

FACTORS INFLUENCING THE GROWTH OF YOUTH OWNED
MICRO AND SMALL ENTREPRISES IN TIGANIA WEST DIVISION,
MERU COUNTY, KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF ARTS IN
PROJECT PLANNING AND MANAGEMENT, UNIVERSITY OF NAIROBI

2013

DECLARATION

This research project is my original work and has not been presented for a degree in any other university

Signed Date

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L50/75007/2012

This research project has been submitted with my approval as university supervisor.

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DEDICATION

This work is dedicated to my beloved family: my beloved daughter Gloria, my parents, brothers and sisters.

ACKNOWLEDGEMENT

The generous cooperation of many people has attributed to the completion of this research project. I wish to appreciate the Board of Post Graduate Students of the University of Nairobi for giving me an opportunity to study this course. Special gratitude to my supervisor, Prof. Gakuu for his invaluable comments and suggestions. I acknowledge the Meru Extra Mural Centre resident lecturer, the staff and all the lecturers who taught me throughout the course.

I am grateful to my classmates Rev Kariuki, Gitonga, A., Maina J., Njuki K. and Njoroge K. for their encouragement and support, all my friends for their understanding and my workmates for their words of encouragement and support. I acknowledge with gratitude all those who in one way or the other contributed to the success of this research project.

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LIST OF ABBREVIATIONS ACRONYMS

ECA	Economic Commission of Africa
GDP	Gross Domestic Product
GOK	Government of Kenya
ILO	International Labour Organization
KNBS	Kenya National Bureau of Statistics
MSE	Micro and Small Enterprise
OECD	Organization for Economical Cooperation Development
UNDP	United Nations Development Program

ABSTRACT

The purpose of this study was to investigate the factors that influenced the growth of youth owned micro and small enterprises in Tigania West Division of Meru County-Kenya. The study was guided by five research objectives. Research objective one sought to determine the influence of business environment on growth of youth owned micro and small enterprises. Research objective two sought to assess the influence of business characteristics on the growth of youth owned micro and small enterprises. Research objective three sought to assess the influence of social networks on the growth of youth owned micro and small enterprises. Research objective four established the relationship between demographic characteristics on the growth of youth owned micro and small enterprises while objective five sought to determine how accesses to financial resources affect the growth of youth owned micro and small enterprises. The study employed descriptive design and targeted 163 youth entrepreneurs aged between 18-35 years from Tigania West Division of Meru County. Findings revealed that there was a significant relationship between age and growth of youth owned micro and small enterprises. There was a significant relationship between the gender of the youth and growth of youth owned micro and small enterprises. There was a significant relationship between highest level of formal education and growth of youth owned micro and small enterprises. Young entrepreneurs should be provided with education on how to be effective in their business; the government should reduce taxation and provide youth entrepreneurs with starting business fund. There is need to cultivate in the youth positive attitude towards self employment enable them understand that formal employment is not the only way of self development. The study also recommended that the education curriculum should assess the need of including entrepreneurship subjects so that the youth can be prepared to take up entrepreneurship and there is need to empower the youth in identifying their abilities in the entrepreneurship. The study suggested that an analysis on the factor that influences implementation of youth development policy among young entrepreneurs and a study on the effects of formal training on the effectiveness of youth entrepreneurship to be carried out for further studies.

CHAPTER ONE

INTRODUCTION

1.1 Background to Study

Unemployment for young men and women remains at high levels around the world. Kenya is no exception. According to the International Labour Organization (2011), there are more than 1 billion young people in the world with the global youth unemployment standing at 14.4%. The youth population in Africa constitutes about 37 percent of the total labour force, a social category that is projected to expand more rapidly than anywhere else in the world. The youth unemployment rate in Kenya increased to 40 percent in 2011 from 12.70 percent in 2006(Kenya National Bureau of Standards, 2011). The unemployment measures the number of people actively looking for jobs as a percentage of the labour force. The Kenyan youth present the age group mostly affected by the failure of the economy to generate sufficient productive and sustainable jobs.

In order to respond to this high rate of unemployment, policy makers are increasingly focusing on encouraging young people to create their own jobs. Various governments are taking an increased interest in promoting the growth of entrepreneurship. Individuals are encouraged to form new business and are provided with such government support as tax incentives, buildings roads and a communication system to encourage this creation process. This will be of paramount importance because the size of the projected growth of the labour force, even under the best of scenarios, the expansion of wage and salary jobs will not absorb the majority of the future labour force. The informal sector will continue to take in a large share of labour force growth especially in sub- Saharan Africa.

According to Louise and Melissa (2001), small and medium scale enterprises are universally acknowledged as effective instruments for employment generation and economic growth, even in countries with large corporations, such as the United States, MSES contribute a very substantial percentage to employment.

According to ILO (2006), MSES contribute significantly to occupation freedom of choice and give a vast number of people the opportunity to receive vital incomes and provide high numbers of persons with jobs. The Kenyan economic survey of 2006, states that the sector contributed over 50 percent of new jobs created in year 2005. In most developing countries, MSEs constitute the vast majority of firms, generating a substantial share of both overall employment and output. Given their significant economic role, one might expect MSE growth to drive overall increases in output and income levels. In many cases, however, their largest economic contribution appears to be one of maintaining rather than generating new employment and income for the poor.

Moreover, past statistics indicate that three out of five businesses fail within the first few months of operation (KNBS, 2007). Entrepreneurs face many obstacles that limit their long-term survival and development. Research on small-business development has shown that the rate of failure stagnation in developing countries is higher than in the development World (Arinaitwe, 2002). Scholars have indicated that starting a business is a risky venture and warn that the chances of small-business owners making it past the five-year mark are very slim and should therefore develop both long-term and short-term strategies to guard against stagnation (Sausser, 2005). Over the past years, the Kenya government has pursued policies that should provide fertile ground for small-business including:

Sessional paper No 2 of 2005: development of micro and small enterprises for wealth creation and employment creation for poverty reduction.

1. Kenya's vision 2030
2. Micro and small Enterprises bill 2011.

In the light of these support and incentive programs, it would seem reasonable to expect that small business would grow and flourish in Kenya. However, the effectiveness of these programmes remains unclear, and the rate of business failure continues to increase while others stagnate. Accordingly, this study explores the factors influencing the growth of youth owned enterprises despite all the programmes despite all the programs established to help them succeed.

1.2 Statement of the problem

The importance of MSE Sector in general and Youth MSE development in particular cannot be overemphasized. They are considered more labour intensive, efficient, equitable in distributing the income that they generate, widely dispersed geographically and good in nurturing of entrepreneurs. It is documented that the government of Kenya, financial institutions and NGO's have offered support to the development of this sector through financial intermediation, infrastructure and policy (GOK, 2005).The Poverty Reduction Strategy Paper (1999-2015) supports micro and small enterprise as key strategy for elimination of poverty and unemployment. However, in spite of this, the youth owned micro and small enterprises continue to fail and stagnate. Only a few MSEs grow to employ 6 or more workers. Moreover the owners of these enterprises do tend to

be disproportionately poor with the incidence of poverty within MSEs higher than in medium large firms. The failure of MSEs in a country had a negative effect on any economy, especially developing economies with limited capital (Okpara, 2007) while a success rate would result in an improved or good economy.

This study, therefore, sought to investigate the factors that influence the growth of youth owned micro and small enterprises in Tigania West Division of Meru County. The study is important as it provides researchers, policy makers and administrators with valuable information and findings on growth of youth owned enterprises. The study also would complement other studies that have been done on growth of youth owned enterprises in Kenya.

1.3 Purpose of the Study

The purpose of this study was to investigate the factors influencing the growth of youth owned micro and small enterprises in Tigania West Division of Meru County.

1.4 Research objectives

The following were the objectives of the study

- i. To determine the influence of entrepreneurs' characteristics on the growth of youth owned micro and small enterprises.
- ii. To assess the influence of enterprise characteristics on the growth of youth owned micro and small enterprises.

- iii. To assess the influence of access to financial resources on the growth of youth owned micro and small enterprises.
- iv. To establish the relationship between business environment and the growth of youth owned micro and small enterprises.
- v. To determine how social networks influence the growth of youth owned micro and small enterprises.

1.5 Research Questions

- i. What is the influence of individual characteristics on the growth of youth owned micro and small enterprises?
- ii. How do business characteristics influence the growth of youth owned micro and small enterprises?
- iii. To what extent does access to financial resources influence the growth of youth owned enterprises?
- iv. How does the business environment influence the growth of youth owned micro and small enterprises?
- v. What influence do social networks have on the growth of youth owned micro and small enterprises?

1.6 Significance of the study

Job creation by small business is an important focal point to public policy and has been the subject of much empirical research. In Kenya, various policies have been put in place to promote establishment and growth of the sector. These include but not limited to Sessional Paper Number 2 of 1992, a strategy for Small Enterprises Development in Kenya and Expanded Opportunities Program and Youth Employment Summit (YES). If small businesses have the capacity to create jobs, then how will public policy help realize this potential for as many businesses as possible?

In order to address this issue it is helpful to better understand the factors involved in the growth of micro small businesses. However, the small business sector is hardly homogenous. Very small businesses include the self-employed, micro-businesses, most start-ups and many more. Not all of these businesses are equally capable or willing to grow. Blanket approaches to small business may therefore be less effective in understanding growth, given the different performance outcomes of different types of small businesses. Research efforts targeted at specific types of small businesses may be most helpful in fostering such understanding.

Moreover, the Tigania District Development Plan of 2008-2012 identifies the MSE sector as a priority sector in the development strategy for the district mainly as intervention check unemployment. Therefore this study was vital for all program designers and implementers because it would show how various intervention works to influence the growth of micro and small enterprises growth.

1.6 Delimitation of the study

The study involved selected youth owned MSEs in Tigania West Division of Meru County and the researcher knew the division well. The youths under study were those youth entrepreneurs aged between 18 and 35. The study was also delimited to a specified period of time (April 2013 to June 2013). The area of study covered was familiar to the researcher and some of the variables were observable.

1.7 Limitations of the Study

The challenges encountered were time, language barrier and financial constraints. To address the language barrier constraint, the researcher helped in translation of information from English into Kiswahili.

1.8 Assumptions of the Study

The respondents cooperated and the response rate was 93%.

1.9 Definition of Significant Terms

Micro and Small Enterprise: A micro-enterprise means, a firm, trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and employees less than ten people. A small enterprise means a firm, trade, service, industry or a business activity whose annual turnover ranges between five hundred and five million shillings and employees between ten and fifty people. (GOK, 2011)

Micro and Small Enterprises Growth: MSE growth refers to the increase of size and other quantifiable measures and process of changes improvement (Penrose, 1995). This paper measures growth by considering the changes in employment. Employment figures are used because they offer standardized comparable data about the rate and direction in which a firm has been expanding.

Government Policy: Government policy refers to government actions designed to affect economic activity and pursue one of more economic goals. In the context of this study it involves the principles or guidelines to control the operations of the MSEs within some legal and economic frameworks, as MSEs are key to national economic growth

Kenya's Vision 2030: Kenya Vision 2030 is the country's development program covering the period 2008 to 2030. It was launched on 10 June 2008 by the President. Its objective is to help transform Kenya into a "middle-income country providing a high quality life to all its citizens by the year 2030". Developed through an all-inclusive and participatory stakeholder consultative process, the vision is based on three "pillars": the economic, the social and the political, (GOK, 2008).

Enterprise: An enterprise is a business organization that is formed and which provides goods and services, creates job, contributes to national income, imports, exports and above all sustainable

economic development. In a more concise or synthetic way, an enterprise is a business Venture. This paper uses the term interchangeably with business and firm.

Entrepreneur: This refers to the person who starts an enterprise. The process of creation including originality capabilities skills and difficulties is called entrepreneurship.

Youth: Youth is best understood as a period of transition from the dependence of childhood to adulthood independency and awareness of our interdependence to define that group. In Kenya there are various age-based definitions of youth. National youth policy defines youth as persons aged 15-30 years. The new constitution defines youth as all individuals in republic of Kenya aged 18 years who have not attained the age of 35 years (GOK, 2010). This paper adopts the definition of a youth as stipulated in the Kenyan constitution of 2010.

Gender: Refers to socially constructed roles, behaviours, activities and attributes that a society considers appropriate for men and women.

1.10 Organization of the Study

The study is organized in 5 chapters. Chapter 1 introduces the study, including the research background, the research problem, the research objectives, the specific objectives, the significant of the study and the definition of significant terms. Chapter 2 presents reviews of relevant literature from which relevant the theories and concepts

relating to the study were addressed and reviews of previous empirical findings linking entrepreneur and business characteristics, business environment, availability of capital and social networks to the growth of youth owned enterprises. Chapter 3 presents the methodology followed in data collection and measuring of the research variables. Chapter represents data analysis, presentation and interpretation while chapter 5 presents the summary of findings, discussions, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This literature review discusses previous studies relevant to the researcher's topic of study. The study within this review of literature focuses on objectives set out in chapter one. By exploring these areas of literature, a significant contribution is made to this research. The first section of the review focuses on the importance of micro and small enterprises and youth entrepreneurship. Secondly, the factors influencing growth of micro and small enterprises are reviewed and finally the conceptual framework of the study is stipulated.

2.2 Importance of Micro and Small Enterprises

The significant role of small business is evident around the world. In developed and developing countries worldwide, micro and small enterprises are making their mark on the economic landscape due to their strategic importance in re-engineering the industrial sector. In the UK, Germany, Italy and Spain, MSEs are responsible for an average of 70 percent of job creation (World Bank, 2010). In USA, the World's largest national economy, 50 percent of the GDP is the being created by businesses that were not in existence a mere decade ago. Consequently, failing to integrate young people into the labour market has consequences for youth, their families, their communities and the development of countries. There is growing awareness among countries and the international community of the importance of tapping this important resource (GEM,

2010). Developing countries as well as developed countries, are investing considerable resources in youth employment programmes and youth entrepreneurship is increasingly seen as part of a solution to address the youth employment challenge. The average Kenyan MSE employs 1-2 workers while over 70% employ one person. The lower ends of these MSEs are often confined to subsistence and low value activities. Only a few MSEs grow to employ 6 or more workers. According to research findings, MSEs have high mortality rates with most MSEs not surviving beyond three years. This phenomenon has made it very difficult if not impossible for MSEs to grow into medium and large-scale enterprises. Consequently, a gap is left resulting in a weak base for industrial take-off and sustainable development (KNBS, 2009).

Table 2.1 Micro and Small enterprise sector: Number of people engaged by Activity in Kenya 2003-2008)

Activity Number	Number (Thousands)					
	2003	2004	2005	2006	2007	2008
Manufacturing	1,199.3	1,318.3	1,433.6	1,492.7	1,567.1	1,642.5
Construction	158.9	173.7	190.2	194.7	202.8	211.2
Wholesale and retail, hotels and restaurants	3,256.6	3,631.9	3889.7	4,177.3	4,446.2	4,714.6
Transport and communications	165	186.5	197.8	214.2	228.8	243.3
Community, social and personal services	514.5	576.2	614.1	668.2	715.4	762.3
Others	252.1	280.2	301.1	321.5	341.3	361.1
Total	5,546.4	6,167.5	6,626.6	7,068.6	7,501.6	7,935.1

Source: KNBS Economic Survey 2009

MSEs contribute to the Gross Domestic Products (GDP) in different countries. This is the value of a country's overall output of goods and services typically during one fiscal year at market prices excluding net income from abroad. Table 2.2 presents the contribution of MSEs to GDP in different countries.

Table 2.2 Contributions of MSEs to GDP

County	Tanzania	South Africa	India	Uganda	Morocco	Kenya
Percentage	20	60	45	30	49	20

Source: World Bank Report 2004

2.3 Youth Entrepreneurship

Entrepreneurship has been defined in many ways. Baum (2007) define entrepreneurship as a field of business that seeks to understand how opportunities to create something new arise and discovered or created by specific individuals who then use various means to exploit or develop them thus producing a wide range of effects. In addition, the OECD (2001) defines entrepreneurship as the economic activity undertaken by building risk-taking creativity and or innovation with sound management within a new or an existing organization.

In addition, Chigunta (2002) states that youth entrepreneurship involves the development of entrepreneurial attitudes, skills and opportunities for young people from middle school

through young adulthood. Entrepreneurship is also defined as the practical application of enterprising qualities such as initiative innovation, creativity, risk-taking into the work environment using the appropriate skills necessary for success in that environment and culture. Youth entrepreneurs are distinct from adult entrepreneurs and must confront specific challenges to business start-ups and growth. These challenges include limited resources in form of capital, social and employment networks and work experience.

It is now widely accepted that there are many good reasons to promote entrepreneurship among the youth all over the world, Kenya included. Kenyon and white (2011) in their assessment of entrepreneurship based on youth employment policies strategies and programmes for the international labour organization(ILO), suggest there are right reasons for promoting youth entrepreneurship. These include creating employment directly for the owner and indirectly for those he employs, provision of valuable products and services for their society and creation of a sense of community-one in which young men and women are valued and better connected to society. Similarly, Deed, (2001) affirms the same and acknowledges that youth enterprises revitalize the local community through provision of valuable goods and services to the society.

2.4 Factors influencing the growth of youth owned enterprises.

While small scale and micro enterprises undoubtedly make important contributions to the world's societies economics, they generally federal limits in terms of growth. This is attributable to different factors. According to Murphy (2001), only 20 percent of micro enterprise actually experience growth. Statistics indicate that three out of five businesses fail within the first few months of operation in Kenya (KNBS, 2007). The survival of

MSEs is not optimistic around the world. Accordingly, various researches show that, 68% of all MSEs in the United States made their exit from business within 5 years. Only 19% survived from 6 to 10 years and merely 13% percent for more than 10 years (World Bank, 2009). In Europe only 65% of MSEs survived for more than 3 years and 50% survived for more than 3 years and 50% survived for more than 5 years (Abdesselam, 2004). In the following section, the literature review focuses on factors influencing the growth of youth owned enterprise.

2.5 Entrepreneur Characteristics

Past studies have focused on entrepreneur characteristic including entrepreneur's age, gender; previous work experience and education level as key factors influencing the growth of micro and small enterprises. In this study, the same factors have been examined. These factors were chosen because various researchers had found a significant relationship between the factors and the growth of MSEs (Storey, Wiklund and Shepherd 2003). The education qualification is an asset to a person in every field. It not only gives confidence but also help in solving various problems. According to Hirsch, (1990), Krueger (1993), a higher education level helps the entrepreneur to have better knowledge and skills which contribute to the success of their venture. In addition, Lussiers and Pferfer (2001) empirically found that entrepreneurs with higher levels of education and competencies were more successful in growing their businesses as compared to entrepreneurs with little or no education.

Similarly, a study conducted by Kim (1996), involving entrepreneurs in Singapore, demonstrates that, after entering the entrepreneurial world, those with higher levels of

education were more successful because university education provided them with knowledgeable and modern managerial skills, making them more conscious of the business world and thus in a position to use their learning capabilities to manage business. However, the national educational system in the UK has shown that it may work against the nurturing of entrepreneurship (Gibb, 1987). This is also asserted by Solomon (1989) who argues that most college curriculums in America prefer to teach students how to become proficient employees instead of successful business persons.

In addition, Nichter and Goldmark (2005) argue that, education may harm MSE growth in cases which owner's divert their attention to other attractive opportunities. Accordingly a research on small manufacturing firms in Chile found that university education did not include higher efficiency because the highly educated owners paid little attention to monitoring their labor force (Kirby, 2003) this is inconsistent with Kim's study. Nevertheless, according to a studies in Botswana and Zimbabwe, business owners who had completed secondary school ran faster growing firms than those proprietors who had no schooling (Vivalleri, 2004). Actually an additional year of schooling was found to raise entrepreneurial income by an average of 5.5%.

A characteristic of entrepreneurship is that it tends to pervade family life. Research by (Bannock 1981) revealed that the children of self employed parents were more disposed to entrepreneurship than those of employed parents while many new ventures owe their success to the support of the family through the provision of funding and access to markets. Accordingly school a study in Sri-Lanka, states that youth who are motivated by opportunity come from middle class backgrounds with self employed, professional or entrepreneurial parents. This shows that parents are important role models.

It is commonly held that role models are important in promoting the concept of entrepreneurship in society. According to Anderson (1995), the existence of role models in a society will have a positive effect on the development of entrepreneurship and vice versa. In addition, Reynolds (2002) argues that the influence of credible role models is widely recognized as an important factor in one's propensity to start an enterprise. However, according to Kirby (2003) role models had effect when the population they intended to influence needs to be able to relate to them. In the same token, Reynolds (2002) suggests that the closer the model matches the group to be influenced, the more effective role modeling becomes. Women are more likely to be influenced by the experiences of other women.

Work experience is generally considered to be an important asset as it provides an individual with useful knowledge and skills. According to Staw (1991) experience is the best predictor of business success especially when the new business is related with vast experiences. Entrepreneurs with more experiences in managing business are more capable of finding ways to study new business compared to employees with different pathways. Correspondingly, a study in Kenya found that Kenyans with at least seven years of work experience expanded their firms more rapidly than those without such experience (Mead and Loedholm, 1998). Work experience contributes to MSE growth by expanding the capabilities of MSE owners and employees through the acquisitions of skills and knowledge and by expanding entrepreneur's social network (Nichter, 2005). Accordingly, the entrepreneur's age can be a determinant of enterprise growth because entrepreneurship is particularly challenging for many persons starting up.

Many studies have examined the influence of entrepreneur's age on the growth and performance of the business. A study by Reynolds (2000) revealed that entrepreneurs who were less than 30 years seemed to grow more profits than those over 30 years. This was explained by the fact that they were still young, energetic and full of enthusiasm. The study however revealed that sales were not influenced by marital status.

According to Kumar (2007) persons over thirty five years of age who entered self employment were likely to have greater survival chances. However, he argues that 50% of entrepreneurs who started at the age of 25-30 years were successful in growing their businesses, suggesting that entrepreneurs who started their enterprises at early age were more successful. This gives a difference between survival and growth in relation to age. However there seems to be recent debate about the peak age for entrepreneurs. A commonly held belief is that younger founders appears to inspire waves of innovating like in the mid-1990s and even today with face book, while older entrepreneurs launch sustainable business (Ressi, 2011). However, Cardon (2008) argue that youth below 30 years lack management experience or the knowledge needed to conduct a strong growth-oriented business but middle aged founders benefiting from some experience yet retaining the energy necessary to drive a business forward were more likely to grow their business.

Women own and operate the majority of MSEs in many developing countries in part because of the ease of entry and their limited access to alternate opportunities (Rubio, 1991). However, women who operate in the micro-enterprise sector tend to have lower education, less formal, have little work experience and are initially driven into self-employment by economic necessity. According to the MSE baseline survey in 1999,

13.7% of women have no formal education, as compared to 6.8% of men (KNBS, 2009). In addition, women commonly have access to markets. Studies have showed that men travel further geographically than women to buy inputs, enabling them to enjoy lower prices and higher quality products. Such challenges that women's MSE's face make them grow at lower rates.

2.6 Influence of Business Environment on the Growth of Youth Owned Micro and Small Enterprises

Business environment refers to the external environment and include factors outside the firm which can lead to opportunities for or threats to the firm. Every business organization has to interact and transact with its environment. Hence, the business environment has a direct relation with the organization. Barriers in the business environment can have a negative impact on youth, who generally lack experience and links to professional networks (UNDP, 2012).The regulatory and institutional environment in developing countries is burdensome when compared with developed countries. This frequently hampers small enterprise growth. Econometric analyses underscore how these challenges disproportionately harm smaller enterprises (Beck, 2004). He argues that for instance, strict regulations and high taxes may keep firms small informal, thereby contributing to increased transaction costs from problematic property rights protection and contract enforcement. Regulatory and institutional challenges may also deter MSE owners from making growth-enabling investments. For example, import duties on capital equipment (for example, sewing machines may disproportionately hurt MSEs. Typically, larger firms bypass these duties by qualifying for investment promotions, and they may be preferred in allocations processes (Liedholm, 2001). In

addition special subsidies and trade protection may offer greater benefits to larger firms, who are often more capable of lobbying (Tybout, 2000). Similarly, smaller firms more frequently reported government policies were unpredictable, and this uncertainty was another factor yet reducing growth- enabling investments (World Bank, 2005).

Ironically, government policies that actually aim to benefit MSEs may also suppress growth if they provide disincentives for employment expansion. For example, India offers attractive incentives to small enterprises, but by some accounts, these measures backfire because growth beyond a specified level entails valued benefits. For example, the manufacture of certain products in India is reserved for small firms, which reduces incentives for firm expansion (World Bank, 2005). Some owners even split up their MSEs into several enterprises in an effort to make them look smaller (Kashyap, 1988).

While African MSEs face significant obstacles that can affect their development and growth, these vary from country to country. Some governments make it increasingly difficult for local business to flourish through burdensome regulation that lengthens procedures and raises the stakes of failure. (OECD, 2010). Effective regulatory policy and market openness support each other in opening up pathways for innovation; enhance consumer benefit and entrepreneurship (OECD, 2010). Recognizing the prime-mover status of entrepreneurship, the Kenyan government has implemented a wide ranging set of strategies to encourage youth to initiate their own businesses. One of the strategies obviously is to reduce the regulatory barriers.

According to Kiraka, (2009) Kenya's MSEs are particularly inhibited by cumbering laws and regulations, most of which are out with the current development realities.

However, an enabling legal and regulatory environment is imperative for the MSE sector to play an effective role as an engine for growth poverty, reduction and employment creation (session paper No.2 of 2005). It was realized that the bureaucratic and lengthy process of transacting business with government agencies adversely impacted negatively on the operations of MSE's by diverting the scarce resource from production to housekeeping (KNBS, 2009).

Improvements to and expansion of physical infrastructure are indentified as necessary components for economic development. Many of the less developed countries have difficult geography with remote areas, difficult terrain with poor roads, and an inhospitable climate (World Bank, 2004).

Many emerging countries have a poorly developed infrastructure and suffer unreliable and often poor-quality supplies of utilities such as energy water and power. Telecommunication and transport are often slow and unreliable and it has been suggested that mobile phones could become the most significant factor in developing the emerging market economies by enabling entrepreneurs to communicate with distant business contacts and the global market in a way that has never been possible before.

Another aspect of the business environment is the unemployment rates in the economies. High levels of unemployment encourage individuals to offer themselves for self employment. This is evidenced by the rate of growth of youth enterprises with the rise in the national unemployment rates (KNBS, 2009).The demise of white color jobs and the downsizing of corporations have encouraged both individuals and governments to explore the opportunities afforded by entrepreneurship as a means of bringing more

members of the population into economic productivity (Kirby, 2003). Thus the awareness of self-employment is raised as an alternative to unemployment. However, it is not clear if the awareness of the unemployment levels in the economy will make the youths work harder to achieve growth in the enterprises.

2.7 The Influence of Enterprise Characteristics on Growth of Youth Owned Enterprise

Business characteristics comprise a number of different factors that can affect business performance. The factors include years of establishment, legal status, the sector or industry that the business operates and location. Empirical studies in the US have found that there is a negative relationship between firm growth, age and size, as predicted by Jovanovich model', (Evans, 1987). However, Birch (1987) argues that, among small firms, older firms grow faster than younger ones, while among larger firms there is a tendency for growth to decline with age. Luidin (2004) found that firm growth decreases with firm age for firms with fewer than 25 employees, but increases with firm age for firms with more than 25 employees. Given that our sample consists of micro-firms, we would expect to find a negative relationship between growth and age of the firm. Delmar, (1998) demonstrate that incorporated firms – firms under limited liability – have higher growth than unincorporated firms. Several factors could explain the association between corporations and firm growth. Corporations have the ability to issue stock and their stockholders have the freedom to resell their stock. This ability facilitates the process of raising capital for expansion. Entrepreneurs' expectations also play a role. Their choice of legal form could reflect their assessment of the degree of risks of the project undertaken and their incentives for investment and growth (Jensen, 1998).

Tax treatment of profits and equity and the liability of the owner under the various legal forms could also affect the entrepreneurs' incentives for investment and growth. Owners of unincorporated businesses are fully liable with their entire personal assets, while owners of incorporated businesses are only liable up to the amount of their share in the business. The advantage of a limited liability is counterbalanced by increased tax liability and legal complexity. Current profits and equity of unincorporated businesses are taxed in proportion to the owner's share, while both corporate earnings and wealth are taxed at the corporate level. The interplay between these two factors could affect investment decisions and thus,

Previous studies of firm performance have found substantial differences by industry, with small firms in retail and personal service sectors having lower growth rates (Reynolds 1987, Cooper, 1994). This empirical observation could reflect differences in production technologies inherent in specific industries that have an impact on the determination of the "optimal size" of the firm. Thus, surviving businesses in industries characterized by a high degree of economies of scale are expected to exhibit higher rates of growth than surviving firms in industries where scale economies are relatively unimportant (Audretsch, 1995).

In retail and personal services, start-up barriers may be lower and more intense competitive pressures may characterize these sectors. In addition, products or services in these sectors may be easily imitated. In contrast, participation in industrial businesses or professional services may be highly dependent on very specific sets of capabilities or requirements developed through prior experience or education that render imitation difficult.

2.8 Influence of access Finances on the Growth of Youth Owned Micro and Small Enterprises

A major constraint to the growth of Youth Run Enterprises (YREs) is lack of access to finance. While potential youth entrepreneurs and existing YREs generally lack access to credit in both developed and developing countries, the problem is particularly acute in the latter (Chigunta, 2002). Empirical evidence suggests that retained earnings are the predominant source of financing among growing MSEs (Cooper, 1994). However, more successful MSEs use more external sources of financing, such as financial institutions, venture capitalists and individual investors, than do less successful firms. Previous research shows that, not only are there few micro-finance institutions in many countries, but those specifically targeted at youth are even fewer. Reviews of 902 organizations in 96 countries listed under the Microcredit Summit's Council of Practitioners revealed that there were only 21 organizations with 'youth' in their title (Curtain, 2000). Admittedly, there are credit schemes directed at young people in the mainstream microcredit organizations, but surveys reveal that youth are an underrepresented group (Drucker, 1985). Lack of sufficient collateral, experience and biases further disadvantaged the young people (Chigunta, 2002).

It is also important to note that many micro-credit schemes, especially youth credit schemes, have failed in many countries. The success of the Youth Enterprise Fund in Kenya is quite doubtful considering the rate of loan defaults that have been reported (GOK, 2012). The overall message from the failure of these schemes, suggests that success or failure in terms of financial viability and servicing the poor, in this case young people, largely depends on the design of the programme (Curtain, 2000).

In addition, Saleemi (2009) argues that entrepreneurs in developing countries do not get adequate finance from the organized banking sector. The banks insist on security and also a number of formalities and documentation. Due to formalities and documentation, small enterprises depend upon unorganized sector that charge high interest rates making them get caught in debt trap. For various reasons ranging from a lack of collateral to bias against small firms, youth MSEs tend to face greater financial constraints than do larger firms. Empirical studies provide evidence about the ways in which reduced access to finance hinders firm growth (ECA, 2001). MSEs in developing countries apply for and receive formal bank loans relatively infrequently and thus rely on other types of credit such as trade credit, overdrafts, and informal loans. Microfinance institutions also provide important sources of financing for MSEs, but their outreach is more limited than that of traders, especially in rural areas (Curtain, 2009).

In the same token, a study conducted in South Africa by Fatoki and Garwe (2010), Stevenson and Stone (2005) revealed that the problem of access and availability of finance to entrepreneurs in South Africa was ranked second after lack of entrepreneurial and management competencies in most inspiring and existing entrepreneurs in the MSEs sector in South Africa, consistent with the study by Hermington and Wood (2003) who also conducted their studies in South Africa. However, a research by Bowen, Morara and Mureithi (2006) relegates access to credit to fourth place with competition and poor security ranking first and second respectively. However, the degree to which limited financial resources alone are a major obstacle is still debatable. Okpara and Wayne (2002) in a study in Nigeria found that 65.6% of the firms studied depended entirely upon

personal saving for capital, 10.9% had access to saving, 9.4% used commercial banks and 7.8% drew resources from partners, shareholders and other resources.

While MSE owners often claim insufficient credit as their pressing obstacle, enterprises financial growth percentages may not always correspond to actual growth trends (Okpara, et al 2002) Access to finance may be necessary but is not a sufficient condition for growth.

2.9 Influence of Social Networks on Growth of Youth Owned Enterprises

The term social networks is used to refer to relationships between individuals, Socio networks of entrepreneurs have been found to play an important role in the establishment, development and growth of small business (Jensen, 2001). The recognition that social networks can be a sustainable basis for small business growth has been brought about by examination of ethnic businesses. Social networks can assist in mobilizing resources, getting support and help, creating legitimacy during start-up and growth, and establishing viable business relations. The Taiwan family enterprise relies extensively on networks of Kin and friends for strategic resources such as labour, capital and information (Mark, 1992). The performances of enterprises in their first years have been found to be influenced by both the size of entrepreneurs' networks and the interconnection and frequency of relationship of its members. Accordingly, many female business owners tend to take the advice of business colleagues and friends very seriously (Hansen, 1995).

Similarly, in examining the success rate of startup entrepreneurial companies in terms of survival and growth, the more successful entrepreneurs were found to be those who participated in a network with other entrepreneurs, and received help or emotional

support from their social and personal networks (World Bank, 2002). Women entrepreneurs have been found to have different personal and social networks from men (Aldrich, 1989).

2.10 Theoretical Framework

Business literature dealing with the reasons for small firm growth can be categorized into two schools of thought. The first adheres to an organizational life cycle perspective, which sees growth as a natural phenomenon in the evolution of the firm. The second school of thought sees growth as a consequence of strategic choice. In either case the attributes of the business owner, organizational resources and environmental opportunity are crucial in expanding the firm or in overcoming the barriers to the evolution of the firm from one stage to the next (Cooper, 1994).

In economic theory, it is assumed that the firm growth is independent of firm size although this law may only apply to firms that have attained the level of minimum efficiency. The economists view on enterprise growth reflects the effects of different supply and demand conditions on different sectors at different points of the business cycle (Cooper, 1994). The minimum efficiency condition, suggests that in general, growth may also be linked to the enterprise of the owners and the managers, the collective experience of the enterprise itself as an organization and the organization of modern skills and practices through management development and staff training.

2.11 Conceptual Framework

Based on the literature review and the Economic theory review the conceptual framework for this study is developed to propose how entrepreneur characteristics, enterprise characteristics, the business environment, access to finance and social networks influence the growth of youth owned small and micro enterprises. In order to start and maintain a successful business many factors are supposed to be analyzed. This framework categorized factors influencing growth of micro and small enterprises as access to finance, enterprise characteristic, business environment, social networks and individual characteristics.

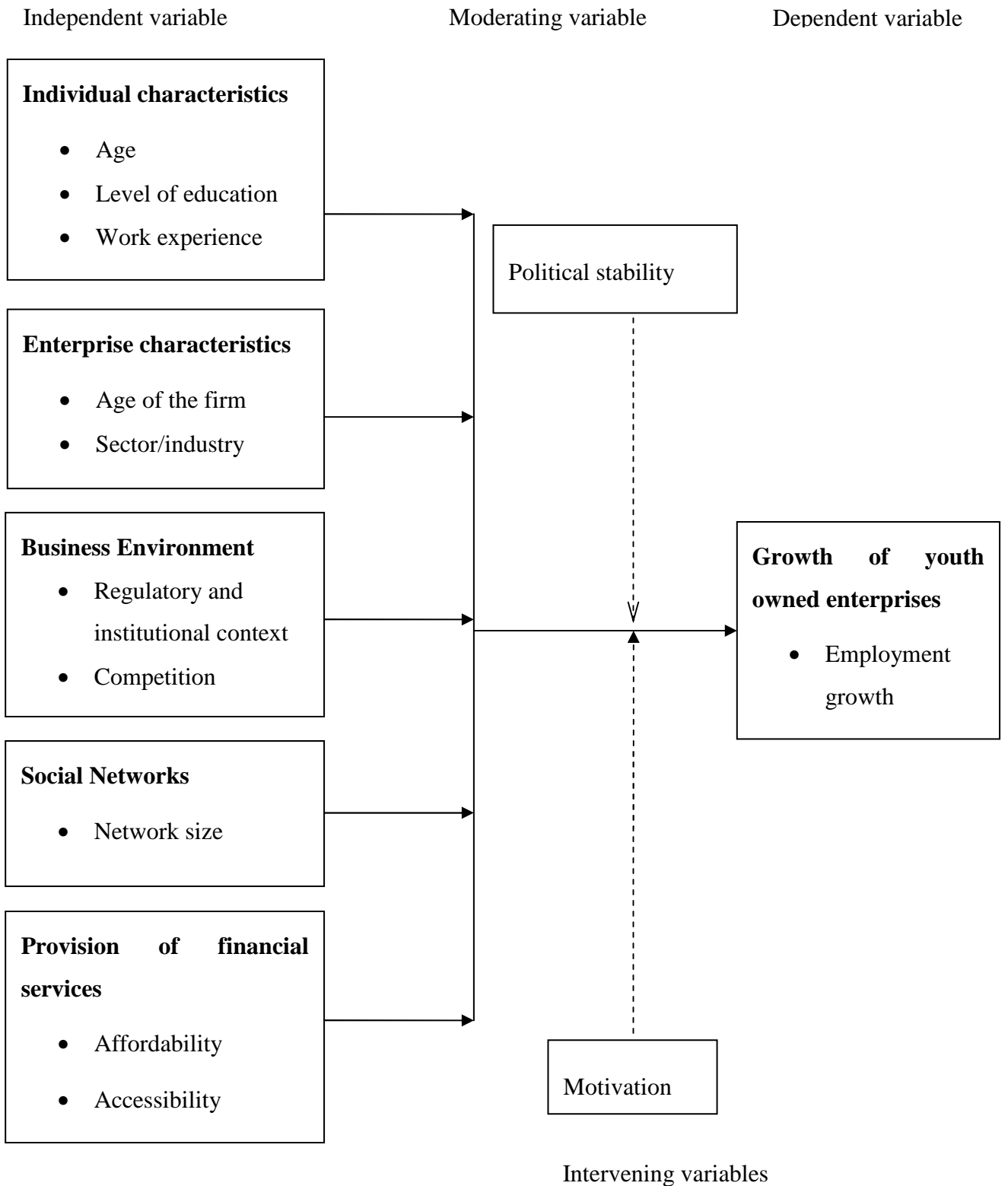


Figure 1 Conceptual Framework

The conceptual framework suggests that:

There are significant relationships between entrepreneur characteristics and the growth of youth entrepreneur's age; work experience and gender determine. There are significant relationships between entrepreneur characteristics and the growth of youth entrepreneurs. There is also a relationship between social networks and enterprise growth. Higher number of social networks leads to faster growth of enterprises because of the support derived from such networks. Young people have limited networks leading to them having limited social capital.

The enterprise environment also affects the enterprise growth. These include the infrastructure and the regulatory processes. Burdensome regulations hinder growth while provision of infrastructures promotes growth. Moreover, young entrepreneurs are typically less educated and less connected to business networks than their adult counterparts. This constrains their ability to obtain the relevant information and understand the regulations in their business environment. The characteristics of the firm influence growth. Adaptation of technology lowers costs of production hence increased profit margins. Young people are likely to have less access to financial capital from inheritances or more typically from capital accumulated in house ownership or from personal savings. Due to their limited savings young entrepreneurs face notably greater challenges to obtain credit resulting in them missing business opportunities.

2.12 Summary

The chapter has presented the literature review on factors influencing growth of micro and small enterprises. Different literature was reviewed on influence of entrepreneur characteristics on growth of youth owned enterprises, the influence of business characteristics, influence of business environment, influence of availability of capital and the influence of social networks. The chapter also presents the conceptual framework developed from the literature review and the economic theory.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces and describes the research design and methodology which was used to carry out the study. It outlines the sampling design technique that was used to select sample of the study. It outlines the method, technique and tools which was used to collect data and how the data collected was used to collect data and how the data was analyzed. The chapter further describes the population of the study which the sample selected and the types of data and how to collect the data.

3.2 Research Design

A research design is the arrangement of conditions for collection of data in a manner that aims to combine relevance to the research purpose with economy to procedure (Kothari, 1985). A descriptive research describes the characteristics of a population and involves a collection of techniques used to specify, delineate, or describe naturally occurring phenomena without experimental manipulation. The research design of this study was descriptive, designed to collect data from the selected sample. This made it possible for the researcher to produce statistical information on factors influencing the growth of youth enterprises.

3.3 Target Population

The population of interest in this research consisted of 241 youth entrepreneurs aged between 18-35 years from Tigania West Division of Meru County. The study focused on micro and small enterprises owned and operated by youth entrepreneurs involved in eighteen different types of businesses (Table 3.1).

3.4 Sampling Procedure

According to Kombo and Tromp (2006) sampling is the procedure of selecting a number of individual or objects from population such that the selected group contains element representative of the characteristics found in entire group was used to get a sample from the profanity (Kothari, 1998). In probability sampling, each member of the population has an equal and known probability of being selected. According to Krejcie and Morgan (1970) a sample is determined using the following formula.

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

d² (N-1) + X² P (1-P), where,

S= required sample size

X²= the table value of chin square for 1 degree of freedom at the desired confidence level (3.841)

N= the population size.

P= the population proportion (assumed to be 0.50 sin this would provide the maximum sample size

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

Tigania West Division has a total of 258 youth owned enterprises. These are youths aged between 18 and 35 who already are in business. Accordingly, the desired sample size will be 152. (Table 3.1)

Table 3.3 Target population

Strata	Number
Barber Shops (Kinyozi) & Hair Salon	25
Hotel And Restaurants	14
Retail Shops	65
Cy Café	6
M-Pesa Shops	9
Furniture Workshops	21
Butcheries	11
Electronics And Mobile Phone Accessories	8
Hardware Shops	10
Wholesale	8
Matatu Transport	17
Tailoring Shop	10
Cloth Boutiques	10
Bars	6
Cosmetics	8
Motor/Motor Bike Spares	5
Boda boda (motor bikes transport)	25
Total	258

Source: Nyambene County Council

The study used stratified random sampling where the selected sample from each type of enterprise is indicated in the Table 3.2.

Table 3.4 Sample Size

Strata	Number	% Proportion Population	Sampling Size
Barber Shops (Kinyozi) & Hair Salons	25	10	15
Hotel And Restaurants	14	6	9
Retail Shops	65	22	33
Cyber Café	6	2	3
M- Pesa Shops	9	4	6
Furniture Workshops	21	6	9
Butcheries	11	4	6
Electronic And Mobile Phone Accessories	8	3	4
Hardware Shops	10	4	6
Wholesale	8	3	4
Matatu Transport	17	7	10
Tailoring Shop	10	4	6
Cloth Boutiques	10	4	6
Bars	6	2	3
Cosmetics	8	3	4
Motor/ Motor Bike Spares	5	5	7
Boda boda	25	10	15
Total	258	100	163

3.5 Methods of data collection

Data collection involved the process of preparing and collecting data primarily to provide information regarding a specific topic. This research used a well constructed questionnaire for primary data collection. According to Kothari (2003), primary data is collected from immediate source for the purposes of research. The data collection involved gathering both numeric information as well as text information so that the final data presentation was both qualitative and quantitative.

Questionnaires

In order to collect data on the factors influencing the growth of youth owned enterprises, the structured questionnaire was administered to youths who own businesses. The structured questionnaire consisted of structured open and closed ended questions. The open ended questions were used to collect in-depth information from the respondents. The questionnaires contained multiple choice questions which offer respondents the ability to choose from a list of several answer choices. One research assistant and the researcher administered the questionnaire. The research assistant was trained on the topic under study and on the handling of the research tool. The researcher closely supervised the research assistant during the data collection.

3.6 Validity

According to Kombo and Tromp (2006), the validity of a test is a measure of how well a test measures what it is supposed to measure. The instruments of data collection: the questionnaires were based on the objectives of the study to ensure that every question

was relevant. The researcher sought the assistance of the supervisor to ascertain the validity.

3.7 Reliability

Reliability is the extent to which a measurement gives results that are consistent. The researcher tested the instrument of data collection to ensure their reliability. The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. The measure has a coefficient ranging from 1 to 0. A value of 0.7 or less generally indicates unsatisfactory internal reliability. All the scales were found to be reliable as their reliability values exceeded the threshold of 0.7.

The measurement of the dependent and independent variables was undertaken as shown in Table 3.3

Table 3.5 Operationalization of variables

Objective/research question	Type of valuables	Indicators	Measure	Data collection	Level of scale	Approach analysis	Level analysis
To determine the business environment factors on growth of youth owned MSEs.	Independent	Infrastructure Regulations and policies	Number of policies and regulations in place	Questionnaire	Nominal, ratio, ordinal	Qualitative and quantitative	Descriptive
	Dependent (growth of youth owned enterprises)	Number of employees Volume of sales	Rate of growth of sales Percentage increase in number of employees	Questionnaire	Nominal, ratio, ordinal	Qualitative and quantitative	Descriptive
To establish the relationship between financial services provisions and growth of youth owned micro & small enterprises.	Independent	Accessibility affordability	Number of financial institutions Degree of perceived obstacles to funding	Questionnaire	Nominal, ratio, ordinal	Qualitative and quantitative	Descriptive

To access the influence of social networks on growth of youth owned micro and small enterprises	Independent	network size	size of the network	Questionnaire	Nominal, ratio, ordinal	Qualitative and Quantitative	Descriptive
To determine the influence of enterprise characteristics on the growth owned small enterprises	Independent	Sector/industry Formality Age	Age of business in years Business sector	Questionnaire	Nominal, ratio, ordinal	Qualitative and quantitative	Descriptive
To assess the influence of individual characteristics on the growth of youth owned micro and small enterprise.	Independent	Age Work experience Gender Level of education	Number of years (age and work experience) Number of males and females	Questionnaire	Nominal, ratio, ordinal	Qualitative and quantitative	Descriptive

3.8 Methods of Data Analysis

Data analysis consisted of examining, categorizing, and tabulating of collected information. This involved a careful analysis of the completed questionnaires in order to ensure that collected data is accurate and consistent with other information.

Descriptive statistics was used to establish the general characteristics of the population under study. Primary data was processed using Statistical Package for Social Sciences (SPSS). The relationship between the independent variables such as ages, level of education, work experience and other variables in relation to the dependent variable(growth of youth owned enterprises) correlation and data presented in form of summaries, frequencies, percentages.

3.9 Ethical issues

The researcher maintained a high degree of confidentiality where the identity of the respondent was not revealed. Information was collected from respondents with their consent and voluntarily. Permission was also sought from the relevant authorities to allow collection of information from respondents.

3.10 Summary

The chapter has discussed the methodology that was applied in the study, various research methodology items have been explained as per their application. The explanation of these research methodology items followed the sequence; research design, target population, sampling procedure, methods of data collection, validity, reliability and methods of data analysis which was used.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTREPRETATION

4.1 Introduction

Presented in this chapter are data analysis, presentations and interpretations of findings. The data presented in this chapter were processed using Statistical Package for Social Sciences (SPSS). All themes discussing the same research questions were presented and analyzed together. In this analysis, frequency tables, percentages and correlation were used. The analysis results, discussions and interpretations are organized as per the specific objectives of the study.

4.2 Questionnaire Response Rate

The study sampled 163 youth entrepreneurs aged between 18-35 years in Tigania West Division. Out of this sample, 152 questionnaires were filled and returned representing a 93% return rate. This response rate was considered adequate for data analysis.

4.3 Demographic data of the respondents

The influence of an entrepreneur's age, gender, highest level of education, work experience and family background on the growth of MSEs was examined. These were chosen because various researchers had found significant relationships between these factors and the growth of MSEs (Storey, Wiklund and Shepherd 2003).

Table 4.1 Distribution of youth entrepreneurs according to age in Tigania West Division (2013)

Age	F	%
18-21 years	27	17.8
22 -26 years	22	14.5
27-30 years	53	34.9
31-35 years	50	32.9
Total	152	100.0

Data shows that majority of young people who own small enterprises were aged between 27 and 35 years. The average age of the sample is 28 years. The level of youth participation in entrepreneurship seems to increase with age.

The youth were further asked to indicate their gender. They responded as indicated in Table 4.2.

Table 4.2 Distribution of youth entrepreneurs according to gender

Gender	F	%
Male	89	58.6
Female	63	41.4
Total	152	100.0

The percentage gender distribution 58.6 for male and 41.4 for female representing a fairly even gender distribution. This ensured balanced opinions of both male and female

respondents. The respondents were further asked to indicate their highest level of education. The data is presented in table 4.3.

Table 4.3 Highest level of formal education successfully completed by youth entrepreneurs in Tigania West Division (2013)

Highest level of education	F	%
Never attended	6	3.9
Primary school	49	32.2
Youth polytechnics	11	7.2
Secondary	70	46.1
Diploma	11	7.2
University Degree	5	3.3
Total	152	100.0

Data shows that an overwhelming majority 96.1% of youth had attended formal school. The high educational attainment among youth entrepreneurs may be a reflection of the numerous school leavers who on completion of school, tend to find alternative employment opportunities in this sector.

Table 4.4 Business Management Experience

Years	F	%
None	73	48.0
Less than 1 year	33	21.7
1-3 years	24	15.8
4-6 years	12	7.9
Above 6 years	10	6.6
Total	152	100.0

Data shows that majority of the entrepreneurs 85.5% have relatively little formal work experience and management experience. Young people lack the necessary managerial and work experience which can only be gained from the work place. This therefore means limited transfer of skills from work place to the business.

When asked about their motivation for starting their businesses they responded as indicated in table 4.5.

Table 4.5 Youth responses on motivation for starting business

Response	F	%
Desire to be independent	32	21.1
I have difficulty in finding paid employment	91	59.9
Self fulfillment	23	15.1
I want to lead and motivate other	6	8.3
Total	152	100.0

Table 4.6 Correlation of items used to measure entrepreneurial characteristics

	Age	Motivation	Work Experience	Family background	Business Growth
Age	1				
Motivation	-.011**	1			
Work Experience	.473**	-.314**	1		
Family background	-.007	.152	.293**	1	
Business Growth	0.029	-.086	-.159	-.009	1

Age of the entrepreneur does not seem important for growth performance. However, the level of education has a significant impact on growth of the venture (coefficient of -0.021). The estimated coefficient for not finding a suitable paid-employment job (motivation) as the reason for the business start-up, though negative, is not statistically significant.

4.6 Influence of business characteristics on the growth of youth owned micro and small enterprises

To assess the influence of business characteristics on the growth of youth owned micro and small enterprises, the entrepreneurs were asked to indicate the industry or sector they were engaged in, the number of years their businesses operated and the legal form of their businesses. The data is represented in table 4.7 and 4.8 respectively.

Table 4.7 Youth industry or activities in which their business operated

Industry	F	%
Retail general trade	69	45.4
Bars / Hotels/Restaurants	12	7.9
Beauty /barber shops	54	35.5
Information technology	7	4.6
Retail agriculture produce	10	6.6
Total	152	100.0

Data show that a great majority of enterprises are engaged in service activities and retail general trade. This suggests that young people may have limited know-how and resources needed in other sectors like manufacturing which 0% young people indicated as the sector they were in.. The data shows that youth operated various forms of businesses and hence this would give varied scenario of the factors that affected the growth of these businesses.

The researcher was further interested in establishing the number of years their businesses had operated. Data showed that 89.5% operated their businesses between 1 and 5 years and 10.5% operated their businesses over 5 years.

Table 4.8 Youth responses on the legal form of their businesses

Response	Frequency	Percent
Sole Proprietorship	119	78.3
Partnership	33	21.7
Total	152	100.0

Data shows that 78.3% of the young people operated sole proprietorship type of business. Majority of them indicated that they preferred sole proprietorship because they were not conversant with the partnership kind of business status.

Table 4.9 Correlation among items used to measure business characteristics

	Business growth	Firm activity	Firm's legal status	Age of business
Business growth	1			
Firm activity	.024	1		
Firm's legal status	-.019	.091	1	
Age of business	.038	.109	.153	1

4.7 Influence of access of financial resources on the growth of youth owned micro and small enterprises

To determine how accesses to financial resources effect on the growth of youth owned micro and small enterprises, the researcher sought to establish the source of finance for starting their businesses.

Table 4.10 Youth responses on the sources of startup funding

Source	F	%
Bank loan	12	7.9
Own capital/savings	95	62.5
Saccos	18	11.8
Loan from family, friends or colleagues	15	9.9
Government programmes	12	7.9
Total	152	100.0

Data shows that majority 62.5% of youth had been able to access funding from their own capital and savings while the least from banks and government programmes. The large

dependence on funds closely related to the owners' household suggests the need to support household enterprises from low-income households. Given the meager resources they might have to begin with these enterprises will be constrained in their future development.

The researcher further sought to establish the amount of money used for start-up of business. The responses are presented in Table 4.6.

Table 4.11 Youth response on the amount of funding that they had been able to access

Source	Frequency	Percent
Less than Ksh 1,000	5	3.3
Ksh 1,000 - Ksh 5,000	17	11.2
Ksh 5,001 - Ksh 10,000	68	44.7
Ksh 10,001 - Ksh 30,000	28	18.4
Ksh 30,001 - Ksh 50,000	11	7.2
Ksh 50,001 - Ksh 500,000	23	15.1
Total	152	100.0

The study found out that most of the amounts accessed ranged between Ksh 5000 and Ksh 10000. awareness of the existence of other lending sources remained low and difficult rules and procedures associated with finance management. Impediments to accessing business funding indicated by the entrepreneurs were rules and procedures

associated with financial management 10.5% ,lack of accounting records 14.5%,lack of knowledge about lending sources 30.3% and lack of collateral 29.6%.

Further asked what they perceived as remedy for those impediments, majority indicated that they required training 55.9%,simple collateral 29.6% and 10.5% youth friendly rules and procedures.

4.8 Influence of business environment on growth of youth owned micro and small enterprises

To determine the influence of business environment on growth of youth owned micro and small enterprises, the researcher sought to establish the aspects of the environment that the entrepreneurs thought were the biggest obstacles to the growth of their businesses.

The youths were asked to indicate the same, they responded as Table 4.12

Table 4.12 Youth responses on obstacles to their business growth

Obstacles	Frequency	Percent
Weak Demand	27	17.8
Transport	23	15.1
Security	15	9.9
Taxes and Regulation	12	7.9
Competition	47	30.9
Inflation	10	6.6
Erratic Electricity Supply	6	3.9
Cost of Electricity	12	7.9
Total	152	100.0

Data shows that majority of the entrepreneurs consider competition as the prime barrier to their business growth. The next serious barrier is weak demand and transport problems. Security, cost of electricity and inflation also pose considerable constraints.

Further asked how they thought the obstacles would be overcome they suggested reduction in taxes 22.4%,they would wish to change business location 19.7%,improved security 13.8%,having knowledge of competition 17.8% and constant power supply 11.2%. This suggests that entrepreneurs face various problems in growing their businesses.

4.8 Influence of social networks on the growth of youth owned micro and small enterprises

To assess the influence of social networks on the growth of youth owned micro and small enterprises, the youth were asked to indicate the number of people they had sought advice from. Data is tabulated in table 4.13.

Table 4.13 Youth responses on their network size

Years	Frequency	Percentage
1-5	98	64.5
6-10	22	14.5
11-15	10	6.5
None	22	14.5
Total	152	100.0

Data shows that majority 64% of youth entrepreneurs have between 1 and 5 network sizes. 14.5 yours indicated that they had no network. This could be because of inexpediencies and age-related constraints. Older people are expected to have more extensive social networks.

4.7 Business Growth of youth owned micro and small enterprises

To establish the business growth of youth owned micro and small enterprises, the youth were asked to indicate the employee they had in the start up of the business and the current number of employee they had. Data is presented in Table 4.14.

Table 4.14 Youth responses on the growth of their business

Growth rate	Frequency	Percentage
Increased Growth	32	21.3
Remained the same	55	36.0
Decreased Growth	65	42.7
Total	152	100.0

Data shows that majority of the youth 42.7% responded that their businesses experienced decrease in growth as per the changes in the number of their employees. Only 21.3% of youths recorded increased business growth. A correlation of items used to measure access to finance, perceived obstacles to growth and social networks is shown in Table 4.15

Table 4.15 Correlation among items used to measure access to finances, perceived obstacles and network size

	Perceived obstacles	Sources of capital	Amount of capital	Impediments to funding	Network size	Business growth
Perceived obstacles	1					
Sources of capital	-.115	1				
Amount of capital	.813	.565**	1			
Impediments to funding	.273**	-.300**	.352**	1		
Network size	-.245**	-.028	-.130	.152	1	
Business growth	.745	.082	.851	.159	.047	1

**Significant at 10% confidence level.

The correlation coefficient of perceived obstacles is positive and significant 0.745. The correlation coefficient of source of capital is positive and significant while impediments to funding coefficient are positive but not significant.

4.8 Summary

The chapter has presented data collected from the respondents. Presented is the demographic data of the respondents, business characteristics, access to financial resources, business environment and social networks. Data for each variable is presented in frequency tables and summary of correlation coefficients between the variable

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, discussions, conclusions reached and recommendations. The chapter also presents the suggestions for further research.

5.2 Summary of Findings

This section presents the summary of the findings from data analysis. The summary is presented as per the research objectives.

5.2.1 Entrepreneur Characteristics

Previous work experience has a significant influence on growth of the business. However the coefficient for gender and age though positive are not statistically significant. The age of the owners of the business also does not seem to affect growth performance. Data shows that the business sector that the business operates is not statistically significantly. The coefficient for legal status had a negative

Data on the demographic information of the respondents revealed that most of the youth 67% were aged between 27 and 35 years with a relatively few, 14.5% aged between 22 and 26. Data on their gender revealed slightly more than half, 58.6% of youth were male. As pertaining to their level of education, majority 46.1% of youth had secondary education. There was a significant relationship between age, work experience and

growth of youth owned micro and small enterprises. There was a significant relationship between the gender of the youth and growth of youth owned micro and small enterprises. The level of education has a significant impact on growth of the business. Growth is lower for businesses whose owners did not finish high school. However, having had a college or university degree does not have a significant impact on venture growth.

5.2.2 Business Characteristics

Findings on the influence of business characteristics on the growth of youth owned micro and small enterprises as stated in research objective one revealed a significant relationship between a firm's age and the growth of the venture. However, the industrial sector and legal status has no significance when it comes to the level of growth of micro enterprise. This finding is supported by various results on firm sector (Storey, 1993). The youth had a variety of businesses such as trading business wholesale or retail and also bars / hotels/restaurants.

5.2.3 Access to Financial Resources

Findings of the influence of access of financial resources on the growth of youth owned micro and small enterprises as stated in research objective two revealed that access to finance had significant influence on business growth. The coefficient for access to financial resources is positive and significant. Majority (62.5%) of youth had been able to access funding from their own capital and savings. Data on the factors that impeded youth access to funding included but not limited to lack of knowledge about lending sources, lack of collateral and lack of business plan.

5.2.4 Business Environment

Findings on the influence of business environment on growth of youth owned micro and small enterprises as stated in research objective three revealed that majority 30.9% of youth indicated that they considered competition as their biggest obstacle to their business growth. Weak demand was the second highest cited obstacle with 17.8% of the responses. Majority 22.4% suggested reduction of taxes as one of overcoming the obstacles they faced.

5.2.5 Social Networks

Findings on the research objective four on the influence of social networks on the growth of youth owned micro and small enterprises revealed that 64.5% had between 1 and 5 members of a network.

5.3 Discussion of Findings

This section discusses the findings of the data analysis. The primary objective this study was to understand the factors influencing the growth of MSEs. The discussion is presented as per the research objectives.

5.3.1 Entrepreneur Characteristics

The characteristics that were used to represent the individual characteristics were level of formal education, age, experience and family background. Previous research indicates that the entrepreneurs' level of formal education and previous work experience are a significant determinant of growth (Hirsch, 1990; Krueger, 1993). In this study the

analysis on the relationship between the entrepreneur characteristics and business growth found that the level of education and previous work experience influence growth. Previous research indicates that the entrepreneur's level of formal education is a significant determinant of the growth of MSEs (Kim, 1996, Kirby, 2003). In this study, although the level of education of the entrepreneur is positively related to the growth of MSEs, the strength of this relationship is not statistically significant. This suggests that the level of formal education does not matter in explaining the growth of youth owned MSEs in the area of study. This study suggests that entrepreneurs who have previous experience in the industry in which the current business is based were more likely to see their business growing in terms of sales, assets, and employment. These results support the findings from previous studies in which work-experience in the same sector seems to create the knowledge and skills which are needed in order to run a firm successfully (Staw 1991; Mead and Leodholm, 1998).

One explanation for this result is that those entrepreneurs who have previously managed a business would have gained valuable management knowledge. It is also suggested that individuals whose parents or close relatives were/are self employed perform better than others (Bannock, 1981). The coefficient for having a family member that owned a business had but not statistically significant. It is likely that this factor may contribute to the successful startup of a micro business but not necessarily to its growth where more specific skills to managing growth may be required.

5.3.2 Business Characteristics

The study also sought to evaluate the relationship between the business characteristics and business growth. The analysis on the relationship between the business

characteristics and business growth found that the year of establishment was linked to growth. The number of years the enterprise had operated is associated with firm growth. This is consistent with the findings by Birch (1987), who argues that among small firms; older firms grow faster than younger ones while among larger firms there is tendency for growth to decline with age.

5.3.3 Access to Financial Resources

The study sought to determine how access to financial resources affect the growth of youth owned micro and small enterprises. Majority of the youth 67.8% got their start-up capital from own savings and 29.6% from loans from family friends and colleagues. Formal financial institutions (banks) accounted for only 2.6% of the funding sourced. 52% of youths attributed their inability to access loans from bank to stringent rules and procedures associated with financing, 42% due to lack of collateral and 51% due to bad products. The size of start capital and source of capital are linked to business growth. Empirical studies provide evidence about the ways in which reduced access to finance hinders firm growth (ECA, 2001; Saleemi, 2009 and Curtain, 2000).

5.3.4 Business Environment

The study sought to determine the influence of the business environment on the growth of youth owned enterprises. Youth entrepreneurs identified the most current impediments to growth. 30.9% of youths think that the lack of market demand is a factor impeding growth. The suggestions they gave when asked how this obstacle can be overcome is to change their business location.

5.3.5 Social Networks

Findings of influence of social networks on business growth, interestingly seems to indicate that social networks are not influencing the growth of MSEs. This lack of relationship of social network size and business growth is consistent with other studies (Luo, 2000). This could be explained by the fact that young entrepreneurs have weak social and business networks.

5. 4 Conclusions

Whilst there numerous studies carried out on the influence of the entrepreneur, enterprise characteristics, business environment, accessibility of capital and social networks, most of them tend to concentrate on firms in big towns and very little is available on the influence of these factors on MSEs in small rural towns. This paper has investigated factors influencing growth of youth owned micro and small enterprises. Based on the study, it was concluded that there was a significant relationship between age, gender, highest level of formal education influence growth of youth owned micro and small enterprises. The study also concluded that business characteristics influenced the growth of youth owned micro and small enterprises. The study further concluded that access of financial resources influenced the growth of youth owned micro and small enterprises. Further conclusion was that business environment on growth of youth owned micro and small enterprises. Social networks were also found to influence growth of youth owned micro and small enterprises.

5.5 Recommendations

Based on the findings, the following were the recommendations:

- i. There is need to provide interventions to improve the performance of young people enterprises through provision of start- up funds and widening access to credit to enhance the capacity of these enterprises to provide better jobs for young people.
- ii. The government should ensure that Young entrepreneurs are provided with entrepreneurship and internship so that they get work experience before they start their businesses. These programmes should be tailored in a manner that can equip the youth with skills to start their own enterprises.
- iii. Government and all other stakeholders should ensure that startup capital and other business infrastructure is adequate. For instance power outages should be checked. Should also reduce taxation and provide youth entrepreneurs with starting business fund. The business registration costs and time taken should be addressed.
- iv. There is need to cultivate in the youth positive attitude towards self-employment to enable them understand that formal employment is not the only way of self-development.
- v. The education curriculum should assess the need of including entrepreneurship subjects so that the youth can be prepared to take up entrepreneurship.
- vi. There is need to empower the youth in identifying their abilities in the entrepreneurship and provide avenues for internship so that the youths can gain work experience.

5.6 Suggestions for further research

- i. The following were suggestions for further research
- ii. An analysis of the factors influencing growth of youth owned enterprises under devolved system of government in Kenya.
- iii. A study on the effects of entrepreneurial training on the effectiveness of youth entrepreneurship.

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APPENDICES

Appendix I: Letter of Transmittal

THE DISTRICT OFFICER

TIGANIA WEST DIVISION

P.O BOX 119-60602

KIANJAI

Dear Sir,

REF: PERMISSION TO COLLECT DATA TIGANIA WEST DIVISION

The above subject refers.

I am a student of Nairobi University pursuing a master's degree course in Project Planning and Management at Meru- Extra Mural Centre. I have chosen Tigania West Division as my study area to do a research on factors influencing the growth of a micro and small enterprises. I therefore wish to request for permission to collect information of the entrepreneurs. The information gathered will be kept confidential and will be used for academic purposes only.

Thank you

Lilian Kiruja

APPENDIX II

RESEARCH QUESTIONNAIRE FOR YOUTH ENTERPRISES

INTRODUCTION

The researcher is conducting a research study of micro and small enterprises growth in Tigania West. You have been selected in the survey because of your potential to provide the required information. Please answer this questionnaire as truthfully as possible. This information is for academic purposes only and the information will be treated as strictly private and confidential.

PART A: ENTREPRENEUR DEMOGRAPHIC CHARACTERISTICS

Please tick and answer as required appropriately.

1.1 Age

1. 18 – 21 years
2. 22 – 26 years
3. 27 – 30 years
4. 31 – 34 years

1.2 Gender

1. Male
2. Female

1.3 Please indicate the higher level of education you have successfully completed.

1. Never attended school
2. Primary school
3. Youth polytechnics
4. Secondary school
5. Diploma
6. University degree
7. Post graduate

1.4 (a) Have you been running any other business of your own prior to founding the present business?

1. Yes

2. No

(b) if Yes, for how long

1. None

2. Less than 1 year

3. 1 – 3 years

4. 4 – 6 years

5. Above 6 years

1.5 What was your motivation for starting your own business?

1. Desire to be independent

2. Financial motives

3. Job satisfaction

4. Self fulfillment

5. Employment creation

1.6 (a) Did you have any experience of business management tasks through earlier employment prior to going into business

1. Yes

2. No

(b) if yes for how long

1. None

2. Less than 1 year

3. 1 – 3 years

4. 4 – 6 years

5. Above 6 years

1.7 (a) Did you start your business in the same field as your previous employment?

1. Yes

2. No

(b) if yes how many years of experience did you have

1. None

2. Less than 1 year

3. 1 – 3 years

4. 4 – 6 years

5. Above 6 years

1.8 The following members of my family were running independent business before me

1. Yes

2. No

1.9 Please indicate which type of business he/she was running

1. Wholesale
2. Services (hotels, restaurant, cafes)
3. Manufacturing
4. Agriculture
5. Other services
6. Information technology

PART B: BUSINESS CHARACTERISTICS

2.1 How many years has your business been operating?

1. None
2. Less than 1 year
3. 1 – 3 years
4. 4 – 6 years
5. Above 6 years

2.2 What is your firms main activity

1. Wholesale/retail/general shop
2. Barbershop, saloon
3. Manufacturing
4. Hotel/Restaurant
5. Information technology

2.3 (a) Which of the following categories best describe your firm legal status?

1. Sole partnership
2. Partnership
3. Limited liability

(b) Why did you choose that type of business?

.....

.....

.....

PART C: BUSINESS ENVIRONMENT

3.1 What has been the biggest obstacle or hindrance to your business growth?

1. Weak demand

- 3. 5001-10,000
- 4. 10,00 – 30,000
- 5. 30,001 – 50,000
- 6. 50,001 – 100,000
- 7. More than 500,000

4.4 I am content with the maximum money that was lend to me

- 1. Yes
- 2. No

4.5 Do you think the capital invested affect your business growth?

1. Yes

2. No

4.6 If you were not bale to secure funding, what factors impended your access to funding?

- 1. Lack of accounting records business plan
- 2. Lack of collateral
- 3. Transaction costs
- 4. Distance to the lending institutions
- 5. Rules and procedures associated with public financial management
- 6. Lack of knowledge about lending sources.

4.7. What in your view can be done to overcome these impediments?

.....

.....

.....

PART E: SOCIAL NETWORKS

5. Have you asked for advice regarding your business from the following;

	Yes	No
1. Family	<input type="checkbox"/>	<input type="checkbox"/>
2. Friends	<input type="checkbox"/>	<input type="checkbox"/>
3. Neighbours	<input type="checkbox"/>	<input type="checkbox"/>
4. Customers	<input type="checkbox"/>	<input type="checkbox"/>
5. Creditors	<input type="checkbox"/>	<input type="checkbox"/>
6. Bankers	<input type="checkbox"/>	<input type="checkbox"/>
7. A lawyer	<input type="checkbox"/>	<input type="checkbox"/>
8. Advise from public sector	<input type="checkbox"/>	<input type="checkbox"/>
9. Current colleagues	<input type="checkbox"/>	<input type="checkbox"/>
10. Former colleagues	<input type="checkbox"/>	<input type="checkbox"/>
11. International contact	<input type="checkbox"/>	<input type="checkbox"/>
12. A researcher	<input type="checkbox"/>	<input type="checkbox"/>
13. A person with much business/experience	<input type="checkbox"/>	<input type="checkbox"/>
14. An investor	<input type="checkbox"/>	<input type="checkbox"/>

PART F: BUSINESS GROWTH

6.1. Please indicate the firm's total number of employees as at December in each of the following years. (Both part-time and fulltime including relatives)

YEAR	No.of Workers
Dec 2010	_____
Dec 2011	_____
Dec 2012	_____

ADDITIONAL INFORMATION

6.2. How would you describe your business sales turnover the last three years.

- 1. Increasing
- 2. Stable
- 3. Critical and down sizing

Thank you for your cooperation