

**INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES ON
PROFITABILITY OF GOVERNMENT FUNDED YOUTH GROUP
BUSINESSES IN KURESOI SUB – COUNTY, KENYA**

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DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

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

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DEDICATION

I dedicate this research project to my parents, Mr. and Mrs. Tonui whose wish was for me to take this course, for moral and inspirational support they provided to me during my studies. Dedication also goes to my classmates and lecturers for their encouragement and for making my studies possible.

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ABSTRACT

Although generally in Kenya there has been an increase in the promotion of youths owned businesses, not much has been achieved. Past statistics indicate that youth owned businesses exhibit high birth rate and high death rate with 40% of the start-up failing by the year two and at least 60% closing their doors by the fourth year. The objectives of the study was to establish the impact of investment practices, Liquidity practices, financial control practices and financial reporting practices on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya. The study was based on four theories: modern portfolio Theory, liquidity preference theory, the Theory of Financial Control and Operating Cycle Theory. The target population was 96 top officials from the 32 government funded youth group businesses operating in Kuresoi Sub-County, Kenya. Descriptive study design was adopted inform of a survey while a census survey was employed. Primary data was used which was collected using structured questionnaires. Data was analyzed using descriptive statistics and inferential statistics methods with the aid of SPSS while research hypotheses were tested at 0.05 significant levels with data presented using distribution tables and inferential statistics tables. The research findings indicate that a statistically significant positive relationship between Investment practices and profitability of government funded youth group businesses ($\beta = 0.166$, $p < 0.05$). The relationship between Liquidity practices and profitability of government funded youth group businesses was positive and statistically significant ($\beta = 0.225$, $p > 0.05$). There exist a statistically significant positive relationship between financial control and profitability of government funded youth group businesses ($\beta = 0.178$, $p > 0.05$). Further it was established that there exist a statistically significant positive relationship between financial reporting practices and profitability of government funded youth group businesses ($\beta = 0.330$, $p > 0.05$). Conclusions were made that investments practices, Liquidity practices, financial control and financial reporting practices have a significance influence with profitability of government funded youth group businesses. It was recommended that youth businesses invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. SMEs must be able to respond quickly and efficiently to the market signals to take advantage of investment opportunities and reap the benefits of the diverse local and regional market structure. Recommendations were made that proper liquidity management among government funded youth group businesses will ensure that the youth group business is able to take up business opportunities as they arise. In order to monitor financial position and performance, there is a need for timely and relevant financial statements reflecting what has been achieved; and to effectively plan for the business's future, there is a need for regular forecasted financial statements to enhance transparency in youth owned businesses.

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LIST OF ACRONYMS AND ABBREVIATIONS

COSO	–	Committee of Sponsoring Organizations
CVR	-	Content Validity Ratio
GDP	–	Gross Domestic Product
GOK	–	Government of Kenya
KNBS	–	Kenya National Bureau of Statistics
MFI	–	Micro-Finance Institutions
MOYA	–	Ministry of Youth Affairs
RFF	–	Routine Finance Function
SMEs	–	Small and Medium Enterprises
SPSS	–	Statistical Package for Social Science
YEDF	–	Youth Enterprise Development Fund

OPERATIONAL DEFINITION OF TERMS

Financial Control Financial control refers to facts that show whether or not the business has the right to control the economic aspects of the worker's job. (Stokes, 2006).

Financial Management Practices Financial management refers to the efficient and effective management of money (funds) in such a manner as to accomplish the objectives of the organization. Practices under financial management are; financial control, liquidity among others. (Aborede,2005)

Financial Reporting Financial reporting includes the following; the external financial statements (income statement, statement of comprehensive income, balance sheet, statement of cash flows, and statement of stockholders' equity (Doupnik & Salter, 2017)

Investment An investment is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or will be sold at a higher price for a profit. (Sullivan & Sheffrin, 2003).

Liquidity It means how quickly you can get your hand on your cash. Liquidity is to get your money whenever you need it. It is a measure of the extent to which a person or organization has cash to meet immediate and short-term obligations, or assets that can be quickly converted to do this (Lorenzoni, 2017).

Profitability Is the ability for a business to earn a profit. A profit is simply the revenue left over after you have paid all the costs and expenses related to your business activities.(Chen,2015)

Small and Medium Enterprise Also referred to as Small and Medium Business, this can be defined as small companies that have limited/ specified number of employees (Hatten, 2008)

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Micro and Small Businesses (MSEs) are recognized worldwide for the fact that they make up the largest business sector which contribute to the economic development (Muogbo, 2013). Governments in different parts of the world are increasingly promoting and supporting the growth of MSEs as part of their overall national development strategy. (Turyahebwa, 2013) indicated that small businesses are seen as the driving force for the promotion to economic development of every nation (Dauda et al, 2010). Reducing youth unemployment is one of the major challenges facing most governments in the world for decades to come (Royle, 2012). With an estimated 88 million young women and men worldwide unemployed, the need for employment creation efforts focusing on youth is undeniable. Youth are generally three and a half times more likely than adults to be unemployed (Schoof, 2006). In 2015, approximately 660 million young people will either be working or looking for work – an increase of 7.5 per cent over the number that was there in 2003.

Governments in different parts of the world are increasingly promoting and supporting the growth of Micro and Small businesses as part of their overall national development strategy. The sector plays an important role in economic development and act as vehicle for low-income people to escape poverty through market-driven, productive activities for growth of the economy. Consequently because of their role and significance to the economic development they have become a major research area in developing countries. Studies have been conducted highlighting the constraints which affect the growth of micro-businesses with a view to bring to the solutions but with no in-depth. For most of the businesses growth still stagnates and eventually fails. Their failure rates are always attributed to lack of management skills by most owner managers. As a result, there is need to carry out studies on the management practices of micro businesses in regard to financial practices (Rogito, 2010).

A number of studies (Degryse et al., 2011 and Raheman et al., 2007) explain performance trends in small and medium businesses in Spain, Pakistan and identify efficient working capital as a major predictor of SMEs profitability and overall

performance. Their findings are not at variance with Erasmus (2010) results that indicate that it is financing practices that determine the level of performance of SMEs. Other scholars like Nguyen (2001) share the same view and argue that efficient cash flow management practices enable SMEs to be profitable in Vietnam. However, other scholars like Abuzayed (2012) findings from his study on working capital management in Ghana, argue that cash management of SMEs depends on the mind set and experience of the owners.

The contribution of SMEs to Uganda economy cannot be over emphasized since SMEs contribute over 90% of total non-farm private sector employment, constitute approximately 20% of the national GDP, contribute over 20% of incomes of the labour force, and have great potential for reducing poverty levels (UIA, 2008). Namatovu et al. (2010) observed that majority of the businesses are found in restaurants and food processing, garages for motorcars and motorcycles, retail and whole sale trade, metal fabrication, furniture assembling, schools and transport services. In Tanzania the microfinance sector has recently experienced tremendous growth due to the increased number of firms engaging in microfinance services including commercial Banks and other profit oriented firms (Ejigu, 2011). Recent statistics shows that financial sustainability of micro finance institutions in Tanzania is has improved as more than half of them are self-financed and highly efficient and effective in terms of costs and operations (Tehulu, 2013)

In Kenya, according to the Kenya National Bureau of Statistics (2015), over 625,000 people join the labor market annually most of who remain unemployed or end up in informal sector. Amongst these people, the micro and small businesses absorb approximately 83 percent. However, despite the importance in employment creation, this informal sector experience growth challenges. It is estimated that Three out of five businesses fail within the first few years of operations. The challenges are attributed to poor management practices especially in planning, inappropriate financial practices and control which are main causes of failure (Longenecker, 2006). A simple management mistake is likely to lead to death of the enterprise (King, 2002). Although MSEs are making positive contributions to economic growth and development in Kenya the rate of failure is higher. This creates a gap that needs to be

filled if MSEs are to remain key pillars to economic development as envisaged in the vision 2030.

SMEs contribution to the Kenyan economy is widely acknowledged, they cut across all sectors of the economy and provide many employment opportunities and generate widespread economic benefits (Akwalu, 2014). The Government of Kenya revealed that 64 percent of its population was engaged in Small and Medium-Enterprise (Government of Kenya, 2009). According to the economic survey of 2003, the SMEs sector accounted for 74.2% of the total persons engaged in employment and contributed up to 18.4% of the Kenya's GDP in 2003. Economic recovery strategy for wealth and employment creation 2003-2007 recognized the need to establish and maintain a favorable environment for the growth and transformation of small businesses into medium sized businesses that can have capacity to create more employment opportunities.

1.1.1 Youth Group Businesses in Kenya

The youth in Kenya make up to about 32% of the population and 60% of the total labour force (Yambi, 2009). Unfortunately, as the Ministry of Youth Affairs (MOYA, 2006) found out, majority of them are unemployed “due to the country's high unemployment level”. According to Omolo (2010), about 40% of youths in Kenya are neither educated nor employed. Unemployment and lack of education not only contributes to material deprivation but also diminishes youth democratic participation thus triggering economic exclusion and social vulnerability (Education Development Center, 2009). In Kenya today, businesses employing between 1 to 99 people account for about 48 percent of all businesses; with a majority of these being managed or owned by the young people (25-34 years) (Abor, 2010). Three out of five of these businesses fail within the first Three years of operation and those that continue 80 percent fail before the fifth year (Government of Kenya, 2007). This failure of businesses performance is marked by poor return and bankruptcy proceedings (Njonjo, 2010) having noted how important the contribution of SMEs sector is in Kenya; despite their poor performance. Leadership must be increased to effectively respond to the challenges of creating productive and sustainable employment opportunities in the country amongst the youths (Karime, 2013)

Although generally in Kenya there has been an increase in the promotion of youths owned businesses, not much has been achieved. These promotions have been through the affirmative action like establishment of Youth Enterprise Development Fund (YEDF) in 2007. Budget of 2013/2014 set an ambitious youth and women empowerment programme (uwezo fund) by allocating 6 billion as revolving fund to be loaned to the youths and women, the presidential directive of thirty (30) percent access to government procurement opportunities to youth, women (King'ori, 2012). Studies conducted in Kenya show that most youth lack financial skills that leads to bankruptcy and irresponsible use of credit. This has led to an attempt by many organizations to teach the youth financial management skills as part of corporate social responsibility. The programs have had a positive impact but in actual sense they cannot reach all the youth. Among the youth groups who have benefited from youth enterprise development fund (YEDF) in Kuresoi Sub-County, Kenya, are and not limited to the following groups; Tagimwa youth group, Sunrise youth group, Pamoja youth group, Yotmet youth group among others.

1.2 Statement of the Problem

Despite the significance and the increased effort by the government of Kenya and other stakeholders to ensure the success of youth group businesses, past statistics indicate that youth owned businesses exhibit high birth rate and high death rate with 40% of the start- up failing by the year two and at least 60% closing their doors by the fourth year (Kenya National Bureau of Statistics, 2007). Youth unemployment was one of the underlying causes behind the political upheaval in Kenya's 2007/2008 postelection violence (Kenya Ministry of Youth Affairs and Sports, 2011). The Youth Enterprise Development Fund (YEDF) and Uwezo fund were established to provide young people with access to finance for self-employment activities and entrepreneurial skills development as a way of addressing unemployment and poverty which essentially are youth problems (Government of Kenya 2009). Without improved capability and tools to plan and project income and expenses for their households or small businesses, people with low financial management skills are exposed to added risk by borrowing from informal sources, saving too little, and failing to access appropriate financial services. As the financial landscape continues to evolve rapidly and offers increasingly complex products and services, low-income people are at risk of falling further behind. A study by Bowen et al 2009, established

that up to 50% of the SMEs owned by the youths in operation have a deteriorating performance and are said to stagnate at small levels and hence do not progressively grow into large enterprises. This deteriorating performance has been associated to youths being excessively flamboyant, wasteful and spending money irrationally (Geopoll report, 2015). most business failures are reported to result from the ineffective and inefficient management of working capital, particularly cash and receivables (Uluyol, 2013; Kaya and Alpan, 2012), implying the presence of serious deficiencies in the strategic thinking and implementation processes regarding the management of working capital. This chronic problem is evident in the diminishing returns of the youth's business performance. Several studies highlighted that, poor accounting and financial management practices as one of the factors contributing to massive failure of SMEs in the short run. Lack of proper financial management is one of the issues that easily lead to the collapse of businesses despite improved access to financing (Longenecker, et al., 2006). It is within the researcher's knowledge that no research has been done on financial management practices on performance of government funded youth groups. Therefore this study seeks to establish the influence of financial management practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

1.3 Objectives of the Study

The study was guided by the following objectives;

1.3.1 General Objective

The main objective of this study was to establish the influence of financial management practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

1.3.2 Specific Objectives of the Study

- i. To determine the influence of investment practices on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.
- ii. To establish the influence of Liquidity practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.
- iii. To establish the influence of financial control on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

- iv. To examine influence of financial reporting practices on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

1.4 Research Hypotheses

H₀₁: Investment practices have no significance influence on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya

H₀₂: Liquidity practices have no significance influence on profitability of youth owned businesses in Kuresoi Sub-County, Kenya

H₀₃: Financial control has no significance influence on profitability of youth owned businesses in Kuresoi Sub-County, Kenya

H₀₄: Financial reporting practices have no significance influence on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya

1.5 Scope of the Study

This study presents the relationship that exists between financial management practices and the profitability of government funded youth group businesses. The study was conducted from June 2017 to March 2018, the period was long enough to give room for amendments and review by the university experts. The research focused on all government funded youth group businesses in Kuresoi Sub-County, Kenya. The choice of the area of study was Kuresoi south within Nakuru county. The study targeted government funded youth group businesses drawn from registered youth groups identified by the Uwezo Fund Oversight Initiative (2015), YEDF Officers and Financial Institutions that have been involved in the disbursement and management of the funds to the youth groups in Kuresoi Sub-County, Kenya.

1.6 Significance of the Study

The study is significant to policy makers and youth groups' leaders in understanding the impact of financial management practices on the performance of the respective youth group businesses. It shades light on whether the financial management practices are beneficial to the youth groups in the long run. The study helps government agencies and commercial banks in establishing areas of financial management practices that ultimately improve the youth groups' overall performance. The study also assists other researchers in acquiring knowledge on how financial management

practices influence the youth groups' businesses profitability since not much research has been done on this subject in Kenya.

1.7 Limitations of the Study

Mugenda & Mugenda, 2003 explain that limitations are aspects of a research that may influence the results of the study but over which the researcher has no control. The study was limited to responses to a self-report which was acquired from the respondents who are the youth groups who have benefited from government funds e.g. from Uwezo fund and youth development fund.

The researcher faced a lot of challenges during the study which are not limited to the following limitations; During the administration of the questionnaires the researcher was not able to locate the geographical location of the respondents since most government funded youth group businesses are located in the rural areas. The researcher therefore employed some other means of locating the geographical location by relying heavily on the directions given by the Uwezo fund and youth enterprise development fund officers within Kuresoi Sub-County, Kenya.

Although confidentiality was assured, some of the respondents showed hesitancy to be involved at the onset fearing that the study is an initiative by the Uwezo fund or Youth Development Fund (YDF) to identify the youth group businesses who have defaulted on their loans. This was resolved by ensuring that respondents do not indicate their business names and all the information provided would be treated in strict confidence.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covers several sections that examine the theoretical literature on concepts, theories and empirical studies hitherto conducted in respect of financial management practices and performance of youth groups businesses. The chapter further outlines the theoretical review, conceptual framework, and the research gap.

2.2 Theoretical Literature Review

The study presents four theories which are linked with the variables and the conceptual framework and are arranged according to the arrangements of the variables.

2.2.1 Modern Portfolio Theory

This theory states that investors who are risk averse tend to construct portfolios to maximize on returns based on the existing market risks. The theory emphasizes risks are inseparable from high rewards. An investor therefore stands to benefit from this diversification and reduction of the riskiness of the portfolio. The theory further states that only – unsystematic riskiness which are specific to certain types of stock can also be diversified as the number of portfolios increase. Modern Portfolio Theory proposed by Harry Markowitz (1952) and argues that an efficient frontier of optimal portfolio can be constructed to give the highest possible returns at lowest risks.

According to Markowitz, a combination of several types of assets may reduce risk, provided that the investor chooses types of assets which move as independently of each other as possible. Once this condition has been met, the best possible ratio between risk and return will be achieved. According to Songor & Curtis (2005), someone who invests in different stocks is more likely to enjoy the benefits of portfolio diversification as a result of reduced risks of the portfolio. The risk of investing in different individual stocks is less than the risk inherent in holding many similar stocks (provided that the risks of the various stocks are not directly related) (Baral, 2008). A portfolio comprising of both assets must always pay off regardless of the season because adding one risky asset to another has the ability to dilute the overall risk of an all-weather portfolio.

This theory is relevant to this study because it is applied by the government funded youth groups in diversifying their loan portfolios so as to optimize unsystematic credit risk. The possibility of sudden decline in credit portfolio in a certain industry or geographical area cannot be ignored because shocks may arise at any time without giving the government funded youth groups enough time to cushion themselves (Caprio & Klingebiel, 2002). Therefore the youth groups must work out to ensure that the concentration of a portfolio is not too high across specific industries, geographically or within specific firms.

2.2.2 Liquidity Preference Theory

The general idea of the liquidity preference theory was developed by J.M Keynes's within a simplified model in which there is only two types of financial assets money, the liquid and the bonds with no maturity, the illiquid assets. According to him, an increased preference for liquidity in the model is equivalent to increased demand for money and therefore demand for money increases whenever more people think interest rates are likely to rise than believes they are likely to fall (Howel and Bain, 2008). The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress say, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Instead of a reward for saving, interest, in the Keynesian analysis, is a reward for parting with liquidity.

According to the Liquidity Preference Theory money is held for different motives. These are the transactions motive, precautionary motive, and speculative motive. Transactions Motive: We get income only periodically. We must keep some money with us till we receive income next, in order to be able to carry out transactions. Transactions motive also includes business motive. It takes some time before the businessman can sell his product in the market. But he must be able to pay wages to the workers, cost of raw material, etc. as these become due. He must therefore keep some cash for this purpose. Precautionary Motive: Everyone puts something aside for a rainy day. Some money must be kept to meet unforeseen situations and

emergencies. Speculative Motive: The future is uncertain and the rate of interest in the market continues changing. No one can guess what turn the change will take. But everybody hopes, and with confidence, that his guess is likely to be correct. It may or may not be so. Some money, therefore, is kept to speculate on these probable changes to earn profit (Dimand, 2008).

According to this theory, investors will always prefer short term securities to long term securities. To encourage them hold long term bonds, long term securities should yield higher interests than short term bonds. Therefore, the yield curve will always be upward sloping. A hypothesis about the term structure of interest rates (the relationship between interest rates and term to maturity) holding that investors demand a premium for bearing interest rate risk. The extent of the premium increases with term to maturity but at a decreasing rate. The two reasons behind the decreasing rate of increase are that duration, a measure of a bond's price sensitivity to interest rate changes, increases at a decreasing rate with term to maturity and that long term interest rates are typically less volatile than short term interest rates (Tennant, 2006).

The liquidity preference theory explains more on the Liquidity practices which most investors prefer. Investors prefer long term security which yields high interest. Youth group businesses benefits a lot when they have investments with high interest gained from the investment, the receivables period should be as low as possible to enable liquidity of the business,

2.2.3 Theory of Financial Control

The present and future personal functions of human beings are asserted to constitute the fundamental point of reference in a theory of financial controls. This theory stipulates that existing and possible functions of financial tools for organizations are most essential. In the same light, it is stated that, payments, financial instruments, accounting, control models, economic calculations, and related considerations, both within and outside of the organization, ought to be discussed in regard to inner characteristics but also possible effects. It is noted that establishing the relationships between various activities and financial processes, from a financial control point of view, is a general and basic issue (Ostman, 2009). The theory of financial controls for organizations places a natural focus on the firms such that they are viewed from several latitudinal areas.

The first regards the human beings' functions of what is accomplished through organizations, their activities and output. The second is about the structure of the organization and activities, and of transactions that various parties have with each other. The third area covers the control systems in the sense of recurring procedures and methods that are employed to relate present and future functions to resources both externally and internally. The aforementioned financial control tools are argued to be crucial from an individual organization's perspective and also for larger economic systems. The fourth and last area illustrates the specific processes of individual organizations for certain issues. The theory further states that structure and financial control system works together (Ostman, 2009). The financial control theory is very relevant to the current study given that it assists in better understanding of the intricacies surrounding financial management in an organization.

2.2.4 Operating Cycle Theory

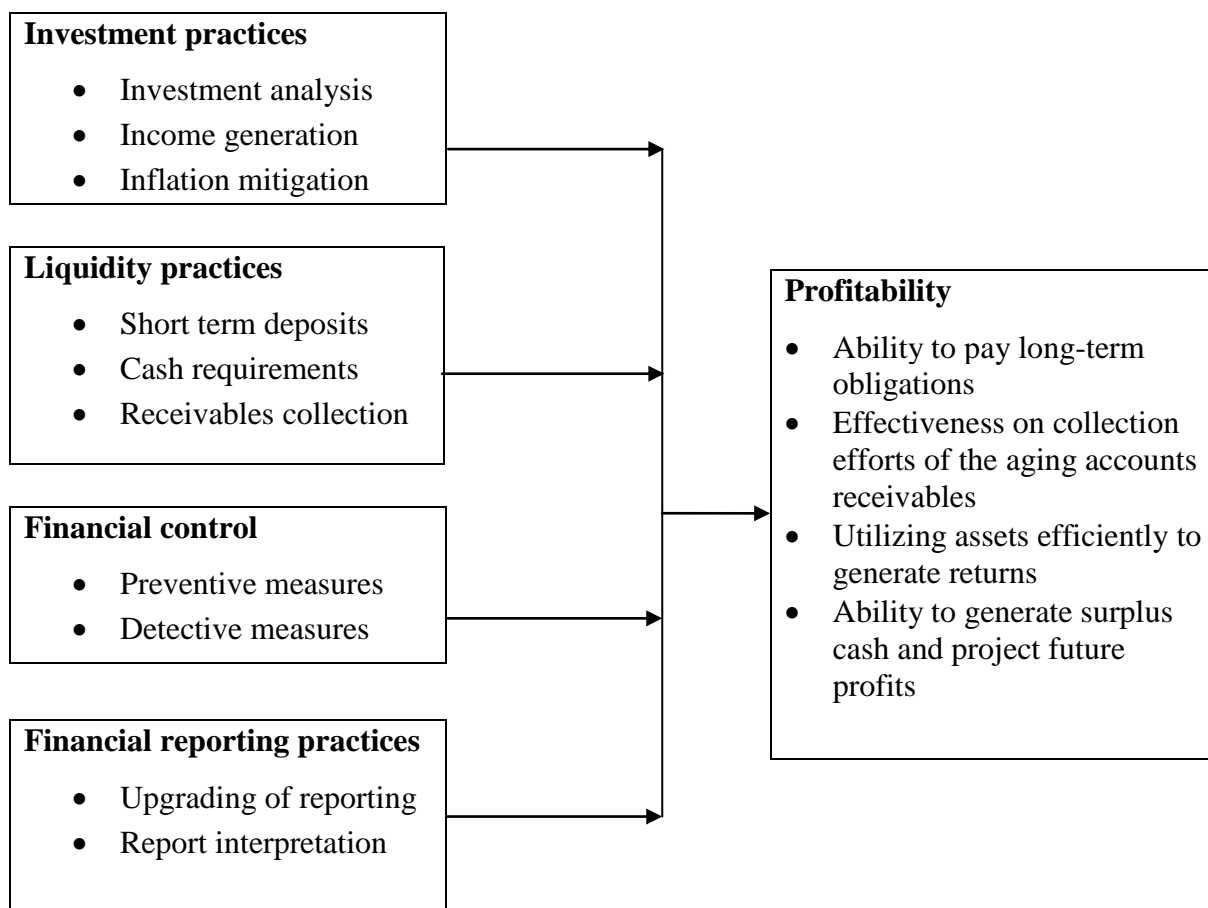
The concept of liquidity can be developed by extending the static balance sheet analysis of potential liquidation value coverage to include income statement measures of a firm's operating activity. In particular, incorporating accounts receivable and inventory turnover measures into an operating cycle concept provides a more appropriate view of liquidity management than does reliance on the current and acid-test ratio indicators of solvency. These additional liquidity measures explicitly recognize that the life expectancies of some accounts receivable components depend" upon the extent to which three basic activities- production, distribution (sales), and collection - are non-instantaneous and unsynchronized (Weston, 1979). Changes in credit and collection policy have a direct impact on the average outstanding accounts receivable balance maintained relative to a firm's annual sales. Granting more liberal terms to a firm's customers creates a larger, and potentially less liquid, current investment in receivables. When sales do not increase at least proportionately to the increase in receivables, this potential deterioration in liquidity will be reflected in a lower receivables turnover and a more extended receivables collection period.

Decisions that commit a firm to maintaining larger average receivables investments over a longer time period will inevitably result in higher current and acid-test ratios (Richards, 1980). Inventory turnovers depict the frequency with which firms convert their cumulative stock of raw material, work-in-process, and finished goods into product sales. Adopting purchasing, production scheduling, and distribution strategies

that require more extensive inventory commitments per dollar of anticipated sales produces a lower turnover ratio. This, in turn, reflects a longer and potentially less liquid inventory holding period. Firms need to modify either the payment practices established with trade creditors or their access to short-term debt financing provided by non-trade creditors so that decisions that create longer or less liquid holding periods will again be accompanied by a higher current ratio indicator of solvency (Weston, 1979). The operating cycle concept is deficient as a cash flow measure in that it fails to consider the liquidity requirements imposed on a firm by the time dimension of its current liability commitments. Integrating the time pattern of cash outflow requirements imposed by a firm's current liabilities is as important for liquidity analysis as evaluating the associated time pattern of cash inflows generated by the transformation of its current asset investments (Richards, 1980). Proportionately to the increase in receivables, this potential deterioration in liquidity will be reflected in a lower receivables turnover and a more extended receivables collection period. Operating cycle theory is relevant to this study in that operating cycle shows the average period of time required for a business to make an initial outlay of cash to produce goods, sell the goods, and receive cash from customers in exchange for the goods.

2.3 Conceptual Framework

This section presents conceptual framework that shows the hypothetical relationship between variables under study



Independent Variables

Dependent Variable

Figure 2.1: Conceptual framework

The study conceptualizes that the youth profitability depends on the effectiveness and efficiency in managing the business while focusing on the good financial management practices. Variables under study were measured using highlighted measurable indicators under each variable, for example investment practices were measured using; investment analysis, income generation and inflation mitigation. Liquidity practices were measured using; short term deposits, receivable collection and cash requirement.

2.4 Empirical Literature Review

Although lack of financial resources is the biggest hurdle in constituting a new firm and running it from inception and throughout its life cycles (Pretorious and Shaw, 2004; Atieno, 2009) good financial management practices are most important (Fatoki and Asah, 2011). Financial management is that managerial activity which is concerned with the planning and controlling of the enterprise's financial resources. Since most owner/manager of micro and small businesses lack the financial management skill, they operate on the routine finance functions (RFF) which does not require a great managerial ability since it is clerical in nature and are incidental to the effective handling of the managerial finance functions (Jones, et. al., 1998).

2.4.1 Investment Practices

Investing can be described as the redirection of resources from being consumed today to creating benefits in the future (Sullivan & Sheffrin, 2003). In other words, it is the use of assets to earn income or profit. Although it is no longer a bartering society where goods were often more perishable, it is preferable, if not essential, to invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. SMEs must be able to respond quickly and efficiently to international market signals to take advantage of investment opportunities and reap the benefits of the international trading system. This means they need to be competitive and productive. Effective business support systems are needed to enhance competitiveness and productivity of SMEs.

Development of an effective business support system is also a key condition for the success of investment capacity building. It requires business support agencies (including financial institutions), which are customer-oriented and which have a demonstrated capability of penetrating the SME sector. Multinational businesses seeking out new markets and investments offer capable SMEs the opportunity to insert themselves into global value chains through subcontracting linkages, while those that are unable to do so increasingly face the danger of losing their existing markets. Competition within the developing world for export markets, foreign investment and resources is also intensifying. Against this backdrop of increased global competition, SMEs associations, support institutions and governments in transition and developing countries have to adjust and adopt new approaches and invent new ways of working together to foster SMEs competitiveness.

Blocks (1997) survey of 232 small businesses in the USA indicated payback method remains the dominant method of investment selection for small businesses, whereas large corporations widely incorporate discounted cash flow models in financial analysis of capital investment proposals (Proctor and Canada, 1992). This is not evidence of a lack of sophistication as much as it is a reflection of financial pressures put on the small business owner by financial institutions. Payback period was used to evaluate capital projects by 51 percent of respondents, while 30 percent reported use of some variation of accounting rate of return. Only 10 percent reported use of discount cash flow methods such as net present value (5 percent) and internal rate of return (2 percent). This finding is consistent with that of Soldofsky (1964), Louma (1967), Corner (1967), and Grablowsky and Burns (1980).

According to Kipkemoi (2014), the components business investments includes cash and investments in marketable securities, account receivables, inventories, and accounts payable which have a positive relationship with profitability of the firm. Effective working capital management consists of applying the methods, which remove the risk and lack of ability in paying short-term commitments in one side, and prevent over investment in these assets in the other side by planning and controlling current assets and liabilities (Runyora, 2012).

2.4.2 Liquidity Practices

Liquidity refers to the ability of the organization to fulfill its day to day obligation. Saccos make money by mobilizing short-term deposits at a lower interest rate and lending or investing these funds in long term at higher rates hence the need for good management of this assets/liability creation (Mutua, 2012). Poor liquidity management will expose financial institution to liquidity risk which will have impact on its performance. In their research on factors affecting liquidity risk management practices in microfinance institutions in Kenya (Kimathi et al., 2015) found out that liquidity risk management has accelerated growth of MFI's in Kenya.

Banks are often rated with consideration to their capability of meeting cash and collateral requirements or their liquidity without heavy costs in the process (Bodla and Richa, 2010). Liquidity management is therefore a very crucial that bank managers have to take very carefully. The importance of liquidity is not limited to the bank alone but also influences the entire banking sector. According to Dang (2011), some

banks have high liquidity so as to the forgone cost of some investment capable of fetching high returns.

Uzhegova (2010) noted that a bank's profitability is closely related to the adequate level of liquidity, which for most banks is showed using the customer deposit to total assets ratio and customer deposits to total loan ratio. Indication of experience in trade-off between liquidity and return risk are by arise in a banks returns through the shifting of short term securities to long term loans, which also causes an increase in a bank's risk in liquidity. Inverse of this relationship is also true. Therefore banks with high liquidity ratios have less risks and low profits. The management is therefore at dilemma between liquidity and profitability (Uzhegova, 2010).

Choon et al. (2013) studied the determinants of liquidity of 15 commercial banks in Malaysia in period (2003-2012). They used specific factors (size of bank, capital adequacy, profitability, credit), macroeconomic factors (GDP, interbank rate, financial crisis). They used panel data (fixed effect model with annual data). The empirical results show that all factors included are significant except interbank rate. Kamau et al. (2013) showed that 42.2% of the variation in the liquidity of 27 commercial banks in Kenya is explained by the change of several factors (profitability, obligation, policy management, credit rating, monetary policy), 57.8% is explained by others factors.

Garcia-Teruel and Martinez-Solano (2007) investigated the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. Their findings revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle may improve the business profitability. Koyuncugil and Özgülbaş (2008) studied the financial data of 697 SMEs which are quoted to İstanbul Stock Exchange. The findings of their analysis presented that, 62% of these SMEs' profitability was weak, compared to with the others. The SMEs with lower scores had the common problems of low ROE and net profit margin, faced difficulties in the collection of receivables and had financial management problems (Koyuncugil and Özgülbaş, 2008)

2.4.3 Financial Control

Financial control is a comparison between the real amounts of money spent in businesses and the budgeted amounts. The controls in place to uphold expenditure management are very important, and can be used as a basis for determining the process of budgetary control on the route to accomplishing a desired goal, which can be linked to a certain outcome (Stokes, et. al., 2006). Control is a process of monitoring and evaluating to ensure that resources are obtained and utilized economically, efficiently and effectively, the latter implying a strong commitment by entrepreneurs to ensure not only that output is achieved, but integrated outcomes as well effectiveness (Nieuwenhuizen et. al. 2008). Kirsch (2004) defines control as a set of mechanisms designed in order to motivate individuals to attain desired objectives.

Fast-growing micro businesses have particular problems in controlling their finances. Growth brings frequent change to the internal structures and external environment of a micro enterprise. It is often difficult to ensure that financial control systems keep pace with the changing circumstances especially debtors. According to Omri et. al. (2012), debtors can hurt micro enterprise in two major ways. First, they absorb cash and effectively increase the funding requirement. Second, the longer a debt is unpaid, the greater the risk of a bad debt. This impacts on the enterprise and can be disastrous, even causing the failure of the business. Financial management is therefore about balance, and the optimization of resources for the growth of a micro and small enterprise.

Whittington & Pany (2001), talk about the comprehensiveness of internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. They further note that “Financial control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization. They mention internal control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others.

Agency theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. The theory recognizes the incomplete information about the

relationship, interests or work performance of the agent described as adverse selection and moral hazard. Moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done.

Financial control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits. Financial controls have played a major role in moderating the agency problem in corporations for many years. During the 1980s, several high-profile audit failures led to creation of the Committee of Sponsoring organizations of the Treadway Commission (COSO), organized for the purpose of redefining financial control and the criteria for determining the effectiveness of a financial controls system (Simmons, 1997). The product of their work is known as the COSO Internal Control-Integrated Framework (Simmons, 1997). The framework also points out that controls are most effective when they are “built into” the entity’s infrastructure (COSO,1992) and further states that “built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions. The COSO framework plays a key role in compliance because Section 404 of the Act requires companies to include in their annual report, a separate management report on the company’s financial control over financial reporting and an attestation report issued by a registered public accounting firm.

Morris (2011) separates financial controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management was overriding control features in order to manage earnings, then one would expect to find more financial control weaknesses related to general controls, even if the specific (account-level) controls are effective.

2.4.4 Financial Reporting Practices

A study by McMahon (2009) found that SME growth results in increased financial challenges or problems, and that there is consequently a greater need for careful attention to financial management in general, and financial reporting in particular, if the growing SME is to succeed in survival and performance terms. On the basis of the findings, an empirically supported case is made that improved financial control in growing SMEs can and should come about through a significant upgrading of their financial reporting systems: In order to monitor financial position and performance,

there is a need for timely and relevant financial statements reflecting what has been achieved; and to effectively plan for the business's future, there is a need for regular forecasted financial statements. Thus, a more sophisticated financial reporting system is necessary to ensure that the SME's economic resources are used effectively and efficiently in pursuit of its goals. It also follows that there is a particular need in growing SMEs for the skills of financial analysis which will allow financial statements to be read and understood, whether they contain historical or forecast information

Nguyen (2001) conducted a research study on Vietnamese SMEs and found that the practices which are more related to the profitability and performance of SMEs in Vietnam are the practices related to the 'accounting information systems, financial planning, working capital management, fixed-asset management and financial reporting and analysis. Kennedy and Tennent (2006) used "financial record keeping" the general indicator of financial management conduct in small businesses in Australia' while Butt, Hunjra and Rehman addressed "capital structure decision, dividend policy, investment appraisal techniques, working capital and financial assessment" as the most common financial management practices in Pakistan (Butt, et. al., 2010). Particular practices make a contribution to the whole task without necessarily standing out as all-embracing solutions to problems generally encountered. Improved financial reporting may therefore be viewed as part of a broader competence in financial management which, taken together with other functional capabilities, is likely to lead to more effective and efficient management of SMEs and significantly improve their prospects.

In every enterprise, financial records are important tools that facilitate growth. Financial management for the owner-manager and, indeed, for the most modest of small businesses, starts with the management of cash flow. Cash flow is critical to survival, representing the livelihood which enables all the activities of a firm to be undertaken. It is easy for the delicate cash resources of a small business to become locked up in unproductive areas, such as debtors, work in progress and finished stocks. Any areas where funds can become locked-up require effective management by keeping good financial records to minimize the extent of lock-up (D. Stokes & N. Wilson, 2006).

2.4.5 Profitability

Profitability is one of the most important objectives of financial management because one goal of financial management is to maximize the owner's wealth (McMahon, 2005). Thus, profitability is very important in determining the success or failure of a business. At the establishment stage, a business may not be profitable because of investment and expenses for establishing the business. When the business becomes mature, profits have to be produced. Due to the importance of performance, Edmister (2007) among other researchers have suggested that small firms need to concentrate on profitability. Jen (2003) found performance to be a significant determinant of a small firm's credit risk. Thomas and Evanson (2007) stress the aim of a business is not only the generation of sales, but also generation of profits. Profit is especially important because it is necessary for the survival of a business. Low performance contributes to under-capitalization problems because it leads to retained earnings and therefore to a reliance on external capital (Davidson & Dutia, 2001).

Argile's and Slof (2003) provided empirical evidence on the relationship between the use of financial reports and profitability based on a sample of Catalan farmers. The study found that the profitability of respondents using the reports for decision-making purposes was significantly better than those who did not use the reports Kraus et al. (2006), who examined strategic planning and performance in Austrian smaller enterprises, found that planning formalization has a positive and highly significant impact on the probability of belonging to a group of growth firms, whereas other aspects of strategic planning (time horizon, strategic instruments, and control) did not contribute to performance.

2.5 Critique of Existing Literature

On the financial decisions, majority of the studies found a negative correlation between leverage and performance, described by the ratio of earnings before interest and tax to total assets, was found in the Chinese firms (Huang and Song, 2006; Chakraborty, 2010). Kamau (2010) studied relationship between the capital structure and profitability of insurance companies in Kenya, Chepkemoi (2013) studied analysis of the effect of capital structure on the profitability of SMEs in Nakuru town. Birundu (2015) studied the effect of capital structure on the profitability of SMEs in

Thika Sub County. From the survey of relevant literature it is evident that many studies have been carried out in regard to capital structure.

Regarding the investment practices, Sullivan et. al. (2003) found that it is preferable, if not essential, to invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. Block's (1997) survey of 232 small businesses in the USA indicated payback method remains the dominant method of investment selection for small businesses, whereas large corporations widely incorporate discounted cash flow models in financial analysis of capital investment proposals. To determine the influence of investment practices on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

On the Liquidity practices Garcia-Teruel et. al. (2007) investigated the effects of working capital management on the profitability of a sample of small and medium-sized Spanish firms. Their findings revealed that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Moreover, shortening the cash conversion cycle may improve the business profitability. Bodla et al. (2010) found that liquidity management is very crucial and influences the entire banking sector. According to Dang (2011), some banks have high liquidity so as to the forgone cost of some investment capable of fetching high returns. Uzhegova (2010) noted that a bank's profitability is closely related to the adequate level of liquidity, which for most banks is showed using the customer deposit to total assets ratio and customer deposits to total loan ratio. The current study seeks to establish the influence of Liquidity practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

On financial control, Whittington et. al., (2001) indicate the need for comprehensive internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations. Financial control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization.

They mention financial control devices to include; use of budgetary techniques, production standards, inspection laboratories, employee training and time & motion studies among others. On the financial reporting practices, Nguyen (2001) conducted a research study on Vietnamese SMEs and found that the practices which are more related to the profitability and performance of SMEs in Vietnam are the practices related to the ‘accounting information systems, financial planning, working capital management, fixed-asset management and financial reporting and analysis.

Apart from tackling the issue which is faced by the youths globally i.e. the issue of unemployment The existing literature review has not adequately tackled the problems faced by the youth groups businesses., they have failed to address other financial issued like the financial management practices which due lack of it may lead to poor performance. Therefore the study by the researcher aimed at enriching the existing literature by looking at the influence of financial management practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

2.6 Summary of Literature Review

This chapter started by looking at the theoretical framework where it discussed the theories on which the study will be based on: agency cost theory, operating cycle theory and theory of entrepreneurship.

Regarding the investment practices, Sullivan et. al. (2003) found that it is preferable, if not essential, to invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. Block’s (1997) survey of 232 small businesses in the USA indicated payback method remains the dominant method of investment selection for small businesses, whereas large corporations widely incorporate discounted cash flow models in financial analysis of capital investment proposals. To determine the influence of investment practices on profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

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outstanding. Moreover, shortening the cash conversion cycle may improve the business profitability. Bodla et. al. (2010) found that liquidity management is very crucial and influences the entire banking sector. According to Dang (2011), some banks have high liquidity so as to the forgone cost of some investment capable of fetching high returns. Uzhegova (2010) noted that a bank's profitability is closely related to the adequate level of liquidity, which for most banks is showed using the customer deposit to total assets ratio and customer deposits to total loan ratio. These studies did not look at youth group businesses in particular. The current study seeks to establish the influence of Liquidity practices on the profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

On financial control, Whittington et. al., (2001) found that it includes the program for preparing, verifying and distributing to the various levels of management those current reports and analyses that enable executives to maintain control over the variety of activities and functions that are performed in a large organization. Stokes, et. al. (2006) found that the controls put in place to uphold expenditure management are very important, and can be used as a basis for determining the process of budgetary control on the route to accomplishing a desired goal, which can be linked to a certain outcome.

On the financial reporting practices, Nguyen (2001) conducted a research study on Vietnamese SMEs and found that the practices which are more related to the profitability and performance of SMEs in Vietnam are the practices related to the 'accounting information systems, financial planning, working capital management, fixed-asset management and financial reporting and analysis.

2.7 Research Gaps

Although there have been various researches on financial management skills, none of the studies has touched on the influence of financial management practices on the profitability of government funded youth group businesses. The previous research have dwell mostly on Information about the performance of an enterprise in particular and its profitability, is required in order to assess potential changes in the economic resources that it's likely to control in the future. Information about variability of performance is important in this respect. Information about performance is useful in

predicting the capacity of the enterprise to generate cash flows from its existing resource base. It is also useful in forming judgment about the effectiveness with which the enterprise might employ additional resources (Rees, 1995). The high rate of failure among small firms, due mainly to inefficient management underscores the need to develop sound managerial skills. The small businessman who learns how to collect, analyze and interpret information and how its relevant to specific problems will increase his firm's chances for survival, growth and profitability (Petrof et al 1972). Kamau (2010) studied relationship between the capital structure and profitability of insurance companies in Kenya. Birundu (2015) studied the effect of capital structure on the profitability of SMEs in Thika Sub County. From the survey of relevant literature it is evident that many studies have been carried out in regard to capital structure. Findings from studies done earlier and government reports on the state of affairs of small scale businesses reveals that the sector faces numerous problems and constrains that affect their performance. While much research has been done on the small business, little has been done specifically on investment practices, liquidity, financial control and financial reporting practices employed by the government funded youth group businesses in Kuresoi Sub-County, Kenya, The overall problem therefore is that relatively little is known about the relationship between financial management practices and profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The chapter describes the methods that were used to carry out the study. It contains the research design, the location of the study, population of the study, sampling procedure and sample size, instrumentation and data collection and the methods that were be used in analyzing the data.

3.1 Research Design

According to Mcmillan and Schumaker (2001) a research design is a plan for selecting subjects, research sites and data collection procedures to answer the research questions. It is the conceptual framework within which research is conducted and constitutes the blueprint for the collection of data and the analysis thereof of the collected data. The study adopted a descriptive research design. In descriptive research, the purpose is to produce an accurate representation of persons, events or situations.

This study design was ideal for this study since the causal effects of predictor variables on the outcome of the dependent variable is desired. Descriptive research design is most suitable for the current study. Descriptive survey helps the researcher to describe phenomena. Therefore, the design enables the researcher to measure, classify, analyze, compare and interpret data in order to understand factors influencing profitability of government funded youth group businesses in Kuresoi Sub-County, Kenya.

3.2 Target Population

The target population as defined by Frederic (2010) is a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The study targeted government funded youth group businesses drawn from registered youth groups identified by the Uwezo Fund Oversight Initiative (2015), YEDF Officers and Financial Institutions that have been involved in the disbursement and management of the funds to the youth groups in Kuresoi Sub-County. Therefore, the study covers a population of 96 persons drawn from 32 government funded youth groups businesses Kuresoi Sub-County, Kenya

(Uwezo fund oversight initiative, 2015) where three top members of the group namely; the chairperson, secretary and the treasurer were the respondents. This population was so chosen due to its accessibility and availability.

3.3 Census Survey

Since the population of the study is small, a census survey was adopted where data was collected from the 96 respondents. Census survey is the appropriate data collection design for a small heterogeneous population. Since the sample frame for the study was small and heterogeneous, census survey was adopted. According to Kothari (2008) the larger the sample size for a small population, the more accurate the results are likely to be and hence the choice of the census technique in the study

3.4 Research Instruments

Data for this study was collected using structured questionnaires and interview schedules. The questionnaires were prepared thematically on the basis of the research objectives. The questionnaire consisted of structured question and Likert rating scales relating to the field of inquiry with space provided for selection of choices. Closed-ended questions have the advantage of collecting viable quantitative data while open-ended questions allowed the respondents freedom of answering questions and the chance to provide in-depth responses (Mugenda & Mugenda, 2003). However, it requires careful preparation as it could easily confuse the respondents, or discourage them, or simply fail to capture important information needed in the study. It is usually preferred as a research instrument in survey studies as it enables the gathering of data over a large sample (Kombo & Tromp, 2006). It also has quite a number of advantages which include confidentiality; time saving; and reduced interviewer bias. The interviews on the other hand will be used to gather in-depth information from the respondents and complements the questionnaires in providing additional narratives to the key questions being asked.

3.4.1 Pilot Testing

Piloting was done among 3 government funded youth groups picked randomly in Kericho County before the actual collection of data. The respondents in the pilot study were not among those who participated in the actual study. The purpose of this study was to enable the researcher to discover the weakness of the research instruments

which was used during the actual study, check the clarity of the questions or items and also elicits comments that assisted the researcher reconstruct the questionnaires for the purposes of improvement and modifications of the instruments. The outcome of the pilot study was used to determine reliability and validity of the instruments and make some necessary changes on them before actual data collection.

3.4.2 Reliability of the Research Instruments

Reliability is the measure of degree to which a research instrument yields consistent results after repeated trials (Kothari, 2009). The researcher endeavored to enhance the reliability of the data collected by ensuring that the questionnaires tested and retested by having them administered to the same pilot group twice at an interval of two weeks under the same conditions. The approach used here was the test-retest method recommended by Mugenda and Mugenda (2003). The results arising from the pilot test were then run on computer based applications to enable the computation of the Cronbach's Alpha to determine the internal consistency of the items in the questionnaire. According to Fraenkel and Wallen (2000) as a rule of thumb, a proposed instrument should only be used if a value of 0.70 or higher is obtained on a substantial sample; this rule was adopted for the study instruments. This test minimized instrument and researcher's error and enabled the restructuring of some items in the questionnaires. All the variables returned Cronbach's Alpha values greater than 0.7 indicating good reliability of data collection instrument.

Table 3. 1: Reliability Test

Variable	No. of Test Items	Cronbach Alpha
Investment practices	6	0.705
Liquidity practices	5	0.792
Financial control	6	0.779
Financial reporting practices	5	0.705
Profitability	6	0.788

3.4.3 Validity of Research Instruments

Validity is the degree to which results obtained from the analysis of the data represent the Phenomena under study (Mugenda & Mugenda, 2003). This has to do with how the data obtained actually represents the phenomenon under study. The validity of the instruments used in this study was established through the following steps: piloting

tools of data collection, doing member checks with the interviewed sample, care during data analysis and by ensuring that the researcher adheres to ethical issues during conduct of research. The returned instruments from the pilot study was subjected to review and analysis from experts in the university to ensure that the contents of the questionnaires are suitable for the purpose for which they are set and are also highly consistent.

Content validity was used for the purposes of determining whether the instrument really measures what it is designed to measure (Kathuri & Pals, 1993). Content validity refers to the extent to which a measure represents all facets of a given construct. An element of subjectivity exists in relation to determining content validity, which requires a degree of agreement about what a particular construct represents. Content validity requires the use of recognized subject matter experts to evaluate whether test items assess defined content and more rigorous statistical tests. To test for content validity, this study adopted the method of measuring content validity developed by Lawshe (1975). It is essentially a method for gauging agreement among raters or judges regarding how essential a particular item is. Lawshe (1975) proposed that each of the subject matter expert raters (youth group officials) on the judging panel respond to the following question for each item: "Is the skill or knowledge measured by this item 'essential,' 'useful, but not essential,' or 'not necessary' to the performance of the construct?" According to Lawshe, if more than half the panelists indicate that an item is essential, that item has at least some content validity. Greater levels of content validity exist as larger numbers of panelists agree that a particular item is essential. Thus, the formula that was used for establishing content validity as proposed by Lawshe is;

$$CVR = (ne - N/2) / (N/2)$$

Where, CVR = content validity ratio

ne = number of youth group panelists indicating "essential"

N = total number of youth group panelists

This formula yields values which range from +1 to -1; positive values indicate that at least half the youth groups rated the item as essential. The mean CVR across items may be used as an indicator of overall test content validity. Revisions to the questionnaires were made to reflect their suggestions concerning any shortcomings and modifications and additional questions were duly made at this stage.

3.5 Data Collection Procedures

The researcher first obtained authorization/cover letter from Jomo Kenyatta University of Agriculture & Technology. Questionnaires were administered to the respondents by the researcher so as to make clarifications as may be required. The researcher arranged visits to the youth groups for familiarization purposes and to seek permission from the management concerning the intended study and make arrangements for the dates of data collection. The respondents were then approached through the management separately before the questionnaires were administered. Care was taken to ensure that scoring was done correctly and systematic observations were made.

3.6 Data Analysis and Presentation

Data was analyzed using descriptive statistics and presented using frequency tables, percentages, measure of central tendency and measure of dispersion. Descriptive statistics entailed; frequencies and percentages as well as chi square and probability values (p-value). Inferential statistics included; Pearson correlation coefficient which tested non-causal relationship between variables, and multi regression model which was used infer causal relationship between predictor variables and the dependent variable. Inferential statistical tables were also used to present data. Research hypotheses were tested at 0.05 significance level using regression analysis output. The following regression model was adopted to infer causal relationship between predictor variables (independent variables) and the dependent variable.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon;$$

Where;

- Y - Profitability of youth owned businesses in Kuresoi Sub-County, Kenya;
- β_0 - Regression Constant;
- X_1 - Investment practices;
- X_2 - Liquidity practices;
- X_3 - Financial control;
- X_4 - Financial reporting practices.
- $\beta_1, \beta_2, \beta_3$ & β_4 - Regression beta coefficients of the independent variables X_1, X_2, X_3 and X_4 respectively.
- ε - Error term assumed to be normally distributed

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter focuses on data analysis and discussion of research findings.

4.2 Response Rate

The researcher distributed 96 questionnaires to the respondents who were given 4 days to fill them. The researcher managed to collect 74 research instruments which were valid for analysis. These results indicate that the study had a response rate of 77.08% which was above the required threshold. According to Fox and Bayat (2010) a study result that yields a response rate of 65% and above is deemed valid since it is above the minimum acceptable threshold.

4.3 Information of Respondents

Frequency distributions were used to indicate variations of respondents based on age group, gender, level of education and experience. Descriptive statistics aided the study in illustrating the characteristics of the respondents and nature of the data in line with the study objectives.

4.3.1 Gender of the Respondents

Findings related to the gender of the respondents are presented on Table 4.1

Table 4. 1: Gender

	Frequency	Percent
Male	29	39.2
Female	45	60.8
Total	74	100.0

The gender results indicated that, 45 respondents representing 60.8% were female while 29 respondents representing 39.2% were male. This shows that there is gender parity in the youth owned business in Kuresoi Sub-County, Kenya.

4.3.2 Age of the Respondents

Findings related to the age of the respondents are presented on Table 4.2 and the discussion follows thereafter the table

Table 4. 2: Age

	Frequency	Percent
Between 18 and 25 years	11	14.8
Between 26 and 30 years	35	47.3
Between 31 and 35 years	28	37.9
Total	74	100.0

The results on the age of the respondents indicates that, 11 (14.8%) are between the age of 18 and 25 years, 35(47.3%) are between the age of 26 and 30 years, and 28 representing 37.9% are between the age of 31 and 35 years. This shows that all the interviewed respondents are within the age bracket of the youth and thus the results obtained are relevant and accurate as far as the youth business group are concern.

4.3.3 Level of Education

Findings related to the level of Education of the respondents are presented on Table 4.3 and the discussion follows thereafter the table

Table 4. 3: Level of Education

	Frequency	Percent
High school	42	56.8
College	25	33.8
Others	7	9.4
Total	74	100.0

The result on the level of education shows that, 42 (56.8%) of the respondents have at least high school qualifications, 25 (33.8%) have gone to college while 7 (9.4%) indicate some respondents have other qualifications apart from the listed in the questionnaire. The level of education therefore is very relevant in the filling of the questionnaires and is significant in the reliability of the results.

4.3.4 Experience of the Respondents

Findings related to level of experience of the respondents are presented on Table 4.4 and the discussion follows thereafter the table

Table 4. 4: Experience

	Frequency	Percent
Less than 1 year	9	12.2
1 to 3 years	43	58.1
3 to 5 years	22	29.7
Total	74	100.0

The level of experience indicated that, 9 (12.2%) of the respondents have experience which is less than one year, 43 (58.1%) had experience ranging from 1 year to 3 years while 22 (29.7%) had experience ranging from 3 to 5 years. This shows that most of the respondents had enough experience to understand the business dynamics

4.3.5 Type of the Business

Findings related to the type of the business operated by the respondents are presented on Table 4.5 and the discussion follows thereafter the table

Table 4. 5: Type of the Business

	Frequency	Percent
Art and culture	4	5.4
Food and beverage	6	8.2
Agriculture and agricultural products	39	52.7
Retail shops	12	16.2
Jua kali	9	12.1
Others	4	5.4
Total	74	100.0

The results on the type of the business indicates that, 4 (5.4%) of the respondents engaged in the business of art and culture, 6 (8.2%), had a business of food and beverages, 39 (52.7%) engage in agriculture and selling of agricultural products like milk, 12(16.2%) had retail shops, 9 (12.1%) engaged in jua kali industry, 4 (5.4%) of the respondents responded others meaning they have other businesses apart from the ones listed in the questionnaire. Most of the respondents engaged themselves in agriculture and selling of agricultural products since the area of study is agricultural.

4.3.6 Age of the Business

Findings related to the type of the business operated by the respondents are presented on Table 4.6

Table 4. 6: Age of the business

	Frequency	Percent
1-3 years	48	64.9
3-5 years	26	35.1
Total	74	100.0

The findings on the age of the business indicates that, 48 (64.9%) of the respondents had a business which has been in operation between 1 to 3 years, while 26 (35.1%) of the respondents had a business which has been in operation between 3 to 5 years. The results indicate that the age of business was adequate reliable for investigation on the topic under study.

4.4 Descriptive Statistics and Discussions

The aim of the descriptive statistics was to describe the general distributional properties of the data, to identify any unusual observations or any unusual pattern of observation that may cause problems for later analyses to be carried out on the data. Thus initial analysis of the data using simple descriptive tools was provided to describe the study respondents as well as summarize the data generated for the study. This section provides the descriptive statistics and discussions thereof as per the objectives of the study.

4.4.1 Investment Practices

Findings related Investment practices by the respondents are presented on Table 4.7 and the discussion follows thereafter the table. The responses were analyzed using percentages and Chi-square values for each indicator, with respective probability values (p-value) being determined.

Table 4. 7: Descriptive Analysis for Investment practices

	SA	A	N	D	SD	Chi-Square (χ^2)	<i>p</i> -value
The business does investments analysis prior to undertaking the actual investment	10.3%	12.7%	48%	17%	12%	96.823	0.000
Investments by the group are aimed at guarding against inflation	2.3%	5.7%	23.6%	33.9%	34.5%	94.799	0.013
The group adopts sub contracting as a means of increasing investments	4.8%	5.6%	16.2%	35.6%	37.8%	70.967	0.070
The group pursues global value chain systems as a means of increasing investments	12%	14%	11%	36%	27%	93.003	0.047
The investments by the group lead to improved profitability	47%	20%	6%	17%	10%	84.321	0.000
The group uses various interventions which impart vocational skills and commodities that enhance the capacity of a group to generate income.	13.8%	11.9%	16.3%	37%	21%	67.884	0.040

A fair majority of respondents (48%) held neutral opinion on whether their businesses carry out investments analysis prior to undertaking the actual investment ($\chi^2=96.823$, $P<0.05$). There was disagreement among majority of respondents (68.4%) and (73.4%) on whether investments by their groups' are aimed at guarding against inflation and on whether their groups adopts sub contracting as a means of increasing investments ($\chi^2=94.799$, $P<0.05$; $\chi^2=70.967$, $P<0.05$) respectively. 63% of the

respondents disagreed that their groups pursues global value chain systems as a means of increasing investments ($\chi^2=93.003$, $P<0.05$). The investments by the youth owned self help groups enhances profitability as indicated by 67% of the respondents ($\chi^2=84.321$, $P<0.05$) while a respondents (58%) disagreed that their groups uses various interventions which impart vocational skills and commodities that enhance the capacity of group to generate income ($\chi^2=67.884$, $P<0.05$).

4.4.2 Liquidity Practices

Findings related Liquidity practices by the respondents are presented on Table 4.8. The responses were analyzed using percentages and Chi-square values for each indicator, with respective probability values (p-value) being determined.

Table 4. 8: Descriptive Analysis for Liquidity practices

Statements	SA	A	N	D	SD	Chi-Square (χ^2)	p-value
Our business uses short- term deposits as a way of maintaining liquidity of the business	37%	22%	8%	13.8%	19.2%	68.338	0.034
The accounts receivables collection period is shorter	13.1%	10.2%	48%	8.7%	20%	54.707	0.069
The business has adequate cash requirements	4.9%	7.6%	62%	17.9%	7.6%	66.001	0.000
The group has incorporated liquidity risk management practices	9.7%	17.6%	9%	34.9%	28.8%	43.990	0.039
Our business invests its temporary cash surpluses	11.2%	14.3%	54.6%	11%	8.9%	56.231	0.083

According to 59% of the respondents, youth owned businesses uses short- term deposits as a way of maintaining liquidity of the business ($\chi^2=68.338$, $P<0.05$). There was neutrality among the respondents on whether the accounts receivables collection period is shorter as indicated by a fair majority (48%) of the respondents ($\chi^2=54.707$,

$P>0.05$). It was not clear on whether government funded youth group businesses held adequate cash requirements as indicated by 62% of the respondents who held neutral opinion ($\chi^2=66.001$, $P<0.05$). Majority of the respondents (63.7%) disagreed that their groups had incorporated liquidity risk management practices ($\chi^2=43.990$, $P<0.05$) while 54.6% of the respondents held neutral opinion on whether their businesses invests its temporary cash surpluses ($\chi^2=56.231$, $P>0.05$).

4.4.3 Financial Control Practices

Findings related financial control practices by the respondents are presented on Table 4.9. The responses were analyzed using percentages and Chi-square values for each indicator, with respective probability values (p-value) being determined.

Table 4. 9: Descriptive Analysis for Financial control

Statements	SA	A	N	D	SD	Chi-Square (χ^2)	p-value
Budgetary techniques are used in the organization to achieve financial control	15%	16.3%	4.7%	36%	28%	49.303	0.044
The production standards agreed upon by members are used as a means of financial control	11%	5%	63%	12%	9%	66.690	0.000
Analysis of financial statements enables members to maintain control over the variety of activities and functions that are performed by the officials	29.6%	24.8%	7.7%	18.8%	19.1%	77.468	0.049
There is a program for preparing, verifying and distributing reports to management	17%	26%	44%	3.7%	9.7%	53.990	0.000
The youth group uses financial control to detect financial malpractices and errors	33%	42%	9%	6%	10%	46.311	0.0335
The group utilizes preventive measures put in place to prevent misuse of finances	23.6%	27.3%	39.5%	6.8%	2.8%	55.036	0.014

Respondents (64%) disagreed that budgetary techniques are used in their businesses to achieve financial control ($\chi^2=49.303, P<0.05$). The financial controls in place to uphold expenditure management are very important, and can be used as a basis for determining the process of budgetary control on the route to accomplishing a desired goal, which can be linked to a certain outcome (Stokes, et. al., 2006). A larger majority of respondents (63%) held neutral opinion on whether the production standards agreed upon by youth groups members are used as a means of financial control ($\chi^2=66.690, P<0.05$). There was agreement among respondents (54.4%) on whether analysis of financial statements enables group members to maintain control over the variety of activities and functions that are performed by the officials ($\chi^2=77.468, P<0.05$). Respondents were indifferent on whether there was a program for preparing, verifying and distributing reports to management in government funded youth group businesses with 43% of the respondents agreeing while 44% held neutral opinion ($\chi^2=53.990, P<0.05$). A larger majority of respondents (75%) agreed that youth group uses financial control to detect financial malpractices and errors ($\chi^2=46.311, P<0.05$). Youth group utilizes preventive measures put in place to prevent misuse of finances in government funded youth group businesses according to 50.9% of the respondents ($\chi^2=55.036, P<0.05$).

4.4.4 Financial Reporting Practices

Findings related financial reporting practices by the respondents are presented on Table 4.10. The responses were analyzed using percentages and Chi-square values for each indicator, with respective probability values (p-value) being determined.

Table 4. 10: Descriptive Analysis for Financial reporting practices

Statements	SA	A	N	D	SD	Chi-Square (χ^2)	p-value
There is proper financial record keeping in our business	25%	27%	4%	20%	24%	105.303	0.00
The financial reports are given on a timely basis	12.3%	9.7%	49%	19%	10%	57.008	0.208
The financial reports given are relevant to the business requirements	26.6%	32.4%	3.1%	23.4%	14.5%	99.089	0.019
There is regular upgrading of the reporting systems	16.5%	12.7%	56.9%	9.9%	4%	73.887	0.000
The group officials have the relevant financial analysis skills to interpret the reports	1.6%	2.2%	15%	43.3%	37.9%	66.011	0.037

Respondents (52%) agreed that there was proper financial record keeping in government funded youth group businesses ($\chi^2=105.303$, $P<0.05$). Kennedy and Tennent (2006) used “financial record keeping” the general indicator of financial management conduct in small businesses in Australia and found that it helps in enhancing business operations and transparency. There was neutrality in opinion among a fair majority of the respondents (49%) on whether the financial reports are given on a timely basis ($\chi^2=57.008$, $P>0.05$) while 59% of the respondents agreed that the financial reports given are relevant to their business requirements ($\chi^2=99.089$, $P<0.05$). 56.9% of the respondents held neutral opinion on whether there was regular upgrading of the financial reporting systems ($\chi^2=73.887$, $P<0.05$) with a larger majority of respondents (81.2%) disagreeing that youth groups officials had the relevant financial analysis skills to interpret the financial reports ($\chi^2=66.011$, $P<0.05$). A study by McMahon (2009) found that SME growth results in increased financial challenges or problems, and that there is consequently a greater need for

careful attention to financial management in general, and financial reporting in particular, if the growing SME is to succeed in survival and performance terms.

4.4.4 Profitability

Findings related profitability by the respondents is presented on Table 4.11. The responses were analyzed using percentages and Chi-square values for each indicator, with respective probability values (p-value) being determined.

Table 4. 11: Descriptive Analysis for Profitability

Statements	SA	A	N	D	SD	Chi-Square (χ^2)	p-value
The enterprise uses its assets efficiently to generate returns	33.9%	29.9%	5.7%	14.4%	16.7%	89.633	0.000
The business has the long-term ability to pay all its long-term obligations and survive challenges.	3.3%	6%	79%	8.8%	2.9%	102.118	0.047
The business has adequate current assets to pay for its current liabilities or meet shorter financial obligations	27%	34%	7%	14%	18%	95.789	0.043
There is effectiveness on collection efforts of the aging accounts receivables	7%	19.1%	6.9%	43%	24%	53.870	0.019
The enterprise makes periodic sales tax payments depending increasing volume of sales	4.6%	4.2%	26%	34.3%	30.9%	106.720	0.000
The business has the ability to generate surplus cash and project future profits.	5.7%	10.9%	52%	13.4%	18%	82.036	0.130

Majority of respondents (63.8%) agreed that youth owned enterprise uses its assets efficiently to generate returns ($\chi^2=89.633, P<0.05$). Respondents (79%) were neutral in opinion on whether youth owned businesses has long-term ability to pay their long-term obligations and survive challenges ($\chi^2=102.118, P<0.05$). 61% of the respondents agreed that their business had adequate current assets to pay for their current liabilities or meet shorter financial obligations ($\chi^2=95.789, P<0.05$). There was no effectiveness on collection efforts of the aging accounts receivables according to 67% of the respondents ($\chi^2=53.870, P<0.05$). According to Omri et. al. (2012), debtors can hurt micro enterprise in two major ways. First, they absorb cash and effectively increase the funding requirement. Second, the longer a debt is unpaid, the greater the risk of a bad debt. This impacts on the enterprise and can be disastrous, even causing the failure of the business. Financial management is therefore about balance, and the optimization of resources for the growth of a micro and small enterprise. 65.2% of the respondents disagreed that government funded youth group businesses makes periodic sales tax payments depending increasing volume of sales ($\chi^2=106.720, P<0.05$). There was neutrality among many respondents (52%) on whether owned business have the ability to generate surplus cash and project future profits ($\chi^2=82.036, P>0.05$). Thomas and Evanson (2007) stress the aim of a business is not only the generation of sales, but also generation of profits. Profit is especially important because it is necessary for the survival of a business.

4.5 Inferential Statistics

This section contains the results of the inferential statistics done for the study. These are made up of Pearson correlation and multiple regression analyses.

4.5.1 Correlation Analysis

This section consists of the results on correlation analysis done during the study. Devore and Peck (2006) recommends a guideline for assessing resultant correlation coefficients as; correlation coefficients less than 0.5 represent a weak relationship, correlation coefficients greater than 0.5, but less than 0.8, represent a moderate relationship whereas correlation coefficients greater than 0.8 represent a strong relationship. The Results are between -1 and 1. A result of -1 means that there is a perfect negative correlation between the two values, while a result of 1 means that there is a perfect positive correlation between the two variables. Result of 0 means

that there is no correlation between the two variables (Gujarat, 2004). Before carrying out a test on research' hypotheses, the study examined how the variables of the study were related in terms of non- causal relationship. The results are presented on Table 4.12.

Table 4. 12: Correlation Analysis

		Investment practices	Liquidity practices	Financial control	Financial reporting practices	Profitability
Investment practices	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	74				
Liquidity practices	Pearson Correlation	0.184	1			
	Sig. (2-tailed)	0.115				
	N	74	74			
Financial control	Pearson Correlation	0.213	0.118	1		
	Sig. (2-tailed)	0.405	0.119			
	N	74	74	74		
Financial reporting practices	Pearson Correlation	0.178	0.34	0.129	1	
	Sig. (2-tailed)	0.319	0.165	0.188		
	N	74	74	74	74	
Profitability	Pearson Correlation	0.526*	0.817*	0.623*	0.841*	1
	Sig. (2-tailed)	0.032	0.000	0.041	0.000	
	N	74	74	74	74	74

*. Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.12 shows that a significant moderate relationship exists between Investment practices and profitability of government funded youth group businesses ($r = 0.526$, $p < 0.05$). The correlation results also indicate existence of a significant strong relationship between Liquidity practices and profitability of government funded youth group businesses ($r = 0.817$, $p < 0.05$). Further, it was established that financial control and financial reporting practices have a significant moderate and strong non- causal relationships with profitability of government funded youth group businesses ($r = 0.623$, $p < 0.05$; $r = 0.841$, $p < 0.05$) respectively. The statistically significant positive correlation between predictor variables and the

independent variables show that when investment practices, Liquidity practices, financial control and financial reporting practices increases, profitability of government funded youth group businesses also increases.

4.5.2 Testing of Research Hypotheses

Combined influence of independent variables on the dependent variable was tested with a multiple regression analysis.

4.5.2.1 Regression Analysis

Multiple regression analysis was used to determine the causal relationship between the dependent variable and all the independent variables pooled together. This analysis was used to examine how the independent variables influence the dependent variable in such a collectively.

Table 4. 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.606 ^a	0.579	0.513	0.73979

a. Predictors: (Constant), Investment practices, Liquidity, Financial control, Financial reporting practices.

According to the results in Table 4.13, the value obtained for R= 0.606 was sufficiently high indicating that the model improved when more variables were incorporated when trying to determine the influence of financial management practices on profitability of government funded youth group businesses in the area. The R-square value of, R = 0. 579 also suggest that the regression model could explain for approximately 57.9% of the changes in the dependent variable.

Table 4. 14: ANOVA Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.663	4	5.4157	9.8953	.000 ^b
Residual	37.765	69	.5473		
Total	114.718	73			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Financial reporting practices, Financial control, Liquidity, investment practices

The results of the ANOVA performed on the independent and dependent variables are summarized in Table 4.14. The results shows that the regression line fits the actual

data since the mean square of the residuals is very small compared to mean square of the regression. The F-statistics of the regression result is $F=9.8953$ while the reported p -value= 0.0000 which is less than 0.05 conventional probability value. The model applied can thus significantly predict the change of the dependent variable as result of the independent variables in the model.

Table 4. 15: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.325	.519		1.665	.110
Investment practices	.166	.073	.157	2.897	.021
Liquidity practices	.328	.088	.224	3.581	.002
Financial control	.178	.094	.152	0.640	.041
Financial reporting practices	.330	.079	.295	4.136	.000

a. Dependent Variable: Profitability

The unstandardized betas value was used to determine combined influence of predictor variables on the dependent variable in the model. The results are summarized on Table 4.15. The unstandardized beta coefficients were used because they give a measure of influence of the independent variable to the model and indicate how much the dependent variable is held constant. The following multiple regression equation was obtained.

$$P = 1.325 + 0.166 IP + 0.328 LP + 0.178 FC + 0.330 FR + \varepsilon$$

Where;

P - Profitability

IP - Investment practices

LP- Liquidity practices

FC- Financial control

FR - Financial reporting practices

The regression analysis results in table 4.15 indicate that; when all other factors are held constant or zero, the constant figure of 1.325 will affect the profitability of youth group businesses in Kuresoi Sub-County, Kenya.

The regression analysis results in table 4.15 also indicate that there exist a statistically significant positive causal relationship between Investment practices and profitability of government funded youth group businesses ($\beta = 0.166$, $p < 0.05$). This indicates that when investment practices increases by one unit, profitability of government funded youth group businesses increases by 0.166. Thus, (H_{01}) was rejected by concluding that investments practices have significant influence on profitability of government funded youth group businesses. Effective investments practices and management consists of applying the methods, which remove the risk and lack of ability in paying short-term commitments in one side, and prevent over investment in these assets in the other side by planning and controlling current assets and liabilities thus positive enhancing profitability of firms (Runyora, 2012).

The results further indicated that the relationship between Liquidity practices and profitability of government funded youth group businesses was positive and statistically significant ($\beta = 0.328$, $p > 0.05$). This means that when Liquidity practices are enhanced by a single decision, profitability of government funded youth group businesses increases by 0.328. Thus, (H_{02}) was rejected by concluding that Liquidity practices have significant influence on profitability of government funded youth group businesses. Poor liquidity management will expose financial institution to liquidity risk which will have impact on its performance. In their research on factors affecting liquidity risk management practices in microfinance institutions in Kenya (Kimathi et al., 2015) found out that liquidity risk management has accelerated financial growth of MFI's in Kenya.

It was also established that there exist a statistically significant positive relationship between financial control and profitability of government funded youth group businesses ($\beta = 0.178$, $p > 0.05$). Numerically, a beta coefficient of 0.178 indicate that when financial control is enhanced by a single measure, profitability of government funded youth group businesses increases by 0.178. Thus, (H_{03}) was rejected by concluding that financial control has a significant influence on profitability of government funded youth group businesses. Whittington & Pany (2001) asserts that comprehensiveness of financial controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws and regulations enhances profitability of small and medium businesses positively.

Further, it was also established that there exist a statistically significant positive relationship between financial reporting practices and profitability of government funded youth group businesses ($\beta=0.330$, $p>0.05$). This indicates that when financial reporting practices are enhanced by a single practice, profitability of government funded youth group businesses increases by 0.330. Thus, (**H₀₄**) was rejected by concluding that financial reporting practices have a significant influence on profitability of government funded youth group businesses. Improved financial reporting may therefore be viewed as part of a broader competence in financial management which, taken together with other functional capabilities, is likely to lead to more effective and improved profitability of SMEs and significantly improve their prospects (Butt, et. al., 2010).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the research findings regarding the research objectives, hypotheses, draws conclusions and makes recommendations for further study.

5.2 Summary of Findings

The purpose of the study was to examine the influence of financial management practices on profitability of government funded youth group businesses. The study examined whether investment practices, Liquidity practices, financial control and financial reporting practices influence profitability of government funded youth businesses. Primary data was collected using questionnaires from 96 respondents and analyzed using descriptive and inferential statistics. This section summarizes the research findings based on the research objectives.

5.2.1 Investment Practices

Respondents held neutral opinion on whether their businesses carry out investments analysis prior to undertaking the actual investment. Respondents disagreed that investments by youth groups were not aimed at guarding against inflation and that their groups have not adopted sub contracting as a means of increasing investments. Respondents disagreed that their groups pursued global value chain systems as a means of increasing investments while it was found that investments by the youth groups enhances profitability of their businesses. However, respondents disagreed their groups' uses various interventions which impart vocational skills and commodities that enhance the capacity of group to generate income. The findings shows that a significant moderate relationship exists between investment practices and profitability of government funded youth group businesses($r = 0.526$, $p < 0.05$). There exist a statistically significant positive relationship between Investment practices and profitability of government funded youth group businesses ($\beta = 0.166$, $p < 0.05$), meaning that when investment practices increases by one unit, profitability of government funded youth group businesses increases by 0.166.

5.2.2 Liquidity Practices

The findings indicate that government funded youth group businesses uses short- term deposits as a way of maintaining liquidity of the business. There was neutrality among the respondents on whether the accounts receivables collection period was shorter while was not clear on whether government funded youth group businesses held adequate cash requirements. Majority of the respondents disagreed that their groups had incorporated liquidity risk management practices with respondents holding neutral opinion on whether their businesses invests its temporary cash surpluses. Ccorrelation results indicate existence of a significant strong non causal relationship between Liquidity practices and profitability of government funded youth group businesses($r = 0.817$, $p < 0.05$). Causal relationship between Liquidity practices and profitability of government funded youth group businesses was positive and statistically significant ($\beta = 0.328$, $p > 0.05$), implying that when Liquidity practices are enhanced by a single decision, profitability of government funded youth group businesses increases by 0328.

5.2.3 Financial Control

The findings indicate that most respondents disagreed that budgetary techniques are used in their businesses to achieve financial control with a fair majority holding neutral opinion on whether the production standards agreed upon by youth groups members were used as a means of financial control. Respondents disagreed that analysis of financial statements enables group members to maintain control over the variety of activities and functions that are performed by the officials. Respondents were indifferent on whether there was a program for preparing, verifying and distributing reports to management in government funded youth group businesses with 43% of the respondents agreeing while 44% held neutral opinion. Respondents agreed that youth group uses financial control to detect financial malpractice and also utilizes preventive measures put in place to prevent misuse of finances in youth owned businesses. It was established that financial control have a significant moderate non- causal relationship with profitability of government funded youth group businesses($r = 0.623$, $p < 0.05$). There exist a statistically significant positive relationship between financial control and profitability of government funded youth group businesses ($\beta = 0.178$, $p > 0.05$), indicating that when financial control is

enhanced by a single measure, profitability of government funded youth group businesses increases by 0.178.

5.2.4 Financial Reporting Practices

The findings indicate that respondents agreed that there was proper financial record keeping in youth owned businesses. Respondents were neutral in opinion on whether the financial reports are given on a timely basis while it was agreed that the financial reports given are relevant to their business requirements. There was neutral opinion among respondents on whether there was regular upgrading of the financial reporting systems, with a larger majority of respondents disagreeing that youth groups' officials had the relevant financial analysis skills to interpret the financial reports. It was established that financial reporting practices have a significant strong non-causal relationships with profitability of government funded youth group businesses ($r=0.841$, $p<0.05$). It was established that there exist a statistically significant positive relationship between financial reporting practices and profitability of government funded youth group businesses ($\beta=0.330$, $p>0.05$). This implies that when financial reporting practices are enhanced by a single practice, profitability of government funded youth group businesses increases by 0.330.

5.3 Conclusions

The study concludes that investment practices are important in the financial management practices that lead to improvement of youth businesses in Kuresoi Sub-County, Kenya. Investing is important as it involves the redirection of resources from being consumed today to creating benefits in the future. In other words, it is the use of assets to earn income or profit. It was concluded that investments practices have significant influence on profitability of government funded youth group businesses.

The study concludes that Liquidity practices leads to improvement of youth businesses in Kuresoi Sub-County, Kenya. Managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. Another way of increasing liquidity is by shortening the cash conversion cycle and thus improving the business profitability. It was concluded that Liquidity practices have significant influence on profitability of government funded youth group businesses.

The study concludes that financial reporting practices lead to improvement of youth businesses in Kuresoi Sub-County, Kenya. Improved financial reporting leads to more effective and efficient management of youth group businesses and significantly improve their performance. In every enterprise, financial records are important tools that facilitate growth. Financial management in any business starts with the management of cash flow. Conclusions were made that financial reporting practices have significant influence on profitability of government funded youth group businesses.

The study concluded that youth group uses financial control to detect financial malpractice and also utilizes preventive measures put in place to prevent misuse of finances in youth owned businesses. Analysis of financial statements can enables group members to maintain control over the variety of activities and functions that are performed by the officials. Thus financial control has a significant influence on profitability of government funded youth group businesses.

The study concludes that financial reporting practices, Liquidity, and Investment practices are important in the financial management practices that lead to improvement of youth businesses in Kuresoi Sub-County, Kenya. These variables, financial reporting practices, Liquidity, and Investment practices, were found to be significant in the model generated from the study.

5.4 Recommendations

The study recommends that the youth group businesses in Kuresoi Sub-County, Kenya focus on investment practices as a means of ensuring that their businesses are performing well. It is preferable to invest instead of keeping assets idle, so that investments can grow to fight against inflation and future uncertainties. SMEs must be able to respond quickly and efficiently to the market signals to take advantage of investment opportunities and reap the benefits of the diverse local and regional market structure.

The study also recommends that the youth group businesses in Kuresoi Sub-County, Kenya focus on the liquidity of their businesses as a means of ensuring that they are performing well. Proper liquidity management ensures that the youth group business is able to take up business opportunities as they arise. Poor liquidity management will

expose financial institution to liquidity risk which will have impact on its performance.

The study recommends that that the youth group businesses in Kuresoi Sub-County, Kenya focus on the financial control and financial reporting practices as a means of ensuring that their businesses are performing well. In order to monitor financial position and performance, there is a need for timely and relevant financial statements reflecting what has been achieved; and to effectively plan for the business's future, there is a need for regular forecasted financial statements

5.5 Recommendations for Further Studies

The study recommends that further studies be conducted to determine the effect of financial management practices on the performance of youth group businesses using a multiple case study as opposed to a single case study.

The study also suggests a similar study should be carried in SME businesses that are not managed by the youth groups in Kuresoi Sub-County, Kenya. This will shed light on whether the findings are unique to the youth groups or can be generalized to other SMEs.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

Dear Sir/ Madam,

RE: DATA COLLECTION

I am a Master of Science in finance student from Jomo Kenyatta University of Agriculture and Technology (JKUAT). In line with the University's requirements, I am currently conducting a study titled: **INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES ON PROFITABILITY OF GOVERNMENT FUNDED YOUTH GROUP BUSINESSES IN KURESOI SOUTH, KENYA.**

I am kindly requesting you to participate in the study by filling in the questionnaire attached herewith. The data collected will be treated with utmost confidentiality.

Yours faithfully,

KIPKIRUI ROTICH

HD335-C007-7260/2015

Date

APPENDIX II: QUESTIONNAIRE

INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES ON PROFITABILITY OF GOVERNMENT FUNDED YOUTH GROUP BUSINESSES IN KURESOI SUB-COUNTY, KENYA

INSTRUCTIONS

- I. The questionnaire contains 6 parts: Parts A, B, C, D, E, and F.
 - II. Please answer the questions as objectively and honestly as possible
 - III. Answer the questions by either inserting a tick [√] on the boxes or filling the blank space.
 - IV. Your response will be treated confidentially and used solely for academic purpose.
-

PART A: BIOGRAPHICAL DATA

Tick where appropriate.

1. Gender

Male Female

2. Age Group

Between 18 and 25 Between 26 and 30

Between 31 and 35 36 and above

3. Level of Education

Primary School High School

College Other

4. Experience

Less than 1 year 1 to 3 years

3 to 5 years Over 5 years

Type of Organization

- | | | | |
|---------------------------------------|--------------------------|-------------------|--------------------------|
| Arts and Culture | <input type="checkbox"/> | Food and beverage | <input type="checkbox"/> |
| Agriculture and agricultural Products | <input type="checkbox"/> | Retail Shops | <input type="checkbox"/> |
| Jua Kali | <input type="checkbox"/> | Others | <input type="checkbox"/> |

5. Age of the Business

- | | | | |
|------------------|--------------------------|--------------|--------------------------|
| Less than 1 year | <input type="checkbox"/> | 1-3 years | <input type="checkbox"/> |
| 3-5 years | <input type="checkbox"/> | Over 5 years | <input type="checkbox"/> |

PART B: INVESTMENT PRACTICES

6. Please indicate how you agree with the following statements on Investment Practices

Where 5 = strongly agreed; 4 = agreed; 3 = neutral; 2 = disagree; 1 = strongly disagree.

Investment Practices	SA (5)	A (4)	N (3)	D (2)	SD (1)
The business does investments analysis prior to undertaking the actual investment					
Investments by the group are aimed at guarding against inflation					
The group adopts sub contracting as a means of increasing investments					
The group pursues global value chain systems as a means of increasing investments					
The investments by the group lead to improved profitability					
The group uses various interventions which impart vocational skills and commodities that enhance the capacity of a group to generate income.					

PART C: LIQUIDITY PRACTICES

7. Please indicate how you agree with the following statements on Liquidity

Where 5 = strongly agreed; 4 = agreed; 3 = neutral; 2 = disagree; 1 = strongly disagree.

Liquidity Statements	SA (5)	A (4)	N (3)	D (2)	SD (1)
Our business uses short- term deposits as a way of maintaining liquidity of the business					
Our business invests its temporary cash surpluses					
The receivables collection period is low					
The business has adequate cash requirements					
The group has incorporated liquidity risk management practices					

PART D: FINANCIAL CONTROL

8. Please indicate how you agree with the following statements on Financial Control

Where 5 = strongly agreed; 4 = agreed; 3 = neutral; 2 = disagree; 1 = strongly disagree.

Financial Control	SA (5)	A (4)	N (3)	D (2)	SD (1)
Budgetary techniques are used in the organization to achieve financial control					
The production standards agreed upon by members are used as a means of financial control					

Analysis of financial statements enables members to maintain control over the variety of activities and functions that are performed by the officials					
There is a program for preparing, verifying and distributing reports to management					
The youth group uses financial control to detect financial malpractices and errors.					
The group utilizes preventive measures put in place to prevent misuse of finances					

PART E: FINANCIAL REPORTING PRACTICES

9. Please indicate how you agree with the following statements on Financial Reporting Practices.

Where 5 = strongly agreed; 4 = agreed; 3 = neutral; 2 = disagree; 1 = strongly disagree.

Financial Reporting Practices	SA (5)	A (4)	N (3)	D (2)	SD (1)
There is proper financial record keeping in our business					
The financial reports are given on a timely basis					
The financial reports given are relevant to the business requirements					
There is regular upgrading of the reporting systems					
The group officials have the relevant financial analysis skills to interpret the reports					

PART F: PROFITABILITY

10. Please indicate how you agree with the following statements profitability of government funded youth group businesses

Where 5 = strongly agreed; 4 = agreed; 3 = neutral; 2 = disagree; 1 = strongly disagree.

Financial Performance	SA (5)	A (4)	N (3)	D (2)	SD (1)
The enterprise uses its assets efficiently to generate returns					
The business has the long-term ability to pay all its long-term obligations and survive challenges.					
The business has adequate current assets to pay for its current liabilities or meet shorter financial obligations					
There is effectiveness on collection efforts of the aging accounts receivables					
The enterprise makes periodic sales tax payments depending increasing volume of sales.					
The business has the ability to generate surplus cash and project future profits.					

**APPENDIX III: LIST OF GOVERNMENT FUNDED YOUTH GROUPS IN
KURESOI SOUTH SUB – COUNTY**

- 1) Adventist youth movers youth group
- 2) Aoon jubilee youth group
- 3) Aoon vision youth group
- 4) Bondet youth group
- 5) Borotet youth empowering group
- 6) Emitik jirani youth group
- 7) Green leaf youth group
- 8) Jasho youth group
- 9) Jubilee youth group
- 10) Kabmoi ainamoi youth group
- 11) Kalyet youth group
- 12) Kaparus ko-olili youth group
- 13) Kapkwen youth group
- 14) Kaptorokwo agri-business youth group
- 15) Keringet hardwork youth group
- 16) Kiletien jubilee youth group
- 17) Kiptagich blessed youth group
- 18) Masaimwai youth group
- 19) Mau progressive youth group
- 20) Pamoja youth group
- 21) Precious youth group
- 22) Privilege youth group
- 23) Seger chamгаа youth group
- 24) Sicheki youth group
- 25) Sitotwet youth group
- 26) Sunrise nukiat youth group
- 27) Sunrise youth group
- 28) Tagimwa youth group
- 29) Tahidi youth group
- 30) Tinet vision youth group
- 31) Umoja gacharage youth group
- 32) Yotmet youth group

Source: (Uwezo Fund Oversight Initiative, 2015)