Effect of Financial Structure on Enterprise Growth of the Youth Groups Financed by Youth Enterprise Fund, a Survey of the Youth Groups in Nakuru Town East Sub-County

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Abstract: The aim of the study was to analyze the effect of financial structure on enterprise growth of Youth Groups Financed by Youth Enterprise Fund, a based on a survey of Youth Groups in Nakuru Town East Sub-County. Specifically, the study analyzed the effect of short term and long term debts in YEDF financed Youth Groups on enterprise growth, share contribution in YEDF financed Youth Groups on enterprise growth and access to Government Procurement Opportunities in YEDF financed Youth Groups on enterprise growth. The enterprise growth was measured from sales turnover and profitability trends of the financed Youth Groups' enterprises. The study was based on Trade off Theory, Pecking Order Theory, Life Cycle Theory, Public Interest Theory of Regulation and Growth Theory. The study used descriptive research design and a cross sectional survey. The population of the study was the 119 Youth Groups financed by Youth Enterprise Development Fund (YEDF) in Nakuru Town East Constituency, with a random sample size n=75. Secondary data from the Sub-County Status Reports covering 2008-2017 for the groups was used to determine their Enterprise Growth and thereafter primary data was obtained from the Youth Groups to determine their unique group specific data guided by the study objectives. Findings of the study were presented in descriptive statistics including mean and inferential statistics; as well as inferential statistics including Pearson Correlation and Multiple Linear Regression. Using fixed effects model the study short term debts, long term debts and share capital per individual member of the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County had insignificant relationship with enterprise turnover and profitability. On the other hand, using random effects model also revealed that the short term debts, long term debts and share capital per individual member of the Youth Groups variables cannot be used to predict the enterprise turnover and profitability of Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County. Further analysis of fixed and random effect showed that, when inflation was introduced as a moderating variable, the model's chi square value of far much greater than 0.05, indicating that inflation had no significant effect on the relationship between financial structure and total turnover nor profitability. Recommendations of the study will be given to YEDF, affected Youth Groups and Department of Trade in Nakuru County. The findings will be published so as to share knowledge with other researchers

Keywords: Financial structure, Debt financing, Equity Financing, Procurement Opportunity.

INTRODUCTION

Financing decision is an important function in a company's decision making that helps finance managers to decide when to obtain finances and how to meet their investment needs [1]. Nyamita [2], explains that the decision on financing in a firm is crucial. Debt financing has been noted to have a very high consequence for corporations as far as its operations therefore leading to a better performance of the company as well as their failure. Financial management entails two different types of leverage. Operating leverage is defined as effect of debt on account of all fixed costs other than interest and on the other hand financial leverage is effect on account of the financial cost and interest. Financial leverage used by companies is usually meant to earn more as far as charges on funds are concerned than on costs.

Financial leverage entails variations of Shareholders' income in response to change in operating profits which result from financing a corporation's assets with preferences stocks or debt [3].

According to Gill and Nahum [4] when a company expects positive future cash flows when it offers debt, the use of debt is beneficial to a company since interest payments are not taxable and that may lead to increasing firm value [5]. A company that uses debt as their source of finance gets important advantage such as savings on tax, reduction of costs related to agency and other costs like financial distress which comes with the use of debt financing [6]. Nawaiseh [5] stated that the survival of the firm and its continuity often depends on its performance; most importantly its profitability which may be fueled by effective leveraging.

Fajnzylber *et al.* [7] argue that facilitating access to credit and business development services and promoting formalization by the government, are likely to increase firm growth. Hansen *et al.* [8] in a study entitled 'Enterprise growth and survival in Vietnam: Does Government support matter?' found out that various government policy interventions have played a significant role in the explanation of MSE's success in the Asian region. Promotion of MSEs has been a central tenet in policy statements of the Vietnamese government. There are major reforms to streamline regulatory barriers to MSE development and to improve the general business environment.

Locally in Kenya, the Government being aware of the role MSEs play in the economy, has taken steps to develop a legal and regulatory framework aimed at guiding and accelerating the growth of this sector. The official policy framework of MSEs in Kenya is contained in the Sessional paper No. 2 of 2005. This policy paper forms the basis for enacting the MSE Act to institutionalize MSE policy in Kenya. The government has gone a step further to set up Funds that actualizes policies and support the sector. These Funds include Women Enterprise Fund (WEF) and Youth Enterprise Development Fund (YEDF).

The objectives of the YEDF are; provide loans to existing micro-finance institutions (MFIs), registered nongovernmental organizations (NGOs) involved in micro financing and savings and credit co-operative organizations (SACCOs) for on-lending to youth enterprises; attract and facilitate investment in micro, small and medium enterprises oriented commercial infrastructure such as a business or industrial parks, markets or business incubators that will be beneficial to youth enterprises; support youth oriented micro, small and medium enterprises to develop linkages with large enterprises; facilitate marketing of products and services of youth enterprises in both domestic and international markets; and facilitate employment of youth in the international labour market [9].

The Youth Enterprise Development Fund was Government's initiative established in December 2006 with a mission to increase economic opportunities and engagement of youths in building the nation through different enterprises ranging from Matatu, Bodaboda businesses, farming, *Mutumba business*, *Jua Kali* among others. ILO reported that the world unemployment remained almost constant at an average of 6.0 % over the six-year period between 2009 and 2015. High percentage of the unemployed youths consists of fresh graduates from secondary schools, colleges and high learning institutions. The fund was meant to; increase access to capital by young entrepreneurs, provide business development services, facilitate linkages in supply chains, create market from within and outside the country for products and services of youth enterprises and lastly facilitate creation of infrastructures in support of youth enterprises. The Fund comes with free entrepreneurship training, charges no interest at the start up stages and does not require any collateral. The Fund also guarantees convenient appraisal and repayment terms. The Fund has financed over 518,000 youth enterprises to the tune of Kshs.10.1 billion. It has also helped thousands of the youth build their enterprises through market support and enterprise training. The Fund has trained over 400,000 young entrepreneurs [10].

Although the Government has come up with programmes and policies to cushion youth against unemployment such as Youth Enterprise Development Fund with huge amount of loan disbursed, there are no adequate studies that have investigated the effect of financial structure on enterprise group of Youth Groups Financed by Youth Enterprise Fund, more especially the effect of short term debts, long term debts, youth individual contributions and tenders awarded through Government Procurement Opportunities Program on enterprise growth by Youth Groups financed by Youth Enterprise Fund of which is the main objective of the study.

Objectives
- To establish the effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund.
- To establish the effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund
- To assess the effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund.

Hypotheses

HO₁: There is no significant effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund.

HO₂: There is no significant effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund.

HO₃: There is no significant effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund.

Conceptual Framework

The study tested the hypothesis using the following theoriestrade off theory, pecking order theory, life cycle theory, public interest theory of regulation and growth theory. Conceptually, the study hypothesized model identifying the concepts or variables under the study and their relationships. It is a scheme of concepts (variables), which the researcher will operationalize in order to achieve the set objectives. The purpose of the conceptual model is to help the researcher to relate the proposed relationships.
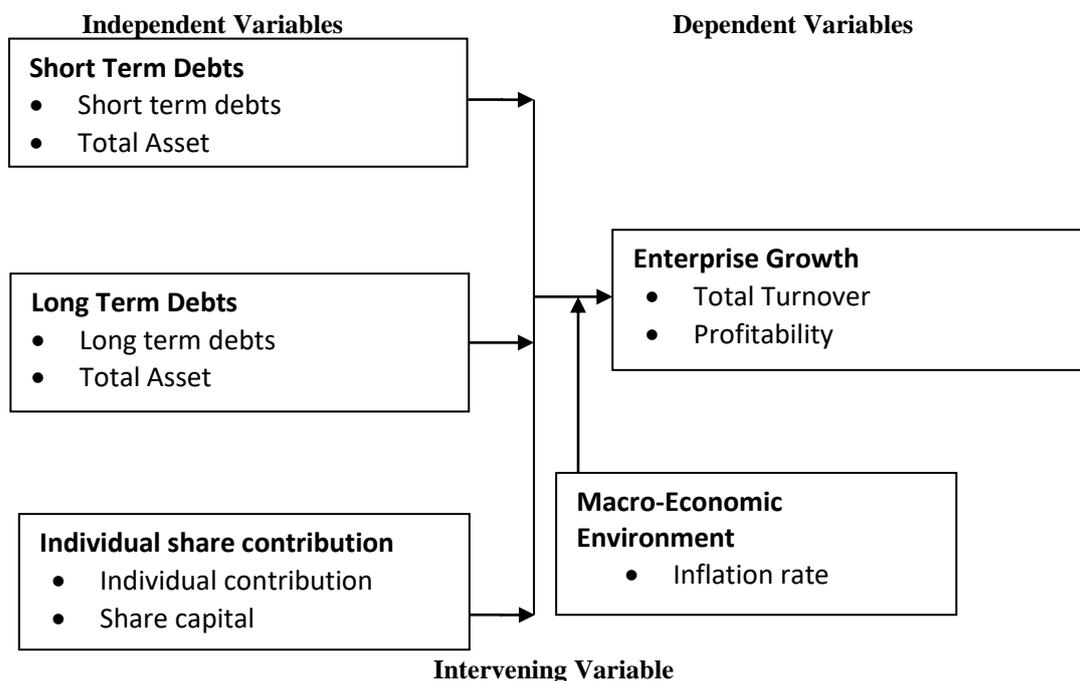
Fig-1: Conceptual Framework
Source: (Own Conceptualization, 2017)

The independent variables are; short term and long term debts and enterprise growth, share contribution. The dependent variable is enterprise growth measured in terms sales turnover and new groups. The intervening variable is macroeconomic environment including inflation rate. When the youth groups employ effective financial structures based on sound; short term and long term debts and enterprise growth, share contribution on enterprise growth, then their enterprise will grow in terms of sales turnover and new groups formation.

Research Design

The study adopted descriptive research design targeting 119 Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County. The researcher adopted Nassiuma [11] formula that can be used to calculate a suitable sample for the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County. Data was analyzed using panel data regression model. Panel data analysis was used due to its ability to handle time series and cross sectional components. Equation.

Equation $Y_{it} = \alpha + \beta_1 (STD)_{it} + \beta_2 (LTD)_{it} + \beta_3 (SC)_{it} + \beta_3 (AGPOP)_{it} + \varepsilon$

Where;

Y= Turnover, α =constant, $\beta_1 \ldots \ldots \beta_3$ = parameter estimates

$(STD)_{it}$ = Short Term Debt *i* over year *t*

$(LTD)_{it}$ = Long Term Debt *i* over year *t*

$(SC)_{it}$ = Share Contribution *i* over year *t*

$(AGPOP)_{it} =$ Access to Government Procurement Programme *i* over year *t*

ε is the error of prediction.

The effect of inflation on the relationship between financial structures on Youth Group growth was tested by the use of hierarchical regression analysis as shown

Equation $Y_{it} = \alpha + \beta_1(STD)_{it} + \beta_2(LTD)_{it} + \beta_3(SC)_{it} + \beta_4(AGPOP)_{it} + \beta_5(IR)_{it} + \varepsilon$

Where;

α = constant

$\beta_1 \ldots \ldots \beta_4$= Regression Coefficients of independent variables

β_5= Regression Coefficients of intervening variable (inflation rate)

$(IR)_{it} =$ inflation rate *i* over year *t*

i= individual dimension

t=Time dimension

ε = the error of prediction.

Findings and Discussions

Random Effect Regression Results

In order to determine the appropriate estimator for the panel data used, a Hausman [12] test (test for the null hypothesis of no correlation) was run on random effects regression estimation. The obtained statistically significant p-value of 0.043 meant that the null hypothesis could be rejected. Hence a random effects model (REM) was adopted as the best estimator for the panel data to fixed model effect.

Random Effect Regression Model for Enterprise Turnover and Profitability

Table-1: Random Effect Regression Model for Enterprise Turnover

Random-effects GLS regression				Number of obs	=	580	
Group variable: code				Number of groups	=	58	
R-sq: within = 0.0037				Obs per group: min =		9	
between = 0.0635				avg =		10.0	
overall = 0.0066				max =		11	
		Wald chi2(3)	=	3.80			
corr(u_i, X) = 0 (assumed)		Prob > chi2		=	0.2834		
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t_turnover		Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]	
-------------+---							
s_debt |	-.0219929	.2246679	-0.10	0.922	-.4623339	.4183482	
l_debt |	.0070742	.0043141	1.64	0.101	-.0013813	.0155297	
c_capital |	-.0893999	.0818993	-1.09	0.275	-.2499197	.0711198	
_cons |	51185.86	4209.143	12.16	0.000	42936.09	59435.63	
-------------+---							
sigma_u |	0						
sigma_e |	28460.503						
rho |	0	(fraction of variance due to u_i)					

The random effects model on table 4.13 shows that the combined effect of short term debts, long term debts and share capital per individual member of the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County between 2008 to 2017 on enterprise turnover was statistically insignificant. The model's chi square value of 0.2834 which is much greater than 0.05, the value of R squared 0.0066 meant that independent variables had a combined effect on return on asset by 0.7% while the other 99.3% was affected by other factors other than short term debts, long term debts and share capital per individual member of the Youth Groups. It can therefore be concluded that the independent variables cannot be used to predict the outcome of enterprise turnover within the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County between 2008 to 2017.

Further analysis from the model revealed that short term debts had insignificant negative effect on the enterprise turnover of Youth Groups financed by Youth Enterprise Development Fund short term debts, r= -.0219929,

p=0.922>0.05 indicating that an increase in short term debts will result in a decrease in enterprise turnover by . 0219929 units keeping long term debts and share capital per individual member of the Youth Groups constant. The relationship between long term debts and enterprise turnover was statistically insignificant with p=0.101>0.05 and therefore cannot be used to predict the outcome of enterprise turnover. The relationship between long term debts and enterprise turnover was negatively related. An increase in long term debts will result in an increase in enterprise turnover by 0. .0070742 units keeping other variables constant. The relationship between share capital per individual member of the Youth Groups and enterprise turnover was insignificant p=0.275>0.05 therefore cannot be used to predict the outcome of enterprise turnover. An increase in share capital per individual member of the Youth Groups will result in a decrease in enterprise turnover by 0.0893999units of enterprise turnover keeping other variables constant.

In random effect, when inflation was introduced as a moderating variable, the model's chi square value of 0.4235 which is much greater than 0.05, the value of R squared 0.0067 indicating that inflation had no significant effect on the relationship between financial structure and total turnover. Overall, short term debts, long term debts and share capital per individual member of the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County had insignificant relationship with enterprise turnover.

Random Effect Regression Model for Enterprise Profitability

Table-4.2: Random Effect Regression Model for Enterprise Profitability

Random-effects GLS regression			Number of obs	=	580	
Group variable: code			Number of groups	=	58	
R-sq: within = 0.0051			Obs per group: min =		9	
between = 0.0178				avg =	10.0	
overall = 0.0061				max =	11	
			Wald chi2(3)	=	3.45	
corr(u_i, X) = 0 (assumed)			Prob > chi2	=	0.3278	
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profit |	Coef.	Std. Err.	[95% Conf. Interval]			
-------------+--						
s_debt |	-2.131443	1.577934	0.177	-5.224137	.961251	
l_debt |	.0310846	.0301875	.303	-.0280818	.0902509	
c_capital |	-.4500771	.574712	0.434	-1.576492	.6763378	
_cons |	377582.9	29657.26	0.000	319455.7	435710.1	
-------------+--						
sigma_u |	24487.785					
sigma_e |	198007.82					
rho |	.01506407	(fraction of variance due to u_i)				

The random effects model on table 4.14 shows that the combined effect of short term debts, long term debts and share capital per individual member of the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County between 2008 to 2017 on enterprise profitability was statistically insignificant. The model's chi square value of 0.3278 which is much greater than 0.05, the value of R squared 0.0061 meant that independent variables had a combined effect on return on asset by 0.6% while the other 99.4% was affected by other factors other than short term debts, long term debts and share capital per individual member of the Youth Groups. It can therefore be concluded that the independent variables cannot be used to predict the outcome of enterprise profitability within the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County between 2008 to 2017.

Further analysis from the model revealed that short term debts had insignificant negative effect on the enterprise profitability of Youth Groups financed by Youth Enterprise Development Fund short term debts, r= -2.131443, p=0.177>0.05 indicating that an increase in short term debts will result in a decrease in enterprise turnover by 2.131443 units keeping long term debts and share capital per individual member of the Youth Groups constant. The relationship between long term debts and enterprise profitability was statistically insignificant with p=0.303>0.05 and therefore cannot be used to predict the outcome of enterprise profitability. The relationship between long term debts and enterprise profitability was negatively related. An increase in long term debts will result in an increase in enterprise profitability by 0.0310846 units keeping other variables constant. The relationship between share capital per individual member of the Youth Groups and enterprise profitability was insignificant p=0.434>0.05 therefore cannot be used to predict the outcome of enterprise profitability. An increase in share capital per individual member of the Youth Groups will result in a decrease in enterprise turnover by -0.4500771 units of enterprise turnover keeping other variables constant.

Further analysis of random effect, when inflation was introduced as a moderating variable, the model's chi square value of 0.2851 which is much greater than 0.05, the value of R squared 0.0088 indicating that inflation had no significant effect on the relationship between financial structure and profitability. Overall, short term debts, long term debts and share capital per individual member of the Youth Groups financed by Youth Enterprise Development Fund in Nakuru Town East Sub-County had insignificant relationship with enterprise profitability.

Hypotheses Test

The hypothesis test was done based on the results obtained from fixed model test. The first objective was to establish the effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. Short term debts were used as proxies to financial structure of the Youth Groups funded by YEDF in Nakuru Town East Sub-County. The first hypothesis HO_1 was there is no significant effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. Based on random effect model statistically chosen for the study, the study established that short term debts had insignificant negative effect on the enterprise turnover of Youth Groups financed by Youth Enterprise Development Fund short term debts, r=- 0.0219929, p=0.922>0.05 indicating that an increase in short term debts will result in a decrease in enterprise turnover by 0.0219929 units keeping long term debts and share capital per individual member of the Youth Groups constant. On the other hand, the relationship between short term debts and profitability established that short term debts had insignificant negative effect on the enterprise profitability of Youth Groups financed by Youth Enterprise Development Fund short term debts, r=-2.131443, p=0.177>0.05 indicating that an increase in short term debts will result in a decrease in enterprise turnover by 1.940021units keeping long term debts and share capital per individual member of the Youth Groups constant. The hypothesis that HO_1 there is no significant effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund was therefore accepted.

The second objective of the study was to establish the effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. HO_2: There is no significant effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The relationship between long term debts and enterprise turnover was negatively related. An increase in long term debts will result in an increase in enterprise turnover by 0.0070742 units keeping other variables constant. The relationship between share capital per individual member of the Youth Groups and enterprise turnover was insignificant p=0.922>0.05 therefore cannot be used to predict the outcome of enterprise turnover. On the other hand, the relationship between long term debts and enterprise profitability was statistically insignificant with r=0.0310846, p=0.303>0.05 and therefore cannot be used to predict the outcome of enterprise profitability. The relationship between long term debts and enterprise profitability was negatively related. An increase in long term debts will result in an increase in enterprise profitability by 0.0310846 units keeping other variables constant. The hypothesis that HO_2: There is no significant effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund was therefore accepted.

The third objective of the study was to assess the effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The third hypothesis HO_3: that there is no significant effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The relationship between share capital per individual member of the Youth Groups and enterprise turnover was insignificant r=-0.0893999, p=0.275>0.05 therefore cannot be used to predict the outcome of enterprise turnover. An increase in share capital per individual member of the Youth Groups will result in a decrease in enterprise turnover by -0.0893999 units of enterprise turnover keeping other variables constant. The third hypothesis HO_3: that there is no significant effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund was therefore accepted.

CONCLUSIONS

The first objective of the study was to establish the effect of short term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The study established short term debts had insignificant negative effect on the enterprise turnover and profitability of Youth Groups financed by Youth Enterprise Development Fund. The second objective of the study was to establish the effect of long term debts on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The study established long term debts had insignificant effect on the enterprise turnover and profitability of Youth Groups financed by Youth Enterprise Development Fund. The third objective of the study was to assess the effect of individual share contribution on enterprise growth by Youth Groups financed by Youth Enterprise Fund. The study established individual share contribution had insignificant negative effect on the enterprise turnover and profitability of Youth Groups financed by Youth Enterprise Development Fund.

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