

**AN ANALYSIS OF THE CRITICAL SUCCESS FACTORS FOR CROWDFUNDING
FOR SMES IN KENYA**

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**A Research Project Submitted to the Strathmore University Business School in Strathmore
University in Partial Fulfillment for the Degree of Bachelor of Commerce of Strathmore
University**

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DECLARATION

This research project is my work and has not been presented to any other examination body for the award of any diploma or degree in any university.

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This research project has been submitted for examination with my approval as the University Supervisor.

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FREDRICK OTIENO

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DEDICATION

This study is dedicated to my family and their friends for their endless support.

ABSTRACT

SME financing is an important aspect of the economy since SMEs greatly contribute to the GDP of countries in both developing and developed countries. SMEs have various sources of financing their businesses mostly in the form of equity and debt. Crowdfunding is a source of finance for businesses and it can be in the form of equity, debt, reward or donation. The crowdfunding process entails raising finance on the internet by running a crowdfunding campaign. The success of the campaign determines whether a business has access to finance or not. This study, therefore, sought to establish the impact of some of the critical success factors for a crowdfunding campaign to be successful. The researcher used descriptive research design and descriptive analysis to achieve the objective of analyzing what is the impact some of the critical success factors for a crowdfunding campaign for an SMEs. The researcher used primary data to achieve the objective of the study. The sample size for this study was 34 SMEs in Kenya. The study finds that in Kenya the donation model is more successful and that duration has more impact on the success of a crowdfunding campaign since in the case of donation models that were used by the SMEs the campaigns took longer than campaigns in other crowdfunding platforms. The study also finds that geography is no hindrance to the success of a crowdfunding campaign and that it has no significant impact on crowdfunding. This study is of importance to SMEs, policymakers and other academicians as it gives them insights into how geography and duration impact the success of a crowdfunding campaign for businesses. The study will also be of more benefit to SMEs as it will give them ideas of what to take into consideration to make their crowdfunding campaigns a success.

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ABBREVIATIONS AND ACRONYMS

APO -Alternative Public Offering

GDP – Gross domestic product

PIPE – Private Investment in Private Equity

MSME –Micro, Small and Medium-Sized Enterprises

SMEs –Small and Medium-Sized Enterprises

SME- Small and Medium-Sized Enterprise

DEFINITION OF TERMS

Crowdfunding – Raising small amounts of money from different groups of people through various crowdfunding platforms on the internet to finance an existing business or a business idea.

Crowd funder- People who contribute, lend or donate money to businesses or people raising money through crowdfunding platforms.

CHAPTER ONE: INTRODUCTION

1.1 Introduction to study

Small and medium-sized enterprises make up a big portion of the private sector in many developed and developing countries and their access to credit is increasingly seen as an essential part of economic growth in developing countries (Okiro,2016).SMEs including business startups and micro-enterprises at the onset of their business all over the world find it difficult to access finance at an affordable to start and grow their businesses (Abe, Troilo, & Batsaikhan, 2015). At the onset of the business SMEs rely on the owner's equity and financing from family and friends but in the long run, external sources are used by the businesses (Wille, Hoffer, & Miller, 2017). Kauffmann, (2005) SMEs in Africa have little access to finance, hampering their development and eventual growth. Manigart & Struyf, (1997) The main source of finance for small businesses is the entrepreneurs themselves and banks, these two sources provide the most funding and are complimented by private investors and venture capitalists who provide funding at the startup and early growth stages respectively. According to Broude & Levangie, (2006) businesses have many alternatives of financing at the start-up phase which include IPOs, APOs with PIPES and the use of business angels and venture capitalists.

Lehner, (2013) Banks, leasing companies, government agencies bootstrapping and donations are among other sources of finance used by small enterprises and are used at different stages of the business. According to Gompers & Lerner, (1999), venture capitalists invest in high-risk firms that have potentially rewarding returns in the market and during the process buying the stakes of the business while it is still owned by the entrepreneur. Business angels are also a source of finance for businesses. Politis, (2008) describes business angels as individuals who offer high-risk capital to people in business with whom they have no family relations whereas Lehner, (2013) refers to business angels as wealthy individuals who are willing to invest in small social projects that match with their intrinsic value and fit into their agenda.

Crowdfunding is also a source of finance for businesses, in crowdfunding money is collected from a group of individuals through online platforms or social networks.

1.2 Background of study

Crowdfunding is the process of financing a project or a business venture by a group of people (Mitra, 2012). Crowdfunding is an open call process through mainly the internet for the provision of financial resources as donations without expectations of anything in return and some cases the crowd funders gain voting rights in the business (Cohn, 2012) and (Belleflamme, Lambert and Schwienbacher, 2010). Collins and Pierrakis, (2012) describe it as the use of online platforms to raise funds and this is done through the uploading of important business details on the crowdfunding platforms whereas Valanciene & Jegeleviciute, (2013) define it as a method where entrepreneurs seeking funds are connected to investors through internet-based intermediaries which are the online platforms. Crowdfunding is emerging as an alternative to traditional sources of financing such as bank loans, business angels, bootstrapping or investing in venture capital, helping entrepreneurs raise funds to launch their ideas.

World Bank (2013) reports crowdfunding developed after the financial crisis of 2008 because businesses and entrepreneurs especially those starting new businesses being unable to raise capital. It started as an internet expansion of traditional funding by friends and family and communities pooling cash to finance participants with business ideas. With time crowdfunding has taken momentum in countries such as Australia, the United Kingdom, the Netherlands, Italy, and the United States. According to the World Bank report (2015), online crowdfunding has increasingly developed into a \$16 billion market. It grows around 300 per cent per year and is focused in North America and Europe. In Africa, the crowdfunding market is still in the infancy stage but there are high prospects for growth in the market (World Bank,2013). Despite its slow implementation in developing economies, crowdfunding is a chance for entrepreneurs to expand access to capital (World Bank, 2013).

Globally as of April 2012, 452 crowdfunding platforms were operating and had raised a total of 1.5 billion dollars in 2011 (Mitra, 2012).As of 2012 most crowdfunding platforms were reward-based and equity-based platforms were the fastest-growing based platforms (Mitra,2012). The platforms for crowdfunding were very active and more than 1 million effective campaigns were run in 2011. According to the author more funds were raised through equity-based crowdfunding which can be considered a more viable option for businesses to use for raising funds.

Crowdfunding is typically empowered through internet social media communication, including user-generated content as an investor's guide (Lehner, 2013).

Due to the lack of collateral and sufficient cash flows and the presence of significant information asymmetry with investors, an intrinsic issue facing entrepreneurs at the very beginning of their entrepreneurial endeavors attracts outside capital (Cosh, Andy, Cumming, & Hughes, 2009). Crowdfunding is a new way to fund a variety of new businesses as it allows for individuals, cultural projects, both for-profit and non-profit projects to access finance (Molick, 2013). An often-quoted advantage of crowdfunding companies is that they facilitate the formation of capital (Mitra, 2012) which is important for especially small enterprises that would have difficulty in accessing funds provided by venture capitalists and use of bootstrapping methods of raising finance. Furthermore, it allows less prosperous entrepreneurs to access capital, which they may not even get through bootstrapping (Griffin, 2012).

1.3 Problem Statement

Cook and Nikson, (2000) SMEs play a major role in economic development as they increase employment and are the basis of a large business while also contributing majorly to the economies of the countries where they operate. Small businesses that are part of SMEs are drivers of a country's economy in developed and developing countries Gbandi and Amissah, (2014). Formal SMEs contribute 60 per cent to total employment and 40 per cent of the country's GDP (World Bank, 2013). Evidence shows that SMEs are limited in terms of access to financial services (Ayyagari, Demirguc-Kunt & Beck, 2003).

According to some research studies, small businesses in Africa are not as strong and stable due to small business markets, poor regional integration, difficult business conditions such as poor infrastructure, unreliable legal systems, and unattractive tax policies (Kauffmann, 2005). According to the World Bank (2013), approximately 70 per cent of all micro, small and medium-sized enterprises (MSMEs) in emerging markets lack access to credit. Crowdfunding is, therefore, an opportunity to widen the access to finance by entrepreneurs with small businesses (Raymond, 2015). In most cases, small businesses have limited access to funds with their only source of finance being the private equity markets (Berger & Udell, 2002). According to the authors they do not have access to the public capital markets this causes them to experience financial difficulties due to limited access to finance.

Levy (1993), found that the main constraint that small businesses face is lack of finance and high tax constraints these hinder the growth of the businesses. In Kenya, the main problem MSMEs face is the lack of access to finance (Okpara, 2016). Lack of access to formal credit among other factors is also a hindrance to the growth of MSMEs in Kenya (Shibia & Barako, 2017). Financial limitations may stop those who want to start their businesses from starting the business.

Crowdfunding being an untapped area in the finance sector is a possible solution to bridging the finance gap of MSMEs (Onyango, 2018). Crowdfunding is a solution to the problems of financial constraints as it makes finance easily accessible (Bechter et al. ,2011) in comparison to other forms of funding. According to Kitchens and Torrence (2012),Crowdfunding offers local and global benefits to communities because crowdfunding is a platform for people to invest in their communities to improve the economy. Therefore, this study focused on critical factors that lead to the success of crowdfunding platforms especially for small businesses that will hence enable them to have access to finance through crowdfunding platforms.

1.4 Research objectives

1.4.1 General Objective

The main aim of this study is to analyze what is the impact some of the critical success factors for a crowdfunding campaign for an SME

1.4.1 Specific Objectives

1. To determine the impact of geography on the success of a crowdfunding campaign in Kenya
2. To determine the impact of duration on the success of a crowdfunding campaign in Kenya

1.4.2 Research Questions

1. What is the impact of geography on the success of a crowdfunding campaign by an SME in Kenya?
2. What is the impact of duration on the success of a crowdfunding campaign by an SME in Kenya?

1.5 Significance of the study

This study will increase the available knowledge and information on the financing of SMEs through crowdfunding. The research will serve as a practical guide for entrepreneurs seeking to make more effective use of various kinds of crowdfunding platforms. The research will be of importance to future researchers, policymakers, and entrepreneurs. The research study will also benefit potential investors and those who intend to start businesses on crowdfunding as a source of finance in the market.

1.6 Scope of Study

This study focused on SMEs in Kenya with a specific focus on SMEs that have accessed crowdfunding platforms and used the platforms to raise funds for their businesses. The study will also include crowdfunding platforms that are accessible to Kenyan SMEs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review. It discusses past studies that have been done on crowdfunding, its access and some of the factors necessary for the success of a crowdfunding campaign. Furthermore, it reviews theories that relate to the whole study. The chapter consists of the following sections the theoretical review, empirical review, conceptual framework, and the research gap.

2.2 Theoretical Review

2.2.1 Pecking Order Theory

The Pecking order theory can be attributed to (Myers & Majluf, 1984). According to their research firms will raise finance for their business following a particular order. Furthermore, they concluded that firms will first use retained earnings according to Sanchez -Vidal and Mart'in- Ugedo, (2005) and depreciation expenses, if the retained earnings are depleted they will utilize external debt then hybrid securities such as convertible bonds and equity issues. Vasilou, Eriotis and Daskalakis, (2009) suggest asymmetric financial information and external transacting financial costs are reasons why firms will follow a particular order while raising funds for the firm. Adverse selection and moral hazard arise from asymmetric information (Wang & Lin, 2011). Myers and Majluf, (1984) A company will prefer to utilize retained earnings due to adverse selection. They suggested that if a firm utilizes retained earnings to finance their business this could be a solution to information asymmetry since if the firm utilizes funds from outside the business this results in information asymmetry which leads to the high cost of borrowing. According to Emery, Finnerty, & Stowe, (1997), the costs of obtaining debt are lower than obtaining equity which is a reason for following the order suggested by (Myers & Majluf, 1984) in the pecking order theory. The costs for the collection of new common stocks are higher in comparison with those of new debt acquired (Lee, Lochhead, Ritter, & Zhao, 1996). According to pecking order theory, there is no optimal capital structure and the firm will first use resources that lower adverse selection costs first. The pecking order theory does not expect a firm to have a specified debt to equity ratio according to (Bontempi, 2002). The pecking order theory suggests that the more profitable a company is the less debt they will require due to an increase in retained earnings (Ivashkovskaya & Solntseva, 2007).

A study by (Kooyul, Cheol, Kim, & Stulz, 1996) implies that the pecking order theory might not always exist, in some cases for their gain managers may prefer to issue stock this is according to the agency theory problem. Furthermore, firms that issue stocks have better financial performance than those that utilize debt as a source of finance Kooyul, Cheol, Kim and Stulz, (1996) their study therefore proposes that pecking order theory might not always exist. A study by Helwege and Liang (2004) found that there is no significant order in the use of external and internal debt. They also found that equity is not the last choice of financing since it is considered better than private debt in some cases. Kochari and Michael (1998) argue that the Pecking order theory leads to the growth of a business or a firm. Sulfia (2015) also supported the pecking order theory by suggesting that an investor will prefer a firm that uses pecking order theory to finance its operations due to less financial risk involved. The study concluded that since pecking order suggests the use of internal financing then the company will be able to manage its finances and determine its financial structure at any point in time

At the onset of small businesses, they tend to be private with their information according to Horvatinović and Orsag (2018) in this case they cannot fund their business using external funds. After reaching a certain level of retained earnings the businesses can then start borrowing from outside (Berger & Udell, 2002). Furthermore, at the beginning of the business, they have more business risks compared to financial risk, therefore, the businesses would prefer to maintain their level of risk by utilizing internal funds (Horvatinović & Orsag, Crowdfunding in a Context of Financing Firms Through Their Life Cycle, 2018). Crowdfunding is used by firms mainly at their stages of development up until their maturity stage according to (Iasrado & Lugmayr, 2013). Collins and Pierrakis (2012) also suggest that small firms and startups use crowdfunding after utilizing the entrepreneurs, family and friends' contributions and business angels' contributions. Kuzman (2015) compares other sources of finance to crowd-funding. According to the study equity-based crowdfunding is relatively cheaper than venture capital, private equity funds and funding from business angels. Furthermore, debt-based equity is less complicated to issue compared to commercial paper but both are similar in terms of the control the lender has over the funds.

The Pecking Order Theory Myers and Majluf (1984) may be used to explain that SMEs have various choices of finance and since they have large business risk they have to choose ways of financing their businesses without increasing the risk and since startups in Africa especially have

difficulty in accessing finance they have to find ways of getting the funding with minimal business costs and without increasing their financial risks. This theory can be applied to SMEs raising funds through crowdfunding since SMEs will choose the least costly source of finance and crowdfunding provides that avenue to SMEs, therefore, the success of an SME crowdfunding campaign is vital for the achievement of less costly funding.

2.2.2 Theory of Financial Intermediation

The current theory of financial intermediation is based on the idea that intermediaries decrease transaction costs and informational asymmetry. According to Allen and Santomero (1998) traditional intermediation theories are based on asymmetric information and transaction costs. They are intended to account for organizations that accept deposits or issue insurance policies and channel funds to companies but currently, financial intermediaries are risk transfer facilitators and cope with the increasingly complicated system of financial tools and markets.

(Rubinton, 2011) discusses crowdfunding in the context of disintermediated banking. According to the author, it is a concept and model for the evolution of investment banking and it is a wide model of what investment banking could be.

Platforms for crowdfunding can be considered as financial intermediaries (Onyango, 2018). According to (Onyango, 2018) there are certain differences between crowdfunding platforms as intermediaries and other financial institutions as intermediaries. The main differences are that in crowdfunding funding is not primarily for the financial institutions but the crowd (public), crowdfunding is used as a funding platform mostly by ventures who are unable to raise money from traditional platforms and the platform does not provide the money rather it links entrepreneurs to investors or funders.

This theory is useful in this study since the main aim of this study is to show if crowdfunding has succeeded in providing finances for SMEs and what factors contribute to the process of raising money through crowdfunding platforms being successful.

2.3 Empirical Review

2.3.1 Crowdfunding

Belleflamme, Lambert and Schwienbacher (2010), Identify four models of crowdfunding the donation model, the reward-based model, profit-sharing model and the lending-based model. The

categories are according to what investors gain in return (Bradford, 2012). The donation model is where investors contribute and there are no intangible benefits with the motivation of contribution being innate and for social purposes according to Collins and Pierrakis (2012) and the investors receive no return on their contributions (Bradford, 2012). The donation model crowdfunding sites contribute mostly to charities and non-profit organizations (Mitra, 2012) and (Bradford, 2012). The investor using reward sites does not get profits in return and may end up with goods as rewards (Mitra, 2012). The form of contribution to reward sites might be donations or pre-purchases (Collins & Pierrakis, 2012). According to Belleflamme, Lambert, and Schwienbacher (2010), these sites offer non-financial benefits, the crowd funders may have the benefit of pre-ordering the product from the business. In the case of the profit-sharing model Belleflamme, Lambert and Schwienbacher (2010) suggest that investors expect a share of profits from the business. Bradford (2012) Lending sites also peer to peer lending sites are platforms where investors contribute and expect repayments, the contributions are a form of loans. Some of the repayments come with interest while other sites provide interest-free loans. In these cases, the funder is intrinsically and sometimes financially motivated (Collins & Pierrakis, 2012). In equity-lending sites, the funder expects a return on investment if the business does well Collins and Pierrakis (2012) and may involve the sale of securities (Bradford, 2012). Belleflamme, Lambert, and Schwienbacher (2010), do not distinguish between the equity model and profit-sharing model. The World Bank (2013) report suggests that an entrepreneur should decide the type of crowdfunding platform depending on their business needs. The needs suggested by the report include testing out products, need of capital, building a prototype of a product, charity, launching a new product and investing in new capital, infrastructure or assets for an existing business.

Entrepreneurs also seek non-monetary benefits from crowdfunding platforms. Belleflamme, Lambert, & Schwienbacher (2010) Crowdfunding allows for the flow of information between business owners and customers and also the platforms provide new and innovative ways of matching entrepreneurs to contributors avoiding information related market failures. Collins & Pierrakis (2012) since crowdfunding is an online platform the operators can exploit other online tools and resources to enable entrepreneurs to have more access the researchers say this gives crowdfunding an advantage over other sources of finance. According to the research, crowdfunding has more than monetary benefits, it has been shown to increase awareness of the business, transparency of the activities of the company which increases its perceived

trustworthiness with customers, investors and partners. Valanciene & Jegeleviciute (2013) argue that other benefits of crowdfunding include the fact that the entrepreneur does not have to give up ownership of the business in comparison with equity funding and venture capital funding. Furthermore, crowdfunding provides easier access to funds since there are no criteria for choosing people to fund as in the case with venture capital where the entrepreneurs may be disqualified for their inability to grow or them lacking a large public offering.

2.3.2 The impact of geography on the success of crowdfunding campaigns for SMEs

Cordova, Dolci and Giafrate (2015) discuss three factors that influence the success of a crowdfunding project and they include the investment required by the crowd funder, or business the duration of projects being crowdfunded and the contribution frequency of the funders. The authors found that an increase in the duration of a project increases the chances of its success. Molick (2013) discusses the nature of the project being funded as a factor of success, the author's findings are that the quality of a project is recognizable to crowd funders, therefore, they can tell where they should invest or which businesses they should give their funds. Quality indicators of project communication are associated with project success at Start next and Kickstarter as identified by Mollick (2014), who also finds that the number of Facebook friends is correlated with project success.

Lukkarinen, Teich, Wallenius, & Wallenius (2016) examined the success drivers of online equity crowdfunding campaigns according to the findings of the researchers the methods used by venture capitalists and business angels to make investment decisions are not vital in the success of equity crowdfunding success rather the success is associated with the features of pre-selected crowdfunding campaigns and the use of personal and public networks. The authors discuss the success drivers of a crowdfunding campaign. Among the driving forces discussed include the campaign characteristics which the authors suggest is not strongly linked with the number of investors. The outcome of their study is not consistent with that of Mollick (2013) and Zheng, Li, Wu and Xu (2014) who suggest that greater objectives for a campaign are negatively linked to achievement or success.

Lukkarinen, Teich, Wallenius and Wallenius (2016) discussed minimum investment as a driver of success in crowdfunding campaigns. They found that the minimum investment has a negative relationship with the number of investors and the amount raised. According to the authors,

campaign duration is also an important factor in crowdfunding campaign success it has a negative relationship with the number of investors but has no relation with the number of funds raised. Other success factors discussed include the provision of financials, networks both social media networks and early funding from previous networks and finally understandability of a product.

Generally, a greater existence of pre-selling incentives is a determinant of the success of the project according to (Paolo & Tobias, 2014). The study showed that pre-sales, however, are dramatically more important to project success than donations. Evers (2012) Identifies eight drivers of success for crowdfunding campaigns and they include: image, cause of need, appeal for images, advocated view, social comparisons, decision-making control, labelling and sizes of requests or amount of funding required by the entrepreneur using the platform. The author suggests that the financing objective is the strongest influencer of successful crowdfunding and concludes that the financing objective by an entrepreneur is extremely correlated with the real amount of funds raised.

Wang et al. (2017) Examined the effect of the quality, sentiment, length and reply to perceive the significance of the relationship between the entrepreneur whom they referred to as the creator and the funder who in the study was referred to as the backer in the success of crowdfunding. The study found that the number of comments, the score of comments, duration of replies and velocity of replies are favorably correlated with the achievement of fundraising. Furthermore, comment sentiment favorably moderates the impact on crowdfunding success of comment amount. The results of the study showed the significance of communication between creators and supporters in the achievement of crowdfunding success.

Onyango (2018) suggests that it is not for everyone to use crowdfunding platforms and not as simple as most entrepreneurs expect. According to the author, a successful campaign requires substantial quantities of human effort and entrepreneurs must explore other crowdfunding platforms campaigns in the same industry or geographic region to understand their expectations and take due account of them. Furthermore, the author suggests that entrepreneurs need to venture into complementary resources and organizations to boost their opportunities for achievement. Business mentors and incubators for new crowd-funders can be essential sources of data and help. In encouraging local contributors to distribute their funds through digital platforms, complementary funds have proven to be effective.

Therefore, the main factors that affect crowdfunding success include human effort, the duration of the project, the amount of investment required by an entrepreneur which is the goal of a crowdfunding campaign, the relationship between the crowd funders and the entrepreneurs and pre-selling incentives.

Geography often hampers the achievement of traditionally funded entrepreneurial projects (Owen –Smith & Powell, 2004). While remote investors are prevalent for publicly traded firms, theory predicts that investors will tend to be local in early phase entrepreneurial ventures (Agrawal, Catalini, & Goldfarb, 2011). In the study, the researcher mainly focuses on crowdfunding for musicians and artists. A Feature of crowdfunding that is most distinct is that the investors or crowd funders are geographically dispersed since it is a method that mostly uses the internet and social media platforms. 'Crowdfunding reduces the traditional geographic constraints in funding' (Molick, 2013). According to the author, the closeness of investors to crowd funders is favorably associated with successful fundraising.

2.3.3 The impact of duration of a project on the success of the crowdfunding campaign

Cordova, Dolci, & Giafrate (2015) discuss the impact of duration on crowdfunding success among technology companies. The researchers found that the duration of a project in the case of technology companies increases the chance of success of the project. The data used in the research was from four different crowdfunding platforms: Kickstarter, Ulule, Eppela, Indiegogo. This data was from companies in different parts of the world that have access to these crowdfunding platforms.

Kaur & Gera (2017) discuss the effect of social media on crowdfunding success, duration is included in their study as a variable in this case they consider duration as the number of days in which a campaign is run on the platform. Usually, the duration of a crowdfunding campaign is decided early. Some authors such as Mollick (2013) found that in the case of a reward-based crowdfunding campaign the success is negatively related to crowdfunding campaign whereas in countries like Finland according to Härkönen (2014) the duration of a crowdfunding campaign is positively related to the success of the campaign. According to Mollick (2014) in the reward-based systems, investors or crowd funders tend to be more active in the beginning and at the end of a crowdfunding campaign hence the negative results. According to Hekman & Brussee (2013) success of crowdfunding is independent of duration.

Duration of campaigns varies for different businesses in different businesses other factors come in to enable a business to succeed. The length of a crowdfunding campaign might or might not determine the success of a crowdfunding campaign.

2.4 Conceptual Framework

‘A conceptual framework is an analytical tool with several variations and contexts and is used to make conceptual distinctions and organize ideas into a visible frame’ (Onyango,2018). Figure 1 provides the conceptual framework for the study.

The conceptual framework (**Figure 2.1**) shows the constructs for each study variable based on the empirical literature and theoretical review. The factors affecting the success of crowdfunding campaigns was the independent variable and comprises of geography, duration of the project. The control variables include the number of investors and the entrepreneur's goal.

The independent variable was crowdfunding success. The success of a crowdfunding campaign indicated by access to funds for SMEs and the awareness of their products. Success of crowdfunding is determined by the ability of an SME to reach its funding goal on the crowdfunding platform.

Independent Variable

Dependent Variable

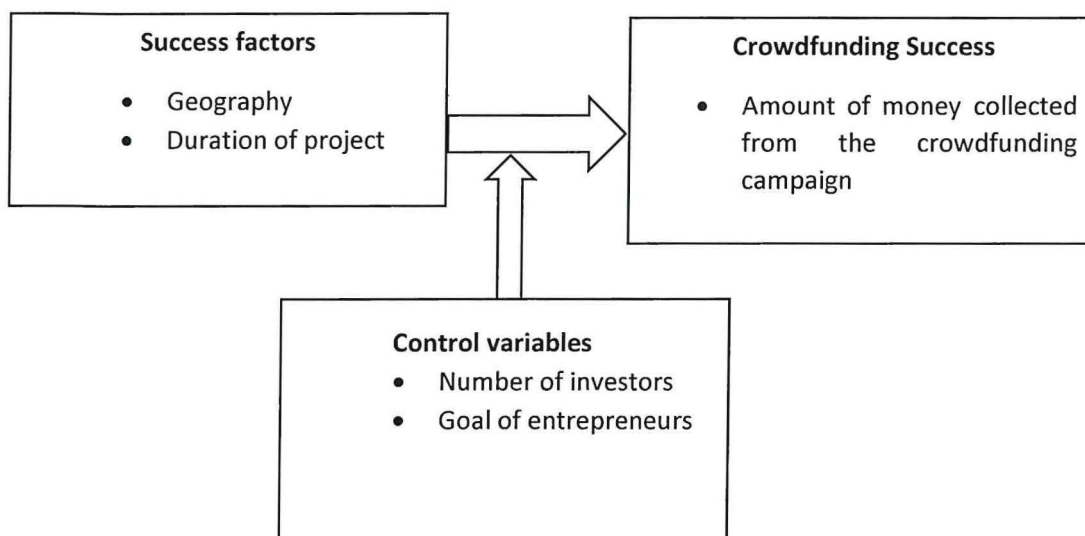


Figure 2.1: Conceptual Framework

Source: Author (2019)

2.5 Research Gap

'Crowdfunding platforms can enhance the financing opportunities for the MSMEs and could provide the much-needed solution to narrowing their financing gap' (Onyango, 2018). It is an effective way for entrepreneurs to bridge the gap between the earliest stages of funding and later growth capital. Therefore, entrepreneurs should know how to 'pitch' their business ideas and products to investors or crowd funders on the crowdfunding platforms to increase their chances of achieving their crowdfunding goals which in most cases is acquiring funds for their businesses. The success of a crowdfunding campaign entails having the right information that will attract investors to an entrepreneur's business idea or business making them contribute to the business. Although extensive research has been carried out on the success factors of crowdfunding, no single study exists which adequately covers how geography affects crowdfunding success. (Agrawal, Catalini, & Goldfarb, 2011) and (Molick, 2013) only discuss geography in the context of musicians, artistes and reward-based models of crowdfunding. Therefore, this study aimed to fill the gaps in crowdfunding studies on how geography and duration affect crowdfunding success for the equity-based, donation model and debt model crowdfunding platforms for SMEs.

2.6 Summary of the chapter

The chapter discussed studies done on crowdfunding, theories that relate to the study and how the theories contribute to the study. The researcher also outlined the empirical review, research gap, and the conceptual framework

3.4 Sample Size and Sampling Procedures

Bryman (2012) describes sampling as a subset of a population or portion of the population that is selected for a study. The sampling procedure used in the study was deliberate sampling (Kothari,2004). According to the author deliberate sampling or non-probability involves purposive or deliberate selection of particular units of the universe for constituting a sample which reflects the population. Therefore, the sample for this study 34 businesses that have used crowdfunding platforms available to Kenyan businesses.

3.5 Data collecting procedures

According to Saunders, Lewis and Thornhill (2003), data collection is the technique by which the investigator collects, in a standard manner, the required information from a particular population for presentation. This study employed both primary to collect data. The study used past literature on topics of crowdfunding and questionnaires. The main method used in data collection was questionnaires which were physically delivered and also delivered through email to the various businesses selected for the study. The questionnaires contained both close-ended and open-ended questions which were arranged into three parts one was about the demographic information about the business and the other two parts were focused on the research objectives of the study. The questionnaires were self –administered and therefore were submitted to the respondents and later picked by the researcher in some cases they were sent through emails

3.6 Data Validity

Kothari (2004) Data validity can be described as quality ascribed to a proposal or measure of the degree to which a tool used for research conforms to understanding or knowledge and reality. The validity of a research tool is concerned with the extent to which it can measure what it is intended to measure. Validity refers to the accuracy and purposefulness of any deductions that are founded from any research studies (Bryman, 2012). In the study, data validity was determined through the questionnaires. The researcher was able to verify that the data obtained was accurate and certain by handing out the questionnaires twice to the respondents and with the similarity of the responses given the researcher was able to confirm the validity of collected data

3.7 Data analysis

According to Kothari (2004), data analysis is the computation of certain measures and the search for patterns between data groups. Data analysis consists of collecting data from different sources, evaluating and analyzing the data to form a deduction. In this study, the data were analyzed using descriptive analysis. The data collected for this study was mostly quantitative which led to the use of descriptive analysis. SPSS Software was used to analyze the data.

3.8 Ethical considerations

During the research process, ethical considerations were taken into account. Issues to do with the security of participants, privacy, data protection, and informed consent were considered during the research process. The researcher first sought the permission of the sample population to carry out a research study on their businesses through a letter of consent outlined in appendix 2. The researcher only proceeded with the study after the respondents agreed and gave permission for the study to be conducted.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

The general objective of this study was to analyze what are some of the critical success factors for a crowdfunding campaign for an SME. Therefore, this chapter entails a presentation, analysis and interpretation of data collected from questionnaires and secondary data. The chapter consists of discussions on the response rate, the findings on the data of respondents and businesses which in this case are SMEs. This section presents the finding from the analysis of the data obtained from the employees of 25 companies that participated in the research.

4.2 Data presentation

4.2.1 Response Rate

The study was a descriptive study of 34 SMEs that have raised finances through crowdfunding. This study was conducted from October 2019 to November 2019. The questionnaires were administered to employees of the SMEs. The employees include managers and founders of the organizations. The target population for the study was 34 SMEs. However, the researcher received only 25 responses which were 73.5% of the total sample whereas there were no responses from 9 SMEs which is 26.5% of the sample selected for the study. Consequently, the response rate of this study was considered very good for survey research as suggested by Mugenda and Mugenda (2003), who says that a response rate of 50% is acceptable, 60% decent and above 70% very good.

4.2.2 General Information

This chapter addresses the general or main areas that may or may not have a direct impact on the study objective. The general background data gives a clear picture and specificity of the research sample population. Some of the parameters that were examined included the section included the sector in which the business operates, the years of operation of the business the number of employees, the main source of finance of the business and the position of the person responding to the questionnaire in the organization.

Table 4.1: Position of people responding to the questionnaires

Position of respondent	Frequency	Per cent
Manager	4	16.0
Founder	7	28.0
CEO	1	4.0
Employees	13	52.0
Total	25	100.0

Source: Primary Data

Most of the respondents were employees of the SMEs, others were managers, CEOs and founders of the organization which improves on the validity of data collected since they are aware of the activities and important information on the organization

Table 4.2: Sector in which the SMEs operate

Sector in which business operates	Frequency	Per cent
No response	1	4.0
Renewable energy	14	56.0
Agriculture	5	20.0
Technology	1	4.0
Manufacturing	2	8.0
Others	2	8.0
Total	25	100.0

Source: Primary Data

From the data collected the majority of the SMEs are in the energy sector specifically the renewable energy sector which is 56% of the sample population while technology, manufacturing and transport account for 4% of the sample population.

Furthermore, the population of this study required organizations with 1-99 employees since for an organization to be termed as an SME it has to have 1-99 employees according to the MSME Act 2012 in Kenya. The findings on the organizations selected as the sample of the study were as follows:

Table 4.3: Number of employees in the organization

Number of employees	Frequency	Percentage
1-10	0	0
11-20	2	8
21-30	3	12
31-40	4	16
41-50	4	16
51-60	5	20
61-70	3	12
71-80	3	12
81-90	1	4
91-100	0	0

Total	25	100
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Source: Primary data

The organization's main sources of finance include equity and donations.92% of the organizations use equity funding as their main source of finance while 2% depend on donations for funding.

Table 4.4: Main sources of finance for the SMEs

	Frequency	Per cent
Equity	23	92.0
Donations	2	8.0
Total	25	100.0

Source: Primary data

4.2.3 Impact of geography on the success of a crowdfunding campaign for a business

In this section, the respondents were required to give information on where their businesses are located, where the crowd funders were mainly located and give details on whether the location of the businesses was a hindrance to them accessing funds through crowdfunding. Furthermore, the respondents were to give details on whether there were requirements given to them by crowdfunding platforms or crowd funders to access money. Respondents were also to give details on what some of the requirements were and whether the location of the businesses was a hindrance for them to access funding.

According to the data collected on the location of the businesses 60% of the SMEs that participated in this study are located in Nairobi county,12% in Kiambu county,8% in Nakuru county, 4% in Laikipia county, Bungoma county, Kwale county, Kilifi county and Busia county.

Table 4.5: Counties in which the SMEs are located

Location of SME	Frequency	Per cent
Nairobi	15	60.0
Laikipia	1	4.0
Bungoma	1	4.0
Kwale	1	4.0
Kilifi	1	4.0
Kiambu	3	12.0
Nakuru	2	8.0
Busia	1	4.0
Total	25	100.0

Source: Primary data

Table 4.6: Where investors were mainly located

Investors' location	Frequency	Per cent
Kenya	7	28.0
USA	7	28.0
Netherlands	3	12.0
Sweden	3	12.0

German	5	20.0
Total	25	100.0

Source: Primary data

The SMEs that participated in the study received mainly from the countries in table 5 with Kenya having the highest percentage of crowd funders. The highest number of crowd funders came from the country in which the crowdfunding platform was founded.

Table 4.7: Requirements for accessing funds

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	10	38.5	40.0	40.0
	No	15	57.7	60.0	100.0
	Total	25	96.2	100.0	
Missing	System	1	3.8		
Total		26	100.0		

Source: Primary data

38.5 % of the respondents were issued with requirements from platforms and crowd funders whereas 57.7% had no requirements to access funding from crowdfunding platforms. The requirements given for SMEs to provide crowdfunding were dependent on the type of crowdfunding platform and the countries in which the platforms are located. Crowdfunding platforms in Europe and America such as Kickstarter, Lendahand required businesses to provide their banking information, government-issued ID, Location and tax information to ensure that the businesses were compliant with the law. For Equity-based crowdfunding sites and lending based sites, the businesses were also required to provide such information whereas in donation-based

crowdfunding sites such as M-changa the businesses had n requirements apart from those that provide crowd funders with payment options. Most of the crowdfunding sites require the businesses to provide information about the business, its name, website, founders and what the business activities for the business are.

Table 4.8: Investors retracting funds due to location of business

OPTIONS	Frequency	Per cent	Valid Percent	Cumulative Percent
Missing	2	8.0	8.0	8.0
No	23	92.0	92.0	100.0
Total	25	100.0	100.0	

Source: primary data

92% of the respondents reported that investors or crowd funders did not take back funding on discovering that their businesses were located in Kenya, 8% did not give any response.

4.2.4 The impact of duration on crowdfunding success

The research study also aimed to evaluate whether duration has an impact on the success of a crowdfunding campaign for SMEs. The section, therefore, requested respondents to give details on the length of their crowdfunding campaigns, the number of crowd funders the SME had, the type of crowdfunding platform they used, their target amount and the amount they raised using crowdfunding and at which point of the campaign the investors received most of their funding.

Table 4.9: Number of crowd funders during the crowdfunding campaign

No of crowd funders	Frequency	Per cent	Valid Percent	Cumulative Percent
Valid 1-50	7	26.9	28.0	28.0
51-100	7	26.9	28.0	56.0
101-150	1	3.8	4.0	60.0

151-200	1	3.8	4.0	64.0
201-250	2	7.7	8.0	72.0
251-300	4	15.4	16.0	88.0
301-350	1	3.8	4.0	92.0
351-400	0	0	0	92.0
401-450	0	0	0	92.0
451-500	0	0	0	92.0
501-550	1	3.8	4.0	96.0
551-600	1	3.8	4.0	100.0
Total	25	96.2	100.0	
Missing System	1	3.8		
Total	26	100.0		

Source: Primary data

The SMEs with the highest percentage of investors were those with between 1to50 and 51-100 investors with 26.9% each.

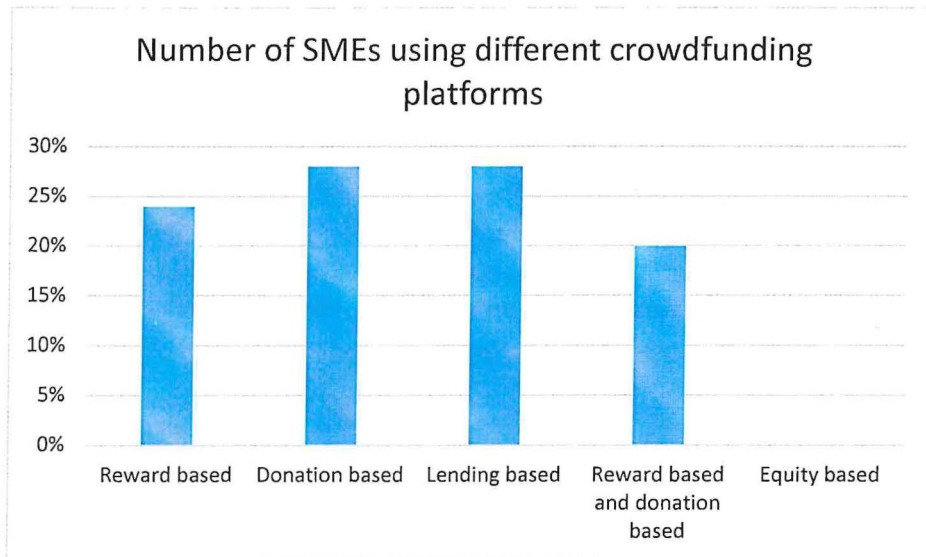


Figure 4.1: Firms that have raised funds using different crowdfunding platforms

24% of the respondents used reward-based funding, 28% used a donation platform, 28% used a lending based platform, none of the respondents used an equity-based platform and 20% used a platform that was both a reward-based and a donation-based platform.

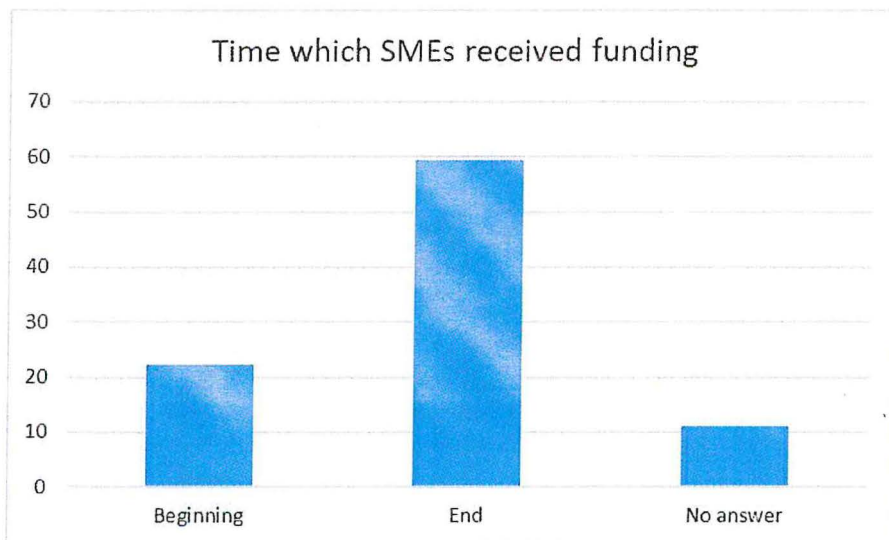


Figure 4.2: Time during the campaign which SMEs received the most funding

59.3 % of the SMEs received funding at the end of the campaign whereas 22.2% received funding at the beginning of their crowdfunding campaign.

Table 4.10: Success rates statistics by platform type

Type of platform	Mean	N	Std. Deviation
Reward model	1.00	7	.000
Donation model	1.29	7	.488
Lending based model	1.00	6	.000
Reward and donation model	1.00	5	.000
Equity model	0	0	0
Total	1.08	25	.277

Source: Primary data

Table 4.10 shows the success rates achieved by SMEs using different crowdfunding platforms. In this case, the donation model achieved the highest success rate with a mean success rate of 1.29 and the rest of the SMEs achieved the same success rates when using the other crowdfunding platforms.

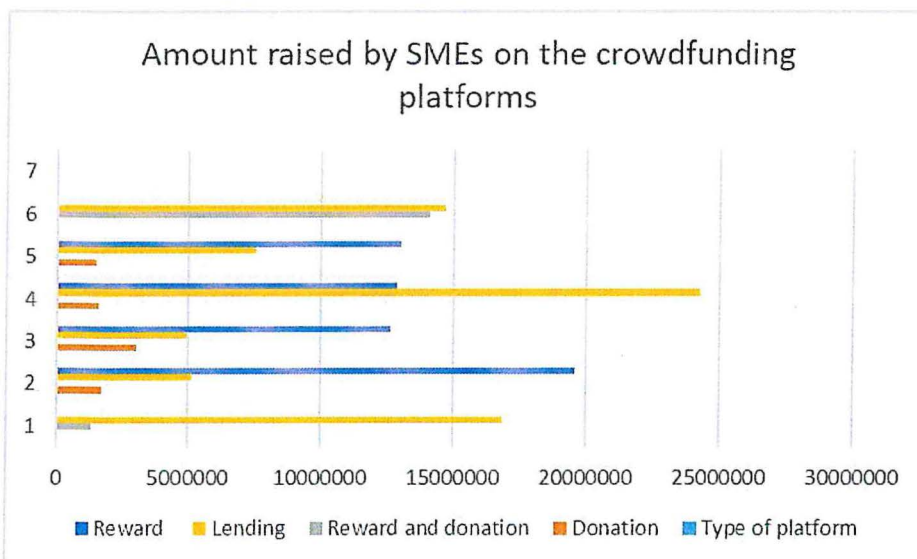


Figure 4.3: Amounts raised by SMEs on different crowdfunding platforms

93% of the SMEs reached the amount that they had set to raise on the crowdfunding platforms 5% are still crowdfunding and 1% of the respondents did not reach the target they had set for their campaigns.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this study was to examine some of the critical success factors for an SME crowdfunding campaign. This chapter examines the outcomes of the data analysis based on the specific goals of the study, conclusions drawn from the findings and recommendations for future studies.

5.2 Discussions

A crowdfunding platform campaign's success rate is determined by achieving the entrepreneur's campaign goal. This section, therefore, discusses findings on how the time taken by a crowdfunding campaign and the location of investors and the SME impacts the success of the campaign or the ability of SMEs to raise funds for their campaigns.

5.2.1 Geography and crowdfunding success

The findings of this study reveal that the majority of SMEs which make up 60% of the respondents that have utilized crowdfunding are located in Nairobi. Majority of Investors in a crowdfunding campaign are located in one area, in this case, most of the crowd funders are from one country in which the crowdfunding platform operates. In addition to this, the study also found that there is no limitation to accessing funds from other countries since crowdfunding is online and the accessibility to the internet and common payment platforms facilitates the process. The SMEs are unevenly distributed in one country. Therefore, this shows that the location of the SME does not affect how investors will invest in crowdfunding projects. Furthermore, there will be more investors from the country of origin of a crowdfunding platform. Some platforms are restricted crowd funders who are in the country in which the crowdfunding company is located or was established.

In addition, the results of the study show that investors were willing to invest in businesses that are in Kenya since on the profile of a business it clearly stipulates where a business is located and therefore, this was not a hindrance to investors or crowd funders giving finances to the business since investors did not pull back any of their funds due to location of the business. The study also found that for the donation model there were no requirements for businesses to access funding but the other models have requirements for the business to access funding.

The findings of this study are similar to studies by Blum and Goldfarb (2006) and Hortacsu, Martinez-Jerez, and Douglas (2009) that find that investors are grouped in one position. In this study, the researcher found that investors are mostly located in one area. In the literature, however, there is no agreement on the impact of geographic distance on financing, and little is known about the sources of the financial contributions made, i.e. investor locations and characteristics (Mendes-Da-Silvaqui, & Felipe, 2017). Molick, (2013) and Aggrawal, Catalini & Goldfarb, (2011) found that geography influences a crowdfunding campaign's effectiveness. The authors suggest that there are different aspects of geography that contribute to the success of crowdfunding. The authors also have a consensus on the fact that since crowdfunding is conducted on the internet there is no limitation in terms of geography. Crowdfunders and businesses have access to funds from anywhere within the world. Their studies, however, focused on only equity crowdfunding models.

A possible explanation for the findings of this study is that most crowdfunding platforms give crowd funders or investors all information about a business, therefore geography might not be a problem for most investors. Geography therefore has no significant impact on crowdfunding and will only be of importance if an investor or crowdfunder is intentional on where a business is located. Geography therefore impacts an investor positively when a crowdfunder or investor wants to invest in a business in that location and negatively if the investor does not want to invest in a business in a particular location.

5.2.2. Duration and crowdfunding success

The study found that different crowdfunding campaigns achieved success at different times. There was no specific relationship between duration and the ability of a business to raise funds. Some businesses received funding on different stages of the crowdfunding campaigns. Others received at the beginning in the case of this study this was 22.2% of the respondents whereas 53% received more funding at the end of the study.

Besides, the number of investors during the campaigns was not determined by how long the campaign took place. Different campaigns reached their set target at different periods. Therefore, there is no strong relationship between duration and crowdfunding success especially for reward model and equity model. In the case of the donation model, the campaigns took longer and fund increased with increase in the time taken to run the crowdfunding campaign.

The study also found that in Kenya the donation model has the highest rates of success with the highest mean of 1.29. The findings of the study show that in Kenya the most used crowdfunding platforms are M-changa which is a donation model and reward models such as Bettervest.

These results differ with other authors such as Massolution (2012) who in their study found that the reward model has the highest success rates. The results of this study are the same as the study by Lukkarinen, Teich, Wallenius and Wallenius (2016) which show that the time a campaign takes to end is negatively associated with the number of investors that invest in a crowdfunding campaign. The authors argue that a shorter campaign shows that investors are committed to the project in which they are crowdfunding and that they can deliver. This study focused more on equity crowdfunding models.

According to Stofa & Zoricack (2016), the duration of all projects do not significantly affect the success of a project they argue the target of a significant impact on the probability of project success where the general rule is: the larger the venture, the higher chances it will have to succeed. Nonetheless, their study was only focused on one crowdfunding platform which is the Kickstarter who have a thirty-day limit on a project, therefore, it was inevitable that duration was a constant variable in their case and success would only be determined by the ability of the project to raise the amount that it had targeted.

The duration of a crowdfunding campaign, therefore, may or may not have an impact on the success of a project since different crowdfunding platforms have different policies. Therefore, the results of this study apply to crowdfunding platforms with unlimited periods for a crowdfunding campaign.

5.3 Conclusion

Financial inclusivity for SMEs is important for their growth. Crowdfunding will, therefore, be one of how SMEs will have access to finance without bias and difficult requirements. Crowdfunding will enable entrepreneurs and businesses to have access to finances throughout the world and without limitations since it is done over the internet. It is therefore important for entrepreneurs and companies providing crowdfunding platforms to ensure that campaigns for SMEs are successful.

5.4 Recommendations

During the study it was quite evident that very few SMEs utilize crowdfunding, therefore, this study recommends that more awareness campaigns are needed to explore the alternative crowdfunding platforms that MSMEs can provide to reduce their funding gaps.

Furthermore, majority of the SMEs in Kenya do not reach their funding target within a stipulated time, therefore, managers, entrepreneurs and owners should find ways of making crowd funders aware of their crowdfunding campaigns to rally more people to donate or invest in their businesses. Business owners or crowdfunding platforms should come up with ways to enhance the marketing of crowdfunding campaigns especially for SMEs this will contribute to the success of crowdfunding campaigns for them.

5.5 Suggestions for further Study

The finance of SMEs through crowdfunding is a very important area in the field of business. Scholars and academicians can contribute greatly to this topic by exploiting studies in this area to fill the knowledge gap especially on the success of crowdfunding campaigns for businesses. Additional studies are also needed on the awareness and knowledge of crowdfunding platforms by young and upcoming entrepreneurs. The number of Kenyan SMEs using these platforms is expected to increase through public awareness yet the numbers are quite low therefore research on the use of crowdfunding would be very instrumental in creating the awareness on the use of crowdfunding platforms in Kenya especially.

5.6 Limitations of study

The study focused on SMEs in Kenya only, therefore, the study cannot be used to describe situations of crowdfunding and SMEs in other countries. The study was also conducted over a very short period, therefore, data collected did not give much more information on the situation of crowdfunding in Kenya, having more time to collect data would have allowed for more in-depth information on the use of crowdfunding in Kenya by businesses. The study also focused on only two success factors yet more factors are affecting the success of a crowdfunding campaign. Nonetheless, this limitation allows additional studies to explore these other factors.

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APPENDIX 1: LIST OF BUSINESSES THAT HAVE ACCESSED CROWDFUNDING PLATFORMS

CROWDFUNDING	MODEL	BUSINESSES THAT HAVE USED CROWDFUNDING
Generosity	Reward	Sunny Irrigation
M-changa	Donation	Sunny Money Green Char Eco-Agribusiness Kenya Green Supply Ukulima Tech Chaff Energy Kasiagu Tree Firm Kencoco
Indiegogo	Reward and donation	Lumen Wanda Organics Skynotch Sanivation Gravity Light
Kickstarter	Donation and Reward model	Enda Borawear

Crowdcube	Equity	Preconstruction and interior design
Lendahand	Lending based	Sim Gas Kenya Limited Pwani Feed Limited Logistics Link Limited Chriven Enterprises
Trine	Lending	Mibawa Supplies Limited RVE SOL Intasave BBOX Pawame
Crowdfunder	Reward model	Faida Forex Prex Brad Supplies and Logistics
Freudon	Reward	Afroelle Magazine
Better Vest	Reward Model	Borreal Light Kenya Bidhaa Sasa Ecocycle limited Ariya finergy Bum manufacturing

APPENDIX 2: LETTER OF INTRODUCTION FROM STRATHMORE UNIVERSITY

Old Bungele Hill, Muthika Street
P. O. Box 59857 - 00202, Nairobi, Kenya
Cell: +254 (0) 783 034 414/417
Twitter: @Strathmore
LinkedIn/ Facebook: Strathmore University Kenya
Email: info@strathmore.edu or visit www.edu.strathmore.edu



6 November 2019

To whom it may concern,

Academic Reference for Hassan, Kemsia All Student Number 094170

Strathmore University offers the Bachelor of Commerce (BCom) degree program. In their 4th year of study, degree students are required to work on a Management Research Project. The project involves reading literature that relates to the research topic; data collection and analysis and finally preparing a written document of the research findings and recommendations.

Kemsia is requesting to gather information to be used in her research. She is accountable for all information extracted from you and will ensure that it will be used for research purpose only and will be kept confidential.

The research is entitled **"AN ANALYSIS OF THE CRITICAL SUCCESS FACTORS CROWDFUNDING FOR SMES IN KENYA."**

We are looking forward for your co-operation and assistance to the above named student.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Jeremiah Mong'ayo".

Administrator
Strathmore University Business School
Undergraduate Programmes
P. O. Box 59857 - 00202
Nairobi

Jeremiah Mong'ayo,
Administrator, Undergraduate Programmes
Strathmore University Business School
Email: jmongayo@strathmore.edu

Strathmore University Business School is a proud member of



APPENDIX 3: QUESTIONNAIRE

I am Kemsu Ali Hassan an undergraduate student at Strathmore University Business school undertaking a research management project study titled: *an analysis of the critical success factors for crowdfunding for SMEs in Kenya*

The research study is meant for academic purposes. The information provided by the interviewees will remain strictly confidential and anonymous. The information will be used only for this study whose findings will be used to assist me to meet the requirements of a degree in of Bachelor of Commerce (BCOM). Please be honest and truthful with your responses. Your cooperation is highly appreciated. *(Tick where appropriate)*

PART I: GENERAL INFORMATION

1. What position do you hold in the business?
Manager ()
Employee ()
Other(specify) _____
2. What sector does your business operate in? _____
3. How many years has the business been in operation? _____
4. What is the size of the organization? (Total number of employees)
1-10 ()
11-20 ()
21-30 ()
31-40 ()
41-50 ()
51- 60 ()
61-70 ()
71-80 ()
81-90 ()
91-100 ()
5. What is the MAIN source of finance for your business?
Bootstrapping ()
Crowdfunding ()

- Families and friends ()
- Venture capitalists ()
- Angel Investors ()
- Bank Loans ()
- Equity ()
- Other(specify) _____

PART II: IMPACT OF GEOGRAPHY ON THE SUCCESS OF A CROWDFUNDING CAMPAIGN FOR A BUSINESS

1. Which part of Kenya is your business located? (Name the County)

2. Where did finance from crowdfunding platforms come from?
Kenya ()
Africa ()
Other parts of the world () (please specify) _____
3. Did investors give requirements before funding your business?
Yes ()
No ()
4. Did investors withdraw or take back funding on finding out your business was located in Kenya?
Yes ()
No ()

PART III: THE IMPACT OF DURATION ON CROWDFUNDING SUCCESS

1. How long was your crowdfunding campaign up in the crowdfunding platform?
1-50 days ()
51-100 days ()
101-150 days ()
151-200 days ()
201-250 days ()

251-300 days ()

301-350 days ()

351-400 days ()

401-450 days ()

451-500 days ()

501-550 days ()

551 and above ()

2. At what stage of the campaign did your organization acquire most funding?

Beginning ()

End ()

3. How many investors, donators or lenders did your business acquire?

0-50 ()

51- 100 ()

101-200 ()

201-300 ()

301-400 ()

401-500 ()

More than 500 _____

4. Which of the following crowdfunding platforms did you use?

a) Equity based ()

b) Donation based ()

c) Lending based ()

d) Reward based ()

5. Based on your experience with crowd funding would you recommend an entrepreneur or a business to use this type of funding?

Yes ()

No ()

Give reason for your answer above _____

6 What was your campaign's funding target amount? (In KSH)
.....

7 How much money was collected during the crowdfunding campaign? _____

8 Did you reach the amount of finance you had targeted for your campaign?

Yes ()

No ()

9 Would you re-fill this questionnaire when requested to?

Yes ()

No ()

AN ANALYSIS OF THE CRITICAL SUCCESS FACTORS FOR CROWDFUNDING FOR SMES IN KENYA

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