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FINANCE

FINANCING OPTIONS AND FINANCIAL PERFORMANCE OF APPAREL AND TEXTILE MANUFACTURING COMPANIES IN NAIROBI, KENYA

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ABSTRACT

Purpose of the Study: The main objective of this study was to examine the effect of financing option on financial performance of apparel and textile manufacturing companies in Nairobi.

Statement of the Problem: Despite the government efforts in improving macroeconomic conditions and market de-regulation, the financial performance of the manufacturing sector in Kenya according to the Kenya Economic report 2018 regarding contribution to GDP has remained below the medium-term plan and Vision 2030 targets.

Methodology: The study employed a descriptive research design and targeted top and middle level managers in the 39 apparel and textile manufacturing companies in Nairobi. The study used both stratified sampling and purposive sampling techniques to select a sample size of 156 respondents. The study used questionnaire to collect primary data from the respondents. The data was analyzed with the aid of SPSS using both descriptive statistics and inferential statistics. The findings were presented on tables, charts and bars.

Result: The study found that equity financing had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β =.210, p=.006<.05), debt financing had a positive but insignificant effect on financial performance of apparel and textile manufacturing companies (β =.042, p=.603>.05), retained earnings had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β=.420, p=.000<.05). Finally, the study found that crowd financing as financing option had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β=.165, p=.038<.05).

Conclusion: The study concluded that financing option acts as a basis of investment decision and a company's financial performance is extensively influenced by the proposition of mix financing

and the choice of the appropriate mix of different sources of short and long term funds is one of the critical decision needs that have to be taken by the management of the company.

Recommendation: The study recommended that the government should be instrumental in offering loan facilities for textile and apparel industries as currently very companies have used this method of financing. Such available loans are for start-ups and it may be important to create such financing options for these companies too.

Keywords: *Financing options Financial Performance Apparel, Textile, Manufacturing, Equity, Debt, Retained, Crowd financing.*

1.1 BACKGROUND

Financial performance has an effect to organization's health and ultimately its survival. High performance is an indicator of management effectiveness and efficiency in the use of company's resources and has a positive impact to the country's economy at large (Bulle, 2017). Traditionally, the success of manufacturing system or company has been evaluated by the use of financial measures. Salim et al. (2019) opine that there are many ways to measure financial performance, but all measures should be taken in aggregate. Line items, such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales and return on assets. The financial performance of a firm identifies how well it generates revenues and manages its assets, liabilities and the financial interests of its stakeholders (Ahmad & Zabri, 2016). A firm whether new or established need money to grow and expand, but owners may not have the cash immediately available to invest into their companies (Achieng et al., 2018). At this point, business owners turn to financing options to obtain funds that will help their companies flourish. According to Carvalho (2018), the role of finance in a firm is to make sure there are enough funds to operate and that the organization is spending and investing wisely. The importance of business finance lies in its capacity to keep a business operating smoothly without running out of cash while also securing funds for longer-term investments.

Access to a variety of financing options determines availability of financial services in the different forms of demand deposits, credit, payments, or insurance and from different sources (Donovan, 2012). The availability of such financial services can be constrained by physical access, affordability and eligibility. While funding options for companies are numerous, each choice comes with various stipulations. Some of the commonly available financing options for firms include equity financing option, debt financing, retained earning financing, crowd financing option, Money from personal savings, friends and family, bank loans, and private equity through angel investors and venture capitalists. Equity financing entails raising capital through the sale of shares; by selling shares, they sell ownership in their company in return for cash, like stock financing (Ang et al., 2019). Equity financing comes from many sources; e.g. an entrepreneur's friends and family, investors, or an initial public offering (IPO). A lack of working capital or a cash flow crunch can be a source of distress for manufacturers. Financing for manufacturing companies is a necessary growth tool, and can be used for purchasing raw materials, funding employee payroll and benefits, adding or replacing equipment, and even paying daily operating expenses (Belo et al., 2019).

Debt financing occurs when a firm raises money for working capital or capital expenditures by selling debt instruments to individuals and/or institutional investors (Wasiuzzaman & Nurdin,

2019). Based on the type of loan an organization is seeking, debt financing can be either long term or short term. With all debt financing the borrower must pay back principal and interest on the debt. According to Cole and Sokolyk (2018), debt financing is available in different forms such as loans from family and friends, bank loans, personal loans, government-backed loans, such as SBA loans, lines of credit, credit cards and real estate loans. Retained earnings (RE) is the amount of net income left over for the business after it has paid out dividends to its shareholders. A growth-focused company may not pay dividends at all or pay very small amounts, as it may prefer to use the retained earnings to finance expansion activities (García Muñoz et al., 2019). Further, the firm can consider crowd financing option in which a firm can raise funds through individuals or organizations who invest in (or donate to) crowdfunding projects in return for a potential profit or reward. Apart from the above financing options, other factors such as organizational culture (OC) and supply chain management, growth, profitability, financial constraints, innovation constraints, management constraints, Labor Costs.

The United Kingdom is Europe's most advanced equity market; other EU countries are considerably less attractive to private equity investors, and there have been no improvements in key policy areas. Specifically, corporate governance practices, such as the rights of minority shareholders, remain an obstacle and underline a reluctance to dilute the control of established owners (Diaconu, 2017). Nigeria is looking into alternative financing options to fund its Joint Venture (JV) obligations as the state owned Oil Company looks to revamp the oil and gas industry. According to Saifullahi *et al.* (2019), Nigeria had raised funds utilizing equity or self-funding from cash-flow, commercial debt instrument or partner funding in form of carry or modified carry arrangement (MCAs), but was interested in non-traditional funding options. It was indicated that, to turn the wheel of the industry and ensure that funding doesn't limit the growth, it is important organizations consider both the traditional and non-traditional funding options. Some of the non-traditional funding options, included contractor-financing/deferred payment, pension funds, private equity, sovereign wealth funds, export credit agencies (ECAs) and Islamic/sharia finance.

In Kenya, report by Kenya's Capital Markets Authority (CMA) shows that the amount of capital raised through equity by firms listed on the Nairobi Securities Exchange (NSE) between 2010 and 2015 increased significantly and steadily from 430 million Kenyan shillings in 2011 to 1.8 billion shillings in 2015 (CMA, 2016). On the contrary, over the same period, return on equity (ROE) dropped from 20% in 2011 to stand at 17% in 2015 while return on assets (ROA) declined from 18% to 16% between 2011 and 2015 albeit intermittent rises and declines in both ROE and ROA in-between the years (NSE, 2016). A cursory observation from these results and consideration thereof could lend to Modigliani and Miller's (1958) capital structure irrelevance assumptions while at the same time endearing to the trade-off theory (Myers, 2001) that postulates the existence of a relationship between capital structure and firm performance.

1.2 STATEMENT OF THE PROBLEM

Despite the government efforts in improving macroeconomic conditions and market de-regulation, the financial performance of the manufacturing sector in Kenya according to the Kenya Economic report 2018 regarding contribution to GDP has remained below the medium-term plan and Vision 2030 targets (Cheptum, 2019). Manufacturing firms in Kenya have a more frequent and higher need of raising finance, this has seen the overall credit to the sector increasing from KSh 237,422 million in 2017 to KSh 290,069 million in 2018 (Economic Survey 2019). Financing has remained one of the key managerial problems decision that keep confronting manufacturing firms in Kenya today (Mburu & Ngatia, 2019).

A number of studies have been conducted on the performance of manufacturing firms in Kenya. For example, Raude *et al*. (2015) examined the effect of Equity financing strategy on the performance of small and medium enterprises in Kenya by adopting a descriptive Survey Research Design that employed a questionnaire with dichotomous question. Since the study focused on SMSs and used survey design, conceptual, contextual and methodological gaps are established. The study found a strong correlation between Equity Financing Strategy and the Performance of SMEs.

Kirimi (2017) evaluated Effect of Debt Finance on Financial Performance of Savings and Credit Cooperative Societies in Maara Sub-county, Tharaka Nithi County, Kenya by employing Causal research design and a target population of 10 Sacco's in which census survey were used. The study revealed a strong positive relationship between debt and ROE. The study presents conceptual, contextual and methodological gaps because it focused on Credit Cooperative Societies, while the current study focuses on apparel and textile manufacturing companies in Nairobi, Kenya. In addition, the current study will adopt descriptive research design instead of casual research design.

Further, Kubai (2016) assessed the effect of capital structure on the financial performance of manufacturing firms in Kenya using descriptive study research design and the findings were that there was a negative relation between total debt, size and financial performance which indicates using more of debt or assets are linked to a decrease in performance in financial perspective. The study by Kubai (2016) presents a conceptual gap since it focused on capital structure, while the current study focuses on financing options. It is in the backdrop of these gaps that the current study sought to examine the effect of financing options on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya.

1.3 RESEARCH OBJECTIVES

i. To determine the effect of equity financing on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya.
ii. To analyse the effect of debt financing on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya.
iii. To investigate the effect of retained earnings on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya.
iv. To establish the effect of crowd financing on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya.

1.4 RESEARCH QUESTIONS

i. What is the effect of equity financing on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya?
ii. How does debt financing affect financial performance of apparel and textile manufacturing companies in Nairobi, Kenya?
iii. What is the effect of retained earnings on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya?
iv. What effect does crowd financing have on the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya?

1.5 CONCEPTUAL FRAMEWORK

In this study, the dependent variable was financial performance, while the independent variables included; equity financing, debt financing, retained earnings and crowd financing. Figure 1 depicts the conceptual framework showing the relationship between the study variables.

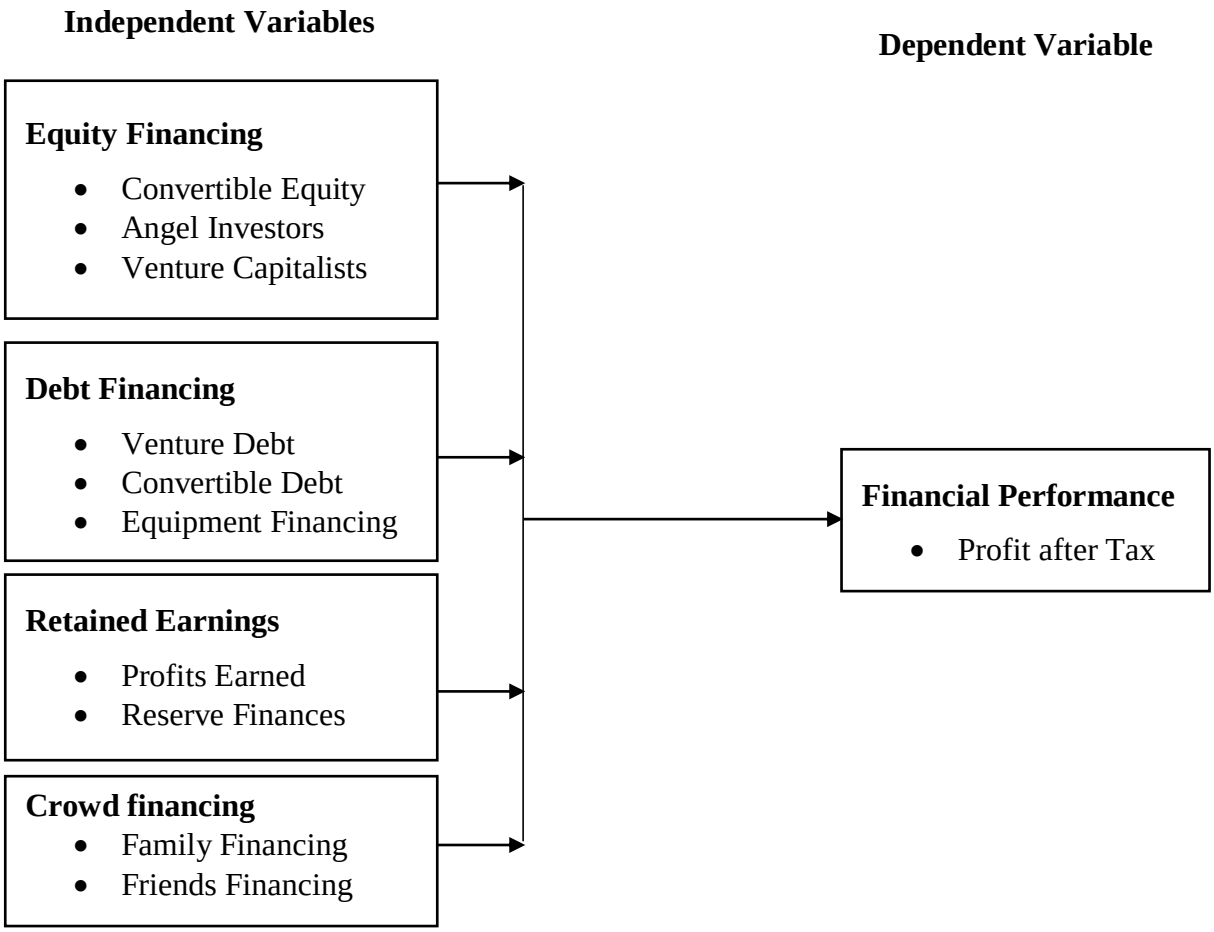

Figure 1: Conceptual Framework

Source: Researcher (2020)

2.1 Review of Theories

2.1.1 Pecking Order Theory

Pecking Order Theory was proposed by Myers and Majluf (1984), when supporting new investments firms favor internal funds as compared to external funds. The theory state that a company should prefer to finance itself first internally through retained earnings. If this source of financing is unavailable, a company should then finance itself through debt. Finally, and as a last resort, a company should finance itself through the issuing of new equity (Myers & Majluf, 1984). If a case arises where the internal funds are not enough for a particular investment opportunity, a firm may seek other alternatives like the external fund. If it does, they will pick among the

numerous outside funds in such a way as to ensure that they don't incur any additional costs regarding asymmetric information. In addition, Myers (1984) indicated that safest securities will be given first priority when the necessity of external financing comes up, firms will most likely follow an order so as to achieve this by safest security which will be debt, then possibly convertible debt and then equity comes as a last resort.

Myer's proposition was that business follows a hierarchy when it comes to determining the financing options to adopt and internal financing is preferred choice and should external financing be needed; debt would be at the top as compared to equity. This argument was also supported by (Pandey & Singh, 2015). This theory is important to the current study since it shows how manufacturing firms define their sources of finance by choosing to maintain their earnings in favor of debt so as to finance its operations. This theory assisted in determining whether the apparel and textile manufacturing companies in Nairobi use less debt because of high earnings to fund themselves as compared to those with less earnings. The implication of the pecking order theory is that highly profitable firms that generate high earnings are expected to use less debt capital than those that are not very profitable.

This theory is considered relevant to the current study because it informs the variables on debt and equity financing options. The theory explains how conditions under which apparel and textile manufacturing companies in Nairobi, Kenya have to resort to either equity or debt financing options when seeking funding for their operations. The pecking order theory states that a company should prefer to finance itself first internally through retained earnings. If this source of financing is unavailable, a company should then finance itself through debt. Finally, and as a last resort, a company should finance itself through the issuing of new equity.

2.1.2 Market Timing Theory

Market Timing Theory was first introduced by Baker and Wurgler (2002). This theory suggests that firms are more likely to issue equity when their market values or share prices are high, relative to book and past market values, and to repurchase equity when their market values or share prices are low. This financing behavior implies that firms prefer external equity when the cost of equity is low. However, firms prefer debt when the cost of equity is high. Based on the aforementioned theoretical assumptions, various researchers Frank and Goyal (2004); Huang and Ritter (2005); Hovakimian (2006); Mahajan and Tartaroglu (2008) have tried to find empirical evidence for the existence of the market timing behavior on different capital markets.

The theory assumes that the economic agents are rational and after positive information, firms are normally assumed to issue equity directly because of reduced information asymmetry between the management of the firm and stockholders (Huang & Ritter, 2005). To reduce asymmetric problem after the release of positive information, direct issue to potential investor is done by the companies. When information is shared regularly, the company may increase its stock prices therefore own timing opportunities are created. Graham and Harvey (2001) noted the managers admitted that it was of great importance to issue or buy back the firm's stock and time the equity market. Baker and Wurgler (2002) concluded that past collective efforts to time the equity market determines the firm's capital structure; this was as a result of positive relation between leverage and measure of market timing.

This theory asserts that manager should takes advantage of the information gap and makes critical analysis of the funds market. The importance of this is that information asymmetry can be costly to firms if the investors misinterpret the manager's behavior and charge them unfairly hence

affecting the firm's performance (Allini *et al.*, 2018). The essence of this theory is described when stock prices are overvalued, manufacturing firms will finance projects through debts and otherwise the firms will be undervalued and be relied on equity financing. This theory is relevant to the current study since it informs the variables on retained earnings and crowd financing. The theory helps the researcher understand how apparel and textile manufacturing companies in Nairobi can be able to tap on retained earnings and crowd financing options to generate finances and the conditions under which such options can be adopted.

2.2 Empirical Review

2.2.1 Equity Financing and Financial Performance

Muturi and Njeru (2019) conducted a study on effect of equity finance on financial performance of small and medium enterprises in Kenya. The purpose of the study was to determine the effect of sources of finance on financial performance of small and medium sized enterprises in Kenya. The study was broken down into three specific objectives which included; to determine the effect of loans on financial performance of SMEs in Kenya, to identify the effect of trade credit on financial performance of SMEs in Kenya, to find out the effect of equity financing on financial performance of SMEs in Kenya and to establish the effect of informal finances on financial performance of SMEs in Kenya, The study employed a mixed method design in which both qualitative and quantitative data was used.

Njagi *et al.* (2017) examined the relationship between equity financing and financial performance of small and medium enterprises in Embu town, Kenya by adopting a descriptive survey research design and by targeting 300 SMEs from which a sample size of 60 SMEs was drawn. The findings of the study revealed that equity financing positively and significantly influenced the financial performance of SMEs in Embu. The study further indicated equity financing may include retained profits, own savings, contribution from friends, contribution from partners, deferred income and cash flow of the business. Equity financing ensures that SMEs have full control and the equity holders have to ensure that resources are allocated efficiently hence increasing financial performance.

Kamau (2016) conducted a study on the relationship between the capital structure and financial performance of insurance companies in Kenya. The aim if the study was to establish the relationship between capital structure and financial performance of insurance companies in Kenya. In order to meet the objective of the study, a descriptive research design was adopted and mainly used secondary data collected from insurance firms through simple random sampling method for 4 years.The analysis results revealed that there was a weak relationship between financial performance and capital structure hence, debt and equity ratios accounted for a small percentage of financial performance. The findings were corroborated by the finding of a study by Wafula (2018) on relationship between profitability and capital structure of small and medium enterprises in Nairobi County and found that there was no significant effect of capital structure, asset turnover and asset tangibility on the financial performance of SMEs.

Achieng *et al.* (2018) conducted a study whose aim was to determine the effect of equity financing options on financial performance of non-financial firms listed at the Nairobi Securities Exchange, Kenya. The study examined the effects of equity financing options namely common stock (CS), retained earnings (REN) and total equity (TED) as ratios of total assets on the financial performance measured as return on assets (ROA) and return on equity (ROE) of Kenya's listed firms by utilizing panel econometric techniques namely pooled ordinary least squares (OLS), fixed

effects (FE) and random effects (RE). The study analyzed the effects of equity variables as ratios of total assets on the financial performance of 40 non-financial firms listed at the Nairobi Securities Exchange between 2009 and 2015. The finding revealed that CS ratio significantly and negatively affected ROA while RE ratio had a statistically significant and positive effect on ROA. The study indicated that in overall TE ratio positively and significantly affected ROA.

2.2.2 Debt Financing and Financial Performance

A study by Harelimana (2017) evaluated the effect of debt financing on business performance: a comparative study between I&M Bank and Bank of Kigali, Rwanda. The study was focused on establishing the effect of debt financing on firm performance, a comparative study between I&M Bank and Bank of Kigali within a period of six years from 2010. The study was descriptive and correlative in nature. The study finding revealed a strong positive relationship between debt level and profitability for both I&M bank and Bank of Kigali. The study indicated that debt financing tends to be less expensive and increasing financial performance with a relatively low interest rate which leads to the increase in profit levels and hence performance. Farooq & Masood (2016) in a study examined the impact of financial leverage on the value of 19 cement firms listed on the Karachi Stock Exchange, Pakistan between 2008 and 2012. The purpose of the study was to investigate the effect of financial leverage on firm's value in cement sector of Pakistan. The findings of the study indicated that the average ratio of debt to equity among the surveyed listed cement firms was 1.7%. Further, the study established that financial leverage had positive and statistically significant association with value of firm.

Mazen (2017) conducted a study on the impact of debt on profitability. The study was empirical in nature and used a method of generalized moments (GMM) on an unbalanced panel of 2240 French companies of service sector observed over the period 1999-2006. The study concluded that debt has no influence on profitability either in a linear way, or in a non-linear way and this was consistent with that of Baum (2007) on American industrial companies and there was no impact regardless the size of enterprise. Researcher also presented the analysis using different size classes and found there is no impact regardless the size of enterprise.

2.2.3 Retained Earnings and Financial Performance

Bassey *et al.* (2016) assessed the impact of retained profit on corporate performance: empirical evidence from Niger mills company, Calabar-Nigeria. The purpose of the study was to examine the impact of retained profit on corporate performance of Niger Mills Company Ltd Calabar-Nigeria. The research evaluated the importance of retained profits as an alternative source of financing the activities of a corporation. Data for the study were collected from the annual report of Niger Mills Company Ltd. Calabar and the statistical model used for data analysis was Karl Pearson product moment correlation coefficient. Findings revealed that the future earnings capacity of Niger Mills Ltd. Calabar depended on its retained profit. The study also discovered that accumulated profit retained in the business had the potential of boosting future earnings.

Thuranira (2014) assessed the effect of retained earnings on the returns of firms listed at the Nairobi Securities Exchange. The sought to establish the effect of retained earnings on stock return of the companies listed at the Nairobi Securities Exchange by adopting a descriptive study design and used secondary data obtained from Nairobi Securities Exchange and the listed company's annual reports for the period 2009 to 2013. The data was summarized through excel spreadsheets and analyzed using Statistical Package for Social Sciences. The analysis involved a regression of stock returns against retained earnings alone, and then another regression involving retained

earnings and three more variables, dividend yield, Net Asset Value per share, Price to Book Value acting as the control variables. The findings revealed that there was a very weak relationship between the variables.

Khan *et al.* (2015) conducted a study on the impact of retained and distributed earnings on future profitability and stock returns in Pakistan. The purpose of the study was to discuss the effect of various components of earnings with the view to predict future profitability of firms and stock returns in Pakistan. The study was undertaken to find out existence of some pattern i.e. persistence among different components of the earnings as well as their sustainability over the period, for future profitability and stock returns. The study used Pearson correlation matrix at firm's level for correlations between different components of earnings. Random panel (effect) regression model was used to find the relationships among the earnings' variables and impact of the current components on the future earnings.

Mutua and Atheru (2020) conducted a study which sought to establish the relationship between capital structure and financial performance of companies listed under manufacturing and allied sector at Nairobi Securities Exchange in Kenya. The purpose of this study was to assess capital structure and financial performance of companies listed under manufacturing and allied sector at Nairobi Securities Exchange, Kenya. The study employed descriptive research design and data was analyzed using multiple regressions. The target population comprised all the eight companies listed under manufacturing and allied sector at the Nairobi Security Exchange, Kenya where census approach was adopted. Results of the study revealed that retained earnings and equity had negative influence on financial performance of firms listed under manufacturing and allied sector in Kenya.

2.2.4 Crowd Financing and Financial Performance

Kuppuswammy and Roth (2016). Conducted a research study on the effect of crowd funding performance and outside capital. The purpose of the study was to investigate the relationship between crowd funding performance and several post-campaign benefits that entrepreneurs value; most notably, access to additional external financing for their venture. Using survey data on a sample of crowd funding projects from Kickstarter, the world's most popular crowd funding platform, the study investigates the effect of crowd funding success on the ability of entrepreneurs to obtain additional financing after the campaign ended. The findings of the study revealed that crowd funding performance, or more specifically, the dollars raised by the campaign did have a positive effect on the likelihood of external financing benefits.

Onyango (2018) conducted an analysis of the effect of crowd funding platforms in enhancing the financing sources for micro, small and medium enterprises (MSMEs) in Kenya. The purpose of this study was to analyze the financing gap that existed in MSMEs in Kenya and the role that crowd funding platforms play in enhancing their financing opportunities. This study was exploratory and it used both primary and secondary data in answering the research questions. Primary data was collected by targeting a population of 30 MSMEs that have accessed financing from the 48 crowd funding platforms accessible to Kenyan. The findings revealed that the mean success rate was highest for lending platforms (100%) followed by reward platforms, donation platforms and finally equity platform.

Macht and Weatherston (2014) examined the benefits of online crowd funding for fund-seeking business ventures. The study adopted descriptive research design in which secondary data was used. The findings of the study indicated that crowd funding platforms offered unique

opportunities in narrowing the gap for MSMEs especially due to the lack of restrictions on the nature of the firms that can get involved. Other than the funding they received from their funding campaigns, entrepreneurs undoubtedly received further funding either by the pursuit of external funding by the entrepreneur later on, or simply elevating the business to a position of self-sufficiency. An MSME can use a successful crowdfunding campaign as leverage to getting funding from other external sources.

A study by Candelise (2015) indicated that Crowdfunding campaigns are based on web platforms where projects are presented to the public and beneficiaries of the funding can communicate and engage with their community of potential donors or investors, and through which people can donate or invest money. The study asserted that crowdfunding is not only an alternative source of funding, which allows raising funds for projects that could not be financed through institutional channels. Further it was indicated that crowdfunding platforms are also powerful communication tools, as they allow full transparency and open communication on projects, enabling investors, stakeholders and communities to engage with the project proponents, get involved and monitor progress over time. According to Candelise (2015), crowd funding is an interesting financing tool for the energy sector. Donation and reward crowdfunding platform can and have been used to raise funding for environmental campaigns and more specifically renewable energy projects e.g. to fund small solar installations on schools5 or in developing countries. However, the financial/investing platforms are those mostly used to date in the context of energy and raising higher amount of money.

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive research design and targeted all apparel and textile manufacturing companies in Nairobi, Kenya. The study targeted only apparel and textile manufacturing companies and not all manufacturing companies because the wider nature of manufacturing sector. According to Kenya Association of Manufacturers (2020), there are thirty-nine (39) apparel and textile manufacturing companies in Nairobi. The targeted units of analysis were the top managers and middle level managers serving in different functional units in the companies. These categories of employees were preferred for this study because they are directly involved in the day to day decision making processes regarding financing option in the company. The study purposively selected two top managers and two middle level managers from each of the 39 companies giving a total population of 156. This study used census approach since all the 39 companies were studied. The sampling frame for this study was made up of the official list of all the top managers and middle level managers working in various departments of the targeted companies (the entire target population). Stratified sampling technique was used in the study because it provided all the study population components a fair and equal chance of being selected and used as a study sample. Questionnaires was utilized on the grounds that they enable the respondents to give their reactions in a convenient manner. The questionnaire was self-administered to all the respondents. The study sought to collect purely quantitative data which was analyzed with the aid of SPSS. Both descriptive and inferential statistics were used to analyze the data collected. Descriptive statistics involved computation of mean scores, standard deviation, percentages, cross tabulation and frequency distributions. A multiple regression model was utilized to demonstrate the relationship between the independent variables and the dependent variable.

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon}$$

Where;

Y=Financial Performance

$\mathbf{X_1}$ = Equity Financing

$\mathbf{X_2}$ = Debt Financing

$\mathbf{X_3}$= Retained Earnings

$\mathbf{X_4}$ = Crowd Financing

In the model, β_0 = the constant term while the coefficient $\beta_i = 1....4$ was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2,X_3 and X_4. The error (ϵ) term captured the unexplained variations in the model.

A total of one hundred and fifty six (156) questionnaires were distributed to the sampled 156 respondents out of which one hundred and twenty-six questionnaires were dully filled and returned. This translated to a response rate of 80.8 percent. The study found that majority of the respondents were male (67.50%) compared to 32.50% female. It was also established that most (38.90%) of the respondents were aged between 41 and 50 years, slightly more than a third (30.20%) of the respondents were found to be aged between 31 and 40 years. This implies that in the apparel and textile manufacturing companies in Nairobi, most of the managers are senior people possessing the necessary experience required in management of those companies. The study also found that 25.40% of the respondents were more than 50 years old, 4% being between the ages of 26 and30 years, while 1.60% were aged between 20 and 25 years. Majority (60.30%) of the top and middle level managers in apparel and textile manufacturing companies in Nairobi have the minimum qualification of bachelor's degree, 32.50% were found to be possessing postgraduate qualifications, while 7.10% were diploma holders. Regarding duration of service, majority (57.90%) of the respondents had been working in their respective companies for between 5 and 10 years, 22.20% were found to have been working in the companies for a period of between 11 and 15 years, 9.50% for a period of more than 20 years. The results also show that 7.90% of the respondents had worked in their respective companies for a period of between 16 and 20 years, while 2.40% had been there for just less than five years.

4.1 Descriptive Statistics

Presented in Table 1 are the descriptive statistics on the variable equity financing.

Table 1: Descriptive Statistics on Equity Financing

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our company uses business angels made up of wealthy individuals who invest in our company in return for a share in the company.	5.60%	4.00%	11.90%	28.60%	50.00%	4.135	1.127
Our company relies heavily on convertible equity as a financing option	4.00%	8.70%	13.50%	25.40%	48.40%	4.056	1.155
Our company uses venture capitalist for financing its operations	4.00%	4.00%	18.30%	19.80%	54.00%	4.159	1.106
Our company has a number of strategic partners who are financing the operations of the company	5.60%	13.50%	15.90%	23.00%	42.10%	3.825	1.265
Our company uses shares form the investors to finance its operations	4.00%	6.30%	8.70%	21.40%	59.50%	4.262	1.111
Our company raises finances through Joining public market or stock market A stock market listing helps our company access capital for growth and raise finance for further development	5.60%	3.20%	11.10%	23.80%	56.30%	4.222	1.123
Overall						**4.110**	**1.148**

The results show that majority (78.60%) of the respondents believed that their companies were using business angels made up of wealthy individuals who invested in their company in return for a share in the company, 9.60% of the respondents however disagreed with the statement, while 11.90% were undecided. The results had a mean and standard deviation of 4.135 and 1.127 respectively. This implies that most of the respondents were in agreement with the statement on the use of business angels and their responses did not deviate so much from the mean response. The study results also show that most (73.80%) of the respondents agreed that their companies relied heavily on convertible equity as a financing option (Mean=4.056; standard deviation=1.155).

It was further found out that most of the companies (74.80%) were using venture capitalist for financing its operations (Mean=4.159; standard deviation=1.106), 65.10% of the respondents indicated that their companies had multiple number of strategic partners financing the operations of the company (Mean=3.825; standard deviation=1.265). The study further established that most

of the companies (80.90%) were using shares form the investors to finance their operations (Mean=4.262; standard deviation=1.111). Finally, the results show that majority of the managers (80.10%) were in agreement with the fact that their companies were raising finances through Joining public market or stock market, a stock market listing that was found to be helping their firms access capital for growth and raise finance for further development (Mean=4.222; standard deviation=1.123).

Overall, the responses on equity financing option had an average mean and standard deviation of 4.110 and 1.148 pointing to the fact that most of the managers of the textile and apparel industries in Nairobi were in agreement with the statements presented to them and their response were uniformly distributed around the mean response. According to Ang et al (2019), equity financing comes from many sources; e.g. an entrepreneur's friends and family, investors, or an initial public offering (IPO) and a lack of working capital or a cash flow crunch can be a source of distress for manufacturers. Financing for manufacturing companies is a necessary growth tool, and can be used for purchasing raw materials, funding employee payroll and benefits, adding or replacing equipment, and even paying daily operating expenses. Descriptive statistics results on debt financing the second variable are presented in Table 2.

Table 2: Descriptive Statistics on Debt Financing

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our company relies on venture debt to raise finances	2.40%	7.90%	28.60%	31.00%	30.20%	3.786	1.040
Our company uses convertible debt for financing	3.20%	5.60%	32.80%	29.60%	28.80%	3.752	1.037
Our company uses equipment financing to finance its operations	8.00%	13.60%	28.00%	27.20%	23.20%	3.440	1.214
Our company sometimes depend on cash borrowed from a lender at a fixed rate of interest and with a predetermined maturity date for its operations	2.40%	7.10%	27.80%	31.70%	31.00%	3.817	1.031
Our company relies on state and government sponsor to provide funding to promote the formation and growth of the company	7.10%	6.30%	21.40%	39.70%	25.40%	3.698	1.133
Our company sells fixed income products, such as bonds, bills and notes to investors to obtain the capital needed to grow and expand its operations.	7.90%	6.30%	23.00%	31.70%	31.00%	3.714	1.199
Overall						**3.701**	**1.109**

Based on the results, majority of the respondents (61.20%) were positive that their companies relied on venture debt to raise finances as was also affirmed by mean and standard deviation of 3.786 and 1.040. The study also found that most of the managers (58.40%) were positive that in their companies they were using convertible debt for financing (Mean=3.752; standard deviation=1.037). The study in addition found that most companies (50.40%) were using equipment financing to finance their operations (Mean=3.440; standard deviation=1.214).

The study results also show that most of the respondents (62.70%) were positive that their companies were sometimes depending on cash borrowed from a lender at a fixed rate of interest and with a predetermined maturity date for its operations (Mean=3.440; standard deviation=1.214). Similarly, most of the respondents (65.10%) indicated that their companies relied on state and government sponsor to provide funding to promote the formation and growth of the company. Finally, the study found that most companies (62.70%) were selling fixed income products, such as bonds, bills and notes to investors to obtain the capital needed to grow and expand their operations. According to Cole and Sokolyk (2018), debt financing is available in different forms such as loans from family and friends, bank loans, personal loans, government-backed loans, such as SBA loans, lines of credit, credit cards and real estate loans. Table 3 shows the descriptive statistics results on retained earnings.

Table 3: Descriptive Statistics on Retained Earnings

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our company rely heavily on savings to run its operations	7.20%	6.40%	22.40%	26.40%	37.60%	3.808	1.216
Our company is depending on positive profits to finance its operations	3.20%	4.00%	24.00%	31.20%	37.60%	3.960	1.035
Our company uses reserve money to finance its operations	4.00%	0.80%	14.40%	44.00%	36.80%	4.088	0.951
Our company utilizes the current year's net income after taxes to finance its operations	4.00%	1.60%	20.80%	29.60%	44.00%	4.080	1.036
Our company uses dividends paid to stockholders and owner withdrawals as source of financing	3.20%	3.20%	22.60%	27.40%	43.50%	4.048	1.043
Overall						**3.997**	**1.056**

The results in Table 3 show that most of the companies (64%) were relying heavily on savings to run their operations (Mean=3.808; standard deviation=1.216), most of the companies (68.80%) were also found to be depending on positive profits to finance its operations (Mean=3.960; standard deviation=1.035). Based on the results, most (80.80%) of the respondents were positive that their companies were using reserve money to finance their operations (Mean=3.960; standard deviation=1.035).

Similarly, the study found that most of the companies (73.60%) were utilizing the current year's net income after taxes to finance their operations, while 70.90% of the companies were using dividends paid to stockholders and owner withdrawals as source of financing (Mean=4.048; standard deviation=1.043). Overall, the responses had an average mean and standard deviation of 3.997 and 1.056, implying that most of the respondents were agreeing with the statements under retained earning financing. According to García Muñoz et al., (2019), a growth-focused company may not pay dividends at all or pay very small amounts, as it may prefer to use the retained earnings to finance expansion activities. The results presented in Table 4 are descriptive statistics on crowd financing variable.

Table 4: Descriptive Statistics on Crowd-financing

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our company relies on family financing crowd funding option in financing its operations	0.00%	10.40%	24.00%	33.60%	32.00%	3.872	0.984
Our company uses debt-based crowd funding options in obtaining finances	4.80%	5.60%	20.80%	28.80%	40.00%	3.936	1.127
Our company uses equity-based crowd funding option in running its operations.	2.40%	4.90%	22.80%	26.00%	43.90%	4.041	1.043
Our company uses reward-based crowd funding options in financing its operations.	2.40%	5.60%	19.20%	25.60%	47.20%	4.096	1.051
Our company relies of donation based crowd funding in financing its operations.	4.00%	4.80%	17.50%	27.80%	46.00%	4.071	1.089
Overall						**4.003**	**1.059**

Results on Table 4 depicts that most of the companies (65.60%) were relying on family financing crowd funding option in financing their operations (Mean=3.872; standard deviation=0.984). The study also found that most of the companies (68.80%) were using debt-based crowd funding options in obtaining finances (Mean=3.936; standard deviation=1.127). This implies that many companies were using crowd financing as source of financing funds for their operations. Additionally, majority (69.90%) of the respondents indicated that their companies were using equity-based crowd funding option in running its operations (Mean=4.041; standard deviation=1.043). Similarly, most of the managers (72.80%) were positive that their companies were making use of reward-based crowd funding options in financing their operations, while 73.80% of the managers indicated that their companies were relying on donation based crowd funding in financing their operations (Mean=4.071; standard deviation=1.089).

In general, the responses on crowd financing recorded an average mean and standard deviation of 4.003 and 1.059 respectively. This implies that most of the companies involved in this study were

using crowd financing as source of funding. These descriptive statistics were found to be in agreement with the assertions by Muñoz et al. (2019) that the firm can consider crowd financing option in which a firm can raise funds through individuals or organizations who invest in (or donate to) crowd funding projects in return for a potential profit or reward. Apart from the above financing options, other factors such as organizational culture (OC) and supply chain management, growth, profitability, financial constraints, innovation constraints, management constraints, Labor Costs. Finally, descriptive statistics results on the dependent variable financial performance are presented in Table 5.

Table 5: Descriptive Statistics on Financial Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our annual returns on assets have increased over the last five years	4.80%	3.20%	26.20%	28.60%	37.30%	3.905	1.091
We have increased our sales over the last five years	2.40%	5.60%	15.10%	36.50%	40.50%	4.071	0.997
We have been recording increased profit after tax annually for the past 5 years	4.00%	4.80%	21.60%	31.20%	38.40%	3.952	1.077
We regularly achieve the targets on budget in our business.	2.40%	5.60%	16.00%	36.80%	39.20%	4.048	0.999
We have increased our regional coverage over the last 5 years.	3.20%	7.90%	18.30%	24.60%	46.00%	4.024	1.120
We have increased our return on equity over the last 5 years.	2.40%	5.60%	18.30%	29.40%	44.40%	4.079	1.032
Overall						**4.013**	**1.053**

The results show that most of the managers that took part in this study (65.90%) agreed that their annual returns on assets had increased over the previous five years, 77% of the managers indicated that their companies had increased our sales over the last five years (Mean=4.071; standard deviation=0.997). The study also found that most of the companies had been recording increased profit after tax annually for the past 5 years as indicated by 69.60% of the respondents (Mean=3.952; standard deviation=1.077). Further, most of the respondents (76%) were positive that they were regularly achieving the targets on budget in their businesses (Mean=4.048; standard deviation=0.999).

Similarly, the findings show that most (70.60%) of the companies had recorded increased regional coverage over the previous 5 years, while 73.80% of the companies had increased their return on equity over the previous 5 years (Mean=4.079; standard deviation=1.032). In overall, the responses on financial performance of the companies had an average mean and standard deviation of 4.013 and 1.053 respectively. This implies that most of the respondents were agreeing with the statements presented to them on the financial performance of their companies.

4.2 Inferential Statistics

Correlation Analysis

Correlation analysis results revealed that there was a strong positive and significant association between equity financing and financial performance of apparel and textile manufacturing companies in Nairobi, Kenya ($r=0.653$, $p<0.05$) at 5% level of significance. The use of equity financing option results into significance influence of the financial performance of the companies. The results also show that there was a strong positive and significant association between debt financing option and financial performance of apparel and textile manufacturing companies in Nairobi, Kenya ($r=0.608$, $p<0.05$) at 5% level of significance. Additionally, the study found a strong positive and significant association between retained earnings as financing option and financial performance of apparel and textile manufacturing companies in Nairobi, Kenya ($r=0.733$, $p<0.05$). Finally, from the results it is evident that there was a strong positive and significant association between crowd financing option and financial performance of apparel and textile manufacturing companies in Nairobi, Kenya ($r=0.625$, $p<0.05$).

In general, the most influential factor in relation to the financial performance of apparel and textile manufacturing companies in Nairobi, Kenya was financing the business using retained earnings since it had the highest correlation coefficient. The correlation analysis results are consistent with the assertions by Donovan (2012) that, access to a variety of financing options is the availability of financial services in the different forms of demand deposits, credit, payments, or insurance and from different sources and the availability of such financial services can be constrained by physical access, affordability and eligibility. While funding options for companies are numerous, each choice comes with various stipulations. Some of the commonly available financing options for firms include equity financing option, debt financing, retained earning financing, crowd financing option, Money from personal savings, friends and family, bank loans, and private equity through angel investors and venture capitalists.

Regression Analysis

Tables 6, 7 and 8 presents the model summary, ANOVA and coefficient regression results respectively.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.777a	0.603	0.590	0.4953

a Predictors: (Constant), Crowd financing, Debt Financing, Equity Financing, Retained Earnings

Source: Field Data, 2021

The results in Table 6 show that the coefficient of determination (R squared) is 0.603 and adjusted R squared of 0.590 at 95% significance level. The R squared of 0.603 implies that the various financing options adopted in this study (equity financing, debt financing, retained earnings and crowd financing) jointly explains 60.3 % of the variation in financial performance of apparel and textile manufacturing companies in Nairobi, Kenya. The remaining 39.7% of the variation in the dependent variable can be explained by other factors which were not part of the current model.

Table 7: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	45.16	4	11.29	46.022	.000[b]
	Residual	29.683	121	0.245		
	Total	74.844	125			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Crowd financing, Debt Financing, Equity Financing, Retained Earnings

Source: Field Data, 2021

In Table 7, ANOVA results are shown and the results show that the model was statistically significant in explaining the influence of financing options adopted in this study (equity financing, debt financing, retained earnings and crowd financing) on financial performance of apparel and textile manufacturing companies in Nairobi, Kenya and it is indicated by a p-value of 0.000<0.05.

Table 8: Multi Regression of Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.662	0.252		2.624	0.010
	Equity Financing	0.210	0.075	0.23	2.798	0.006
	Debt Financing	0.042	0.08	0.047	0.522	0.603
	Retained Earnings	0.420	0.098	0.433	4.274	0.000
	Crowd financing	0.165	0.079	0.171	2.102	0.038

a. Dependent Variable: Financial Performance

Source: Field Data, 2021

The regression model therefore became;

$$\mathbf{Y = 0.662 + 0.210X_1+0.042X_2+0.420X_3+ 0.165X_4}$$

Where:

Y = Financial Performance

X_1= Equity Financing

X_2 = Debt Financing

X_3 = Retained Earnings

X_4= Crowd Financing

Regression coefficients in Table 8 show that equity financing as financing option had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β =.210, p=.006<.05). This was supported by a calculated t-statistic of 2.798 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in the use of equity financing option results into an improvement in financial

performance by 0.210 units. The results imply further that equity financing option significantly affects the financial performance of apparel and textile manufacturing companies. The results are in agreement with the findings of Muturi and Njeru (2019) which found a statistical significant relationship between Equity financing and the dependent variable financial performance of the SMEs in Kenya. The study revealed that the significant relationship was mostly associated with the direct control that equity holders have in their businesses and also having in mind that the equity holders have the last claim to dividends they always have to ensure that the business resources are efficiently allocated.

The study also found that debt financing as financing option had a positive but insignificant effect on financial performance of apparel and textile manufacturing companies (β =.042, p=.603>.05). This was supported by a calculated t-statistic of 0.522 that was less than the critical t-statistic of 1.96 further confirming the insignificance. The result implies that, a unit improvement in the use of debt financing option results into an improvement in financial performance by 0.042 units, though the improvement is not significant. The results imply further that debt financing option insignificantly affects the financial performance of apparel and textile manufacturing companies. The results are contrary to the findings of Harelimana (2017) that revealed a strong positive relationship between debt level and profitability for both I&M bank and Bank of Kigali.

The study further found that retained earnings as financing option had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β=.420, p=.000<.05). This was supported by a calculated t-statistic of 4.274 that was greater than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in the use of retained earnings financing option results into an improvement in financial performance by 0.420 units. The results imply further that retained earnings financing option significantly affects the financial performance of apparel and textile manufacturing companies. The results are in agreement with the findings of a study by Bassey et al. (2016) that assessed the impact of retained profit on corporate performance and found that the future earnings capacity of Niger Mills Ltd. Calabar depended on its retained profit. The study also discovered that accumulated profit retained in the business had the potential of boosting future earnings. It was therefore concluded that, corporate bodies should always retain profits in their business rather than distribute all of it to shareholders.

Finally, the study found that crowd financing as financing option had a positive and significant effect on financial performance of apparel and textile manufacturing companies (β=.165, p=.038<.05). This was supported by a calculated t-statistic of 2.102 that was less than the critical t-statistic of 1.96 further confirming the significance. The result implies that, a unit improvement in the use of crowd financing option results into an improvement in financial performance by 0.165 units. The results imply further that crowd financing option significantly affects the financial performance of apparel and textile manufacturing companies. The results are in agreement with the findings of a study by Kuppuswammy and Roth (2016) which indicated that crowd funding performance, or more specifically, the dollars raised by the campaign did have a positive effect on the likelihood of external financing benefits.

5.0 CONCLUSION

Based on the findings this study concluded that equity financing as financing option for apparel and textile companies positively and significantly influences financial performance of such companies. The study concludes that with equity financing there is no obligation to repay the

money acquired through it and so the company is able to improve their financial performance. The study also concludes that equity financing is suitable option of financing because it places no additional financial burden on the company since there are no required monthly payments associated with equity financing, the company has more capital available to invest in growing the business. The study also concludes that retained earnings positively and significantly affects financial performance of textile and apparel industries in Nairobi, Kenya.

Further, this study concludes that crowd financing positively and significantly affects financial performance of textile and apparel manufacturing companies in Nairobi, Kenya. The study also concludes that crowd funding platforms offers unique opportunities in narrowing the gap for the companies especially due to the lack of restrictions on the nature of the firms that can get involved. Other than the funding they received from their funding campaigns, entrepreneurs undoubtedly received further funding either by the pursuit of external funding by the entrepreneur later on, or simply elevating the business to a position of self-sufficiency. Based on the findings, this study concludes that textile and apparel industries in Nairobi, Kenya can use a successful crowd funding campaign as leverage to getting funding from other external sources, crowd funding platforms also indirectly narrowed the financing gap by reducing the marketing and customer acquisition costs. Finally, the study concludes that with equity financing, the company management is likely to lose some control over the company, but they are able to continue operating without debt. With debt financing, the company increases its future liabilities, but the future of the company will remain in the hands of the management.

6.0 RECOMMENDATION

On the basis of the findings and the conclusions, this study offer the following recommendations: financial managers should adjust debt levels to ensure that they operate at the optimum point that enhances firm value while avoiding the negative trajectory as predicted by the trade-off theory. On the other hand, credit institutions should judiciously consider the effects and risks of overleveraging on firm performance and only finance businesses up to where profitability is maximized as the risk of credit default is likely to increase with overleveraging. The study also recommends that it is advisable that company managers should endeavor to minimize on the use of common stock as a source of business financing due to its negative effects on shareholder income on their investments. The government should be instrumental in offering loan facilities for textile and apparel industries as currently very companies have used this method of financing. Such available loans are for start-ups and it may be important to create such financing options for these companies too.

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