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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 5, Iss. 3, pp 885 - 897, September 13, 2018. www.strategicjournals.com, ©strategic Journals

FACTORS AFFECTING GROWTH OF YOUTH LED SMALL AND MEDIUM ENTERPRISES IN KENYA: A CASE STUDY OF GARMENT ENTERPRISES IN CENTRAL BUSINESS DISTRICT, NAIROBI COUNTY, KENYA

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Accepted: September 12, 2018

ABSTRACT

Youth entrepreneurship is a key tool for development of human capital necessary for the future, unfastening the economic potential of the youth and promoting sustainable growth. This study's main aim was to find out the factors that affected the growth of youth led enterprises in Kenya. The study was guided by the Churchill and Lewis firm growth theory and the pecking order theory. The study adopted a descriptive research design and the population of interest was the owners of youth led garment enterprises in the Central Business District, Nairobi County. The area had approximately 1,026 youth led garment enterprises. The study employed stratified sampling technique. The sample size was 102 owners of youth led garment enterprises. The primary research data was collected using a questionnaire which was designed to address the research objectives. These questionnaires were administered to the owners of youth led garment enterprises in the Central Business District, Nairobi County. The collected data was thoroughly examined and checked for completeness and comprehensibility. Data was cleaned and fed into the Statistical Package for Social Sciences (SPSS Version 23) for analysis. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data.

Keywords: *Access to Finance, Government Policies and Regulations, Growth of Youth Led Garment Enterprises*

INTRODUCTION

A few firms become quicker than others and in that capacity the development of a firm is a significant subject for various partners, for example, proprietors who need returns on their speculation, or society when new employments are made. The information of firm development is extending, while the quantity of inquired about variables related with firm development is continually expanding; still, the normal firm is not developing (Coad, 2009) in this way firm development is a vital driver of a country's welfare. A comprehension of the procedures and significant determinants of firm development is vital for each economy.

In 1995, the UN adopted the World Programme of Action (PoA) for Youth to the Year 2000 and beyond, setting forth a global framework to address key issues related to youth and reflecting a dialogue ongoing since the 1960s. The key issues concerning youth had been raised in internationally negotiated documents, such as the PoA of the 1994 International Conference on Population and Development. Development, peace, and participation have been the three most popular themes in the past four decades to raise issues of concern for youth. Reflecting these themes, the World PoA for youth outlined ten priority areas of concern for young people namely education, employment, hunger, poverty, health, environment, drug abuse, juvenile delinquency, leisure time activities, girls and young women, and participation (Advocates for youth,2012). This study focused on youth unemployment. A youth has been defined in various ways across the globe, the UN definition of a youth is a person between the ages of 15 and 24 years, while in Africa a Youth varies across different countries for example in Uganda a youth is a person between ages 18 and 30 years. The Kenyan constitution seals the ambiguity of who is a youth by providing a definition in Article 260. This is a person who has attained 18 years but is below 35 years. Under the bill of rights (Article 21 (3)) the constitution obligates all state organs and officers to address the needs of vulnerable groups within society, including women, older members of society, persons with disabilities, children, youth, members of minority or marginalized communities, and members of particular ethnic, religious or cultural communities. The youth in Kenya, who number about 9.1 million, account for about 38% of the population and of this 51.7 % are female. The youth form 60% of the total labour force but many of them have not been absorbed in the job market owing to the country's high unemployment level (Kenya National Youth Policy, 2007). The number of persons enumerated during 2009 population and housing census in Kenya was 38,610,097 representing an increase of about 35% from the 1999 census. The population pyramid shows that the population of Kenya is still very youthful (KNBS, Kenya Census 2009). In this study we shall use the Kenyan definition. Generally, over 200 million Africans are now officially designated as Youths that are 15 to 35 years of age.

Kenya formulated the Vision 2030 development agenda which would propel the country into a middle-income country by the year 2030. According to the Vision 2030 strategy, the youths are regarded as an integral and important component especially towards wealth creation. This is because the youth formed much of the human capital and therefore human development strategies implemented during that transitional period would have long-term impacts on the structure and quality of human capital. Young people, then and in the future, would be the principal stakeholders and beneficiaries of the Vision 2030 (implementation of the flagship projects and key national policies and programmes identified under the Vision 2030 and the MTP) (MOP). Consequently, issues affecting young people will be fully integrated and harmonized into every aspect of public policy and across all ministries and government agencies. Under the Vision 2030, specific policies and interventions will be implemented to fully develop their potential as well as prepare and engage them in the socio-economic development of the country. The interventions will cover the following fundamental areas: (i) Building capacity and empowerment to equip the youth to engage in productive activities, (ii) Creating employment opportunities, (iii) Providing the youth with the necessary support e.g. financial and market linkages, (iv) Supporting initiatives that mould character, (v) Strengthening programs to advance youth health and well-being and (vi) Giving the youth a voice to articulate their issues as well as participate in decision making (Vision 2030, 2007).

In the AEO (2012), it was claimed that small enterprises were a major source of employment and income and therefore entrepreneurship was argued to be key to economic growth in developing countries. Youth development in many parts of the world continued to face obstacles at local, national and international levels, despite the numerous international resolutions calling for states to provide young people with opportunities to participate fully in all aspects of society (ADB et al, African economic outlook, 2012). In Kenya the employment challenge has been growing overtime with the youth being the main casualties. Despite numerous policy efforts, poverty and unemployment continue to afflict many Kenyans. As a response to challenges of unemployment, the Government of Kenya established the Youth Enterprise Development Fund in the year 2006. The main mission was to increase economic opportunities and participation by Kenyan youth through enterprise development and strategic partnerships. Kenya has faced strong demographic pressures (Omolo, 2012). According to UN estimates, the rate of population growth in Kenya peaked in the 1970s at a rate close to 4 percent. Since then, rates have been declining, but currently Kenya's population growth is still close to 3 percent. According to estimates, it will not be until the 2050s and 2070s that rates will be below 2 percent and 1 percent, respectively. Such rapid population growth has meant that the balance between those of working age and those that cannot or should not work for age reasons is not the most favorable. The dependency ratio reached 4 a peak in the 1990s, and, although it has decreased since then, it registered the rather high mark of 0.8 in 2010. It will only be towards the end of this century that the dependency ratio should be expected to reach its lowest point (UNDP, 2013).

The Millennium Development Goals and targets were signed by 189 countries, including 147 Heads of State, in September 2000. Five of the MDGs touch on Youth Issues namely achieving universal primary education, promoting gender equality and empowering women, combating HIV/AIDS, Malaria and other diseases, ensuring environmental sustainability and developing a global partnership for development. They represent a partnership between the developed countries and the developing countries determined to create an environment at the national and global levels alike which is conducive to development and the elimination of poverty (www.un.org, 15-12-2013).

In Africa, several African governments had developed entrepreneurial skills development programs in order to solve youth unemployment problem and ensure economic growth (Nafukho, 1998). It was important to note that money was only one of the resources that applied to a business; it was inevitable that entrepreneurship culture and expertise be first instilled to the youth and the prospective entrepreneurs. Potential adverse consequences of growth were insufficient working capital and a constraint on liquidity (Winker, 1999). Chingunta (1999) postulated that the key challenges facing the Kenyan youth were a lack of necessary education, relevant training and the knowledge and skills required to enhance their absorption into the labor market. He further argued that initiatives needed to be put in place and implemented to ensure that the youth had adequate skills that could assist them in identifying and tapping into business opportunities and embracing modern business management techniques. His study revealed that entrepreneurship training had been seen as a way of thinking, reasoning and acting that was opportunity-obsessed, holistic in approach and leadership balanced towards an entrepreneurial culture.

Statement of the Problem

The little scale undertakings (SMEs) assume a vital part in Kenyan Economy. The Economic Survey (2006) indicates that the segment contributed more than 50 percent of new occupations made in the year 2005. In spite of their importance, past insights demonstrate that three out of five organizations bomb inside the initial couple of months of operation (Kenya National Bureau of Statistics, (2007). Kenya's present financial condition is described by high loan fees as well as by low development rates (low utilization), high swelling rates, declining trade rates and high unemployment. Every one of these variables can influence deals, incomes and market capability of SMEs (The Economist, 2009). A lawful and administrative framework that calls for complex enlistment and authorizing necessities and requests dreary and expensive announcing hones forces overwhelming expenses on SMEs. In many developing countries, there is limited research and scholarly studies about the SME sector in Kenya and the various challenges facing them. There is need for a more recent comprehensive picture of SMEs in Kenya. Given the importance of small businesses to the Kenyan economy and the exposure to risks owing to their location and aggressive approach from big players, there is need to conduct an enquiry to investigate the factors affecting growth of youth led enterprises in the CBD, Nairobi County, Kenya.

Study Objectives

The main objective of this study was to investigate the factors affecting growth of youth led garment enterprises in the Central Business District (CBD), Nairobi County, Kenya. The specific objectives were:-

- To investigate whether access to finance influences the growth of youth led garment enterprises in the Central Business District (CBD), Nairobi County, Kenya.
- To investigate whether government policies and regulations influences the growth of youth led garment enterprises in the Central Business District (CBD), Nairobi County, Kenya.

LITERATURE REVIEW

Theoretical Review

Churchill and Lewis Firm Growth Theory

The development and performance of any enterprise, large or small, tends to follow a predictable pattern that is usually characterized by sequential progressive phases. Churchill and Lewis as presented in Perenyi (2008) examined the problems and challenges of the firm as it grows; the owner/manager needs to display different managerial talents like networking and managerial skills when dealing with challenges. For a small business to grow and perform successfully, the owner/manager must develop the requisite competencies to enable the business to progress to the next phase. The model developed by Churchill and Lewis has five performance stages; 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 is minimal and, in some cases, non-existent (Churchill & Lewis, 1983). In addition, the organizational structure is flat and therefore, the owner/manager adopts a management style where there is direct supervision of employees. As a business progresses to the survival stage, it begins to employ formal systems as the organizational structure develops more levels; hence the owner/manager begins to delegate some responsibilities to employees. The success stage is characterized by the owner/manager deciding to either keep the business at its current performance and operational level or to launch into some form of growth. The decision will be driven by the owner/manager's motivation, opportunity recognition and resources (Churchill & Lewis, 1983). The business begins to employ basic systems such as finance, marketing and operations. In the fourth stage, the take-off stage, key management issues confronting the owner/manager include determining the rate of growth, performance and financing of the desired growth. The owner/manager has allowed for even greater delegation to improve organizational effectiveness. In the final stage, resource maturity, the main concern for the owner//manager includes managing the financial gains resulting from growth and maintaining the benefits associated with small business such as responsiveness to changing customer needs and entrepreneurial behaviour (Churchill & Lewis, 1983). The business would typically have well established organizational systems. The model was ideal for this study since it addressed needs for the youth entrepreneurs to develop requisite capacity and skills to enable their enterprises to perform and progress to the next phase. Hence the model linked to our objectives of government policies and regulations influences growth of youth led enterprises.

Pecking Order Theory

Pecking order theory was first suggested by Donaldson in 1961 and it was modified by Stewart C. Myers and Nicolas Majluf in 1984 (Myers and Majluf 1984). It states that companies prioritize their sources of financing (from internal financing to equity) according to the cost of financing, preferring to raise equity as a financing means of last resort. Hence, internal funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. Pecking order theory starts with asymmetric information as managers know more about their companies' prospects, risks and value than outside investors. Asymmetric information affects the choice between internal and external financing and between the issue of debt or equity. Asymmetric information favours the issue of debt over equity as the issue of debt signals the board's confidence that an investment is profitable and that the current stock price is undervalued (where stock price is over-valued, the issue of equity would be favoured). The issue of equity would signal a lack of confidence in the board and that they feel the share price is over-valued. An issue of equity would therefore lead to a drop-in share price. This does not however apply to high-tech industries where the issue of equity is preferable due to the high cost of debt issue as assets are intangible (Myers and Majluf 1984). This theory was applicable in analyzing the objective of access to finance influence on growth of youth led enterprises.

Empirical review

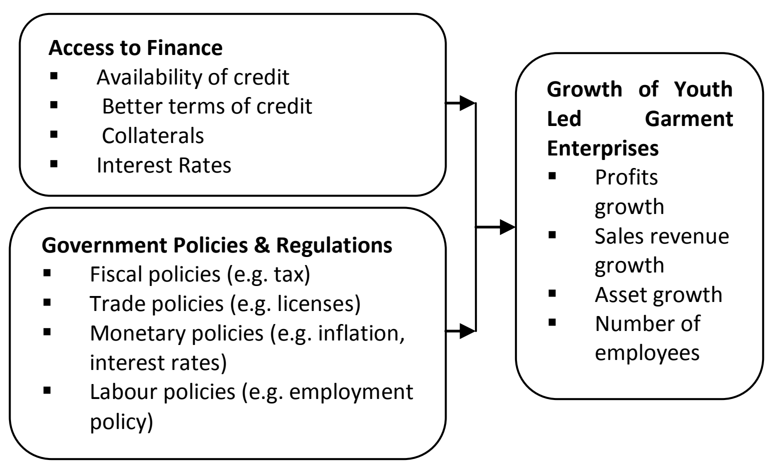
Access to Finance

The most significant problem faced by youth groups is the financing problem (M‟Mithiaru, 2008). Such constraints have been identified by Naidu and Chand (2012) to include inability to obtain external and internal financing, insufficient working capital, high start-up costs, high interest rates on loans and inability to meet financial obligation. According to Wanjohi (2010), there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. According to Ejembi and Ogiji (2009), it can become problematic to run a business if the finances are not available or not managed and the owners cannot make projections. A similar challenge was raised by more than 200 young entrepreneurs who gathered in Toronto in June 2010 for the G20 Young Entrepreneurs Summit who noted that they had had great difficulty accessing finances because they tended to have little experience and few assets (Ernst & Young, 2013). A major adverse feature of the environment, recognized by many studies, is the poor supply of external finance for new businesses (Hay and Kamshad, (2014). Although the owners may raise most or all the initial capital from own sources, these are generally limited and the growth-oriented small firms wishing to expand would need external sources of finance such as banks and venture capital. External finance is usually not available to most small firms for a range of reasons. The common view among economists is that the market for loans is imperfect and restricted in scope, even in developed economies, and that it fails to address the financing needs of small businesses (Beaver, 2012). Furthermore, small firms are also likely to be subject to credit rationing because of the information asymmetry in the capital markets (Stiglitz and Weiss, 2011). Therefore, banks are more likely to meet the credit needs of larger firms whose ability to provide track record and collateral is greater than smaller firms, thus offsetting the information asymmetry effect. Small firms are less able to provide the required collateral and less likely to access finance.

Government Policies and Regulations

The scale of problems facing a large proportion of youth in Kenya makes planning and implementing policies and programs a daunting but urgent task for the state and non-state actors. This is because youth are constantly shaken and shaped, pulled and pushed into various actions that are surrounded by processes and structures which they have little or no control over (Kagwanja, 2007). As a result, youth lack a conducive space in which to organize themselves towards realizing their potential and meeting their own needs, despite their numeric strength and high degree of mobility, versatility and adaptability (Akwetey, 2008). Youth-focused policies and programs have been identified as fundamental in defining a suitable path and establishing structures that will enable youth to use their skills, develop their potential and contribute to the economy and society. Well-designed policies can transform a society to one where the youth are recognized, supported and encouraged to actively participate in and contribute in national development. It is widely recognized that the external environment plays a crucial part in SME growth. The recent line of research investigating the impact of external environment on growth of small firms forms the focus of the so-called "barriers to growth" literature. This literature maintains that while only a proportion of small businesses are growth-oriented, the ability of this group to achieve their growth potential is impeded by the external business environment. Business environment is, of course, a multidimensional concept embodying the prevailing institutional framework, the regulatory mechanism, macroeconomic stability, price stability, technological opportunities, and industry growth, including the rising demand for new products (Zahra and Ellor, 2013).

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

Source: Author (2018)

RESEARCH METHODOLOGY

This research adopted a descriptive design as the main research design for the study. Descriptive design, was selected since it gave the main influence between the variables and facilitate the collection of data from the different respondent's namely the personnel working for the youth groups (Kothari, 2011). The population of interest was the owners of youth led garment enterprises in the Central Business District (CBD), Nairobi County, Kenya. The primary research data for this study was collected using a questionnaire. The questionnaire which was designed to address the research questions and objectives was administered to the owners of youth led garment enterprises in the Central Business District (CBD), Nairobi County. The collected data was thoroughly examined and checked for completeness and comprehensibility. Data was cleaned and entered into the Statistical Package for Social Sciences (SPSS Version 23) for analysis.

FINDINGS

Access to finances

The findings of the study with regard to the effect of access to finance on the growth of youth led garment enterprises were as tabulated in Table 1 below.

Table 1: Access to finances

	N	Mean	Std. Deviation	Variance
Does limited access to credit impacts negatively on growth of youth led garment enterprises.	**68**	3.93	.834	.696
Does unfavorable terms of credit impacts negatively on growth of youth led garment enterprises.	**68**	4.00	.930	.866
Does lack of collaterals impacts negatively on growth of youth led garment enterprises.	**68**	3.91	.834	.696
Does high interest rates impact negatively on growth of youth led garment enterprises	**68**	4.07	.967	.935

The study found out that 16 respondents (24%) strongly agreed, 36 respondents (53%) agreed, 11 respondents (16%) were undecided and lastly 5 respondents'(7%) disagreed that limited access to credit impacts negatively on growth of youth led garment enterprises (μ=3.93). The study also found that 20 respondents (29%) strongly agreed, 35 respondents (51%) agreed, 8 respondents (11%) were undecided, 3 respondents disagreed (6%) and 2 respondents (3%) strongly disagreed that unfavorable terms of credit impacts negatively on growth of youth led garment enterprises (μ=4.00). 16 respondents (24%) strongly agreed, 35 respondents (51%) agreed, 14 respondents (21%) were undecided, 2 respondents (3%) disagreed and lastly, 1 respondent (2%) strongly disagreed on Lack of collaterals impacts negatively on growth of youth led garment enterprises (μ=3.91).

Lastly, 25 respondents (37%) strongly agreed, 30 respondents agreed (44%), 8 respondents (12%) were undecided, 3 respondents (4%) disagreed and 2 respondents (3%) strongly disagrees on high interest rates impact negatively on growth of youth led garment enterprises (μ=4.07)

Government policies and regulations

The respondents were given various statements on government policies and regulation and their responses were analysed as shown on Table 2 below.

Table 2: Government policies and regulations

	N	Mean	Std. Deviation	Variance
Government has been imposing high tax on your business thus negatively impacting on growth of youth led garment enterprises.	68	4.07	.798	.836
Strict and costly trading licenses' impacts negatively on growth of youth led garment enterprises.	68	3.63	1.021	1.042
The inflation has negatively affected growth of youth led garment enterprises.	68	3.85	.950	.903
Inability of government policies to control high bank interest rates negatively impacts on growth of youth led garment enterprises.	68	4.18	.897	.804
Government's lack of favorable self-employment policies negatively impacts on growth of youth led garment enterprises.	68	3.88	1.127	1.270

The study found out that 21 respondents (31%) strongly agreed, 34 respondents (50%) agreed, 10 respondents (15%) were undecided and lastly 3 respondents'(4%) disagreed that government had been imposing high tax on their business thus negatively impacting on growth of youth led garment enterprises (μ=4.07). The study also found that 13 respondents (19%) strongly agreed, 28 respondents (41%) agreed, 19 respondents (28%) were undecided, 5 respondents (7%) disagreed and 3 respondents (4%) strongly disagreed that strict and costly trading licenses' impacts negatively on growth of youth led garment enterprises (μ=3.63). 18 respondents (27%) strongly agreed, 29 respondents (43%) agreed, 15 respondents (22%) were undecided, 5 respondents (7%) disagreed and lastly, 1 respondent (2%) strongly disagreed that inflation had negatively affected growth of youth led garment enterprises (μ=3.85). The study also found out that 31 respondents (46%) strongly agreed, 21 respondents (31%) agreed, 13 respondents (19%) were undecided and 1 respondent (2%) strongly disagreed that Inability of government policies to control high bank interest rates negatively impacted on growth of youth led garment enterprises (μ=4.18).

Lastly, 26 respondents (38%) strongly agreed, 19 respondents agreed (28%), 14 respondents (21%) were undecided, 7 respondents (10%) disagreed and 2 respondents (3%) strongly disagreed on government's lack of favorable self-employment policies negatively impactsed on growth of youth led garment enterprises (μ = 3.88).

Growth of Youth Garment Enterprises

The study collected information on the dependent variable by administering questionnaires to the respondents.

Table 3: **Growth of Youth Garment Enterprises**

	N	Mean	Std. Deviation	Variance
There has been an increase in profit growth	68	4.50	.611	.373

There has been an increase in sales revenue/growth	68	4.34	.637	.406
There has been an increase in customer numbers	68	4.10	.775	.601
There has been an increase in the number of employees	68	4.15	.629	.396
There has been an increase in business asset	68	4.22	.826	.682
The business has grown in the last five years	68	4.41	.604	.365

The findings of the study revealed that, 38 respondents (56%) strongly agreed, 26 respondents (38%) agreed and 4 respondents (6%) were undecided on increase in profit growth (μ = 4.50). 29 respondents (42%) strongly agreed, 33 respondents (49%) agreed and 6 respondents (9%) were neutral on increase on sales growth (μ = 4.34). 21 respondents (31%) strongly agreed, 36 respondents (53%) agreed, 8 respondents (12%) were undecided and 3 respondents (4%) disagreed on increase in customer numbers (μ= 4.10). 19 respondents (28%) strongly agreed, 40 respondents (59%) agreed, 9 respondents (13%) were undecided on increase on number of employees (μ= 4.15). 29 respondents (43%) strongly agreed, 28 respondents (41%) agreed, 8 respondents (12%) were undecided and 3 respondents (4%) disagreed on increase on business asset(μ= 4.22) .

Lastly, 32 respondents (47%) strongly agreed, 32 respondents (47%) agreed and 4 respondents (6%) disagreed on the business had grown in the last five years (μ= 4.41)

CONCLUSIONS AND RECOMMEDATIONS

The study conluded that access to finance affected the growth of youth led garment enterprises. The study also concluded that limited access to finance negatively impacts the growth of youth led garment entreprises. Further, the study conluded that unfavorable terms of credit impacts negatively on growth of youth led garment enterprises. Also the study concluded that Lack of collaterals impacts negatively on growth of youth led garment enterprises. The study also concluded that high interest rates impact negatively on growth of youth led garment enterprises.

On government policies and growth of youth led garment enterprises the study conluded that government policies affected the growth of youth led garment enterprises. The study also conluded that government imposing high tax on business negatively impacted on the growth of youth led garment enterprises. Further the study conluded high inflation had negatively affected growth of youth led garment enterprises. The study also concluded that inability of government policies to control high bank interest rates negatively impacts on growth of youth led garment enterprise.

Recommendations

The study revealed that access to finance affected the growth of youth led garment enterprises. This study recommended the youth led enterprises should have access to finance to grow the enterprises. Also the study recommended banks and micro credit institutions to have favorable credit terms to enable the growth of youth led enterprises. Also the study recommended that banks should have low interest rates to enable the growth of youth led enterprises.

The study established that government regulations affected the growth of youth led enterprises. This study recommended the government to impose low taxes to youth led enterprises to enable the growth of the enterprises. The study also recommended the government to control inflation to enable positively the growth of youth led. The study also recommended the government to control the high bank interest to enable the growth of youth led enterprises. Also the study recommends the

Suggestions for further study

It was evident in the course of this investigation that further research needs to be carried out in the following related areas a similar study should be carried out in other counties on factors affecting growth of youth led small and medium enterprises in Kenya to generalize on the findings. Replications of this investigation will need to be carried out four or five years from now to establish exactly what changes will have taken place in the growth of the youth led enterprises.

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