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ANALYSIS OF FACTORS INFLUENCING THE FINANCIAL PERFORMANCE OF YOUTH OWNED ENTERPRISES IN KILIFI COUNTY, KENYA

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Abstract: **Youth owned enterprises are businesses which are owned and run by individuals within the age bracket of 18-35 years. These enterprises are usually small in size with low entry barriers coupled with low capital requirements. They significantly reduce youth unemployment both at the national and regional level. However, these enterprises have not been performing well financially due to several challenges such as finance. A significant number of them fail to grow while some collapse even before being launched. The purpose of this study was to analyze the factors influencing the financial performance of youth owned enterprises in Kilifi County, Kenya. Theories of resource-based view and firm growth guided the study. The target population was 150 registered youth owned enterprises from which a sample of 108 was drawn. The study adopted a descriptive research design. Primary data was collected using structured questionnaires with both open and closed ended questions. A pilot study was conducted to pre-test and fine tune the questionnaires. Descriptive statistics, correlation analysis and multiple regression analysis were used to analyze the data. The questionnaire response rate was 100%. The computed Cronbach Alpha for the constructs was greater than 0.700 and thus reliable. Correlation analysis show that access to capital had the highest significant influence on financial performance of youth owned enterprises (0.902), followed by government regulation (0.882). Results of the regression analysis show that the adjusted R square is 0.868 which implies that 86.8% of the variations in the dependent variables are explained by the independent variables. Access to capital (with a coefficient of 0.314) was significant followed by government regulations with (0.147). The study concludes that youth entrepreneurs faced challenges in accessing capital, there is legality and smooth operation since they are aware of business regulations. The study recommends that government should come up with a policy that redesigns the available lending programs for youth owned enterprises to enhance accessibility of finance; still need to arrange for workshops and seminars periodically to sensitize youth entrepreneurs to ensure that their businesses remain in good standing; mentorship or apprenticeship programs be introduced to inculcate relevant experience and skills in business management, and that there is need to reduce personal risks by moving to limited liability from sole proprietorship of business ownership.**

Keywords: **Financial Performance, Youth Owned Enterprises, Access to Capital, government regulations.**

1. INTRODUCTION

Background of the Study

Youth owned enterprises are businesses owned and run by individuals within the age bracket of 18-35 years (GoK, 2010). They are usually managed by the owners and some with very few employees. The youth enterprise sector is characterized by small scale level of activity, self-employment with high proportion of family workers and apprentices, little capital and equipment, low skills and low level of access to organized markets (Nabutola, 2015). According to Tengeh, (2013), it is

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the duty of the youth entrepreneurs to build business ideas and manage it by analyzing the required resources necessary for the kick off of the enterprise.

Youth owned enterprises are considered to be the contributors in creating new value in the market and society, since they are viewed as the backbone of economic development (Welter & Smallbone, 2011). Over the past years, it has become increasingly apparent that they contribute to economic development through employment creation, poverty alleviation and generation of income for both developed and developing countries. They contribute between 18-25% to the country's GPD and employ over 74% of the total labour force in Kenya (Ongolo & Owino, 2013). Many governments throughout the world have put a focus on the development of this sector in order to promote a sustainable economic growth and development (Olawale & Garwe, 2010). Youth owned enterprises, just like any other businesses need access to finance to implement business plans, develop products and services and market the products to potential customers for growth and expansion (Badulescu, 2011).

In Sub Saharan Africa, access to finance to the youth entrepreneurs is not guaranteed and therefore youth owned enterprises are failing in their first years due to lack of finances to sustain their growth (Makini, 2015). Furthermore, the rate of failure of youth owned enterprises in the Sub Saharan Africa is higher compared to other regions (World Bank & IFC, 2013). Access to finance, therefore, is considered to be the main barrier to entrepreneurship in the region due to lack of collateral and credit worthness which hinders the growth and success of businesses. Youth represent the most abundant asset who are vulnerable to persistent risks and challenges. Like the youth in almost all African developing countries, the challenges facing youth in Kenya include unemployment, marginalization, harassment, vulnerability to exploitation by political leaders and impediments in accessing essential services such as education in spite of policies formulated and even implemented to assist them (Mutuku, 2009). Kenya has about 35.7 million youth which account for 75% of the total population and constitutes 60% of the total labour force in the country but majority 65% are unemployed (World Bank, 2019).

Through the Current 2010 Constitutional Framework and the SME Act of 2016, the government of Kenya provides a new window of opportunities in realization of youth owned enterprises through the devolution framework and access to finance. Efforts to initiate these enterprises are also actualized through the creation of policy documents such as the 1997-2001 Development Plans, the National Poverty Eradication Plan of 1999-2015, the Sessional Paper No. 1 of 2005 on Education Training and Research and Sessional Paper No. 2 of 1992 on small scale and Jua Kali enterprises, (Naikuru, 2017).

Despite initiatives made by various governments, World organizations and various private sectors in promoting and financing youth owned enterprises, their performance is still low and not much has been achieved due to higher rate of failure (Ihua, 2009). Scholars have warned that starting a business is a risk venture and chances of success are very slim (Ebbena et al, 2005). The owners should therefore put in place long-term and short-term strategies to guard against failure. In light of the view that research on performance of youth owned enterprises has dominated in policy discussions in the context of industrial and economic development, their importance cannot be underestimated especially in the recent global business dynamics (Kimunyi, 2015).

Although youth owned enterprises contribute to economic and social development, many factors identified have not only crippled the growth of the youth enterprise sector, but also reduced youth morale for engaging in self-enterprises (Philip, 2010). Key among these factors includes; lack of access to capital, poor managerial skills, lack of training, stringent government regulations, poor succession plan, lack of financial and resource mobilization skill (Bwisa, 2010), hence limiting the long-term survival and development of the enterprises. To improve the low rate of enterprise creation and failure globally, youth owned enterprises are required to adapt to the changes in business environment to enhance survival (Turton & Herrington, 2012).

The development of youth owned enterprises is likely to have positive impact since they are a panacea to youth unemployment and low economic development (Ernst & Young, 2013). This is due to the fact that it provides youth with an opportunity to build sustainable livelihoods and to integrate into society. A survey on self-employment and life satisfaction among the youth in Sweden established that self-employed youth have higher life satisfaction and are more likely to hire fellow youths than those who are wage employed (Simpson & Christensen, 2009). Hence, an increase in youth owned enterprises will improve quality of life and also will contribute to even distribution of income. This is due to the fact that youth entrepreneurs are focused on the immediate environment they live in and therefore if they prosper, the communities in which they operate prosper as well (Mano, 2011). In an economy where job creation is the panacea for most societal problems, it is important that youth should appreciate the need to become entrepreneurs and not merely job seekers (Owualah & Obokoh, 2008). Micro and small enterprises are the biggest employment creators in both industrialized and emerging economies (ILO, 2014), and are also responsible for driving innovation and competition in the economy.

Performance is the process of evaluating how well firms are managed and the value they deliver to customers and other stakeholders (Moullin, 2015). The traditional measures of financial performance include how well a resource is intensively used to produce a product or service and how well a resource performs relatively to an established standard. The financial performance of any enterprises entails revenue and cost-based measures including profitability, sales turnover, efficiency, liquidity and growth rate of the business (Dalrymple, 2017), and in this case, youth owned enterprises are required to run their enterprises in an efficient and effective manner to generate enough profits to enhance good performance. The revenue generated should be worth enough to cover the business's fixed and variable costs and profits can be reinvested in the business to improve performance (Epstein et al, 2012).

Performance of the youth owned enterprises are mired by a number of factors including poor access to capital, lack of managerial skills, government regulations and lack of resource mobilization skills resulting to overall poor performance (World Bank, 2014). From this, it can be inferred that the youth are certainly highly vulnerable to business failure hence many youths find themselves in the street-type activities such as hawking and other petty businesses. It has also been established that the youth have their own performance needs and experiences different from other social and demographic categories of the society which influences their enterprises. In this perspective, there is need to put youth owned enterprises into consideration compared to other groups of businesses.

A study on the performance of small and medium sized enterprises in Iran found that, only 10% of enterprises are able to operate successfully while others fail even before being launched (Amiri et al, 2009). In the context of international level, youth owned enterprises have a higher rate of failure as 20% of them would collapse in their first years of operation and this would reach 66% by the end of the sixth year (Franco & Haase, 2010). As a result, various governments as well as World Organizations have come up with policy measures with the aim of providing financial assistance and promote the performance of youth owned enterprises. For instance, the government of Kenya promised to build learning and training institutions to equip youth with knowledge and entrepreneurship skills to assist them start and operate enterprises and even secure jobs in the private and public sectors (GoK, 2016). The Government also in 2007 established the Youth Enterprise Development Fund (YEDF) in all the 210 constituencies in the country (YAAF, 2016), in a bid to support and energize the youth by financing their enterprises (GoK, 2016).

Several studies have been carried out focusing on the factors influencing the financial performance of small and medium enterprises. For instance, Zindiye (2008) did a research on the factors affecting the performance of SMEs in the manufacturing sector of Harare, Zimbabwe. Findings indicated that high rate of inflation, interest rates; shortage of foreign currency and exchange rates negatively affects the performance of youth owned SMEs.

In Kenya, Nyabicha, (2003) conducted a study on the factors hindering growth of micro and small enterprises: a case of micro-finance borrowers in Kisumu city. The study established that some of the factors hindering growth were domestic responsibilities, loan diversion to other uses, competition, government regulation, lack of relevant business training, high transportation cost, inadequate working capital and market information. Kinyua, (2014), did a study on factors affecting the performance of SMEs in the Jua Kali Sector in Nakuru town. The study reveals that majority of SMEs face challenges while accessing finance and also lack managerial skills for their businesses. Government regulations have the least effect on the performance of SMEs. While Nabintu (2013) studied on factors affecting the performance of Small and Medium Enterprise traders in Nairobi City Kenya. It was established that business information affects the performance of the SMEs.

Although literatures reveal that many studies have been done on factors influencing financial performance of youth owned enterprises in Kenya, there is little evidence focusing on factors such as access to capital, training services, government regulations, entrepreneur characteristics and enterprise characteristics in the context of Kilifi County. Moreover, given that Kilifi County is within the Coastal tourist hub, the nature of the youth owned enterprises is likely to be different from those of other counties in Kenya since they are involved in selling of sea shells, have motor boats for water sports and attract tourists through traditional dances hence creating youth employment, contribute to foreign exchange, generate revenue for the government and enhance promotion of local industries.

Kilifi County is one of the Counties in Coast regions. It borders Mombasa and Kwale to the south, Tana River to the north and Taita Taveta to the west. According to the 2019 population census, Kilifi had a total population of 1.45 million, youth being 474,830. The youth comprised 32% of the county population and 49% of the labor force (Kilifi County Integrated Development Plan, 2019). This group has the highest employment demands and requires strategies for employment creation to cater for their needs. However, youth owned enterprises in Kilifi County are not performing well as 6 out of 10 enterprises fail due to many challenges (Personal communication, Director of Youth and Gender, Kilifi County Government). It is against this background information that the research was carried out to analyze the factors influencing the financial performance of youth owned enterprises in Kilifi County, Kenya.

Statement of the Problem

Small enterprises play an important role in the Kenyan Economy. A study on policy and strategic options for enhancing the performance of youth owned enterprises in Kenya found that youth owned enterprises do not perform well despite their significance as only one out of every ten surveyed enterprises indicates a positive performance (Kilonzo, 2012). In recognition of the critical role youth enterprises play in the economy, the Government of Kenya came up with affirmative action like the establishment of Youth Enterprise Development Fund (YEDF), Uwezo fund and the constitutional directive of 30% access to government procurement opportunities to youth (GoK, 2016), with the aim of stimulating and sustaining youth enterprise growth and performance improvement.

Despite all these efforts and increase in number of agencies, these enterprises have not been performing well financially and a significant number of them fail to grow while some collapse even before being launched. This infers that the youth enterprise sector is notoriously volatile and experiences a high degree of business closure and shrinkage and failure to engage the youth decently could drive them to crime (Nyaga, 2013).

Even though studies have been done on financial performance of youth owned enterprises in Kenya (Kimuru, 2018; Kinyua, 2014; Oywa, 2012), very limited studies have been conducted in Kilifi County on youth enterprise development funds. However, such studies failed to incorporate the analysis of factors influencing financial performance of youth owned enterprises. For instance, Mchombo (2019) looked at the effects of youth funds on the financial performance of SMEs, Kalalma (2008) on youth enterprise development fund; experience and lessons from Kilifi county, while Mangee (2012) on determinants of effective utilization of youth enterprise development funds, a case of Bahari constituency. It is against this background that this study concentrated on the factors influencing the financial performance of youth owned enterprises in Kilifi County, Kenya with a focus on access to capital and government regulations on businesses.

Objectives of the Study

i. To investigate the influence of access to capital on the financial performance of youth owned enterprises in Kilifi County.

ii. To assess the influence of government regulations on businesses on the financial performance of youth owned enterprises in Kilifi County.

Justification and Significance

The creation of youth owned enterprises is very important since it focuses on economic growth, economic competitiveness, job creation as well as improvement of social welfare of individuals in any country (Fatoki, 2011). Fatoki, (2011) further explained that it does not only benefit the entrepreneurs but also their families, society at large as well as the government. The sector of youth owned enterprises is a fairly new area of study in Kilifi County, Kenya and therefore conducting this study was very important to various stakeholders as discussed below;

The study is helpful to potential youth entrepreneurs since it identifies the potential entrepreneurial factors that influence the financial performance of youth owned enterprises. Identification of these factors means that prospective entrepreneurs should be well prepared to face the challenges of entrepreneurial world. The findings also assist the National Government, County government and other policy makers to articulate relevant policies to help standardize and facilitate participation of youths in the formal and informal sectors in Kilifi County.

The findings of the study may serve as a guide for future researchers and academicians who may want to conduct research in the sector of youth enterprises since this study provides a body of knowledge to the factors influencing the financial performance of youth owned enterprises. It also provides them with ready information which can be used to add value for further research and they can use it to identify research gaps that have not been outlined and explored more. The research findings are also important to non-governmental organizations and donors as the body of knowledge provides information on the constraints faced by youth owned enterprises. Through this information, the NGOs and donors may come up with policies and measures to assist the youth through financing and training in a bid to improve the financial performance of their enterprises.

2. THEORETICAL FRAMEWORK

There are several theories that have been advanced in an attempt to explain the financial performance of firms. This study was guided by resource-based view of the firm being the main theory while firm growth and the social learning are complementary theories.

Resource Based View of the Firm

The resource-based view of the firm was developed by Wernerfelt (1984) and advanced that, any enterprise or a company must own a diverse of resources. Each business possesses different resources and capabilities and the way the business acquires, maintain, apply and develop these resources leads to superior performance. A firm's performance can be associated with tangible and intangible resources. Tangible resources are physical resources that can be seen and evaluated and they include plant, equipment, stock, finance and land while intangible resources are those items that cannot be seen and quantified like reputational resources, skills, information, managerial competence and culture. The theory explains how entrepreneurs build businesses from the resources they possess or can realistically acquire in order to gain a sustainable competitive advantage (Dollinger, 1999), hence treating entrepreneurs as important and unique resource to the enterprise that money cannot buy.

The resource-based theory further recognizes six types of resources: financial, human, physical, organization, reputation and technological resources. These six types of resources are broadly drawn and they include all assets, capabilities, organizational processes, firm's attributes, information and knowledge, (Nkansah, 2011). The theory states that accessibility of resources prompts continued upper hand which enhance growth of small and medium enterprises.

To enhance a sustainable competitive advantage, the resource-based theory can be categorized into financial theory, social and human capital theory. The financial capital theory states that firms with reliable source of finance can acquire any asset, skills in terms of training and any other resources that can enhance entrepreneur performance. The theory suggests that there are different resources with different individuals that can facilitate business to recognize and exploit any opportunity (Alvarez et al, 2013). According to Alvarez et al (2013) the social capital theory also known as social network theory suggest that an entrepreneur may be able to identify an opportunity that exist and in case there is no social network he cannot utilize the opportunity and transform it into a business. Human capital theory includes the level of education attained and experience which depends on the number of years worked. For entrepreneur to be able to exploit any opportunity they need to have knowledge and experience which are major resources to enhance performance of the business.

The resource-based theory contests the assumptions of the purely economic theories of industrial organization and strategy by assuming that resources distributed among firms are heterogeneous and immobile. It holds that sustainable competitive advantage is created when enterprises possess and employ resources that are valuable, rare, and imperfectly imitable and no substitutes. In the case of valuability, it means they exploit some environment opportunity and a firm has both heterogeneous demand for and supply of labor which adds to the firm's financial performance. Rare means the resources are not enough for all competitors and therefore are possessed by fewer firms or individuals (Barney et al, 2011), imperfectly imitable means the competitors cannot merely copy them since they are costly, while non-substitutable means there is no alternative to accomplish an equal function instantly available to competitors, (Barney, 2007). These characteristics enables enterprises to withstand competitive and imitative pressures since they scrutinize the resource and abilities that facilitates the way the firm will produce above the ordinary rates of returns and higher performance benefits.

In the vast majority of the researches featured and reviewed for this investigation, little has been done on access to capital, training services, government regulation on businesses, entrepreneur characteristics and enterprises characteristics as basic factors influencing financial performance of youth owned enterprises in Kilifi County, Kenya. The resource-based view of the firm theory is significant to the study since it helps to outline the influence of the independent variables on the dependent variable. Resource based theory also enables owner managers to check whether factors relevant to superior performance exists or not so as to be in a position of exploiting market imperfections to advance financial performance hence putting managers to task of combining resources to enhance performance advantage.

Firm Growth Theory

This theory was developed to examine the problems and challenges of enterprises as they grow, (Churchill & Lewis, 2013). The theory suggests that the development of any enterprise large or small tend to follow a predictable pattern which is characterized by having five sequential progressive stage which include; existence, survival, success, take-off and resource maturity. In the existence stage, a key focus is obtaining customers and as such, the extent of formal systems of operation is minimal. As the enterprise progresses to the survival stage, it begins to employ formal systems as the organizational structure develops. The success stage is characterized by the owner-manager deciding to either keep the business at its current operational level or to launch into some form of growth. The take-off stage, the enterprise is faced by key management issues which confronts the owner-manager while the final stage of resource maturity is concerned with managing the financial gains resulting from growth and better performance.

Penrose (1959) expressed the vital role of resources, management leadership styles and control measures as the key components towards firm growth. The accustomed resources will shape the firm productive services in which the management is capable of rendering. The dynamic interaction of management, leadership styles and formation of strategies determines how the entrepreneurs take advantage of opportunities and run them to business ventures that will earn revenue, facilitate expansion and growth thereby improving financial performance. Furthermore, competencies, capabilities, learning and development on the youth enterprises are important for organizational success and growth. The foundation of this approach is embedded on the managerial skills in making proactive decisions during the organizational routine and knowledge creation that is critical to the ability of the firm to grow. The theory is ideal for this study since it addresses the needs of youth entrepreneurs to develop managerial requisite, and skills to enable growth and performance of enterprises thereby enhancing a competitive advantage.

3. EMPIRICAL REVIEWS

Various literatures exist on the performance of youth enterprises with the suggestion of poverty eradication and reduction of unemployment crisis to the youth. For instance, Kiruja (2013) looked at the factors influencing the growth of youth owned enterprises in Tigania West Division, Meru County focusing on business environment, entrepreneur characteristics, enterprise characteristics and social networks. Findings revealed that business environment, entrepreneur characteristics enterprise characteristics and social network have a significant influence on growth of youth owned enterprises. Makubo (2015) studied on the factors influencing the growth of youth owned small business in Kuria East Sub County. The researcher investigated factors such as entrepreneurial skills, security, and access to finance and access to information and did not focus on financial performance of the businesses. The study revealed that entrepreneurial skills, access to finance, access to business information and security influence the growth of youth owned enterprises in Kuria East Sub County.

Another study by Ingasia (2017) looked at the determinants of performance of youth led micro and small agribusinesses in Kenya by focusing on the influence of marketing, resources, firm characteristics and entrepreneur characteristics. The researcher also wanted to investigate whether entrepreneurial culture moderates the relationship between these factors and performance. The study targeted 354 youth led micro and small agribusinesses in Kiambu County and a sample of 246 micro and small agribusinesses led by youth. The results were that availability of entrepreneurial culture was evidenced since the majority of the respondents exhibited strong entrepreneurial characteristics such as self-direction, self-esteem and self-confidence.

A study by Oywa (2012) on factors affecting the performance of youth group micro and small enterprises in Kisumu West District revealed that although opportunities such as market availability, loan facilities from micro finance institutions and YEDF existed, only a smaller proportion of the youth group micro and small enterprises accessed them. In his study, the researcher focused on the challenges faced by micro and small enterprises such as financial problems, competition, poor infrastructure and managerial skills. The researcher used a descriptive survey design with a target population of 300 youth owned micro and small enterprises in Kisumu West District. The recommendations were that good performance of youth group micro and small enterprises should be sustained by capacity development through workshops and seminars to provide the owners with managerial and risk mitigation strategies.

Access to capital on financial performance of youth owned enterprises

In a recent study conducted by Sambo (2016), a moderate positive correlation between access to credit and the growth and performance of youth owned enterprises was shown. This study concurs with the study by Mwangi and Shem (2012) that accessing credit is a major constraint to the development and growth of small and micro enterprises (SMEs) and, also, to poor rural and urban households. African youth are faced by many challenges as 77.7% rely on personal savings or family funds to start a business (Gartner et al, 2012). Other constraints have been identified by Naidu & Chad (2012) to include inability to obtain internal and external financing. On access to credit, capital intensive small firms with high tangible assets have relatively high bank loan borrowing than non-capital-intensive small firm with fewer tangible assets which have relatively low bank debt.

Kuzilwa (2010) carried out a survey on the role of credit for small business success in Tanzania whereby the government of Tanzania was to approve and provide loans to youth owned small and medium enterprises and recover with interest. All the youth entrepreneurs used the loan for the intended purpose in their enterprises and the results were increased demand for products, expanding business space, creation of employment and increase in profits. Credit constraints operate in a variety of ways in Kenya where undeveloped capital market forces youth enterprises to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small youth enterprises forces them to rely on high cost short term finance (Obwocha, 2005). There are various other financial challenges that face small enterprises which include the high cost of credit, high bank charges and fees. While micro and small enterprise owners claim insufficient credit as there pressing obstacle, the percentage growth and financial performance of youth owned enterprises may not always correspond to actual growth trends (Okpara, 2011).

Nyatogo (2012) conducted a research on the effects of access to credit on the financial performance of youth owned enterprises in Nairobi, Kenya. The findings were that access to credit increases the capital base of businesses owned by youth in Nairobi, Kenya to a great extent and lack of it forces them to rely on high cost short term finances to a great extent. Also access to credit increases the number of goals achieved by the youth owned businesses to a great extent and lack of it constrains the youth and restrict their ability to diversify their products to a great extent in Nairobi, Kenya. The study recommended that financial institutions should increase access to long term credit and harmonize lending conditions to the youth in Nairobi, Kenya. Kyenze (2016) examined the factors influencing small scale businesses in Kenya; a case study of Tawa Sub-County, Makueni County, Kenya. The study concluded that cost of financing and sources of finance greatly influence small scale businesses. Also, existence of other business and entrants influence small businesses.

Government regulations on financial performance of youth owned enterprises

Every country in the world regulates the startup and operation of businesses but regulations put in place to safeguard economic activity and facilitate business operations, if poorly designed, can become obstacles to doing business especially to the youth. Empirical studies suggest two ways in which regulations impact on the youth owned enterprises. First, cumbersome regulations and delays in obtaining the necessary permits and licenses may increase the duration of the start-up process. This reduce new youth owned enterprise entry because the window of opportunity may have passed by the time all regulations are complied with. Regulations also enable Government officials to micro-manage industries by obstructing or delaying entry, either for personal or policy reasons.

According to Matovu & Birungi (2013), governments that are concerned with the promotion of small enterprises should examine the impact of its policies and programmes on the small businesses. Owino et al (2013) made similar observations that government regulations about wage, taxation and licensing policies are among the reasons for the development of informal sector businesses. Commercial policy is a set of rules and regulations that are intended to control businesses in the country and includes free trade and trade protection policies. The government should allow the youth owned enterprises to operate freely and be exempted from any charges by enhancing a conducive environment and establishing institutional framework for business rules. According to Odhiambo (2013), policies should be made to protect all the youth owned enterprises from bigger firms and work towards fair and comprehensive tax reform so as to enhance improvement of performance.

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In wage policies, the government should come up with policy measures to control the wages and salaries paid by youth enterprises to employees so that they may not pay beyond their capacity. The government can provide wage subsidies to the youth enterprises to facilitate the payment of wages and salaries to the employee so as to help the youth owned enterprises to make more profits thereby improving performance. In the case of tax incentives, youth owned enterprises are subject to taxation like any other medium sized businesses and therefore the government should come up with measures of exempting all youth owned enterprises from paying taxes in order to improve their performances.

4. CONCEPTUAL FRAMEWORK

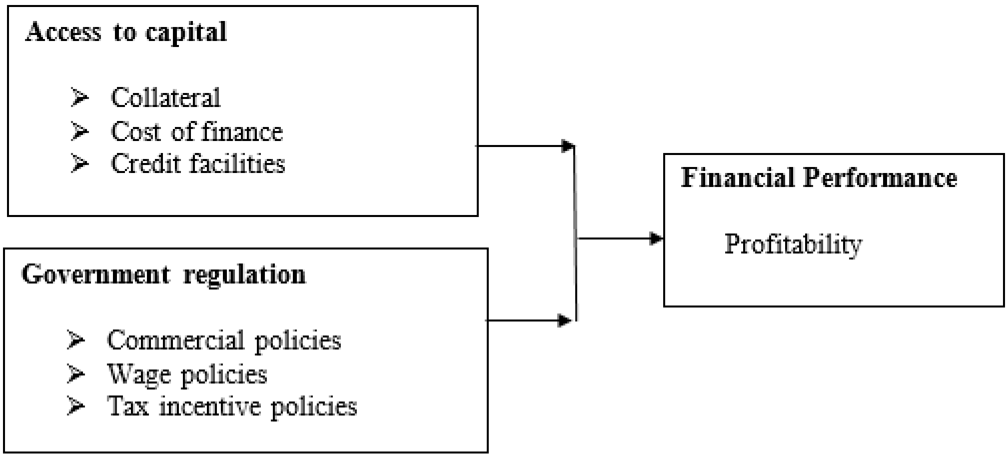

Figure 1: Conceptual framework

5. RESEARCH METHODOLOGY

Research design

According to Saunders (2015), research design is an overall framework or a plan used by researchers to collect and analyze data to answer research questions and meet research objectives hence providing sufficient reliable data source of information, collection methods and analysis techniques. A descriptive and inferential research design was used in this study to describe the relationship between the independent and dependent variables. Mugenda & Mugenda (2003) argued that descriptive research design is appropriate where the overall objective is to establish whether significant association among variables exists at some point in time. The study adopted a descriptive research design to allow gathering of information, summarizing, presenting and interpreting the data in a clear way. This specific design was also chosen because of its ability to ensure minimization of bias and maximization of the reliability of evidence so collected.

Target Population

According to Ngechu (2004), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. There are 150 registered youth owned enterprises in Kilifi County (Kilifi County Government Reserved Groups, 2018). The target population for this study was 150 registered youth owned enterprises based in Kilifi County. This constitutes those youths owned enterprises which have a room and have been licensed and registered to operate businesses. Table 1 below shows the target population.

Table.1: Target population

Name of Sub County	Target Population
Kilifi North	40
Kilifi South	35
Kaloleni	18
Rabai	7
Ganze	10
Malindi	28
Magarini	12
TOTAL	**150**

Source: Kilifi County Government Reserved Group (2018)

Sample Size and Determination

In this study, a sample size of 108 registered youth owned enterprise currently operating within Kilifi County was determined using Krejcie and Morgan formula (Krejcie & Morgan, 1970). The actual sample size was determined using the formula below;

$S=X^2NP(1\text{-}P)/d^2(N\text{-}1)+X^2P(1\text{-}P)$

S=required sample size

x^2=Chi square value at 1 degree of freedom (3.841)

N= population size

P=population proportion (assumed to be 0.5)

D=degree of accuracy expressed as a proportion (0.05)

Sample size calculation

$S=3.841*150*0.5(1\text{-}0.5)/0.05^2(150\text{-}1)+3.841*0.5(1\text{-}0.5)=108$

An ideal sample should be large enough so that the researcher can, with confidence, and within specified limits, be certain that a different sample of the same size if drawn using the same procedures can give approximately similar results (Wiersma & Jurs, 2009). In addition, Wiersma & Jurs (2009) noted that sampling error is a function of the size of the sample and the error is largest when the sample is small. In this context, a simple random sampling method was used to select the sampled respondents as it is the easiest way when assembling a sample and also gives the respondents an equal chance of being selected from a given target population. The actual sample size was then determined using the Krejcie & Morgan (1970) formula.

Research Instruments

In this context, both qualitative and quantitative information was acquired for the purpose of determining correlation. A pilot survey was done prior to the study to pre-test and fine tune the questions. Questionnaires were administered to a sample of youth enterprise owners since they are important in determining the relationship between the independent and dependent variables. Primary data was collected by use of the questionnaires and the researcher strictly ensured quality, accuracy and credible results at the close of research. Barker & Ponton (2014), points out that, questionnaires are appropriate for studies since they collect information that is not directly observable and they inquire about feelings, attitudes, motivations, accomplishment and experiences of individuals. The questionnaires comprised of open and closed ended questions strictly relevant to the objectives of the study.

Data Collection Procedures

The researcher coordinated the data collection process after obtaining permission from various respondents to conduct the study. For data collection, the study adopted drop and pick method where the questionnaires were distributed or dropped to the sampled Youth-owned enterprises and collected after two days. For those who did not understand the questionnaires, the respondents filled them through the assistance of the research assistants. Data analysis is the process of cleaning and summarizing data into information that is manageable, easily interpreted and conclusions can be made to support decision making. Data obtained from the field in raw form was edited to detect errors and omissions and corrections were made where necessary. This was to ensure accuracy and consistency with other information obtained. Quantitative data was then coded and analyzed using descriptive statistics such as percentages, mean and standard deviation. Descriptive statistics was used mainly to summarize the data. A computer application called Statistical Packages for Social Sciences (SPSS version 20) was employed to aid in the coding, entry and analysis of the data obtained through the questionnaires. Inferential statistics such as correlation coefficient and multiple regression analysis was also used to ascertain the level of association linking the independent and dependent variables. ANOVA was also used to determine the level of significance among variables. The study adopted the following regression model;

$Y=\beta o+\beta_1\chi_{1+}\beta_2\chi_2+\mathcal{E}$: Where

Y= Independent Variables (Financial Performance); $X_{1=}$ Access to Capital; $\chi_{2=}$ Government regulation on youth owned enterprises

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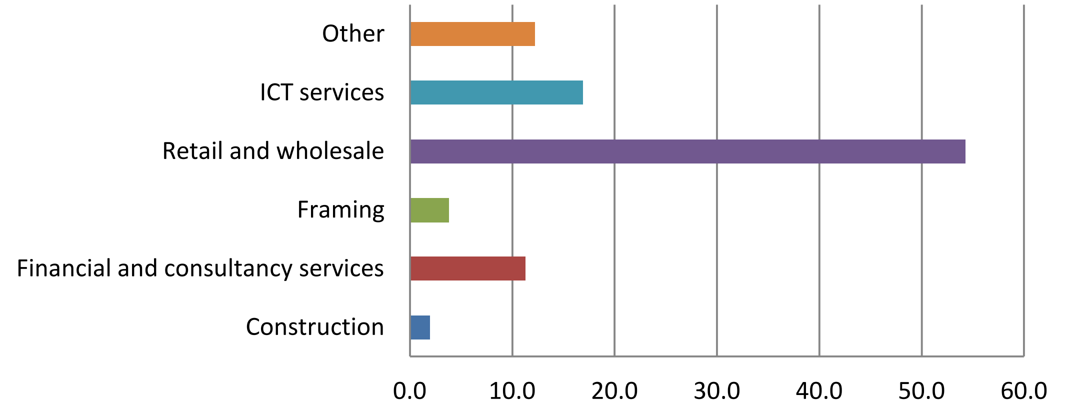
βo= Coefficient of the model, β_1,β_2, =Slope of coefficient showing dependent variable per unit change in the independent variables. Ɛ= Error term.

6. RESULTS, DISCUSSIONS AND RECOMMENDATION

During the study, inquiry was made on the respondents to state the nature of the enterprises they belonged to. The study results are discussed in figure 2 below;



	Construction	Financial and consultancy services	Framing	Retail and wholesale	ICT services	Other
Series1	1.9	11.2	3.7	54.2	16.8	12.1

Figure 2: Nature of the youth owned enterprises operated

Findings revealed that retail and wholesale sector was most outstanding, with 54.2% of the youth owned enterprises. This means that youth owned enterprises in this sector deal with sale of cereals and other family utilities. ICT based-services as well as financial and consultancy-based service enterprises were other emerging youth businesses, with 16.8% and 11.2% respectively. Farming and construction were least, for youth attested to be having little skills on how to maintain them. The findings concur with those of another study done by Ngugi (2013), on influence of intellectual capital on the growth of small and medium enterprises in Kenya. He argued that retail and wholesale enterprises are easy to establish and requires relatively less capital than the others.

Influence of access to capital on financial performance of youth owned enterprises

The first objective of the study was to examine the influence of access to capital on the financial performance of youth owned enterprises in Kilifi County, Kenya. Access to capital boosts the operation of a business and hence improves its financial performance. The challenges of access to capital, source of capital relied by youth entrepreneurs, extent of influence and level of agreement on various parameters on access to capital on youth owned enterprises were seen to be important aspects in this study and are discussed below;

Challenges faced in accessing capital

The study sought to establish whether youth entrepreneurs face challenges in accessing capital for their enterprises. The findings show that 82% of the respondents face some challenges in accessing capital for their enterprises in Kilifi County, while 18% indicated that they do not face any challenges in accessing capital. This suggests that the level of uptake of government funds in the YEDF and Uwezo fund is very low hence access to capital was a stumbling block to youth owned enterprises in Kilifi County. This is contributed by several factors such as lack of collateral, less business expertise and credibility of the youth entrepreneurs. The findings are in agreement with those of another study by Mwania, (2011) on the effect of Biashara Boresha Loan (BBL) on the performance of micro and small enterprises owned by Kenya Commercial Bank (KCB) Ruiru branch. Mwania (2011) concluded that collateral requirements should be made flexible, high cost of finance be reduced and loan repayment period be increased.

Sources of capital relied on by youth entrepreneurs

The respondents were asked to indicate the sources of capital they have relied in operating their enterprises. Study findings show that 55% of the youth entrepreneurs relied on capital from family and friends, 27% from micro-finance institutions, 16% relied from banks while 2% of the respondents attested to have relied on the government to provide them with capital. This suggests that most of the respondents preferred capital from family, friends and relatives. It may be that the youth entrepreneurs find it difficult to access capital from banks and micro finance institutions due to high cost of finance and the need to provide collaterals (Agwu, 2014). This may impact the ability to expand the youth owned enterprises or may slow their growth. Those who relied on micro finance institutions and banks had to abide by the strict rules and requirements.

Challenges when relying the source of capital

The researcher also sought to establish the challenges faced by youth entrepreneurs when relying on the various sources of capital. The results indicate that 43.7% of the respondents reported high cost of finance as the major challenge which is as a result of borrowing, while 12.7% indicated that they lacked credit facilities to meet their financial needs. Lack of collateral to stand for the borrowed finances was another challenge since 21.1% reported that they did not have enough collateral while 22.5% of the youths reported that they faced all the listed challenges and that they have a negative influence on their businesses. The results show that youth entrepreneurs face challenges in relying on the various sources of capital. The findings concur with those of Kariuki, 2018 who stated capital as one of the key constraints to small enterprise growth since entrepreneurs cannot access it due to lack of collateral, high cost of finance and poor creditworthiness.

Extent of influence on access to capital on financial performance of youth owned enterprises

The researcher requested the respondents to indicate the extent to which access to capital influence the financial performance of their enterprises in Kilifi County. The results show that access to capital influenced the financial performance of various youth owned enterprises to a great extent (36.2%) while 26.7% to a very great extent. Furthermore, 30.5% reported that access to capital influences financial performance at a moderate extent, 3.8% small extent and 2.9% no extent at all. The results suggest that funding availability and in particular access to capital influences financial performance of youth owned enterprises in Kilifi County to a great extent since it is the key driver of financial performance. The findings are similar to those of Kariuki, (2018) whose study was on factors influencing performance of micro and small enterprises in Kiambu, Kenya. The study sought to establish the extent of agreement on various parameters on access to capital on the financial performance of youth owned enterprises in Kilifi County. The parameters were outlined in a likert scale and the respondents asked to indicate their level of agreement or disagreement on the parameters under study.

Table 2: Extent of agreement on access to capital on financial performance of youth owned enterprises

Statement	strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5	Mean & SD
Credit facilities Improve financial performance of youth owned enterprises.	6 4.9%	3 2.9%	17 15.7%	40 37.3%	42 39.2%	4.0294 1.0573)
Lack of collateral by youth owned enterprises deters them from obtaining credit facilities.	12 10.9%	6 6.0%	20 18.8%	29 26.7%	41 37.6%	3.7426 (1.3164)
Lengthy and vigorous procedures hinder access to capital thereby lowering financial performance.	5 4.8%	10 9.7%	15 14.4%	25 23.1%	53 49.0%	4.0288 (1.1943)
High costs of access to capital does not improve financial performance of youth owned enterprises.	5 4.9%	9 7.9%	13 11.7%	34 32.0%	47 43.5%	4.0194 (1.1460)

The results show that 39.2% of the respondents strongly agree that credit facilities improve the financial performance of youth owned enterprises, 37.3% do agree with the statement, 2.9% disagree, 4.9% strongly disagree while 15.7% were neutral. The findings also show respondents strongly agree that access to credit facilities improve the financial performance of youth owned enterprises with a mean of 4.0294 and standard deviation of 1.0573 although they have difficulties in accessing it due to lack of securities and guarantees. This makes the youth entrepreneurs rely on family and friends' borrowings as their source of capital.

On the issue of collateral, the respondents indicated that 37.6% strongly agree that lack of collateral deters the youth from obtaining credit facilities, 26.7% do agree, 10.9% strongly disagree, 6% disagree while 18.8% were neutral. The respondents also do agree that lack of collateral hinders them from obtaining credit facilities with a mean of 3.7426 and a standard deviation of 1.3164. This also makes youth owned entrepreneurs unable to access credit facilities hence not improving the financial performance of their enterprises. This is supported by Ackah & Vuvor, (2011) who argue that the inability of youth owned enterprises to provide collateral makes it extremely difficult to access credit facilities.

The respondents also indicated that lengthy and vigorous procedures hinder access to capital thereby lowering financial performance of their enterprises. This was reported by 49% who strongly agreed, 23.1% agree, 4.8% strongly disagree, 9.7% disagree and 14.4% being neutral. The respondents also strongly agreed with a mean of 4.0288 and a standard deviation of 1.1943 on the statement. This implies that the procedures in accessing capital are bureaucratic and difficult and therefore most youth owned enterprises are not able to access financial support from financial institutions and have opted to rely on family and friends. This lowers the financial performance of the youth owned enterprises in Kilifi County.

Furthermore, respondents strongly agreed that high cost of access to capital do not improve financial performance of youth owned enterprises with 43.5%, 32% agreed with the statement, 4.9% strongly disagreed, and 7.9% disagreed while 11.7% of the respondents were neutral. The respondents also strongly agreed with a mean of 4.0194 and standard deviation of 1.1460. From the findings, this infers that most youth entrepreneurs relied on capital from friends and relatives due to high costs of access to finance from financial institutions. The findings are similar to those of Mwangi & Bwisa (2013) who argue that most youth entrepreneurs are facing challenges in accessing finance due to high costs hence not improving financial performance of their enterprises.

Pearson Correlation Analysis

To establish whether there exists a significant relationship between the independent and dependent variables in the study, Pearson's correlation analysis was done.

Table 3: Pearson's correlation analysis

Variable		Financial Performance
Access to Capital	Pearson Correlation	.902**
	Sig. (2-tailed)	.000
	N	108
Government Regulations	Pearson Correlation	.822**
	Sig. (2-tailed)	.000
	N	108

The table above shows that there exists a strong and positive correlation between access to capital, government regulations on businesses and financial performance since they all had positive and significant correlations coefficients. In establishing whether there exists any correlation between access to capital and financial performance of youth owned enterprises, it was found that a correlation of 0.902 exists meaning a unit increase in access to capital will positively influence financial performance of youth owned enterprises. The relationship was also found to be significant with a p-value $0.000<0.05$ at 5% level of significance. The results also show a strong correlation (0.822) between government regulation and financial performance. The relationship was also found to be significant with a p-value $0.000<0.05$ at 5% level of significance. Thus, the impositions of county government regulations on business have a significant effect on financial performance of the youth owned enterprises. From the findings it is inferred that access to capital has the highest influence in financial performance of youth owned enterprises in Kilifi County, The results are in line from those of

Kimunyi, (2015) in a study on factors influencing performance of small and medium enterprise tea firms in Mombasa County, Kenya who found that all independent variables under study had a positive and significance influence on firms' financial performance.

Regression was done with the view of establishing fitness of the model in explaining the study phenomena of access to capital by youths and government regulation on financial performance of the youth owned enterprise. The results are presented in table 4 below;

Table 4: Fitness of the regression model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.935[a]	.874	.868	.29292	1.589

a. Predictors: (Constant), , Government Regulations, Access to Capital

b. Dependent Variable: Financial Performance

The results show that the adjusted R square is 0.868. This implies that 86.8% of the variations in the dependent variable is explained by the independent variables which are access to capital and government regulations. The results shows that the model is robust.

Analysis of the Variance of the Study Variables (ANOVA)

The residuals are positive, implying that there was a significant relationship between the dependent and independent variables used in the study. From the ANOVA table 5 below, it was established that access to capital and government regulations influenced financial performance significantly since $F_{critical}$ at (5, 107) degrees of freedom is $2.31 < F_{calculated}$ 142.084 at 5% level of significance. The ANOVA table was generated from the Analysis.

Table 5: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	60.954	2	12.191	142.084	.000[b]
Residual	8.752	105	.086		
Total	69.706	107			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Government Regulations, Access to Capital

7. CONCLUSIONS

In addition, most of the youth entrepreneurs faced challenges in accessing capital for their businesses due to high cost of capital, poor creditworthiness and need to provide collaterals hence relying on informal sources of finance such as family and friends. With regards to national and county government regulations, the study concludes that regulations on businesses influence the financial performance of youth owned enterprises to a great extent. The study further concludes that most youth entrepreneurs are aware of government regulations governing the operation of various enterprises in Kilifi County. The study concludes that business regulations like commercial policies, wage policies and tax incentives positively and significantly influence financial performance of youth owned enterprises in Kilifi County.

8. RECOMMENDATIONS

Several recommendations emanate from the study. First, access to capital is critical and therefore financial and other lending institutions need to take note of the expensive and difficult lending conditions facing youth owned enterprises in the country. Then they should address the critical issue of lending rates i.e. how to lower the cost of credit through lowering the interest rates and need for collateral. The study thus recommends that government should come up with a policy that redesigns the available lending programmes for youth owned enterprises i.e. the YEDF in order to address the high cost of access to capital that is influencing youth owned enterprises. The policies should rely less on collateral but more on the viability of the business. Although youth entrepreneurs are aware of the business regulations imposed by the County and national government, the study recommend that there is still need to arrange for workshops and seminars periodically to sensitize them and ensure that their businesses remain in good standing. The study also recommend that a review of commercial policies is critical to ensure they are youth friendly such as increasing the percentage of goods procured from youth owned enterprises

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