation was to find public policy barriers SMEs in the local creative sector faced. The data acquired from these interviews underwent a thematic analysis and the results show that the rigid and routine-oriented policies used by local politicians impede the development of SMEs in the creative sector. Consequently, local governments have fallen short in enhancing the competitiveness of the regional creative economies. This study represents the understudied creative industry and offers a qualitative study which can give us unique perspectives. However, the sample size was 15 participants and the study used a purposeful sampling technique which when combined, can give potentially biased results as it wouldn't accurately represent the whole population.

2.4 Summary of the Literature and Research Gaps

The table below summarises the different literature that was examined to justify the different independent variables and theoretical stance of the study. Literature from Africa that focused on the MSME financing choice and the creative industry was also examined.

1: Overview of Identified Knowledge Gaps

uthor	Topic	Findings	Research Gap
Osei-Assibey et al., (2012)	Microenterprise financing preference: Testing POH within the context of Ghana's rural financial market	The study looked at SMEs in Ghana and discovered that low-value moveable assets make many of them unable to offer enough collateral for funding. They came to the conclusion that early-stage businesses want internal finance before looking outside for growth and that asset structure has little bearing on SME financing.	The study failed to show how government support influences the financing choice of SMEs. The study is also generic and findings cannot be extrapolated to understand the creative industry financing choice.
Delikanlı & Kılıç (2021)	A comparative analysis on factors influencing capital structure of SMEs in Turkey.	The research results support the POT and contradict the trade-off theory, as there was no connection found between financial debt and the liquidity strength, risk, and asset structure of SMEs.	The study failed to look at other variables such as growth opportunities and ownership to understand the SME capital structure decisions.

Munyuki & Jonah (2021)	Financial literacy and entrepreneurial success among young entrepreneurs from a low-income community in Cape Town: a mixed-method analysis.	This study looked at how financial literacy affects entrepreneurial success among young entrepreneurs in a low-income area of Cape Town. It found a positive link between having financial knowledge and succeeding in business.	The study borrows from the research methods used by this paper. This includes purposeful sampling and a mixed methods approach.
Naili et al. (2024)	Exploring the financing gap for entrepreneurial entities in a developing economy: a case of mismatched expectations?	Senegalese entrepreneurial firms mainly prefer self-financing and short-term bank loans, favoring short-term over long-term funding. There is a mismatch between preferred and actual financing, particularly regarding underutilized equity sources. The study suggests that preferences, along with firm and owner characteristics, affect financing choices and usage.	The study failed to discuss how other factors such as growth opportunities and asset tangibility play a role in the financing choice of Senegalese entrepreneurial firms. The study was also not sector specific meaning that the results could not be extrapolated to the creative industry.

Rosyadi et al. (2022)	Barriers of public policy faced by SMEs of creative economy in Indonesia.	The study concentrated on obstacles in public policy encountered by the SMEs in a creative economy at the local level and exposed government officials' ignorance and inability to establish an environment that would support them.	This study posits how government support can play in building a thriving creating economy but does not explore how the government influences the choice of financing among the various creative entrepreneurs.
Hussain et al. (2024)	Female CEOs and decision for financing SMEs: evidence from firm-level data.	The study illustrate that female CEOs preferring debt funding and base their decisions on industry, association with bigger companies, and ownership type. In their financing choices, they also often prefer long-term debt above short-term debt.	The study does not describe how growth opportunities and tangibility contribute to the choice of financing among female-led SME's.
Mbah et al. (2020)	Appraisal of schemes of government funding on the development of SMEs in Enugu state, Nigeria	The results from the study revealed that most of the SME's were aware of the government funding schemes but were unsuccessful in applying for the same	This paper although critical in understanding the role of government support in SME success, only looked at funding schemes leaving out other forms of government support.

Mittal & Raman (2020)	Financing Preferences of MSMEs and whether Pecking Order Theory Explain?	The research found that MSMEs validate the pecking order theory and that informed business owners tend to favour external sources of financing rather than relying on internal funds.	This study gives direction on the indicators that were used to measure literacy and ownership.
Saif-Alyousfi et al. (2020)	Determinants of structure of capital structure in Malaysian entities.	The findings suggest that factors such as profitability, growth potential, tax benefits, liquidity, and the variability of cash flow negatively influence debt metrics. Conversely, collateral, non-debt related taxes, and earnings variability show a positive relationship. Furthermore, company size, age, inflation levels, and interest rates play essential roles in determining the present value of debt.	The study fails to show how government support influences the financing decisions of Malaysian firms. Furthermore, the study focuses only on listed firms.

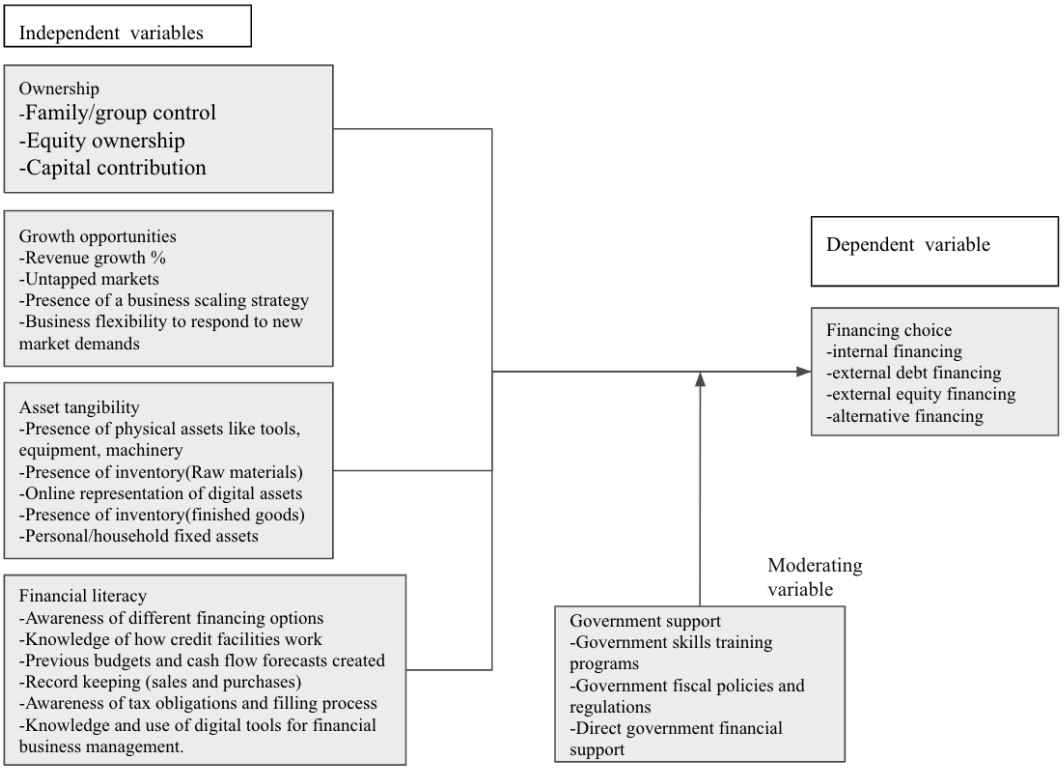
Gachara et al. (2021)	Investigating informality in the financing of creative and culture businesses in Uhuru Textiles Market in Nairobi.	The study that revealed due to infomrality, traders in Uhuru market resulted to getting finance from Saccos, savings groups and digital mobile loans.	The investigation focused on informality and excluded the role of government and other factors like ownership, growth opportunities and tangibility.

2.5 Conceptual Framework

This section of the investigation presents the conceptual framework, a theoretical structure that directs research by offering a clear and coherent basis for interpreting and understanding the relationships among the variables, concepts, or phenomena being examined. Typically drawn from established theories, literature, or models, it serves as a roadmap for the research process.(Creswell & Creswell, 2018). In this study, the independent variables; ownership; growth opportunities; asses tangibility and financial literacy and the dependent variable, financing choice formed part of the conceptual framework. Government support was also used as a moderating variable in the study.

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Figure 1: Conceptual framework



2.5.1 Operationalization of the Variables

Table 2: Operationalization of Variables

Variable	Variable type	Indicators	Measure of indicator	Source
Ownership	Independent	● Family/group control ● Equity ownership ● Capital contribution	Using 5-Point Likert Type Scale (Ordinal)	Naili et al. (2024); Hussain et al. (2024)
Growth Opportunities	Independent	● Revenue growth % ● Untapped markets ● Presence of a business scaling strategy	Using 5-Point Likert Type Scale (Ordinal)	Neves et al. (2020);

		● Business flexibility to respond to new market demands		Benkraiem and Gurau (2013)
Asset tangibility	Independent	● Presence of physical assets like tools, equipment, machinery ● Presence of inventory(Raw materials) ● Online representation of digital assets ● Presence of inventory(finished goods) ● Personal/household fixed assets	Using 5-Point Likert Type Scale (Ordinal)	Osei-Assibey et al. (2012); Delikanlı & Kılıç (2021); Burgstaller & Wagner (2014)
Financial literacy	Independent	● Awareness of different financing options ● Knowledge of how credit facilities work ● Previous budgets and cashflow forecasts created ● Record keeping (sales and purchases) ● Awareness of tax obligations and filling process	Using 5-Point Likert Type Scale (Ordinal)	Hussain et al. (2018); Munyuki and Jonah (2021)
Financing choice	Dependent	● Type of financing used. ○ internal financing ○ external debt financing ○ external equity financing ○ alternative financing(Digital credit, crowd funding,grants)	Using 5-Point Likert Type Scale (Ordinal)	Aslam et al. (2023); Rosyadi et al. (2022)
Government support	Moderating variable	● Government skills training programs ● Government fiscal policies and regulations ● Direct government financial support	Using 5-Point Likert Type Scale (Ordinal)	Muchira (2023); Mbah et al. (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter expands on the research methodology that was used in this study. Specifically, it goes into an in-depth description of the population and sampling, data quality, collection and analysis that was done and the research philosophy that guides it. Finally, the section also described the ethical considerations that apply.

3.2 Research Philosophy

Saunders et al. (2023) clarify the idea of research philosophy as a framework of ideas and presumptions on the production of knowledge. Saunders et al. (2023) continues to posit that research philosophy clarifies the angle from which your study is conducted.

Aiming to identify causal relationships that might explain and forecast organisational behaviour, positivism is a rigorous, scientific approach emphasising on observable social events to create general principles (Harris, 2019). Interpretivists counter that by distilling the rich richness of human experience to universal principles. Postmodernism challenges accepted wisdom by stressing the need of language and power relations and by providing underprivileged voices (Saunders et al., 2023). Emphasising the reasons and processes driving observable events in organisations, critical realism aims to expose the underlying structures influencing them. At last, pragmatism emphasises that no one perspective can cover the whole truth as it acknowledges the presence of several ways of seeing reality (Saunders et al., 2023).

This paper applied a positivist approach by means of surveys to gather data from the target demographic described in the section on population and sample choice of creative enterprises. The instruments used for data collecting helped us to find the quantifiable links among the given variables.

3.3 Research Design

This entails the general approach for answering the study questions given in the introduction by Creswell & Creswell (2018) and Saunders et al. (2023). This investigation

adopted a descriptive correlational research design, which is especially relevant for analyzing and understanding the factors that affect financing choices among creative enterprises in Nairobi County. Kumar (2011) claims that the core of descriptive research is its capacity to faithfully depict events without changing any factors, hence making it perfect for analysing present trends, behaviours, and traits of the target population. Collection of data was done using a cross-sectional approach, therefore capturing a moment in time view of financing choices and patterns at one point. The study used quantitative tools to make sure it is objective and to make statistical analysis easier. The owners of creative businesses would get a standardised survey which helped them identify and assess the main elements affecting their financing choices.

3.4 Population and Sampling

Kumar (2011) states the importance of the target population as they provide critical insights necessary to answer the research questions for any study and describes sampling as the process where a small number of observations/items/persons is taken from a population with the purpose of gaining insights that represent the larger population. The population of this study was the creative industry entrepreneurs who operate in Nairobi County ni Kenya, estimated to be 275,375 (FSD, 2021). Using estimates from the KNBS (2016) study that states an average of 14.18% of MSMEs are in Nairobi, we can estimate creative enterprises in Nairobi to be 39,038. Using Slovin's formula, $n = N / (1 + Ne^2)$ where N(total population of creative enterprises in Nairobi) is 39,038 and the confidence level in 90 percent the calculated sample size (n) is 100.

Slovins formula, $n = N / (1 + Ne^2)$

Where n = sample size

N = population size

e = error tolerance size (1-Confidence level)

Confidence level = 95%

e = 1- 0.9

e = 0.1

$n = 39{,}038/(1+ 39{,}038\ (0.1)^2)$

$n = 39{,}038/(1+ 39{,}038\ (0.01))$

$n = 39{,}038/(1+390.38)$

$n = 39{,}038/391.38$

$n = 99.74$ (Rounded off to 100)

The study focused on ten creative industry sub-sectors as classified by UNCTAD (2024). They include rsearch and development; web services, computer, software and video games; visual, music and performing arts; design: manufacturing of design goods, fashion design, graphic, product and crafts; publishing and books; natural and cultural heritage, photography and multimedia; audiovisual, architecture, marketing and advertising. Using the snowball and the purposeful sampling technique, the study targeted participants per sub-industry as distributed by the creative industry study by FSD(2021) as shown in Table 3. Borrowing from the definition of snowball sampling, the networks already existing in the creative industries furnished us with the required information for the study as well us refer other candidates for the survey. Social media platforms like Instagram and X were used as the primary contact base for creative entrepreneurs where using the snowball sampling technique they recommended other participants. The initial pool of participants was derived from online blogs from British Council Kenya, Santuri East Africa and Tangaza Magazine.

Table 3: Distribution of responses per industry

Sector	%	Sample Size
Music/production	56	56
Photography/audio visual	15	15
Performing arts	9	9
Visual arts	6	6
Advretising/marketing	4	4
Acrchitecture	3	3
Manufacturing of crafts and design goods	2	2
Cultural and natural heritage	1	1

Books and publishing	1	1
Design(graphic/fashion)	1	1
Research/development	1	1
Software, video games, computer and web services	1	1
Total	100	100

3.5 Data Collection Methods

Creswell & Creswell (2018) define data collection as a structured and methodical procedure aimed at acquiring and quantifying information from diverse sources. This process is crucial for addressing specific research questions, testing theoretical hypotheses, and assessing various outcomes. This study utilised primary data. To gain insights from the target population, we distributed questionnaires to entrepreneurs in the creative industry located in Nairobi County. We aimed to gather responses from a total of 10 sub-sectors as classified by UNCTAD (2024) and the responses were distributed as recommended by results from the FSD(2021) study as shown in table 3. The online questionnaire consisted of two sections: Section A addressed the demographics of the participants, while Section B explored the determinants influencing their financing choices. A five-point Likert scale was used to measure responses. Furthermore, a pilot study was done to ensure the validity and reliability of the instrument, in line with Baker's (1994) recommendation of 10-30 observations for such a study. The questionnaire was administered online which is in line with the recommendation that respondents of this study were from social media.

3.6 Data Collection Procedure

For data collection to commence, approval from the institution was sought after to proceed with data collection using the approved instruments for collecting data. The data permit was from the Institutional Ethical Review Board and the necessary approvals from Nacosti. The data collected from this instrument was used to provide answers to the research questions in the investigation and every responent was required to give consent to participate in the survey.

3.7 Pilot Test

The success of an investigation depends significantly on the reliability and validity of the measurement tools used to assess the constructs involved. If these instruments are unreliable and invalid, they produced inaccurate measurements of the constructs, resulting in flawed and untrustworthy outcomes (Yousef, 2020).

3.7.1 Reliability Test

Riege (2003) states that reliability requires showing that a study's methods and protocols can be replicated by other researchers, yielding comparable results, as long as methodological aspects like interview techniques are maintained consistently. This viewpoint is supported by Ihantola and Kihn (2011). This study enhanced reliability by employing reflective indicators that target the same research questions, thus ensuring a high level of consistency (Ford, 2017). Factor loadings assessed the correlation degree between each indicator and its corresponding construct. Furthermore, Cronbach's alpha was used to assess internal reliability, which measures the extent of shared variance among items. Cronbach's alpha values span from 0 to 1, with 1 describing perfect reliability. Values of 0.7 or higher are acceptable for research purposes (Cronbach, 1951). The reliability test results are provided in Table 4.

Table 4: Reliability Test Results

	Cronbach's alpha
FinancingChoice	0.767
Ownership	0.759
GrowthOpportunities	0.802
AssetTangibility	0.788
FinancialLiteracy	0.779
GovernmentSupport	0.751

Source: Researcher (2025)

From the results, the Cronbach's Alpha for all the variables were > 0.7 confirming the reliablility of the questionnaire. Table 22 presents the validity test results.

3.7.2 Validity Test

Riege (2003) posits that surveys or questionnaires in quantitative research facilitate statistical generalisation, improving the external validity. Riege (2003) elaborates on internal validity as the method of establishing causal relationships between variables. Similarly, Lim (2024) highlights the essential role of validity in affirming the relevance of conclusions derived from data, serving as a critical link between theoretical concepts and empirical observations. This distinction is essential to confirm that the findings are both statistically significant, indicating they are unlikely to have occurred by chance, and meaningfully significant, demonstrating real-world relevance and practical implications.

Eltantawy (2008) defines convergent validity as the degree of consistency among various measures intended to evaluate the same concept, indicated by a significant level of shared variance. This study assessed convergent validity by using Average Variance Extracted (AVE). The AVE values for each construct vary between 0.751 and 0.813, surpassing the 0.5 threshold suggested by Fornell and Larcker (1981). Furthermore, discriminant validity, a critical component of validity, confirms that each construct is separate from others. It is established when a construct's AVE is greater than the squared correlation with any other construct (Fornell & Larcker, 1981). To further confirm discriminant validity, this study also employed the heterotrait–monotrait (HTMT) ratio, following the 0.9 cutoff proposed by Henseler et al. (2015). Validity test results are provided in Table 5 and 6.

Table 5: Validity Test Results

Variable	Indicators	Factor loadings	KMO and Bartlett's Test			
			KMO Measure of Sampling Adequacy	Approx. Chi-Square	df	Sig.
Ownership Control	Statement 1	0.751	.719	10.010	3	.018
	Statement 2	0.753				
	Statement 3	0.849				
Growth Opportunities	Statement 1	0.845	.592	59.779	6	.000
	Statement 2	0.623				
	Statement 3	0.770				
	Statement 4	0.683				
Asset Tangibility	Statement 1	0.757				
	Statement 2	0.828				
	Statement 3	0.801				

Variable	Indicators	Factor loadings	KMO and Bartlett's Test			
			KMO Measure of Sampling Adequacy	Approx. Chi-Square	df	Sig.
	Statement 4	0.772	.707	76.641	10	.000
	Statement 5	0.878				
Financial Literacy	Statement 1	0.651	.827	145.142	10	.000
	Statement 2	0.646				
	Statement 3	0.586				
	Statement 4	0.447				
	Statement 5	0.595				
Government Control	Statement 1	0.665	.619	35.173	3	.000
	Statement 2	0.811				
	Statement 3	0.797				
Financing Choice	Statement 1	0.632	0.722	83.269	6	0.000
	Statement 2	0.840				
	Statement 3	0.773				
	Statement 4	0.753				

The validity test results for the measurement indicators for all the variables attracted factor loadings > 0.5. As a result, all the measurement indicators for growth opportunities, ownership control, asset tangibility, financial lietarcy and government support were retained for further analysis. For the KMO and Bartlett's Test, the calculated p-value for the study variables were all <0.05 implying that the measurement indicators attained the validity test threshold. To further confirm discriminant validity, this study also employed the heterotrait–monotrait (HTMT) ratio, following the 0.9 cutoff proposed by Henseler et al. (2015).

Table 6: HTMT Ratio

	Asset Tangibility	Financial Literacy	Financing Choice	Growth Opportunities	Ownership
Asset Tangibility					
Financial Literacy	0.248				
Financing Choice	0.457	0.636			
Growth Opportunities	0.522	0.563	0.211		

Ownership	0.772	0.438	0.755	0.251

Source: Researcher (2025)

Heterotrait-Monotrait ratio of correlations was used to assess discriminant validity. The values of the outcomes were below the threshold value of 0.90 implying the establishment of discriminant validity.

3.8 Data analysis

This research gathered data through close-ended questionnaires, ensuring a quantitative approach. The collected data was cleaned to eliminate missing values and inconsistencies that could impact the analysis, which was conducted using SmartPLS software. For the analysis, the study employed PLS-SEM, a robust multivariate data analysis method. According to Wang et al. (2023), PLS-SEM is highly effective for examining complex links between observed and latent variables. PLS-SEM effectively handles complex models with multiple constructs and indicators.

Additionally, the ability to structure models for moderating variables and work with small sample sizes makes PLS-SEM a preferred method for data analysis for this study. The goal of this study is both predictive and exploratory, focusing on understanding how the independent variables influence financing choices in creative enterprises (Hair et al., 2018).

The reliability and validity of the outer model was assessed by examining internal consistency, indicator reliability and both convergent and discriminant validity. To evaluate the inner model, a collinearity assessment was conducted using the variance inflation factor (VIF). High multicollinearity among independent variables can compromise the reliability of estimated coefficients, potentially resulting in misleading relationships between dependent and independent variables. Generally, a VIF value exceeding ten indicates that multicollinearity or overlapping explanatory power may distort statistical results. Additionally, the study employed the coefficient of determination (R^2) to measure predictive accuracy and Q^2 to assess predictive relevance (Nitzl, 2016). Path analysis was utilized to determine the strength and direction of relationships between

dependent and independent variables. Lastly, the effect size (F^2) was calculated to detect whether a variable has a meaningful impact if such an effect exists.

To assess how government support GS moderates the nexus between the independent variable and the outcome, the investigation wil create interaction terms by multiplying the indicators of the independent variable and the moderator (GS). These interaction terms were analysed through regression alongside the original indicators. To further clarify the moderation effect, a simple slope analysis was plotted, illustrating how the relationship would change at different levels of GS. As Hair et al. (2016) highlighted, interpreting interaction effects can be challenging, particularly when coefficients vary in sign or when the independent variable and moderator have different standard deviations.

Figure 2: Path Analysis Model

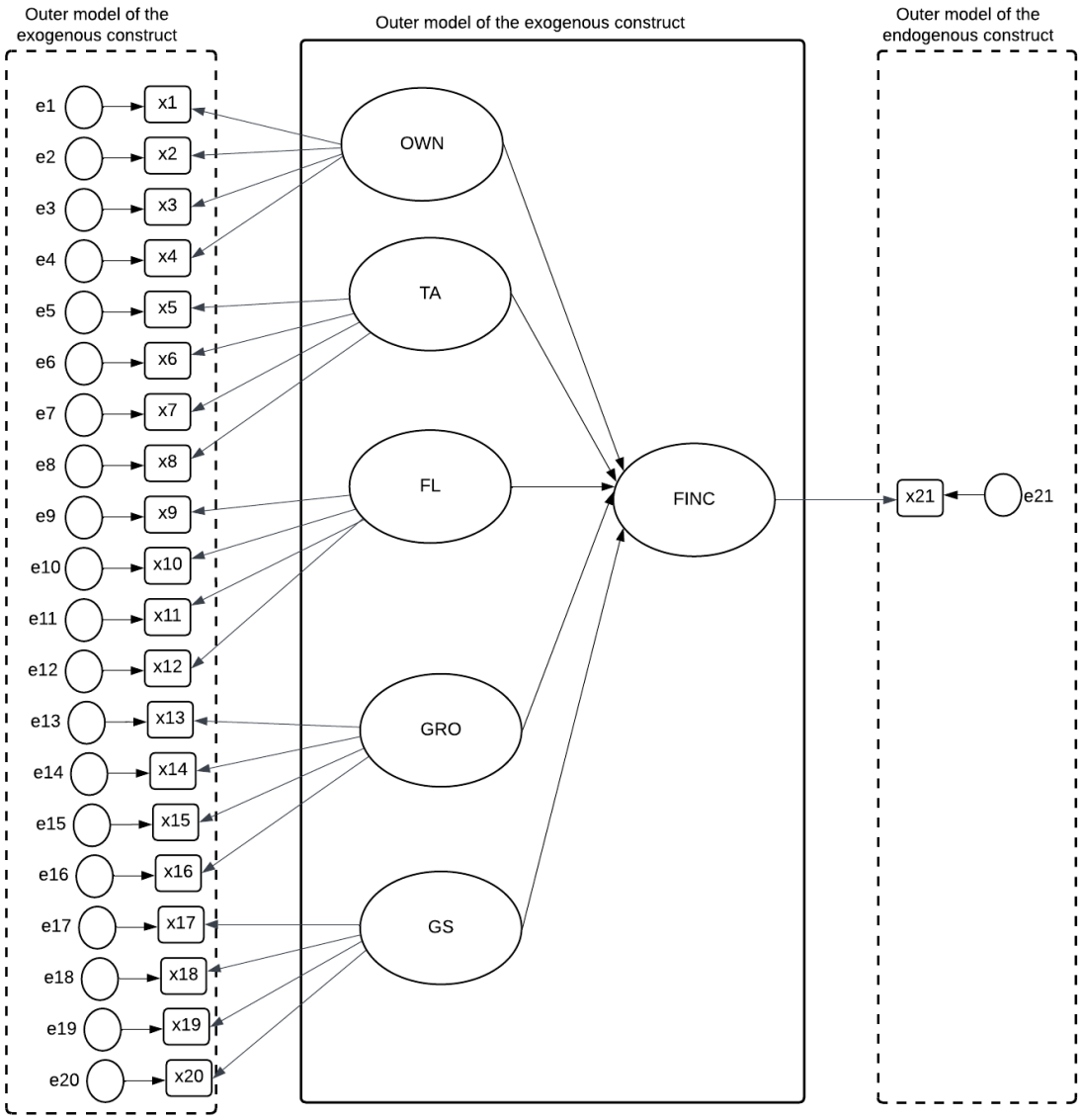


Table 7: Variable representations

Representation	Meaning
e1, e2, e3……... e21	Error terms.
x1, x2, x3……...x21	Observable measured constructs.
β1, β2, β3, β4, β5	Path coefficients.
GRO (Growth Opportunities)	Exogenous variable (latent construct).
OWN (Ownership)	Exogenous variable (latent construct).
TA (Tangibility)	Exogenous variable (latent construct).
FL (Financial Literacy)	Exogenous variable (latent construct).
GS (Government Support)	Moderating construct.
Financing choice (FINC)	Endogenous variable (latent construct)
Source: Author (2025)	

3.9 Ethical Considerations

The importance of ethical conduct in research has become increasingly cretical, driven by a growing demand for greater accountability in academic studies and such, researchers would be expected to uphold high standards of integrity, transparency ensuring that their actions align with ethical principles and contribute positively to the wider community (Uhde & Held, 2006). For academic research, most accredited institutions of higher learning provide a permit and ethical guidelinies to conduct research. Similarly, journals would adhere to CoPE guidelines to ensure compliance with ethical standards (Resnik, 2018; Shamoo & Resnik, 2015).

In Kenya, research was governed by NACOSTI, which provided permits and accredit institutions. This research secured ethical approval from the Ethics Review Committee of the institution and obtain a research permit from NACOSTI (Government of Kenya, 2013).

Participants were provided with detailed information about the investigation and signed consent forms. Confidentiality and anonymity were ensured by withholding identifiable

information. Measures were taken to prevent harm to participants, communities, and institutions. Additionally, any potential conflicts of interest or prior researcher activities that could influence the study was disclosed. A plan was implemented to address these ethical considerations effectively.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

The chapter presents the analysis of data and presentation of the outcomes. The study used primary data. The data was collected using questionnaires. The questionnaires were distributed online to entrepreneurs in the creative industry located in Nairobi County. Data coding was later done and data analysis carried out using SmartPLS Software 4. The investigation sought to investigate the factors influencing the financing choice among creative businesses in Nairobi County. Specifically, the investigation to assess effect of growth opportunities, ownership control, asset tangibility and financial literacy on financing choice. The investigation further purposed to explore the moderating influence of support from government on the determinants of financing choice for creative businesses. Outcomes were presented as inferential and descriptive outcomes. Inferential outcomes included regression and correlation results while presentation of descriptive outcomes were in the form of standard deviation, frequencies and mean.

4.2 Response Rate

The sample size for the investigation was 100 participants who were creative industry entrepreneurs who operate in Nairobi County. Thus, 100 questionnaires were distributed to the respondents online using google forms. However, 91 questionnaires were filled completely representing a response rate of 91% which is adequate for a research study. Fincham (2008) points out that a response rate of approximately 60 percent is sufficient for a research study. Thus, 91% repsosne arte was good for the study. The response rate is outline in Table 8.

Table 8: Response Rate

	Frequency	**Percent**
Response	91	91
Non-Response	9	9
Total	**100**	**100**

Source: Researcher (2025)

4.3 Demographic Characteristics

The investigation further sought to analyze gender of the respondents, age, their level of education, nature of creative enterprise, the number of years of operation as well as the number of employees.

4.3.1 Age of the Respondents

The investigation sought to assess the age of the respondents and the results are outlined in Table 9.

Table 9: Age of the Respondents

	Frequency	Percent
18 to 25 Years	6	6.6
26 to 35 Years	35	38.5
36 to 45 Years	30	33
46 to 55 Years	11	12.1
Over 56 Years	9	9.9
Total	**91**	**100**

Source: Researcher (2025)

From the outcomes, 38.5% of those contacted were aged between 26 to 35 years, 33% were aged between 36 to 45 years, 12.1% aged between 46 to 55 years, 9.9% aged over 56 years and finally 6.6% aged between 18 to 25 years. Age plays a significant role in influencing the financing choices among creative enterprises in Kenya, as it often correlates with factors such as risk appetite, financial literacy, access to networks, and familiarity with emerging financing models. Understanding the age dynamics within the creative industry is therefore crucial for policymakers, financiers, and support organizations to design age-appropriate financial products and interventions that effectively meet the diverse needs of entrepreneurs at different life stages.

4.3.2 Gender

The investigation purposed to explore the gender of the respondents and the outcomes are outlined in Table 10.

Table 10: Gender

	Frequency	Percent
Male	49	53.8
Female	42	46.2
Total	**91**	**100**

Source: Researcher (2025)

From the outcomes, 53.8% of those contacted were male whereas 46.2% were female. Thus, majority of the participants were male. Gender is a significant factor influencing financing choices among creative enterprises in Kenya, as it often affects access to financial resources, investment opportunities, and support networks. Women entrepreneurs, who are active participants in the creative sector, frequently face gender-based barriers such as limited collateral, lower financial literacy, and restricted access to formal credit institutions compared to their male counterparts. On the other hand, male entrepreneurs might have broader access to formal financing channels due to societal perceptions and more established business networks. Recognizing gender disparities in financing helps stakeholders develop inclusive financial policies and programs that promote equal access to funding opportunities for all creative entrepreneurs, regardless of gender.

4.3.3 Education

The investigation sought to assess education qualification of the participants and the outcomes are outlined in Table 11.

Table 11: Education

	Frequency	Percent
Secondary	7	7.7
Diploma	24	26.4
Bachelo's Degree	45	49.5
Master's Degree	14	15.4
Doctorate	1	1.1
Total	**91**	**100**

Source: Researcher (2025)

Furthermore, 49.5% of the participants had Bachelor's degree as their highest education level, 26.4% had diploma, 15.4% had Master's degree, 7.7% had secondary education and finally 1.1% had doctorate as their highest level of education. Education is a critical factor influencing financing choices among creative enterprises, as it directly affects an entrepreneur's financial literacy, understanding of funding options, and ability to navigate complex application processes for formal financing. Creatives with higher levels of education are more likely to be aware of diverse financing avenues like grants, venture capital, and government funding and possess the skills to develop business plans, maintain financial records, and meet lender requirements. Conversely, those with lower educational attainment may rely more heavily on informal or easily accessible sources like personal savings, family contributions, or *chama* (group savings), due to limited knowledge in engaging with formal financial systems. Therefore, education not only shapes the type of financing entrepreneurs pursue but also their capacity to secure and manage funding effectively, making it a key consideration in developing targeted financial support and training programs within the sector.

4.3.4 Nature of Creative Enterprise (Primary)

The investigation sought to determine the primary nature of creative enterprise and the oucomes are outlined in Table 12.

Table 12: Nature of Creative Enterprise (Primary)

Creative art Enterprise (primary)	Frequency	Percent
Advertising and marketing	7	7.7
Architecture	2	2.2
Audiovisual, multimedia, and photography	19	20.9
Books and publishing	2	2.2
Design: product, graphic, and fashion design	10	11
Manufacturing of crafts and design goods	3	3.3
Music, performing and visual arts	44	48.3
Research and development	2	2.2
Software, video games, computer, and web services	2	2.2
Total	**91**	**100**

Source: Researcher (2025)

The data reveals that the majority of creative enterprises in the study (48.3%) are engaged in music, performing, and visual arts, highlighting this as the dominant sector within Kenya's creative economy. This is followed by audiovisual, multimedia, and photography at 20.9%, and design-related enterprises at 11%, indicating a strong presence of visually and artistically driven ventures. Smaller segments include advertising and marketing (7.7%), manufacturing of crafts (3.3%), and niche areas like architecture, publishing, R&D, and software development, each accounting for 2.2% of respondents. This distribution suggests that most financing needs and challenges are likely centered around arts-based and content-creation enterprises, which often require unique forms of capital—such as equipment financing, production funding, or support for intellectual property development. The dominance of performance and visual arts underlines the need for financing models tailored to the irregular income patterns and project-based nature of these enterprises.

The nature of a creative enterprise significantly influences its financing choices in Kenya, as different types of creative businesses like fashion design, music, film, visual arts, or digital content creation have varying capital needs, risk profiles, and revenue models. For instance, film and music production may require substantial upfront investment in equipment and talent, prompting entrepreneurs to seek external funding such as grants, sponsorships, or investor partnerships. In contrast, smaller-scale enterprises like graphic design or crafts may operate with lower capital needs and rely more on personal savings or informal lending. Thuse, understanding the specific nature and operational model of each creative enterprise is essential in determining the most suitable financing options and in designing sector-specific financial products and support mechanisms.

4.3.5 Nature of Creative Enterprise (Secondary)

The investigation sought to determine the secondary nature of creative enterprise and the outcomes are outlined in Table 13.

Table 13: Nature of Creative Enterprise (Secondary)

Nature of Creative Enterprise (Secondary)	Frequency	Percent
Marketing and Advertising	12	13.2
Audiovisual, multimedia, and photography	28	30.8
Cultural and natural heritage	4	4.4
Design: product, graphic, and fashion design	15	16.4
Manufacturing of crafts and design goods	3	3.3
Music, performing and visual arts	18	19.8
Software, video games, computer, and web services	4	4.4
Research and development	3	3.3
None	4	4.4
Total	**91**	**100**

Source: Researcher (2025)

The secondary nature of creative enterprises in the study reveals a diverse range of activities, with a strong concentration in audiovisual, multimedia, and photography (30.8%), followed by design-related fields (16.4%) and music, performing, and visual arts (19.8%). Marketing and advertising also account for a notable share (13.2%), indicating that many creatives engage in promotional or communication-related services alongside their primary ventures. Smaller proportions are involved in cultural heritage, software and digital services, manufacturing of crafts, and research and development, each representing 3.3% to 4.4% of the total. The presence of multiple creative streams among respondents suggests that many enterprises operate across sectors, likely to diversify income or respond to market demands. This multi-sector engagement implies varying financing needs depending on the complexity, scale, and technical requirements of each activity. It highlights the importance of flexible, multi-purpose financing options that can support cross-disciplinary creative enterprises in Kenya.

4.3.6 Years of Operation

The investigation sought to explore the number of years in operation and the outcomes are outlined in Table 14.

Table 14: Years of Operation

	Frequency	Percent
Less than 1 Year	4	4.4
1 to 3 Years	22	24.2
4 to 6 Years	29	31.9
7 to 10 Years	22	24.2
Over 10 Years	14	15.4
Total	**91**	**100**

Source: Researcher (2025)

From the outcomes, 31.9% of the participants indicated that their enterprises had been in operation for between 4 and 6 years, 24.2% between 1 and 3 years as well as 7 and 10 years, 15.4% of the entities had been in operation for over 10 years and finally 4.4% of the enterprises had been in operation for less than 1 year. Years of operation play a significant role in influencing financing choices among creative enterprises, as they often determine an enterprise's financial track record, credibility, and access to funding. Newer businesses, especially those in their early years, may struggle to secure formal financing due to a lack of collateral. In contrast, enterprises that have been in operation for several years are more likely to have established business systems, stable cash flows, making them more eligible for bank loans, investor funding, or government grants. Thus, the number of years a creative enterprise has been active directly impacts its financing options, with more established businesses generally enjoying greater access to formal and larger-scale funding opportunities.

4.3.7 Number of Employees

The investigation sought to assess the number of workers and the outcomes are outlined in Table 15.

Table 15: Number of Employees

	Frequency	Percent
1 to 5	78	85.7
6 to 10	11	12.1
More than 20	2	2.2
Total	**91**	**100**

Source: Researcher (2025)

With regards the number of employees, 85.7% of the entities had between 1 and 5 employees, 12.1% between 6 and 10 employees and finally 2.2% indicated they had more than 20 employees. The number of employees in a creative enterprise is a key indicator of its size, capacity, and level of operations, all of which significantly influence its financing choices. Enterprises with a larger workforce often require more working capital to cover salaries, equipment, and operational costs, prompting them to seek formal and larger-scale financing options such as bank loans, grants, or investor funding. On the other hand, smaller enterprises with few or no employees may have lower financial requirements and are more likely to rely on personal savings, informal lending, or microfinance institutions. Thus, workforce size not only shapes the type and scale of financing needed but also affects an enterprise's attractiveness to different sources of funding.

4.4 Descriptive Analysis

Primary data was used in the investigation and was collected using structured questionnaires presented in a Likert-Scale ranging from 1 to 5 with 1 representing strong disagreement and 5 represenring strong concurrence. The descriptive outcomes were presented in the form of SD, percentages and mean.

4.4.1 Ownership Control

Table 16 presents a summary of responses on ownership control.

Table 16: Descriptive Statistics for Ownership Control

	SD %	D %	N %	A %	SA %	M	S Dev
The business is controlled by a family or group.	5.5%	1.1%	12.1%	17.6%	63.7%	4.3	1.1
The equity ownership structure influences our financing choices.	3.3%	0.0%	19.8%	31.9%	45.1%	4.2	1.0
The capital contributions from owners are adequate for business needs.	1.1%	1.1%	25.3%	29.7%	42.9%	4.1	0.9

Source: Researcher (2025)

From the results, 63.7% of the participants were strongly in tandem that the business is controlled by a group or family, 17.6% were in agreement while 12.1% were neutral with a mean and SD of 4.3 and 1.1 in that order. With regards whether equity ownership structure influences the financing choices of respondents, 45.1% were strongly in tandem, 31.9% were in tandem while 19.8% were neutral with a mean of 4.2 and a respective SD of 1.0. Finally, 42.9% were strongly in concurrence that capital contributions from owners are adequate for business needs, 29.7% were in tandem while 25.3% were neutral with a mean and SD of 4.1 and 0.9 in that order.

4.4.2 Growth Opportunities

Table 17 presents a summary of responses on growth opportunities.

Table 17: Descriptive Statistics for Growth Opportunities

	SD %	D %	N %	A %	SA %	M	S Dev
Revenue growth has increased over the past year.	14.3%	16.5%	24.2%	20.9%	24.2%	3.2	1.4
There are untapped markets available for our products or services.	1.1%	1.1%	7.7%	30.8%	59.3%	4.5	0.8

The business has a clear scaling strategy.	5.5%	9.9%	22.0%	34.1%	28.6%	3.7	1.1
The business is flexible and can respond to new market demands.	1.1%	11.0%	13.2%	36.3%	38.5%	4.0	1.0

Source: Researcher (2025)

From the outcomes, 24.2% of the responses were strongly in concurrence that revenue growth has increased over the past year, 20.9% were in agreement while 24.2% were neutral with a mean and SD of 3.2 and 1.4 respectively. With regards whether there are untapped markets available for their products or services, 59.3% were strongly in tandem, 30.8% were in tandem while 7.7% were neutral with a mean of 4.5 and a respective SD of 0.8. In addition, 34.1% of the participants were in concurrence that the business has a clear scaling strategy, 28.6% strongly agreed while 22% were neutral with a mean and SD of 3.7 and 1.1. Finally, 38.5% were strongly in concurrence that the business is flexible and can respond to new market demands, 36.3% were in tandem while 13.2% were neutral with a mean and SD of 4.0 and 1.0 in that order.

4.4.3 Asset Tangibility

Table 18 presents a summary of responses on asset tangibility.

Table 18: Descriptive Statistics for Asset Tangibility

	SD	**D**	**N**	**A**	**SA**		
	%	**%**	**%**	**%**	**%**	**M**	**S Dev**
The business owns physical assets such as tools, equipment, or machinery.	8.8%	11.0%	18.7%	24.2%	37.4%	3.7	1.3
Inventory of raw materials is readily available.	24.2%	11.0%	25.3%	19.8%	19.8%	3.0	1.4
The business has a strong online presence representing its digital assets.	3.3%	8.8%	29.7%	25.3%	33.0%	3.8	1.1
Inventory of finished goods is sufficient to meet demand.	11.0%	8.8%	22.0%	31.9%	26.4%	3.5	1.3
Personal or household fixed assets are sometimes used to support the business.	5.5%	2.2%	17.6%	26.4%	48.4%	4.1	1.1

Source: Researcher (2025)

From the outcomes, 37.4% of the respondends were strongly in tandem that the business owns physical assets such as tools, equipment, or machinery, 24.2% were in agreement while 18.7% were neutral with a mean and SD of 3.7 and 1.3 in that order. With regards whether inventory of raw materials is readily available, 19.8% were strongly in tandem, 19.8% were in tandem while 25.3% were neutral with a mean of 3.0 and a respective SD of 1.4. In addition, 25.3% of the respondents were in agreement that the business has a strong online presence representing its digital assets, 33% strongly agreed while 29.7% were neutral with a mean and SD of 3.8 and 1.1. With regards whether inventory of finished goods is sufficient to meet demand, 26.4% were strongly in tandem, 31.9% were in tandem while 22% were neutral with a mean of 3.5 and a respective SD of 1.3. Finally, 48.4% were strongly in concurrence that personal or household fixed assets are sometimes used to support the business, 26.4% were in tandem while 17.6% were neutral with a mean and SD of 4.1 and 1.1 respectively.

4.4.4 Financial Literacy

Table 19 presents a summary of responses on financial lietarcy.

Table 19: Descriptive Statistics for Financial Literacy

	SD	D	N	A	SA		
	%	%	%	%	%	M	S Dev
I am aware of different financing options available for businesses.	8.8%	3.3%	17.6%	42.9%	27.5%	3.8	1.2
I understand how credit facilities work and their implications.	4.4%	5.5%	16.5%	35.2%	38.5%	4.0	1.1
I regularly create budgets and cash flow forecasts for the business.	7.7%	5.5%	27.5%	30.8%	28.6%	3.7	1.2
Sales and purchase records are well-maintained.	1.1%	5.5%	28.6%	36.3%	28.6%	3.9	0.9
I am aware of tax obligations and the filing process.	5.5%	6.6%	26.4%	34.1%	27.5%	3.7	1.1

Source: Researcher (2025)

From the outcomes, 27.5% of the participants were strongly in concurrence that they are aware of different financing options available for businesses, 42.9% were in agreement while 17.6% were neutral with a mean and SD of 3.8 and 1.2 in that order. With regards whether the respondents understand how credit facilities work and their implications, 38.5% were strongly in tandem, 35.2% were in tandem while 16.5% were neutral with a mean of 4.0 and a respective SD of 1.1. Furthermore, 30.8% of the respondents were in agreement that they regularly create budgets and cash flow forecasts for the business, 28.6% strongly agreed while 27.5% were neutral with a mean and SD of 3.7 and 1.2. With regards whether sales and purchase records are well-maintained, 28.6% were strongly in tandem, 36.3% were in tandem while 28.6% were neutral with a mean of 3.9 and a respective SD of 0.9. Finally, 27.5% were strongly in concurrence that they are aware of tax obligations and the filing process, 34.1% were in tandem while 26.4% were neutral with a mean and SD of 3.7 and 1.1 in that order.

4.4.5 Government Support

Table 20 presents a summary of responses on government support.

Table 20: Descriptive Statistics for Government Support

	SD	D	N	A	SA		
	%	%	%	%	%	M	S Dev
Government skills training programs are accessible to the business.	3.3%	4.4%	42.9%	23.1%	26.4%	3.6	1.0
Government fiscal policies and regulations are favorable to the business.	3.3%	4.4%	24.2%	42.9%	25.3%	3.8	1.0
The business has received direct financial support from the government.	4.4%	3.3%	33.0%	31.9%	27.5%	3.7	1.0

Source: Researcher (2025)

From the results, 26.4% of the responses were strongly in tandem that government skills training programs are accessible to the business, 23.1% were in agreement while 42.9% were neutral with a mean and SD of 3.6 and 1.0 respectively. With regards whether government fiscal policies and regulations are favorable to the business, 25.3% were

strongly in tandem, 42.9% were in tandem while 24.2% were neutral with a mean of 3.8 and a respective SD of 1.0. Finally, 27.5% were strongly in concurrence that business has received direct financial support from the government, 31.9% were in tandem while 33% were neutral with a mean and SD of 3.7 and 1.0 in that order.

4.4.6 Financing Choice

Table 21 presents a summary of responses on financing choice.

Table 21: Descriptive Statistics for Financing Choice

	SD	D	N	A	SA		
	%	%	%	%	%	M	S Dev
The business primarily uses internal financing (e.g., savings, retained earnings)	1.1%	4.4%	7.7%	19.8%	67.0%	4.5	0.9
The business frequently accesses external debt financing (e.g., bank loans, microfinance).	8.8%	4.4%	25.3%	34.1%	27.5%	3.7	1.2
External equity financing for example venture capital and angel investors forms a common choice.	7.7%	4.4%	33.0%	40.7%	14.3%	3.5	1.0
Alternative financing methods (e.g., digital credit, crowdfunding, grants) are regularly utilized.	6.6%	6.6%	17.6%	33.0%	36.3%	3.9	1.2

Source: Researcher (2025)

From the results, 67% of the responses were strongly in concurrence that the business primarily uses internal financing (e.g., savings, retained earnings), 19.8% were in agreement while 7.7% were neutral with a mean and SD of 4.5 and 0.9 in that order. With regards whether the business frequently accesses external debt financing (e.g., bank loans, microfinance), 14.3% were strongly in tandem, 40.7% were in tandem while 33% were neutral with a mean of 3.5 and a respective SD of 1.2. Furthermore, 40.7% of the respondents were in agreement that external equity financing for example venture capital and angel investors forms a common choice, 14.3% strongly agreed while 33% were neutral with a mean and SD of 3.5 and 1.0. Finally, 36.3% were strongly in concurrence

that alternative financing methods (e.g., digital credit, crowdfunding, grants) are regularly utilized, 33% were in tandem while 17.6% were neutral with a mean and SD of 3.9 and 1.2 respectively.

4.5 Diagnostic Tests

The tests are carried out to determine the suitability of the data used in the investigation for estimating the model. The tests conducted included autocorrelation, multicollinearity and normality tests.

4.5.1 Test for Multicollinearity

Variance Inflation Factor was employed to identify multicollinearity among the independent variables. A VIF value below 5 was deemed acceptable, suggesting that there is no significant multicollinearity present (Shrestha, 2020). In the presence of severe multicollinearity, one of the highly correlated variables is omitted.

Table 22: Multicollinearity Test Results

	Collinearity Statistics	
	Tolerance	**VIF**
(Constant)		
Ownership	0.482	2.076
GrowthOpportunities	0.681	1.469
AssetTangibility	0.745	1.342
FinancialLiteracy	0.704	1.421
GovernmentSupport	0.483	2.07

Source: Researcher (2025)

From the results, VIF values for all the independent variables were <5 (2.076<5, 1.469<5, 1.342<5, 1.421<, 2.07<5) implying that there is no multicollinearity in the investigation.

The outcomes indicated that VIF values for all the indicators of the independent variables in the investigation were <5. Thus, the study makes the conclusion that there is no multicollinearity in the dataset and hence all the indicators for the independent variables were retained in the study for further analysis.

4.5.2 Normality Tests

The test used Kolmogorov Smirnov and as a decision rule, significance values > 0.05 would mean that the data follows normal distribution while significance values < 0.05 would mean that the data does not follow normal distribution and thus is not fit for further analysis.

Table 23: Normality Test Outcomes

	Kolmogorov-Smirnova Statistic	df	Sig.
Financing Choice	0.094	91	0.112
Asset Tangibility	0.071	91	0.204
Financial Literacy	0.089	91	0.066
Financing Choice	0.077	91	0.115
Growth Opportunities	0.093	91	0.057
Ownership	0.082	91	0.124

Source: Researcher (2025)

From the outcomes, the normality test results pointed out that all the significance values for all the variables were >0.05. The data used in the investigation is normaly distributed and can therefore be used for further analysis.

4.7 Inferential Analysis

The inferential results for the investigation included both Pearson correlation and PLS SEM model.

4.7.1 Correlation Analysis

Correlation analysis serves to explore the direction and strength of association between the dependent and the independent variables in the study. The dependent variable was financing choice for creative businesses while the independent variables were growth opportunities, ownership control, asset tangibility and financial lietarcy and the moderating effect of government support. As per Schober et al. (2018), r of 0.7 and above implies very strong correlation, 0.5-0.69 strong correlation, r of 0.39 to 0.49 is moderate correlation, r less than 0.39 is weak correlation, r of 1 is perfect correlation whereas 0 implies no correlation. The outcomes are presented in Table 23.

Table 24: Correlation Results

		Financing Choice	Ownership	Growth Opportunities	Asset Tangibility	Financial Literacy	Government Support
Financing Choice	Pearson Correlation	1	.532**	.522**	.534**	.508**	.518**
	Sig. (2-tailed)		0.000	0.000	0.000	0.000	0.000
	N	91	91	91	91	91	91
Ownership	Pearson Correlation	.532**	1	.490**	.400**	.489**	.671**
	Sig. (2-tailed)	0.000		0.000	0.000	0.000	0.000
	N	91	91	91	91	91	91
Growth Opportunities	Pearson Correlation	.522**	.490**	1	.382**	.333**	.502**
	Sig. (2-tailed)	0.000	0.000		0.000	0.001	0.000
	N	91	91	91	91	91	91
Asset Tangibility	Pearson Correlation	.534**	.400**	.382**	1	.374**	.426**
	Sig. (2-tailed)	0.000	0.000	0.000		0.000	0.000
	N	91	91	91	91	91	91
Financial Literacy	Pearson Correlation	.508**	.489**	.333**	.374**	1	.459**
	Sig. (2-tailed)	0.000	0.000	0.001	0.000		0.000
	N	91	91	91	91	91	91
Government Support	Pearson Correlation	.518**	.671**	.502**	.426**	.459**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000	
	N	91	91	91	91	91	91

Source: Researcher (2025)

From the results, the correlation between ownership control and financing choice was strong positive and significant statistically (r=0.532, 000<0.05). Growth opportunities and financing choice significant statistically positively strongly correlated (r=0.522, 000<0.05). The association between growth opportunities and asset tangibility was strong significant statistically and positive (r=0.534, 000<0.05). Financial literacy and financing choice was statistically significantly positively strongly correlated (r=0.508, 000<0.05). The correlation between government support and financing choice was strong positive and significant statistically (r=0.518, 000<0.05).

4.7.2 PLS-SEM Analysis

A Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis was conducted and the outcomes are outlined in the subsequent sections.

Table 25: Model Summary

	R-square	R-square adjusted
Financing Choice	0.654	0.638

The outcomes postulates that the calculated model provides explanations to a tune of 65.4% of the overall changes in financing choice of creative enterprises under study. R Squared value of 0.654 in the calculated model provides evidence for this. Thus, the variables including growth opportunities, ownership control, asset tangibility and financial literacy as well as government support are significant in explaining financing choice of creative enterprises under investigation.

Figure 3: PLS-SEM output showing determinants of financing choice for creative businesses



In order to find predictive relevance of the model, Q^2 was used to assess how well a model can predict the values of endogenous constructs. A Q^2 value greater than zero points to predictive relevance, with higher values for example >0.15 for medium, >0.35 suggesting stronger predictive power according to Cohen, 1988. Unlike R-square, which measures explanatory power, Q-square focuses on the model's out-of-sample predictive accuracy, providing insight into its generalizability. The Q^2 results for the study are provided in Table 4.25.

Table 26: Predictve ($Q^{2)}$ Results

Variable	Q^2	Interpretation
Ownership	0.520	Statistically significant and strong predictive power
Growth Opportunities	-0.009	Statistically insignificant and weak/no predictive power
Asset Tangibility	0.387	Statistically significant and strong predictive power
Financial Literacy	0.260	Statistically significant and medium predictive power

Based on the outcomes from the SmartPLS analysis, the factors influencing the financing choice among creative businesses in Nairobi County, Kenya, demonstrate varying degrees of predictive relevance. Ownership exhibits the highest Q^2 value of 0.520, indicating strong predictive power in explaining financing decisions, likely reflecting the significant role of ownership structure in determining access to funds. Asset tangibility, with a Q^2 of 0.387, also shows notable relevance, implying that the availability of tangible assets impacts financing options. Financial inclusion, with the lowest Q^2 of 0.260, still indicates moderate predictive relevance, highlighting its role in enabling access to financial resources. However, growth opportunities had a Q^2 of negative 0.009, suggesting its insignificant influence in driving investment choices.

Table 27: Path Coefficients for determinants of financing choice for creative businesses

	Financing Choice	Sig.
Asset Tangibility	0.226	0.032
Financial Literacy	0.200	0.038
Growth Opportunities	-0.069	0.512
Ownership	0.530	0.000

From the outcomes of the estimated model, the coefficient of asset tangibility was positive (0.226) and significant statistically (0.032<0.05). This means that improving tangibility of assets of the creative enterprises yields in a significant 0.226 units increase in financing

choice of the creative enterprises. Therefore, the study makes the conclusion that asset tangibility determines significantly financing choice among the creative enterprises.

Financial literacy attracted a significant statistically (0.038<0.05) and positive (0.2) coefficient. Thus, a unit increase in financial literacy among the creative enterprises leads to a significant 0.2 units increase in financing choice of the creative enterprises. Hence, the investigation makes the conclusion that financial literacy determines significantly financing choice of the creative enterprises under investigation.

Growth opportunities recorded negative (-0.069) and statistically insignificant (0.512>0.05) coefficient. Hence, a unitary in growth opportunities among the creative enterprises would result in 0.069 units insignificant decline in financing choice among the creative enterprises under study. Therefore, the study makes the conclusion that growth opportunities is an insignificant determinant of financing choice among the creative enterprises under study.

The coefficient of ownership control was positive (0.53) and significant statistically (0.000<0.05). Hence, increasing ownership control of the creative enterprises by a unit result in a significant 0.53 units increase in financing choice among the creative enterprises. Therefore, the study makes the conclusion that ownership control determines significantly financing choice among the creative enterprises.

Table 28: F-Square Results

	f^2
Asset Tangibility -> Financing Choice	0.129
Financial Literacy -> Financing Choice	0.317
Growth Opportunities -> Financing Choice	0.212
Ownership -> Financing Choice	0.137

From the results, financial literacy is the most influential predictor of financing choice while asset tangibility, growth opportunities an ownership have moderate impact on financing choice.

4.7.3 The Moderating Effect of Government Support on the Determinants of Financing Choice for Creative Businesses

The investigation further analyzed the moderating influence of government support on the determinenats of financing choice for creative businesses and the results are presented in Figuure 4 and Table 20.

Figure 4: PLS-SEM Output showing the moderating effect of government support

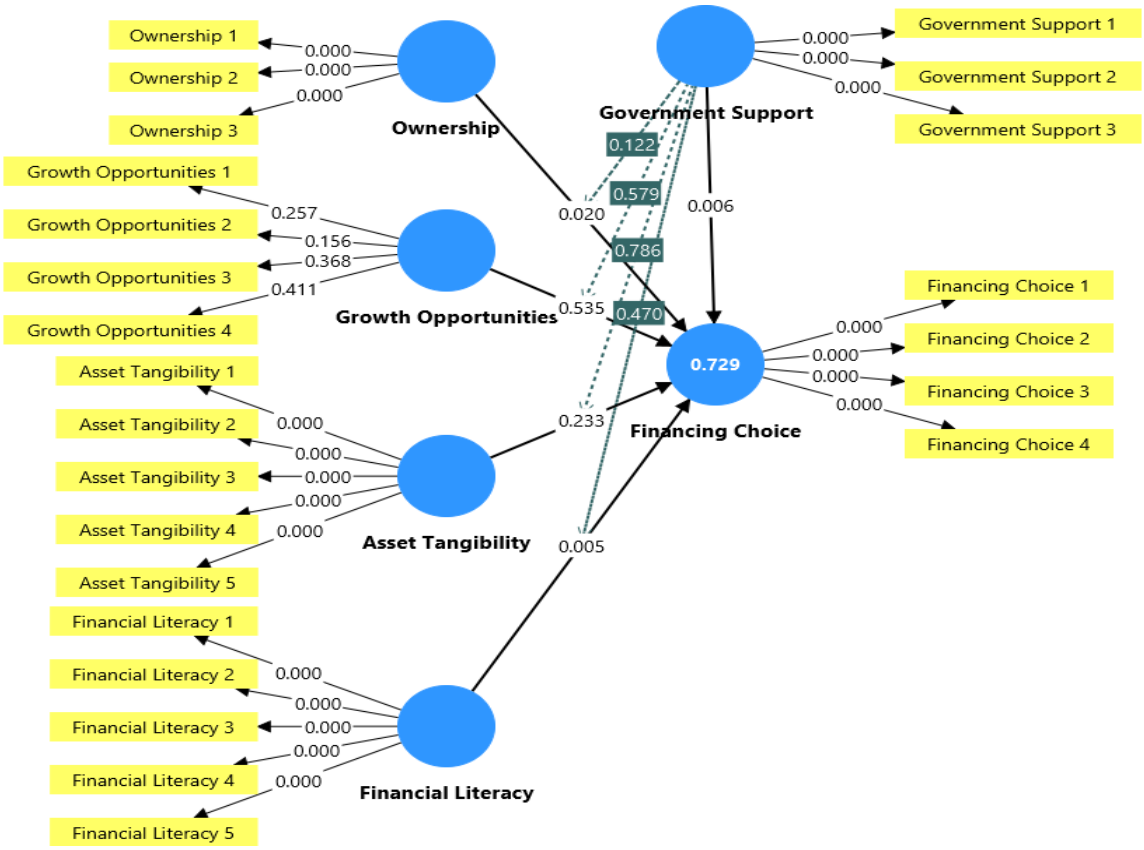


Table 29: Path Coefficients for moderating effect of government support

	Financing Choice	Sig.
Asset Tangibility	0.129	0.233
Financial Literacy	0.244	0.005
Government Support	-0.193	0.006
Growth Opportunities	-0.062	0.535
Ownership	0.294	0.020
Government Support x Ownership	0.178	0.122

Support from Government x Growth Opportunities	-0.055	0.579
Government Support x Asset Tangibility	-0.026	0.786
Government Support x Financial Literacy	-0.067	0.470

The outcomes of the moderation analysis indicate that asset tangibility recorded a positive (0.129) and insignificant (0.233>0.05). Therefore, a unit increase in asset tangibility among the creative enterprises leads to an insignificant 0.129 units increase in financing choice among the creative enterprises under study. Therefore, the study makes the conclusion that asset tangibility is an insignificant determinant of financing choice among the creative enterprises under study.

Financial literacy attracted a positive significant coefficient (0.005<0.05, 0.244). Hence, enhancing financial literacy among the creative enterprises by a unit yields a significant 0.244 units increase in financing choice among the creative enterprises under review. Therefore, the study makes the conclusion that financial literacy determines significantly financing choice among the creative enterprises under investigation.

The coefficient of support from government was negative (-0.193) and significant statistically (0.006<0.05). Hence, a unit improvement in government support among the creative enterprises yields a significant 0.193 units decline in financing choice among the creative enterprises under investigation. Therefore, the study makes the conclusion that government support determines significantly financing choice among the creative enterprises under review.

The coefficient of growth opportunities was negative (-0.062) and insignificant statistically (0.535>0.05). Hence, enhancing growth opportunities among the creative enterprises by a unit would result in 0.062 units insignificant decline in financing choice among the creative enterprises under study. Therefore, the study makes the conclusion that growth opportunities is an insignificant determinant of financing choice among the creative enterprises under study.

Ownership control recorded a positive (0.294) and significant statistically (0.020<0.05) coefficient. Thus, a unit improvement in ownership control among the creative enterprises

leads to a significant 0.294 units increase in financing choice among the creative enterprises. Therefore, the study makes the conclusion that ownership control determines significantly financing choice among the creative enterprises.

The coefficient of the interaction between government support and ownership control was positive by statistically insignificant (β=0.178, p=0.122>0.05). This implies that support from government does not moderate on the nexus between ownership control and financing choice among the creative enterprises under study.

The coefficient of the interaction between government support and growth opportunities was negative by statistically insignificant (β=-0.055, p=0.579>0.05). This implies that support from government does not moderate on the link between growth opportunities and financing choice among the creative enterprises under study.

The coefficient of the interaction between government support and asset tangibility was negative by statistically insignificant (β=-0.026, p=0.786>0.05). This implies that support from government does not moderate on the association between asset tangibility and financing choice among the creative enterprises under study.

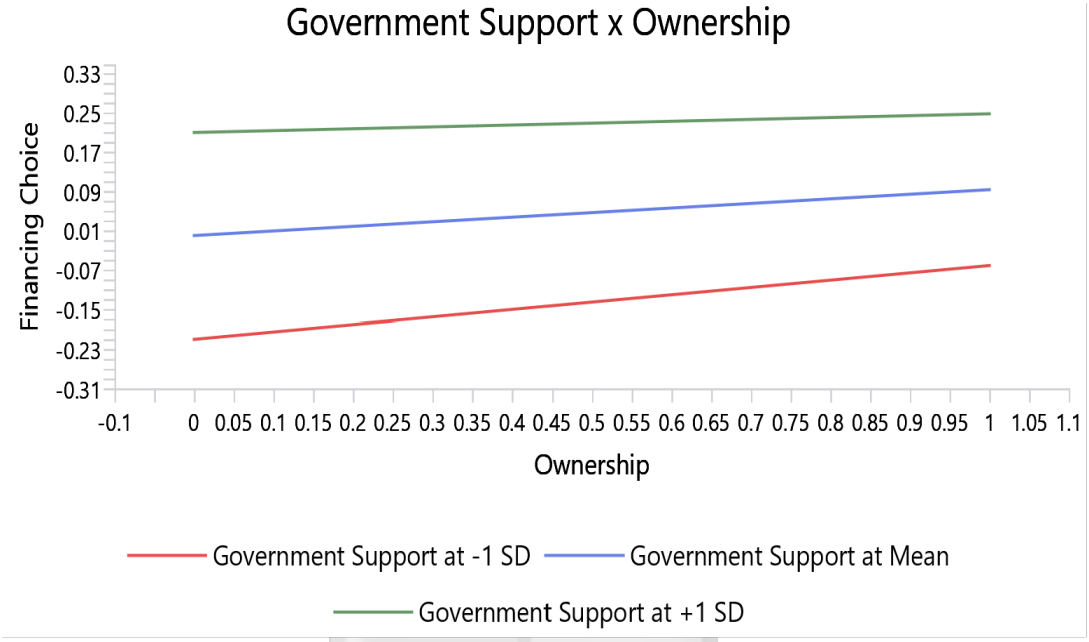
The coefficient of the interaction between government support and financial literacy was negative by statistically insignificant (β=-0.067, p=0.470>0.05). This implies that support from government does not moderate on the nexus between financial literacy and financing choice among the creative enterprises under study.

Therefore, from the outcomes, support from government does not have a moderating effect on the determinants of financing choice for creative enterprises. However, the results further indicate that support from government has a negative and significant influence on financing choice among creative enterprises and hence determines significantly financing choice among the creative entrprises under study.

4.7.4 Slope Analysis

Figure 5 shows a moderation effect of support from government on the link between Ownership and Financing Choice.

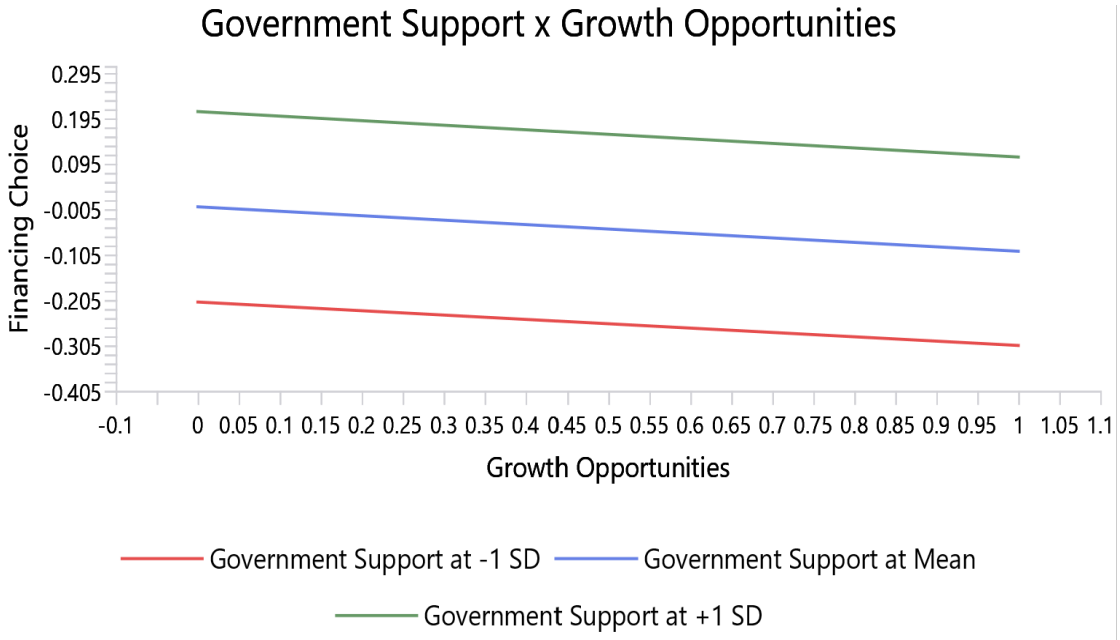
Figure 5: Interaction Effect of Government Support and Ownership



The slope is positive for all levels of Government Support, meaning as Ownership increases, Financing Choice also increases regardless of government support level. This pattern confirms that Government Support moderates the association between Ownership and Financing Choice. Specifically, higher support from government strengthens the positive effect of Ownership on Financing Choice.

Figure 6 shows a moderation impact of support from government on the nexus between growth opportunities and financing choice.

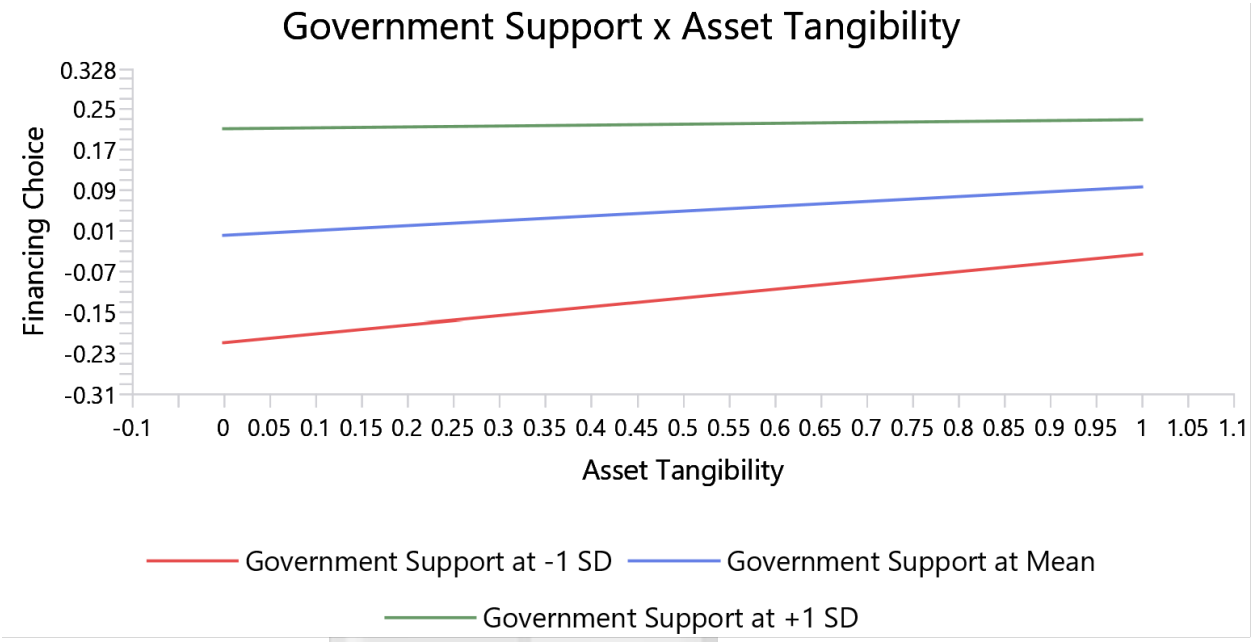
Figure 6: Interaction Effect of Government Support and Growth Opportunities



The interaction plot indicates that government support moderates the association between growth opportunities and financing choice. As growth opportunities increase, financing choice tends to decrease. However, this negative relationship is mitigated when government support is higher. Hence, government support reduces the adverse impact of growth opportunities on financing choice, acting as a positive moderating factor.

Figure 7 shows a moderation influence of support from government on the association between asset tangibility and financing choice.

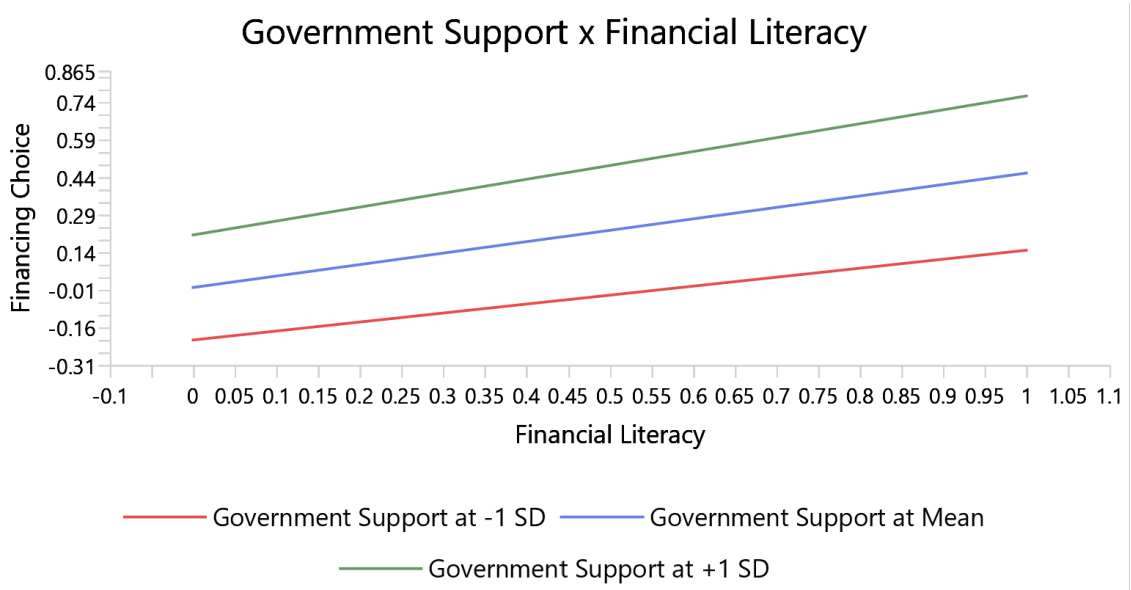
Figure 7: Interaction Effect of Government Support and Asset Tangibility



The moderation plot suggests that support from government positively moderates the relationship between asset tangibility and financing choice. At all levels of asset tangibility, higher government support is associated with higher predicted financing choice. This indicates that entities with greater tangible assets are more likely to access financing, and this relationship is amplified when government support is strong.

Figure 8 shows a moderation effect of Government Support on the nexus between financial literacy and financing choice.

Figure 8: Interaction Effect of Government Support and Financial Literacy



The moderation plot suggests that support from government positively moderates the link between financial literacy and financing choice. At all levels of financial literacy, higher government support is associated with higher predicted financing choice. This indicates that persons with greater financial literacy are more likely to access financing, and this relationship is amplified when government support is strong.

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CHAPTER FIVE

DISCUSSION, CONCLUSSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the discussion of the findings of the investigation, presents conslusions drawn from the outcomes and suggests recoommendations that are drawn from the conclusions.

5.2 Summary of Findings

From the outcomes, ownership control and financing choice statistically positively correlated. The coefficient of ownership control was significant statistically and positive. Thus, a unit increase in ownership control among the creative enterprises would result in a significant increase in financing choice among the creative enterprises under review. Therefore, the study makes the conclusion that ownership control determines significantly financing choice among the creative enterprises under investigation. Business organisations exist in multiple legal forms including private limited company, limited partnership and sole proprietorship among others (KNBS, 2021). SME financing decisions are greatly influenced by ownership which is more centralised and the ownership structures present are lean compared to large organisations and firms (Borgia & Newman, 2012: Matthews & Barton, 1989). A study on 300 SMEs in China by Borgia & Newman (2012), found that owners and managers who are concerned that using external debt for financing might reduce flexibility and control over their decision-making power are more inclined to restrict the level of external debt in their company's capital structure This is supported by Hutchinson (1995).

The results are in concurrence with the findings of Gebru (2009) which showed similar results where partnerships and private limited companies compared to sole proprietors lean towards external financing and a financing mix even if the internal sources of financing are not completely used. This in turn does not support the POT hierarchy of financing preferences. However, the study noted that the POT was supported as SMEs with higher entrepreneurial skills would first exhaust internal funds. Naili et al. (2024) showed that ownership significantly affects financing preferences for all sources except

equity (retained earnings, financial markets, investment finance). While it may seem surprising, Senegalese managers might accept ownership dilution for better financing access. External equity may also not be easily available, leading to indifference about its impact. Owners prefer self-financing over non-owners, but this reflects fund availability rather than a desire to retain ownership, as self-financing options are often more accessible. Hussain et al. (2024) revealed that SMEs mostly rely on debt financing, and this decision is affected by how much ownership is held by women, foreigners and the government. The study also demystifies that women-led financing decisions are risk averse but rather affected by other factors. Additionally, female CEOs tended to choose long-term debt over short-term debt.

The association between growth opportunities and financing choice was significant statistically positive. The coefficient of growth opportunities was negative and statistically insignificant. This means that a unit enhancement in growth opportunities among the creative enterprises would result in insignificant units decline in financing choice among the creative enterprises under study. Therefore, the study makes the conclusion that growth opportunities is an insignificant determinant of financing choice among the creative enterprises under study. Kenya's creative MSMEs have plenty of chances for expansion in their field (FSD, 2021). A report by FSD and Safaricom (2024) states that 7.4 million MSMEs mainly sought finance for expansion to untapped markets and marketing. Debt financing and growth opportunities are negatively correlated, according to Jensen & Meckling (1976) and Gaud et al. (2005) thus, companies with great future growth potential should mostly rely on internal financing to preserve more financial flexibility and minimise reliance on debt, as well as to minimise agency issues.

The outcomes are in concurrence with the findings of Benkraiem and Gurau (2013) revealed no appreciable link between company growth and short-term debt, therefore suggesting that short-term financing had no bearing on the dynamics of development of these companies. Given funding company expansion is essentially a long-term process, these outcomes imply that SMEs with great growth potential are more likely to have more leverage, moreso in long-term debt. Neves et al. (2020) however confirm that short-term debt would be the main choice for funding prospects.

Asset tangibility and financing choice statistically positively correlated. The coefficient of asset tangibility was positive and significant statistically. This implies that improving asset tangibility among the creative enterprises would lead to a significant increase in financing choice among the creative enterprises under review. Therefore, the study makes the conclusion that asset tangibility determines significantly financing choice among the creative enterprises under investigation. The creative industry/enterprises use the term intellectual property when describing the ownership of (intangible) assets (FSD, 2021). These assets range from cameras, paintings, musical compositions, sculptures and are not limited to inventory in the form of designer clothes and jewelery etc. However, this asset might be considered unorthodox when looking for credit as financial institutions are not used to this form of collateral (FSD, 2021).

The outcomes concur with the findings of Serrasqueiro (2011) which revealed that service sector SMEs rely more on short-term debt, whereas manufacturing SMEs have greater flexibility in adjusting long-term debt to align with their target debt ratio. This is because of the level of tangible assets that manufacturing SMEs have access to compared to service SMEs that have intangible assets and less collateral. This means that creditors would associate the service sector SMEs with higher risk levels compared to the manufacturing sector. Similar to the service sector, the creative industry is characterised by intangible assets which might nudge creative entrepreneurs to seek more flexible credit options as posited by Osei-Assibey et al. (2012). Burgstaller and Wagner (2014) further indicated that family-run firms fixed assets have less correlation to the debt ratio compared to the non-family firms. The study goes ahead to reveal that descendant-run family firms have less leverage as the level of tangible assets increases. Furthermore, Burgstaller & Wagner (2014) hypothesise this is because private leverage and soft facts life relationships, management style, reputation and trust are more important.

There was a significant positive correlation between financial literacy and financing choice. The coefficient of financial literacy was positive and significant statistically meaning that a unit improvement in financial literacy among the creative enterprises results in a significant increase in financing choice among the creative enterprises under review. Therefore, the investigation makes the conclusion that financial literacy

determines significantly financing choice among the creative enterprises under study. The outcomes are in concurrence with the outcomes of Borgia and Newman (2012), an owner or manager's education level can indicate to lenders the nature of the business's financial practices, improving its access to external finance. Munyuki and Jonah (2021) argue that financially literate entrepreneurs are more likely to make better managerial and financial decisions. A study by FSD (2021) found that Kenyan creative enterprises fail to articulate their business model and monetisation strategy making it harder for lenders to extend credit.

Hussain et al. (2018) further noted that financial literacy lowers monitoring costs and optimises capital arrangements, helping SMEs expand. The study found that financial institutions value financial management education for business growth. Munyuki & Jonah (2021) indicated that financial literacy improved company performance for Cape Town-based young entrepreneurs. Soto et al. (2022) show that CEO financial literacy boosts business growth. However, it is noted that second-generation family firms had a larger correlation between financial literacy of CEO and company growth than first- and third-generation ones. Naili et al. (2024) found that a university degree substantially affects financing decisions across all funding alternatives except financial markets. Doctorate holders are more likely to prefer long-term bank loans than individuals with bachelor's degrees or lower, which highlights that highly educated people seek long-term financing sources. Fuming et al. (2021) showed that MSEs led by entrepreneurs with a high school education or less are more likely to have poor financial practices and more fraud. Similar to Naili et al. (2024), the study also reveals that MSEs led by college-educated entrepreneurs are more prepared to borrow greater sums for longer durations, which leads to business sustainability.

The correlation between government support and financing choice was significant statistically positive. The coefficient of government support was negative and significant statistically. Hence, a unit improvement in government support among the creative enterprises leads to a significant decline in financing choice among the creative enterprises under review. Therefore, the study makes the conclusion that government support determines significantly financing choice among the creative enterprises under

investigation. The outcomes are in tandem with the findings of Mbah et al. (2020) which showed that although the companies knew about government financing programs, only a small fraction could really obtain the money. The government programs meant to support entrepreneurs in this research included the development of industrial estates, SMEs' credit programs, a financing organisation for SMEs, and training courses for entrepreneurs. Furthermore, there was the lack of sufficient information the government might have given SMEs to inspire their involvement in initiatives financed by the government.

Aslam et al. (2023) emphasised how important the SMEs are to the economy and how long-term sustainability depends on government assistance. Furthermore, underlined in the research is the need for government intervention, as earlier cases of SMEs failing were connected to insufficient support. Particularly, the study looked at factors like financial knowledge and financial access. In conclusion, if the government offers sufficient financial literacy training and workshops, SMEs might improve their performance and understanding of finances. Rosyadi et al. (2022) further show that the rigid and routine-oriented policies used by local politicians impede the development of SMEs in the creative industry. Consequently, local governments have fallen short in enhancing the competitiveness of the regional creative economies. However, Muchira (2023) found that Kenya's creative sector suffers from restricted financing options and poor government frameworks. The investigation also highlighted the lack of government support, as a strategic investor in the creative sector, in the local young potential development hampered by this deficiency.

The coefficient of the interaction between government support and ownership control was positive by statistically insignificant. This implies that government support does not moderate on the link between ownership control and financing choice among the creative enterprises under study. The coefficient of the interaction between government support and growth opportunities was negative by statistically insignificant. This implies that support from government does not moderate on the link between growth opportunities and financing choice among the creative enterprises under study. The coefficient of the interaction between government support and asset tangibility was negative by statistically insignificant. This implies that government support does not moderate on the nexus

between asset tangibility and financing choice among the creative enterprises under study. The coefficient of the interaction between government support and financial literacy was negative by statistically insignificant. This implies that support from government does not moderate on the link between financial literacy and financing choice among the creative enterprises under study. Therefore, from the results, government support does not have a moderating effect on the determinants of financing choice for creative enterprises. However, the outcomes further indicate that government support has a negative and significant influence on financing choice among creative enterprises and hence determines significantly financing choice among the creative entrprises under study.

Mbah et al. (2020) showed that although the companies knew about government financing programs, only a small fraction could really obtain the money. The government programs meant to support entrepreneurs in this research included the development of industrial estates, SMEs' credit programs, a financing organisation for SMEs, and training courses for entrepreneurs. Furthermore, there was the lack of sufficient information the government might have given SMEs to inspire their involvement in initiatives financed by the government.

Aslam et al. (2023) emphasised how important the SMEs are to the economy and how long-term sustainability depends on government assistance. Furthermore, underlined in the research is the need for government intervention, as earlier cases of SMEs failing were connected to insufficient support. Particularly, the study looked at factors like financial knowledge and financial access. In conclusion, if the government offers sufficient financial literacy training and workshops, SMEs might improve their performance and understanding of finances. Rosyadi et al. (2022) further show that the rigid and routine-oriented policies used by local politicians impede the development of SMEs in the creative industry. Consequently, local governments have fallen short in enhancing the competitiveness of the regional creative economies.

5.3 Conclusion

The investigation concluded that ownership control determines significantly financing choices among the creative enterprises under study. Ownership control significantly influences financing choices among creative businesses in Kenya. Many of these creative

enterprises, often owned and managed by individuals or family members, centralizes decision-making and limits access to formal financing because of lack of collateral and financial records. These enterprises thus rely on grants, informal lending networks and personal savings to finance their operations. However, businesses with diversified ownership or formal registration are better positioned to attract equity investors and institutional funding, enhancing growth potential.

The study concluded that growth opportunities is an insignificant determinant of financing choice among the creative enterprises under study. Growth opportunities for creative businesses in Kenya are expanding catalysed by rising demand for local content, digital connectivity and a youthful population. However, financing remains a significant hurdle, as many enterprises are informal and lack collateral, making them ineligible for commercial bank loans.

The investigation concluded that asset tangibility determines significantly financing choice among the creative enterprises under study. Creative businesses often possess limited tangible assets, as their value is primarily derived from intellectual property, talent, and creative outputs, which are difficult to collateralize under traditional lending frameworks. As a result, banks and formal financial institutions perceive them as high-risk borrowers, restricting access to credit. This lack of tangible collateral pushes creative entrepreneurs to rely on personal savings, informal finance.

The investigation concluded that financial literacy determines significantly financing choice among the creative enterprises under study. Many creative entrepreneurs lack the skills and knowledge needed to manage finances or navigate formal financial systems, which hinders their ability to secure funding from banks and investors. This low financial literacy often leads them to rely on informal sources of finance such as personal savings, family contributions, or community-based lending groups.

The investigation concluded that government support does not have a moderating influence on the determinants of financing choice for creative enterprises. However, the outcomes further postulate that government support has a negative and significant effect on financing choice among creative enterprises and hence determines significantly financing choice among the creative entrprises under study. The government programs

meant to support creativeentrepreneurs included the development of industrial estates, SMEs' credit programs and training courses for entrepreneurs. Government offers financial literacy training and workshops, to improve performance of creative MSMEs.

5.4 Recommendations

The study recommended that creative entrepreneurs adopt more formalized and diversified ownership structures. Sole proprietorships and family-owned models, while common, often limit access to external funding due to governance concerns and lack of transparency. By adopting this strategy, creative enterprises can build investor confidence and become more attractive to banks, venture capitalists among others. Forming cooperatives can also help pool resources, share risks, and increase bargaining power when seeking funding. This aligns to the POT that suggests internal financing is preferred on the premise of control.

Creative businesses under study should align their financing choices with scalable and sustainable business models. Building partnerships with digital platforms can also open up new revenue streams and attract impact investors. Embracing financial planning, documenting revenue flows and demonstrating clear growth strategies can enhance investor confidence.

The creative businesses under study should strategically utilize their intangible assets such as intellectual property, brand equity, and digital content as part of their financing strategies. This involves properly registering copyrights, trademarks, and patents to formalize asset ownership and enhance their valuation. Financial institutions and policymakers should also develop innovative lending models that recognize these intangible assets as viable collateral, such revenue-based financing.

The study further recommended that it is essential for the businesses under study to prioritize financial literacy as a foundational element of entrepreneurial success. Creative entrepreneurs should be equipped with practical skills in budgeting, financial planning, record-keeping and investment readiness through targeted training programs and mentorship. Industry associations, government agencies and financial institutions like SACCOS should collaborate to deliver accessible and tailored financial education, both online and in person.

Finally, the study recommended that the government should formulate policies and programs geared towards supporting the creative enterprises under study. Specifically, county governments can partner with financial institutions like banks to offer MSME support through cash-backed facilities which inturn reduces the need for collateral from creative businesses. These programs may also include formulating financing models that are faviourable to these businesses, coming up with training and capacity building programs as well as creating a conducive business environment where these businesses can thrive.

5.5 Limitations of the study

There are certain limitations to this study, despite the fact that it provides insightful information about funding decisions made by creative businesses. The results may not be as broadly applicable as they may be because the study was limited to a single geographic location. Because surveys rely on participants' recollection and honesty, they may potentially create bias. The reliance solely on quantitative approaches constrains the potential depth of understanding that qualitative insights could provide.

5.5 Suggestions for Further Research

Further researches be conducted on the effect of digital financial platforms on financing choices among creative enterprises in Nairobi County, Kenya. Further studies could also examine how cultural attitudes, trust in financial systems, and informal networks impact financing decisions of creative businesses. Additionally, investigating gender dynamics, business size and age, and regulatory environments would provide deeper insights. A comparative analysis between successful and struggling creative businesses might reveal key differentiators in financing strategies, while longitudinal and qualitative studies could track how financing preferences evolve with market maturity and economic changes.

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APPENDICES

Appendix 1: Research questionnaire/ interview guide

QUESTIONNAIRE: FACTORS INFLUENCING FINANCING CHOICES AMONG CREATIVE ENTERPRISES IN NAIROBI COUNTY, KENYA

SECTION I: Demographic Information

1. Gender:

□ Male □ Female

2. Age:

□ 18 - 25 years □ 26 - 35 years □ 36 - 45 years □ 46 - 55 years □ 56 years and above

3. Education Level:

□ Primary □ Secondary □ Diploma □ Bachelor's Degree □ Master's Degree □ Doctorate

4. Nature of creative enterprise(Primary):

[ ] Research and Development; [ ] computer and web services; [ ] video games, software; [ ] visual arts, performing and music; [ ] design goods and manufacturing of crafts; [ ] design: fashion design, graphic and product; [ ] publishing and books; [ ] natural and cultural heritage; [ ] photography, multimedia and audiovisual; [ ] Architecture[ ] marketing and advertising.

4. Nature of creative enterprise(Select secondary if more than 1) :

[ ] Research and Development; [ ] computer and web services; [ ] video games, software; [ ] visual arts, performing and music; [ ] design goods and manufacturing of crafts; [ ] design: fashion design, graphic and product; [ ] publishing and books; [ ] natural and cultural heritage; [ ] photography, multimedia and audiovisual; [ ] Architecture[ ] marketing and advertising.

5. Years in Operation:

□ Less than 1 year □ 1 - 3 years □ 4 - 6 years □ 7 - 10 years □ Over 10 years

6. Number of Employees:

□ 1 - 5 □ 6 - 10 □ 11 - 20 □ More than 20

SECTION II: Study Variables

Please indicate the extent to which you agree with the following statements using a scale of 1 to 5 where:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

Please indicate your response by making on the appropriate box.

	1	2	3	4	4
A. Ownership					
The business is controlled by a family or group.					
The equity ownership structure influences our financing choices.					
The capital contributions from owners are adequate for business needs.					
B. Growth Opportunities					
Revenue growth has increased over the past year.					
There are untapped markets available for our products or services.					
The business has a clear scaling strategy.					
The business is flexible and can respond to new market demands.					
C. Asset Tangibility					

The business owns physical assets such as tools, equipment, or machinery.					
Inventory of raw materials is readily available.					
The business has a strong online presence representing its digital assets.					
Inventory of finished goods is sufficient to meet demand.					
Personal or household fixed assets are sometimes used to support the business.					
D. Financial Literacy					
I am aware of different financing options available for businesses.					
I understand how credit facilities work and their implications.					
I regularly create budgets and cash flow forecasts for the business.					
Sales and purchase records are well-maintained.					
I am aware of tax obligations and the filing process.					
F. Government Support					
Government skills training programs are accessible to the business.					

Government fiscal policies and regulations are favorable to the business.					
The business has received direct financial support from the government.					
E. Financing Choice					
The business primarily uses internal financing (e.g., savings, retained earnings)					
The business frequently accesses external debt financing (e.g., bank loans, microfinance).					
External equity financing for example venture capital and angel investors forms a common choice					
Alternative financing methods (e.g., digital credit, crowdfunding, grants) are regularly utilized.					

VT OMNES VNVM SINT

Appendix 2: UNIVERSITY INTRODUCTION LETTER

Ole Sangale Rd, Madaraka Estate
P. O Box 59857 - 00200, Nairobi, Kenya
Cell: +254 703 034 414/6/7
X/Twitter/Tiktok: @SBSKenya
Facebook/Linkedin: Strathmore University Business School

Email: **sbsinfo@strathmore.edu** or visit **www.sbs.strathmore.edu**

Strathmore UNIVERSITY BUSINESS SCHOOL

20 Years of Developing Great African Leaders

Tuesday, 13th May 2025

To Whom It May Concern,

RE: FACILITATION OF RESEARCH – KEVIN KAHARIRI

This is to introduce Kevin Kahariri, a Master of Science in Development Finance (MDF) student at Strathmore University Business School, admission number MDF/152503/22. As part of our MDF program, Kevin is expected to do applied research and undertake a project. This is in partial fulfillment of the requirements of the MDF course. To this effect, he would like to request appropriate data from your organization.

Kevin is undertaking a research paper on ***"Factors Influencing the Financing Choice Among Creative Enterprises in Nairobi County, Kenya: The Moderating Role of Government Support."*** The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MDF program seeks to establish links with industry, and one of the ways of doing so is directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

Alois Njenga,
Manager—Graduate Programmes,
Strathmore University Business School.

Strathmore University Business School is a Proud member of:

Association of African Business Schools AABS EFMD AACSB

Appendix 3: UNIVERSITY ETHICAL APPROVAL LETTER

Strathmore UNIVERSITY

5th May 2025

Mr Kahariri Kevin,
kevin.kahariri@strathmore.edu

Dear Mr Kahariri,

RE: Factors Influencing the Financing Choice Among Creative Enterprises in Nairobi County, Kenya: The Moderating Role of Government Support

This is to inform you that SU-ISERC has reviewed and **approved** your above **SU-masters** proposal. Your application reference number is **SU-ISERC2866/25.** The approval period is from **5th May 2025 to 4th May 2026.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used.
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-ISERC.
iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-ISERC within 72 hours of notification.
iv. Any changes anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-ISERC within 72 hours.
v. Clearance for the export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to the expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days of completion of the study to SU-ISERC.

Before commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology, and Innovation (NACOSTI) https://research-portal.nacosti.go.ke/ and obtain other clearances needed.

Yours sincerely,

Mr Ambrose Rachier,
Chairperson; SU-ISERC

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Email admissions@strathmore.edu www.strathmore.edu

Appendix 4: NACOSTI RESEARCH PERMIT

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **706546**

Date of Issue: **23/May/2025**

RESEARCH LICENSE



This is to Certify that Mr.. Kevin Kariuki Kahariri of Strathmore University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: Factors Influencing the Financing Choice Among Creative Enterprises in Nairobi County, Kenya: The Moderating Role of Government Support. for the period ending : 23/May/2026.

License No: **NACOSTI/P/25/4173838**

706546

Applicant Identification Number

Deputy Director
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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See overleaf for conditions