EFFECT OF CAPITAL BUDGETING PRACTICES AND FINANCIAL PERFORMANCE OF YOUTH OWNED BUSINESSES IN KISUMU CENTRAL SUB-COUNTY

BY

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DECLARATION

This is my original work and it has not been presented in any University for examination.

Sign: …………………………………….. Date:…………………………….

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This research proposal has been presented for examination with my approval as University

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DEDICATION

I dedicate this work to my mum Janet Owiti, My friends John Kennedy and Stephen for your

continued support encouragement and prayers.

ABSTRACT

Capital budgeting techniques are essential tools for financial decision-making, particularly in assessing the viability of long-term investments. These techniques provide a systematic approach to evaluating the expected return on investment (ROI), weighing risks, and establishing the potential financial impact of new projects or expansions. The success and growth of youth-owned enterprises are crucial for the economic development of Kisumu Central Sub-County, Kenya. However, these enterprises often face significant challenges in making informed investment decisions due to a lack of understanding and application of capital budgeting techniques. The Payback Period (PBP), Net Present Value (NPV), and Internal Rate of Return (IRR) are widely recognized as essential tools for evaluating the feasibility and profitability of investment projects, yet their utilization by youth-owned enterprises in the region remains limited. The main purpose of this study was to establish the effect of capital budgeting on financial performance of youth own businesses in Kisumu. Specifically, the study sought to identify the budgeting techniques used by the youth, to determine the factors influencing the choice of capital budgeting technique and to establish the effect of capital budgeting on financial performance of youth enterprises in Kisumu central-sub county. The study was anchored on the theory of Economic value added and pecking order theory and adopted correlational survey design. The reliability of research instrument was established by use of Cronbach's alpha coefficient while validity was tested using experts in finance. Piloting of the research instrument was done on 64 respondents and the results of the final study were no included in the main findings. The study targeted 246 firms out of which 192 responses were obtained accounting for 78.05% response rate. Primary data was collected by use of questionnaire and analysed through both descriptive and inferential statistics. The results showed that the unstandardized coefficients for payback period (PBP), net present value(NPV) and internal rate of return(IRR) were 0.196,0.194 and 0.258 respectively. This implies that a unit percentage change in PBP,NPV and IRR results in the firms' financial performance by 0.196%,0.194% and 0.258% respectively. The significant unstandardized coefficients implied that PBP,NPV and IRR are positive and significant predictors of the financial performance of the youth owned businesses in Kisumu central sub county. Similarly, it was established that capital budgeting practices altogether can explain variance of financial performance of youth owned business enterprise by 58.4%. The study provides evidence-based recommendations for policymakers on how to promote effective capital budgeting practices in the economy.

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ABBREVIATIONS AND ACRONYMS

FPM   Financial Performance Measures

ROA   Return On Assets

ROCE   Return On Capital Employed

ROS   Return On Assets

SNEs   Small and Medium Enterprises

MPV   Net Present Value

IRR   Internal Rate of Return

EU   European Union

GDP   Gross Domestic Product

KNBS   Kenya National Bureau of Statistics

EPS   Earnings Per Share

GOK   Government of Kenya

YEDF   Youth Enterprise Development Fund

CBP   Capital Budgeting Practices

CB   Capital Budgeting

EC   Environmental Conditions

NGO   Non-Governmental Organizations

OPERATIONAL DEFINITION OF TERMS

Accounting Rate of Return The average net income generated by an asset, divided by its average capital cost and represented as an annual percentage, is a measure commonly used in academic literature.

Capital Budgeting Capital budgeting is a process that entails the selection of initiatives that contribute to the enhancement of a company's worth. This study employs the usage of cash to fund its operational activities.

Capital Management This is an endeavor that encompasses the execution of strategies aimed at upholding an adequate level of capital.

Capital Structure Refers to combination of debt and equity

Debt The term "mount due" pertains to an unpaid amount or an outstanding payment. This study employs the term "financing" or "borrowing funds" to denote a specific method of acquiring capital for business purposes.

Equity This refers to shareholders funds

Financial Performance Refers to an organizations gains such as net profit

Net Present Value This refers to the discounted future cash flows

Payback Period This refers to the period it takes to realize the return which is equivalent to the initial cash outlay

Return on Capital Employed Refers to return gained from an investment or capital

Return on Asset Refers to return realized from the usage of an asset

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CHAPTER ONE

INTRODUCTION

This chapter presents the background to the study, statement of the problem, objectives of the study, hypotheses of the study, scope of the study, the significance of the study, and conceptual framework.

1.1 Background of the Study

Capital budgeting refers to the process of planning and managing a company's long-term investments in assets, projects, or products. It involves the identification, analysis, and prioritization of investment opportunities based on their potential economic returns. Adequate capital budgeting ensures that resources are allocated to projects that yield the highest returns, minimizing the risk of financial losses (Kumar, 2005). Long-term investments require huge financial outflow, so they should be wisely appraised and examined in terms of their estimated cash inflows and outflows (Gervais, 2010).

Primarily, capital budgeting helps corporations to make informed decisions regarding the large-scale investments they undertake. This ensures that resources are allocated efficiently and are directed towards projects that yield the maximum return on investment (ROI). Projects that are carefully selected and scrutinized under rigorous capital budgeting processes tend to achieve better financial outcomes and contribute positively to a company's overall performance.

Balarabe, (2020). observed that the implementation of systematic capital budgeting techniques can greatly enhance the success of decisions related to capital expenditures. They describe capital expenditures as involving significant investment of funds and resources, with benefits expected to accrue over a future period. Furthermore, Nurullah & Kengatharan, (2015) posited that capital budgeting, also known as investment decision-making, involves the formulation of

explicit plans and the selection of the optimal plan for expenditures whose benefits extend beyond one year, such as purchases of land, buildings, structural expansions, and equipment. Chartered Professional Accountants of Canada (2017) have identified that capital budgeting ensures measurability and accountability, allowing management to select investment projects based on the anticipated future value, justifying the resources allocated to them. The primary objective for any organization's survival is to maximize shareholder wealth. Investing in unprofitable projects ties up corporate resources in ventures without adequately assessing risks and returns (O'Sullivan & Sheffrin, 2003). Seitz and Ellison (1999) noted that poor capital appraisal of different projects could pose a threat to a company's competencies and its continued existence.

In investment analysis, discounted cash flow (DCF) is widely recognized as a fundamental tool for assessing project feasibility. DCF involves discounting future cash flows (not income) using a predetermined annual rate or discount factor to determine their present value. This approach incorporates the time value of money and encompasses various discounting models, including Net Present Value (NPV), Internal Rate of Return (IRR), Modified Internal Rate of Return (MIRR), and Profitability Index (PI) (Brigham & Ehrhardt, 2002).

According to Munyao (2010), NPV is a technique used to calculate the present value of investment inflows, which is then compared to the present value of the initial investment. If the difference between these values is positive, the project is considered to have generated the expected return and is deemed acceptable. Conversely, a negative difference indicates insufficient returns, warranting project rejection. In cases where multiple mutually exclusive projects have positive NPVs, the project with the highest NPV is typically selected for implementation.

Certain investment evaluation techniques, such as Payback Period (PP) and Accounting Rate of Return (ARR), do not incorporate the time value of money by not discounting future cash flows. Despite this, studies indicate that PP and ARR remain common appraisal methods. As noted by Pike and Neale (1999), PP measures the duration required for an investment to recoup its initial cost. However, it overlooks post-payback cash flows and ignores the time value of money. While PP may provide a limited perspective on project feasibility, some investors prioritize short payback periods and may avoid projects that exceed specific time constraints.

Numerous scholars and researchers concur that capital budgeting decisions are pivotal to a company's success (Swain & Haka, 2000). Capital budgeting holds a significant position in a business's competitive strategy. This is why Kwak, Shi, Lee & Lee (1996) assert that capital budgeting is not a trivial matter. A company capable of effectively devising a viable capital budgeting mechanism may secure a competitive edge over its rivals in an ever-changing and volatile environment (Nurullah & Kengatharan, 2015).

Prior research on capital budgeting practices has primarily focused on established businesses, assuming that youth-owned businesses do not engage in such practices. However, limited studies have explored the factors influencing the choice of capital budgeting techniques within youth-owned enterprises. Ahmed (2013) examined 61 DFM-listed companies in the UAE and identified Payback Period (PB), Net Present Value (NPV), and Internal Rate of Return (IRR) as the most commonly employed methods. Similarly, Wnuk-Pel (2015) found NPV, sensitivity analysis, scenario analysis, and formal investment appraisal processes to be prevalent among Polish companies. Alles *et al.* (2021) observed that Payback Period (PBP) is the most utilized technique among small and medium enterprises (SMEs).

In contrast, Daunfeldt & Hartwig (2014) noted that companies with higher leverage levels tended to prefer payback, while those with stricter debt targets and lower management ownership favored the accounting rate of return. Schlegel *et al.* (2016) found that German manufacturing firms primarily utilized NPV, while Swarnapali and Rajapakse (2016) identified NPV, IRR, Profitability Index (PI), Payback Period (PP), and Accounting Rate of Return (ARR) as common techniques among Sri Lankan manufacturing firms. These findings suggest a need to investigate the factors influencing the choice of capital budgeting practices among youth-owned businesses, as it remains an under-researched area.

Despite numerous studies exploring capital budgeting, there remains a gap in understanding its impact on the financial performance of youth-owned businesses. Prior research has primarily focused on the manufacturing and corporate sectors, examining specific capital budgeting techniques in isolation. For instance, Agbenyo *et al.* (2018) found a positive correlation between budgeting and financial performance in manufacturing firms listed on the Ghana Stock Exchange, but did not delve into the effects of individual capital budgeting components. Kipkirui and Kimungunyi (2022) and Dobrowolski and Drozdowski (2022) have also reported positive effects of net present value on financial performance in cement manufacturing firms.

Adhikari (2021) explored capital budgeting practices in Nepalese manufacturing companies, highlighting challenges but not their impact. Al-Mutairi et al. (2018) and Siziba and Hall (2021) identified NPV and PI as commonly used capital budgeting techniques in non-financial companies and various industries, respectively. Mubashar and Tariq (2019) assessed analysis techniques among Pakistani firms, while Hasan, Chishty, and Burney (2021) examined capital budgeting practices in Pakistani manufacturing firms. However, none of these studies has specifically investigated the effect of capital budgeting techniques on the financial performance of youth-owned businesses.

Moreover, despite the significance of capital budgeting practices on the financial performance of firms, there exist knowledge gaps in the current literature. One of the gaps is the limited focus on the specific context of youth-owned enterprises in Kisumu Central Sub County, Kenya. Most studies have concentrated on large-scale enterprises, neglecting the unique challenges and opportunities faced by small-scale youth-owned enterprises (Kinyanjui, 2017).

Previous studies on capital budgeting practices have primarily focused on the application of techniques such as Payback Period (PP), Net Present Value (NPV), and Internal Rate of Return (IRR) in large-scale enterprises (Berk & DeMarzo, 2013). For instance, a study by Omunyiyi and Olagunju (2015) examined the impact of capital budgeting techniques on the financial performance of quoted companies in Nigeria, but did not consider the specific context of youth-owned enterprises.

Another knowledge gap is the limited exploration of the relationship between capital budgeting practices and financial performance in the context of youth-owned enterprises in Kenya. A study by Muthuri and Mwangi (2016) investigated the effect of capital budgeting on the financial performance of small and medium-sized enterprises (SMEs) in Kenya, but did not specifically focus on youth-owned enterprises.

Furthermore, most studies have not examined the specific challenges faced by youth-owned enterprises in Kisumu Central Sub County, such as limited access to finance, inadequate infrastructure, and lack of business skills (Kinyanjui, 2017). Therefore, this study aims to fill these knowledge gaps by examining the effect of capital budgeting practices, including PP, NPV, and IRR, on the financial performance of youth-owned enterprises in Kisumu Central Sub County.

1.1.1 Financial Performance Measures

Organizations strive to establish integrated control systems that align strategies with all business processes (Bititci, Carrie, & McDevitt, 1997). The primary goal of this process is to enhance performance and support management decisions through feedback from performance measurement (Lebas, 1995).

Performance measurement is crucial for performance management (Bititci *et al*., 1997). By quantifying performance, organizational management simplifies complex realities, facilitating communication and enabling informed decision-making. Successful management relies on this simplified reality created through measurement. Financial measures of performance, such as profitability, return on capital (ROC), economic value added, revenue growth, cost reduction, and cash flow, play a vital role in directing organizational efforts and identifying areas for improvement (Bititci *et al*., 1997). These measures influence changes in operations, promoting effectiveness and efficiency.

Organizations often divide into divisions and focus on divisional return on investment (ROI) rather than absolute profit. ROI expresses divisional profit as a percentage of assets employed in the division, including metrics like return on equity, return on capital employed, and return on net assets (Drury, 2007).

Return on Assets (ROA) serves as a metric to evaluate a company's profitability in relation to its total assets. It offers insights into the efficiency of management in utilizing assets to generate earnings (Bosch-Badia, 2010) Managers must ensure that the capital they employ is utilized productively, as capital is relatively mobile. If it's not used effectively, it will eventually migrate to where it can yield a competitive return. ROA provides a measure for assessing the overall efficiency with which a company's assets are utilized to generate net income from

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operations. It also indicates the effectiveness of management in deploying capital, as it's possible to be efficient but poorly positioned in terms of capital utilization (Siminica, Circiumaru & Simion,2012).

1.2 Statement of the Problem

According to the Kenya National Bureau of Statistics (KNBS), the youth unemployment rate in Kenya was 10.4% in 2019, with a significant number of young people turning to entrepreneurship as a means of income generation. In Kisumu County, the number of youth-owned businesses has been on the rise, with many of these businesses operating in the informal sector. However, despite the potential for growth and development, these businesses often face challenges in accessing finance, managing cash flow, and making informed investment decisions.

Capital budgeting practices, such as the payback period, net present value, and internal rate of return, are essential tools for evaluating investment opportunities and making informed decisions. These measures help businesses assess the financial viability of a project, determine the optimal investment period, and ensure that the project generates sufficient returns to justify the initial investment. However, studies have shown that many small businesses, including youth-owned businesses, often lack the knowledge and expertise to effectively utilize these tools, leading to suboptimal investment decisions and poor financial performance.

The financial performance of youth-owned businesses in Kisumu County is a critical issue that requires further investigation. While there has been some research on the factors affecting the success of small and medium-sized enterprises (SMEs) in Kenya, there is a lack of studies specifically focusing on the effect of capital budgeting practices on the financial performance

of youth-owned businesses. This gap in the literature highlights the need for a comprehensive study to understand the relationship between capital budgeting practices and the financial performance of these businesses.

1.3 Objective of the Study

The main objective of this study was to determine the effect of Capital Budgeting Practices on the Financial Performance of Youth Owned Enterprises in Kisumu Central Sub-County.

The specific objectives of the study were to:

i.   To identify the specific capital budgeting techniques used by youth-owned businesses.

ii.   To determine the factors influencing the choice of capital budgeting techniques by youth-owned businesses.

iii. To establish the effect of capital budgeting techniques on financial performance of Youth Owned Enterprises in Kisumu Central Sub-County, Kenya.

1.4 Research Questions

i.   What are the specific Capital Budgeting techniques used by Youth Owned Enterprises in Kisumu Central Sub-County, Kenya.

ii.   What are the factors that influenve capital capital Budgeting techniques used by Youth Owned Enterprises in Kisumu Central Sub-County, Kenya.

iii. What is the effect of capital budgeting on financial performance of Youth Owned Enterprises in Kisumu Central Sub-County, Kenya.

1.5. Scope of the Study

The study focused on three commonly used capital budgeting techniques including payback period, net present value and average rate of return. Specifically the study sought to identify the specific capital budgeting techniques used by youth-owned businesses, analyze the factors influencing the choice of capital budgeting techniques by youth-owned businesses and establish the effect of capital budgeting techniques on financial performance of Youth Owned

Enterprises in Kisumu Central Sub-County, Kenya. Financial performance was viewed in terms of return on assets, net profit and return on capital employed. Being a cross sectional study, data was collected at one point in time.

This study focuses on small enterprises in Kisumu Central Sub County because they are the backbone of the Kenyan economy, contributing significantly to job creation and economic growth (GOK, 2019). Youth-owned enterprises, in particular, face unique challenges that hinder their growth and development, including limited access to finance, inadequate infrastructure, and lack of business skills (Kinyanjui, 2019). By examining the effect of capital budgeting practices on the financial performance of youth-owned enterprises in Kisumu Central Sub County, this study aims to provide insights that can inform policy and practice, ultimately leading to improved financial performance and sustainability of these enterprises.

1.6. Significance of the Study

The study provides policymakers with empirical evidence to guide the development of policies that support youth entrepreneurship. By understanding the relationship between capital budgeting practices and financial performance, policymakers can design targeted interventions to enhance the financial literacy and investment decision-making abilities of youth-owned businesses.

The findings of this study can also inform policies aimed at improving access to financing for youth-owned businesses. By identifying the specific capital budgeting practices that contribute to improved financial performance, policymakers can encourage financial institutions to adopt supportive lending practices and provide tailored financial products for youth entrepreneurs. Finally, the study opens up new avenues for research in the field of youth entrepreneurship. It highlights the need for further investigation into the specific factors that influence the effectiveness of capital budgeting practices in different industries and under varying economic conditions.

1.7. Conceptual Framework

INDEPENDENT VARIABLE	DEPENDENT VARIABLES
CAPITAL BUDGETING PRACTICES • Payback Period (PBP) • Net Present Value (NPV) • Internal Rate of Returns(IRR)	**FINANCIAL PERFORMANCE** • Return on Assets
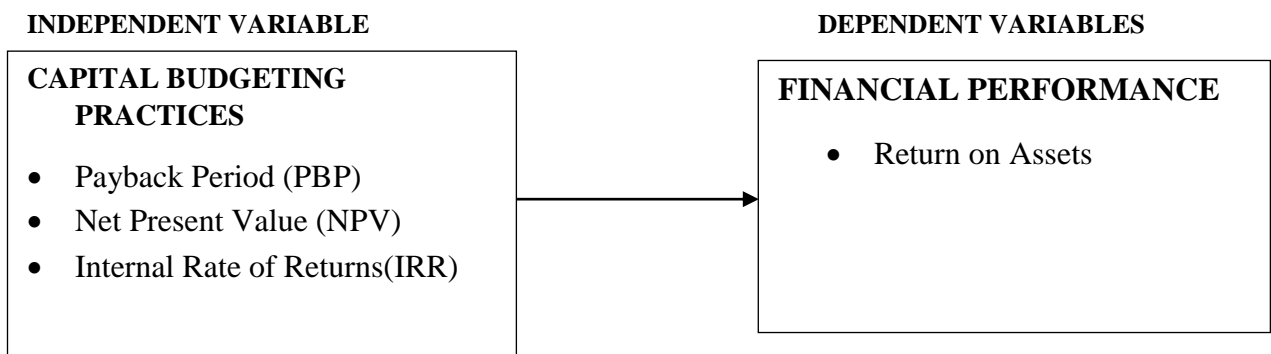
Figure 1: Conceptual Framework

Adopted from Nyamboga, Nyamweya, Abdi, Ndunguru & Njeje,(2014)

The conceptualization shows that Capital budgeting practices which includes payback period, net present value and internal rate of return is expected to enhance financial performance of youth owned businesses in Kisumu central in terms of return on assts(ROA).The study by Nyamboga *et al*,(2014) directly examines the relationship between the use of capital budgeting techniques (including PBP, NPV, and IRR) and the financial performance of small and medium enterprises in Kisii region with similar demographic characteristics to Kisumu Central Sub-County. The conceptual framework and methodology used in this study could provide a useful starting point for the current research.

CHAPTER TWO

LITERATURE REVIEW

In this chapter, the theoretical and empirical works related to the study is reviewed. The review focuses on the variables under study. Other parts provide theory on which the study is anchored. An analysis of the empirical literature then ensues. Insights are provided on capital budgeting and financial performance of organizations.

2.1 Theoretical Literature Review

Theoretical Review focuses on interpretations and arguments around the variables. The section gives an understanding of what the concepts are giving a basis on which empirical testing has been framed. Theoretical literature is the foundation for extraction of constructs that form the basis of understanding the main variables and development of instruments necessary for data collection.This section presents theories related to capital budgeting practices (capital budgeting techniques, capital management and capital structure) and financial performance (return on capital employed, net profit and return on assets).

2.1.1. Agency Theory and Economic Value added (EVA)

Agency Theory primarily addresses the conflicts that arise between principals (shareholders) and agents (company executives). It suggests that these conflicts can significantly affect the financial decisions that are critical to shareholders' interests, notably in capital budgeting. This theory assumes that agents, often driven by self-interest, may not always make investment decisions that align with the best interests of the principals. Consequently, the theory highlights the importance of proper incentives and monitoring mechanisms, which are designed to minimize any divergence from shareholders' goals (Eisenhardt, 1989). Capital budgeting involves choosing investments that are expected to yield returns over time exceeding their cost. In practice, this often relates to making decisions on projects or purchases that require

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substantial initial outlays but promise future cash flows. Through the lens of Agency Theory, these decisions are scrutinized to ensure they reflect the preferences and objectives of the shareholders rather than the potentially self-serving motivations of executives.

On the other hand, Economic Value Added (EVA) is a measure proposed by Stern Stewart & Co. in the 1980s, which provides a quantitative measure of a company's financial performance based on residual wealth. The EVA is calculated by subtracting a firm's cost of capital from its net operating profit after taxes (NOPAT). This approach aligns with the objective of creating shareholder value and serves as an excellent tool to assess the effectiveness of capital budgeting decisions. If a project or investment has a positive EVA, it indicates that value is being created over and above the minimum rate of return required by the capital providers (Stewart, 1991).

The relevance of EVA in the context of capital budgeting and financial performance lies in its rigorous focus on value creation. It compels managers to consider not just profitability, but also capital efficiency, prompting them to make decisions that maximize shareholder wealth. The decision-making process under this framework becomes closely aligned with the principle of value maximization. Integrating Agency Theory and EVA provides a robust structure for addressing the principal-agent problem and measuring the true economic profit of a corporation. As these frameworks guide capital budgeting decisions, they help ensure that these decisions are made with a meticulous consideration of cost, risk, and after-tax returns, shaping a landscape conducive to the sustainable financial success of the company.

2.1.2. Pecking Order Theory

Originally proposed by Myers and Majluf in 1984, the theory suggests that companies prioritize their sources of financing according to a hierarchy to minimize the costs of financing and

adverse selection problems. This theory has profound implications for capital budgeting decisions, which are crucial for the long-term success and financial health of a firm.

The Pecking Order Theory posits that firms prefer to finance new projects first with internal funds (retained earnings), then with debt, and finally with new equity, if external financing is necessary. This hierarchy stems from the costs and risks associated with external financing, including the asymmetric information between company managers and external investors. According to Myers (2001), retained earnings are preferred because they do not dilute ownership or incur additional fixed obligations, whereas new equity is often the last resort due to its high transaction costs and potential negative signal to the market regarding the firm's valuation.

In the context of capital budgeting, this financing hierarchy influences corporate investment decisions. When evaluating potential projects, firms often face a trade-off between profitable investments and the preferred means of financing those investments. For firms operating under the constraints of the Pecking Order Theory, the availability of internal funds can significantly impact the types and scales of projects that can be undertaken. This situation is particularly acute in scenarios where external markets for debt or equity are imperfect (Frank and Goyal, 2003). Consequently, firms with limited internal funds might pass up valuable investment opportunities, which could, in turn, affect their growth trajectories and long-term financial performance.

However, the application of Pecking Order Theory in capital budgeting must also consider the firm's overall risk profile, market conditions, and the returns expected on new investments. In periods of financial stress or market volatility, external financing may become costly or

difficult to obtain, prompting firms to rely heavily on internal funds or to forego investment opportunities, potentially compromising competitive advantage and shareholder value.

2.2 Capital Budgeting Techniques

Capital budgeting, also known as investment appraisal, is a method employed by organizations to assess the feasibility of substantial, long-term investment opportunities. This process involves estimating future cash flows to determine the potential returns of these projects. Given the extended maturity periods and significant investment required, once initiated, it may be challenging for a company to abandon these projects without incurring losses. Consequently, it is crucial for managers to apply capital budgeting techniques effectively to optimize the allocation of available resources (Petereson and Fabozzi, 2009).

2.2.1 Payback Period

Payback Period (PBP) refers to the amount of time required to recoup the initial investment cost. It is considered the oldest and most straightforward method for evaluating capital budgeting proposals. The use of PBP in making capital budgeting decisions is grounded in the notion that recuperating the project's cost earlier is preferable. Typically, a project is deemed acceptable if its PBP is shorter than the maximum recovery time set by the company. However, the key drawbacks of the Payback Period method include its disregard for the time value of money and for cash flows that occur after the payback period. The formula for calculating PBP is defined as the initial cash outlay divided by annual cash inflows (Graham & Harvey, 2001). According to Linstrom (2005), PBP is anticipated as the duration within which the cumulative positive cash flows match the original investment. A predetermined cut-off period is set, and investments that meet this criterion are considered acceptable, while those that do not are rejected. Owing to its simplicity, this method is widely accepted by managers as it reduces the time required for forecasting.

Payback Period (PBP) is a widely recognized traditional method used to evaluate capital investment projects. It measures the time required to recover the initial investment. If the project generates consistent annual cash inflows, the payback period can be calculated by dividing the initial investment by the annual cash inflow (Seitz & Ellison, 2005). While useful for assessing short-term liquidity, PBP has limitations. Firstly, it does not consider cash inflows earned after the payback period, making it unsuitable for measuring the overall value of an investment. Secondly, PBP ignores the timing and size of cash inflows, which can significantly impact project returns. Additionally, determining an optimal payback period can be challenging due to subjective considerations.

Despite these shortcomings, PBP provides insights into a project's liquidity. By prioritizing early payback, companies can enhance their short-term profitability, as evidenced by higher earnings per share (Pike, 2007).

2.2.2 Accounting Rate of Return

Accounting Rate of Return (ARR) is a non-discounting technique used to evaluate capital projects. According to Munyao (2010), ARR is calculated by dividing the annual accounting profits from the project by the average annual capital investment over the project's lifespan. Kadondi (2002) defines ARR as the average after-tax profits divided by the initial investment. ARR considers all accounting profits over the project's life rather than cash flows. Higher ARR indicates a more profitable investment for a firm. However, this method does not account for the time value of money, which can lead to inaccurate assessments of project feasibility.

The ARR methodology leverages financial statements' accounting data to measure the profitability of an investment proposal. It is calculated by dividing the average post-tax income by the average investment (Suzette and Howard, 2011). The ARR is straightforward and practical, can be quickly computed using accounting information, and considers the entire

income stream in determining the accounting rate. However, it relies on accounting, profits, not cash flows, in evaluating investments, disregards the time value of money, treats profits from different periods equally, and does not account for the lengths of project lifespans (Hasan, 2013).

2.2.3 Net Present Value

Bringham and Besley (2002) described Net Present Value (NPV) as a technique to determine the present value of forecasted future cash inflows, which are discounted at the required rate of return by the firm. This method involves calculating the present value of expected future cash flows from a project and subtracting the initial investment to ascertain the net advantage for the firm from the project investment. A project is deemed a viable investment if the calculated present value of the net benefit is positive. An essential benefit of this approach lies in its acknowledgment of the time value of money. Additionally, Kadondi (2002) explained that the discount rate should match the return rate of the best alternative investment with comparable risk, which is referred to as the opportunity cost of capital. The criterion to follow is to favor investments with an NPV greater than zero.

Net Present Value (NPV) is a financial evaluation method that calculates the present value of future cash flows associated with an investment proposal. It utilizes the cost of capital as the appropriate discount rate to determine the project's net benefit. NPV accounts for the time value of money, considering the decreasing value of currency over time. By incorporating all cash flows generated throughout the project's lifespan, NPV provides a more comprehensive assessment of an investment's profitability. However, the NPV technique faces challenges in its application. One key assumption is that the discount rate accurately represents the organization's cost of capital. Determining this cost can be difficult, especially for novel or

complex projects. Additionally, NPV requires extensive data and projections, which may not always be readily available or reliable (Kipkirui & Kimungunyi, 2022)

2.3 Financial Performance

Financial performance is an essential measure of both the success and sustainability of businesses, including those run by young people. This performance is indicative of an organization's financial well-being and its capabilities in generating income, managing expenditures, and securing profits (Venanzi, 2011). Despite the presence of opportunities such as market access, microloans, youth enterprise development funds, and funds for women's enterprises, only a small proportion of youth groups have effectively utilized these resources, according to Okungu (2012). This researcher carried out empirical research to explore the determinants of performance in micro and small enterprises managed by youth groups in Kisumu County.

The process of capital budgeting might pose challenges for businesses led by the youth, potentially impacting their profitability. Studies by Mutshutshu and Hall (2013), Kinyua (2015), and Brijlal and Quesada (2009) have indicated a significant link between the financial performance of young entrepreneurs and their application of capital budgeting methods. Additionally, prior investigations by Omwanza (2018), Alrjoub and Ahmad (2017), among others, have shown a notable connection between financial success and the management of capital costs in organizations. Moreover, research by Adesina *et al*. (2015), Habimana (2014), and Mwangi (2021) has reinforced a strong association between capital structure and the performance of a business. Consequently, it is crucial to explore the correlation between capital budgeting and financial outcomes in enterprises operated by the youth in Kisumu County.

2.2 Empirical Literature Review

2.2.1. Payback Period and Financial Performance

Lawrence, Karlsson, Nehler, and Thollander (2019) investigated factors influencing electricity savings in energy-intensive industries in Sweden from 2007 to 2015. They specifically examined the impact of firm characteristics, monetary investments, and payback time on electricity conservation. The study revealed that monetary investments and payback time were more influential than firm characteristics in driving electricity savings, with monetary investments being the most significant factor. However, firm characteristics accounted for approximately 16% of the systematic variation in electricity savings, with 49% (21 out of 43) of the examined characteristics showing the strongest influence and 74% (32 out of 43) warranting further investigation.

Agung & Zuhri (2023) conducted a financial feasibility analysis of post-pandemic MSME bioplastic businesses using the Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period (PP) methods. The study aimed to assess the financial viability of MSME bioplastic products based on these metrics. Employing an evaluative research design, the researchers analyzed financial data using NPV, IRR, and PP calculations. The findings revealed an investment cost of IDR 5,567,000, a projected annual net cash flow of IDR 4,887,936, and a discount rate of 6%. The NPV calculation yielded a value of IDR 15,022,764.59, indicating a positive financial outlook. The IRR was 84%, exceeding the discount rate, further supporting the investment's feasibility. Finally, the PP was determined to be within the second year of production. Based on these analyses, the study concluded that post-pandemic MSME bioplastic businesses are financially viable and have the potential for profitability.

Sulaiman & Shanak (2021) investigated the influence of working capital management on the financial performance of industrial firms listed on the Palestine Stock Exchange. They

evaluated the impact of working capital management metrics such as average collection period, average inventory period, and average payment period on the financial performance of 13 industrial firms from 2012 to 2018.The study found that the average collection period had no significant impact on financial performance. However, the average inventory period and average payment period were found to have a positive effect on financial performance. The authors recommended that industrial firms review their collection policies, adopting stricter credit policies based on customers' financial capabilities. This measure, they argued, could enhance financial performance.

Huimin and Matchado (2017) investigated the Impact of Capital Budget Decision on Financial Performance of Commercial Banks in Malawi. Using a mixed-methods approach, the researchers employed a questionnaire to gather data from 187 employees at 11 commercial banks in Malawi. The findings revealed a strong positive correlation between the implementation of payback period, net present value, and accounting rate of return techniques in capital budgeting decisions and commercial bank performance. However, the internal rate of return technique exhibited a negative and insignificant relationship with performance in both correlation and regression analyses.

Namahoro, Githui, and Mathenge (2019) investigated the relationship between capital budgeting techniques and the financial performance of manufacturing companies listed on the Nairobi Securities Exchange (NSE). Their study aimed to identify the specific techniques employed and assess their impact on financial outcomes. Using a census survey of all 8 NSE-listed manufacturing companies, the researchers examined the influence of four capital budgeting techniques: Payback Period, Accounting Rate of Return, Net Present Value, and Internal Rate of Return. Their findings indicated that Payback Period (β=.083, p=0.000), Accounting Rate of Return (β=.300, p=0.000), and Net Present Value (β=.095, p=0.037) all

had a positive and significant relationships with financial performance. However, Internal Rate of Return (β=.030, p=0.296) was found to have a positive but non-significant relationship with performance.

In a 2023 study, Nurhayati, Azis, Setiawan, Yulia, Riani, and Endri investigated the development of digital accounting and its influence on financial performance within higher education institutions. The research aimed to analyze the evolution of digital accounting and assess its impact on economic performance in higher education, as well as evaluate the feasibility of the investment using the payback period approach. The development of digital accounting was founded on a Web 2.0-based ICT system, employing the Software Development Life Cycle (SDLC) method with the waterfall model and adhering to the most recent financial accounting standards. The impact of accounting digitization was examined on a population of 247 educational staff, with 152 respondents selected through the Slovin formula. The findings revealed a positive correlation between financial performance and accounting digitization. The feasibility test using the payback period determined that digital accounting is viable for implementation in higher education. The eligibility criteria, based on the calculated rate of return on investment, is three years and two months, which is faster than the required payback period of four years.

Wambua and Koori's (2018) study explored the impact of investment appraisal techniques on the financial performance of small and medium enterprises (SMEs) in Nairobi City County, Kenya. The study aimed to investigate the influence of four techniques: Accounting Rate of Return (ARR), Payback Period (PBP), Net Present Value (NPV), and Internal Rate of Return (IRR). The study drew upon investment theories such as Cash Flow Theory of Investment, Theory of Investment Decisions, Agency Theory, and Q Theory of Investment. It employed a descriptive survey design with a target population of 71,195 licensed medium enterprises in

Nairobi County. A sample size of 384 SMEs was selected using cluster random sampling. Data was collected through questionnaires. Analysis revealed that all four investment appraisal techniques had a statistically significant effect on financial performance: ARR ($t = 6.702$, $p < 0.05$), PBP ($t = 16.489$, $p < 0.05$), NPV ($t = 3.295$, $p < 0.05$), and IRR ($t = 2.133$, $p < 0.05$). These findings suggest that SMEs in Nairobi County should consider these techniques when making investment decisions to enhance their financial performance.

The empirical literature reviewed explored the relationship between various factors and financial performance, with a focus on investment appraisal techniques, working capital management, and digital accounting. Lawrence *et al.* (2019) found that monetary investments and payback time were significant factors influencing electricity savings in energy-intensive industries in Sweden. Agung & Zuhri (2023) concluded that post-pandemic MSME bioplastic businesses are financially viable based on NPV, IRR, and payback period analyses. Sulaiman & Shanak (2021) discovered that working capital management metrics, such as average inventory period and average payment period, had a positive impact on financial performance. Huimin and Matchado (2017) found a strong positive correlation between the implementation of payback period, net present value, and accounting rate of return techniques in capital budgeting decisions and commercial bank performance.

Studies reviewed also had limitations, for instance, Sulaiman & Shanak's (2021) study was limited to 13 industrial firms, which may not be representative of the entire industry. Additionally, the studies primarily focused on established businesses, with little attention given to youth-owned enterprises or start-ups. Furthermore, the literature lacks a comprehensive analysis of the payback period as a standalone factor influencing financial performance, particularly in the context of youth-owned enterprises. A significant knowledge gap exists regarding the financial performance of youth-owned enterprises in Kisumu Central Sub

County, specifically in relation to the payback period. There is a need for research that investigates the effect of payback period on financial performance in this context.

2.2.2 Factors influencing the Choice of Capital Budgeting Technique

Ahmed (2013) investigated the factors influencing the selection of capital budgeting techniques in a study that addressed a knowledge gap in capital budgeting practices across developed and developing economies. The study analyzed questionnaires from 35 out of 61 DFM-listed companies, revealing that a substantial proportion of UAE companies utilized capital budgeting techniques in their investment decisions. The most prevalent methods employed were Payback Period (PB), Net Present Value (NPV), and Internal Rate of Return (IRR).The study identified a range of financial and non-financial factors that impacted the selection of capital budgeting techniques, including company size, revenue, profitability, leverage, expenditure, project familiarity, cash availability, and decision-makers' education level. Notably, significant variations were observed in the methods selected and the factors influencing their choice. Furthermore, the study established a positive correlation between most financial factors and the chosen methods, while a negative correlation was found with the majority of non-financial variables.

In a study conducted by Wnuk-Pel (2015) examined the elements influencing the choice of capital budgeting methods among companies in Poland. The research aimed to understand how widely different capital budgeting methods are utilized and identify which factors affect their selection within these companies. Findings indicated that tools such as Net Present Value (NPV), sensitivity analysis, scenario analysis, and formal investment appraisal processes are predominantly employed. The research concluded that the adoption rate of capital budgeting methods (CBM) in Poland compares similarly to that in other Central and Eastern European (CEE) nations, but falls short of the rate observed in more advanced economies, such as the

United States or the United Kingdom.Additionally, the study found that both the size of the company and the magnitude of the capital expenditure budget correlate positively with the employment of certain capital budgeting methods.

Alles, Jayathilaka, Kumari, Malalathunga, Obeyesekera, and Sharmila (2021) conducted a study on the application of capital budgeting methods among small and medium enterprises (SMEs). The research explored how extensively SMEs use capital budgeting techniques and how non-financial factors influence their choice of these methods. The study utilized content analysis and econometric quantitative methods for data collection and analysis. It took place across several divisional councils in the Colombo district of Sri Lanka, employing stratified random sampling to select a representative group of SMEs from each council. The findings indicated that the Payback Period (PBP) method is the most commonly used capital budgeting technique within SMEs. Multinomial logistic regression results showed that foreign SMEs and those in operation within the industry for 11 to 15 years had a higher likelihood of choosing the Net Present Value method. Additionally, SME decision makers with fewer than 10 years of experience were more likely to prefer the PBP method.

In their study, Daunfeldt & Hartwig (2014) investigated the factors that influence the adoption of capital budgeting methods (CBMs) among Swedish listed companies. The paper aimed to expand upon and contribute to existing research on the relationship between company characteristics and the selection of CBMs. By employing a multivariate regression analysis on questionnaire data from 2005 and 2008, the researchers discovered that companies with higher leverage levels tended to use payback more frequently. Additionally, companies with stricter debt targets and lower management ownership were found to utilize the accounting rate of return more often. Furthermore, larger companies were observed to employ CBMs more consistently.

Schlegel, Frank, and Britzelmaier (2016) conducted an analysis of investment decisions and capital budgeting practices within German manufacturing firms. The study sought to identify the methodologies and approaches employed by these firms in their investment decision-making processes. Additionally, the research aimed to determine if the behaviors of these companies conformed to the principles of finance and management accounting theories. To facilitate this investigation, a literature review was carried out, followed by the development of a survey instrument that included queries related to investment appraisal techniques and cost-of-capital calculations. This questionnaire was disseminated through an online survey, ultimately gathering data from 65 manufacturing companies based in Germany. The findings revealed that the net present value (NPV) method was predominantly utilized by the companies surveyed. Furthermore, the study noted considerable variances in practices based on company size; smaller companies were more inclined to employ single-period methods such as cost comparison, while larger firms favored multi-period methods.

Swarnapali and Rajapakse (2016) conducted a study to explore the effects of firm characteristics and investment types on the capital budgeting techniques utilized by Sri Lankan listed manufacturing firms. The primary goal was to assess how characteristics such as firm size, leverage, share ownership, growth, and listing age, along with investment types such as equipment replacement, expansion of current products, and entry into new product markets, influenced the application of various Capital Budgeting Techniques (CBTs). These techniques included Net Present Value (NPV), Internal Rate of Return (IRR), Profitability Index (PI), Payback Period (PP), and Accounting Rate of Return (ARR). The study employed descriptive and regression analyses to process the data. Results indicated that firm characteristics did not significantly affect the use of CBTs. Additionally, the influence of equipment replacement and expansion of existing products on CBTs was found to be insignificant. However, the decision to expand into new products showed a significant correlation only with the PI method.

The reviewed literature highlights a significant gap: there has been minimal exploration into the factors that influence the adoption of capital budgeting techniques by youth-owned enterprises. These businesses are typically presumed by scholars to be start-ups unconcerned with capital budgeting. Ahmed (2013) studied capital budgeting techniques in 61 DFM-listed companies in the UAE, observing that Payback Period (PB), Net Present Value (NPV), and Internal Rate of Return (IRR) were the favoured methods. Wnuk-Pel (2015) identified that among Polish companies, NPV, sensitivity analysis, scenario analysis, and formal investment appraisal were predominantly used. Alles *et al*. (2021) found that the Payback Period (PBP) method was most commonly utilized in small and medium enterprises (SMEs). Conversely, Daunfeldt & Hartwig (2014) documented a preference for the payback method in highly leveraged companies from 2005 to 2008, while companies with strict debt targets and lower management ownership preferred using the accounting rate of return. Schlegel *et al.* (2016) noted that German manufacturing firms mainly employed the NPV method. Finally, Swarnapali and Rajapakse (2016) reported that Sri Lankan listed manufacturing firms frequently used NPV, IRR, Profitability Index (PI), Payback Period (PP), and Accounting Rate of Return (ARR). These findings underscore the necessity of investigating the capital budgeting techniques factors influencing adoption by youth start-ups, a topic neglected by previous researchers.

2.2.3 Capital Budgeting and Financial Performance

Agbenyo, Danquah, and Shuangshuang (2018) examined the influence of budgeting on the financial performance of manufacturing firms listed on the Ghana Stock Exchange. The research aimed to assess the role of budgeting and analyze its impact on financial performance. Using cross-sectional and convenient sampling techniques, 51 respondents were selected as the study sample. Findings revealed that budgeting plays a crucial role in the financial performance

of listed manufacturing firms. A strong positive correlation was observed between budgeting and financial performance. Additionally, the study determined that planning, monitoring and control, coordination, and evaluation were vital components of budgeting and exerted a positive effect on financial performance. The study emphasized the importance of comprehensive budgetary planning to facilitate the implementation of long-term plans for managers.

Kipkirui and Kimungunyi (2022) investigated the impact of Net Present Value (NPV) Investment Appraisal Practice on the Financial Performance of Cement Manufacturing Companies in Kenya. The research aimed to determine the effect of NPV on the financial performance of these firms, specifically in Nairobi County. The study employed a descriptive research design and targeted 7 licensed cement manufacturing companies in Kenya. The findings revealed that NPV had a positive significant effect on the financial performance of these firms. The study suggested that cement manufacturing companies should consider financing and dividend decisions as irrelevant in investment decisions, instead focusing on the results of the NPV technique, which offers an advanced analytical framework for collective investment decision-making.

In their 2022 study, Dobrowolski and Drozdowski sought to examine whether the net present value (NPV) serves as a suitable financial metric for green energy investment. Utilizing data from Poland, Romania, Hungary, Croatia, the USA, the United Kingdom, Japan, Israel, and the Euro Zone, the research aimed to explain why the conventional NPV formula might not be universally applicable. The study revealed that the fluctuating discount rate impacts the time value of money, necessitating a redefinition of the NPV formula. This research offers two primary contributions. First, it revisits the NPV formula in the context of emerging markets compared to stable economies, contributing to the development of business and management theory. Second, it proposes and empirically verifies a modified NPV formula as a financial

metric that accounts for the unique circumstances of energy firms in emerging markets. Consequently, this study enhances the capital budgeting process and can lead to optimal outcomes in firms, reducing financial risks. Furthermore, the modified NPV formula can aid in the contextual diagnosis of business projects, making it relevant for other energy sector analyses.

Adhikari (2021) examined Capital Budgeting Practices in Nepalese Manufacturing Companies. The study aimed to analyze the capital budgeting practices employed by Nepalese manufacturing firms. Primary data was gathered from ten manufacturing companies via self-administered questionnaires.The research revealed that Nepalese manufacturing companies utilize capital budgeting for long-term investment projects. While most companies rely on executive decisions for investment planning, some combine financial analysis with executive decisions. The study identified challenges such as time-consuming processes, data scarcity, and manpower shortages.

Hasan, Chishty, and Burney (2021) conducted an empirical study to gain insights into Capital Budgeting Practices (CBPs) in Pakistani manufacturing firms. Their research aimed to examine the CBP process, identifying the challenges faced by firms and the nonfinancial factors influencing their decision-making. Using a survey questionnaire adapted from prior studies, data was collected from 52 manufacturing companies listed on the Pakistan Stock Exchange. The findings revealed that Payback Period and Net Present Value were the most prevalent CBPs, while newer techniques such as Real Options were rarely employed. Data forecasting emerged as the primary obstacle for firms in deploying CBPs. Notably, firms considered the strategic importance of projects as a crucial factor in their capital budgeting decisions.

Chadha and Sharma (2019) conducted a survey-based study on capital budgeting practices in Indian manufacturing firms. Their analysis revealed that payback period and net present value

(NPV) methods dominate capital budgeting decisions. However, non-discounting techniques hold a higher overall preference compared to discounting methods. The study also identified WACC (weighted average cost of capital) as the most prevalent method for determining the cost of capital among sample firms. Additionally, the study highlighted issues contributing to the neglect of scientific project appraisal techniques. These findings offer valuable insights into the capital budgeting practices of Indian manufacturing firms, providing a comprehensive understanding of their decision-making processes.

Tariq and Khattak (2019) conducted an analysis titled Practices of Capital Budgeting Techniques taking evidence from the Corporate Sector of Pakistan." The primary objective of this study was to explore the use of Capital Budgeting Techniques (CBT) within Pakistan's corporate sector and to determine the factors influencing the choice of CBTs during the capital budgeting decision-making process in the country. Employing a Positivist philosophy, the research utilized a quantitative survey methodology, gathering data through convenience sampling from 173 CFOs and Finance Directors. The analysis was performed using ordinal logistic and binary logistic regression techniques. The findings indicated that the practice of capital budgeting in Pakistan's corporate sector varies in certain respects from that in developed economies. Notably, the traditional Payback Period (PP) method emerged as the predominant CBT over more commonly used methods in developed countries, such as the Net Present Value (NPV) and Internal Rate of Return (IRR), with NPV being more prevalent than IRR. It was revealed that publicly listed and larger firms tend to employ more advanced CBTs compared to private and smaller companies. Encouragingly, publicly listed companies have begun to integrate Real Options (RO) and Sensitivity Analysis (SA) in their evaluations. Additionally, the study discovered a significant association between project duration and project size in the adoption of sophisticated CBTs.

Mubashar and Tariq (2019) conducted a study investigating capital budgeting practices in Pakistan. Their research aimed to assess the prevailing trends in analysis techniques, discount rate estimation, and risk assessment methods among publicly traded Pakistani firms. A comprehensive online questionnaire was distributed to the top 200 non-financial companies on the Pakistan Stock Exchange based on market capitalization. The response rate of 35% revealed that Pakistani firms generally align with theoretical approaches by utilizing discounted cash flow methods for capital budgeting. Notably, net present value is the preferred metric over internal rate of return, indicating a relatively low theory-practice gap in this context.

In their study, Siziba and Hall (2021) delved into the historical progression of capital budgeting techniques within various enterprises. Through a longitudinal analysis, they examined 83 studies on capital budgeting practices across companies in India, South Africa, the UK, and the USA, spanning from 1966 to 2016. Their findings revealed that six capital budgeting methods - the net present value (NPV), the internal rate of return (IRR), the payback period (PBP), the accounting rate of return (ARR), the return on investment (ROI), and the real option valuation (ROV) - are the most widely employed for assessing capital investments. Among these techniques, ROV is the least utilized, with a general lack of familiarity and its complexity being the primary reasons cited for not employing it.

Al-Mutairi, Naser, and Saeid (2018) conducted a study examining the capital budgeting practices of non-financial companies listed on the Kuwait Stock Exchange (KSE). They sought to analyze the techniques employed by these companies in making investment decisions. Data was collected through a questionnaire distributed to Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), and managers of manufacturing, service, and real estate companies on the KSE. The results revealed that capital budgeting ideas primarily originate from top management and those directly involved in asset utilization. The study found that Net Present Value (NPV) and Profitability Index (PI) were the most commonly used capital budgeting

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techniques. The choice of technique was influenced by the nature of the project being evaluated, as well as the academic and professional expertise of the company's staff.

Existing research on capital budgeting and financial performance of youth-owned businesses has limited scope and fails to establish a comprehensive link. Studies have focused on specific sectors like manufacturing and corporates, or examined isolated capital budgeting techniques like payback time and net present value (NPV). While some studies, like Agbenyo *et al.* (2018), have explored the influence of budgeting on financial performance, they have not analysed the impact of individual capital budgeting components. Other studies, such as Kipkirui and Kimungunyi (2022), Dobrowolski and Drozdowski (2022), and Adhikari (2021), have investigated the effect of NPV or capital budgeting practices, but their findings are limited to specific sectors or do not provide insights into the overall impact on financial performance. Similarly, studies like Al-Mutairi et al. (2018), Siziba and Hall (2021), Mubashar and Tariq (2019), and Hasan *et al.* (2021) have examined capital budgeting techniques in various contexts but have not explored their impact on youth-owned businesses. Therefore, this study aims to fill this research gap by investigating the effect of capital budgeting techniques on the financial performance of youth-owned businesses.

CHAPTER THREE

RESEARCH METHODOLOGY

This Chapter provides an overview of the research design, study area, target population, sampling size and technique, data collection methods, sources and type of data, data collection procedures, the instrument of data collection, reliability tests, validity tests, data analysis and presentation, model specification, and diagnostic tests.

3.1. Research Design

This study employed a correlational research design. The design is applicable because of its ability to determine the strength and direction of relationships between variables (Krause,2018). Correlational research design is relevant in this context because it allows for the measurement of multiple variables at the same time. Unlike experimental research that manipulates variables to determine causal relationships, correlational research identifies patterns or associations between two or more variables without establishing direct effect dynamics. This approach is particularly relevant in settings where controlled experiments are unfeasible or unethical (Hair *et al* 2019). In a complex system such as finance, there are various factors that can influence the relationship between capital budgeting practices and financial performance. By using correlational research design, researchers will measure and control for these variables, thus providing a more accurate understanding of the effect capital budgeting. According to Nachmias and Nachmias (2008), a Correlational approach helps determine whether and to what degree a relationship exists between the quantifiable variables.

This design is also applicable to this study because it is a quantitative research method that involves the use of statistical techniques to analyze data (Curtis, Comiskey & Dempsey, 2015). In this context, correlational research design helped to analyze data collected from questionnaires, or other forms of data collection methods. This makes it a suitable method for

studying the effect of capital budgeting, which involves the use of data from primary sources to measure the relationship between variables.

3.2. Study Area

The study was carried out in Kisumu County, located in western Kenya, defined by geographical coordinates that place it mainly between latitudes 0° and 0.50° South and longitudes 34° and 35° East. This positioning near the equator and by the shores of Lake Victoria largely influences its climate and subsequently, its economic and business environment. The area covers approximately 2,086 square kilometers, with Kisumu city serving as the administrative, commercial and logistical hub. The county's proximity to Lake Victoria, the second largest freshwater lake in the world, not only makes it a key player in the fishing industry but also supports agriculture, tourism, and retail.

Kisumu County has seen a steady rise in youth entrepreneurship, a trend mirrored across many parts of Kenya. Young business owners in Kisumu are becoming increasingly innovative, venturing into sectors such as ICT, services, agribusiness, and creative industries. There has been particularly notable growth in ICT startups, largely driven by improved internet access and mobile technology penetration.

Youth-owned businesses in Kisumu leverage various support systems provided both by the government and non-governmental organizations. Initiatives such as entrepreneurship training programs, access to micro-financing, and business incubation services have been pivotal in nurturing these young entrepreneurs. According to local survey reports, there are over 1,000 registered youth-led businesses in Kisumu, and they contribute significantly to the local economy and employment.

3.3. Study Population

Population refers to the entire group of individuals to whom the results of a study will be generalized (Ingram & Schneider,1991).The study's target population comprised 639 registered

youth-owned commercial firms located in Kisumu Central Sub-County. These businesses span from retail sector, hospitality,information and technology services, agribusiness and service industry.

According to the 2019 National Census, Kisumu County has a population of 1,155,574, with over 40% being young individuals. Interestingly, 61% of this young demographic faces unemployment challenges. The focus of this study is on businesses in Kisumu County that are operated by the youth. Data collection will occur specifically within businesses run by young individuals in Kisumu Central Sub-County. This investigation will explore aspects of capital budgeting and the financial performance of these youth-owned enterprises. Key financial metrics such as Return on Capital Employed (ROCE), Net Profit, and Return on Assets (ROA) will be analyzed during this research.

3.4. Sampling and Sample Size Determination

According to Mwele, (2022) , to ensure adequate representation in a descriptive study, it is recommended to select a sample size that constitutes approximately 10% of the entire population. Neumann (2003) suggests that a sample size of 10% is considered sufficient for conducting a descriptive study. Borg and Gall (2003) propose that representation should not fall below 30% of the total population. Consequently, it is deemed adequate to have a sample size that represents 30% of the population being studied. To account for the limited size of the target population, youth-owned businesses in Kisumu County, this study employed the Yamane (1967) to arrive at the 267 respondents to survey who were the owners of youth enterprises in Kisumu central sub county. The respondents were selected randomly from each category of youth enterprises.

Table 1: Categories of Youth Owned Business Enterprises in Kisumu Central Sub-County

Sector	No. of Firms A	Pilot Sample (10% of A) B	Survey Sample (A-B)	Proportion of firms to survey $\frac{A-B}{639} \times 246$
Retail	207	21	186	79
Hospitality	60	6	54	23
Information Technology Services	49	5	44	19
Agribusiness	80	8	72	31
Service Delivery	243	24	219	94
Total	**639**	**64**	**575**	**246**

Source(Researcher,2023)

Sample Size calculation

$$n = \frac{N}{1+(Ne^2)}$$

Where.

n= the sample size.

e= margin of error

N=population

Source: (Yamane,1967)

$$n= \frac{639}{1+(639\times 0.05^2)} \quad = 246 \text{ youth owned businesses}$$

3.5 Pilot Test

A pilot test is a small-scale study that assesses the feasibility and effectiveness of a research design before conducting a larger study. It evaluates aspects like data collection methods, procedures, and instruments to identify potential issues that could impact the validity or success of the main study (Polit & Beck, 2008). Pilot tests ensure the clarity and practicality of the study design, the accuracy of research instruments, and the feasibility of the protocol for participants, researchers, and administrators. Feedback from pilot tests helps refine the final study design and address potential problems.

The size of a pilot study should be substantial enough to provide meaningful insights into the study's functioning but small enough to be cost-effective (Hertzog, 2008). While recommendations vary, Leon, Davis, & Kraemer (2011) suggest a range of 10% of the planned sample size for the main study. This range allows for the identification of issues with study

procedures and the estimation of variability in outcomes, informing power calculations without depleting resources or affecting participant pools for the main study.

In this specific case, the pilot study will include 10% of the total population of 639 firms, which translates to 64 firms randomly selected from each category of youth owned business enterprises in Kisumu central sub county (as shown in Table 1). The respondents used in the pilot survey will not be included in the main study.

3.6 Data Collection Methods

Primary data was collected using structured questionnaires. A structured questionnaire is a methodical instrument used in research to gather quantitative data from participants. It is characterized by a set of predetermined questions that are presented to respondents in a fixed order and format. This tool is essential for researchers who aim to collect standardized data that can be easily quantifiable and statistically analyzed. One of the primary strengths of a structured questionnaire that makes it suitable for this study is its ability to impart uniformity across all respondents. The structured questionnaires can also be easily administered on electronic form. By asking the same questions in the same way, researchers minimize variability that could potentially arise from differences in question interpretation. This level of standardization ensures that findings reflect the respondents' true responses to the questions posed, rather than the result of discrepancies in the way questions are asked.

The research aims to gather secondary data from the financial statements of registered youth enterprises in Kisumu Central. The primary objective is to employ discrete numerical measures of attitudes and opinions to investigate the relationship between capital budgeting processes and entrepreneurial performance. To determine the individual contributions, these measures have been integrated into a correlation analysis. Furthermore, this method enhances the efficiency of the statistical analysis process by constructing a predictive model that accurately

captures various relationships. Additionally, it enables the computation of the correlation coefficient, a statistical measure used to assess the degree of correlation between two variables.

3.6.1. Procedure for Data Collection

In the study, semi-structured questionnaires were utilized to gather primary data regarding capital budgeting practices and the financial performance of participating organizations. Research assistants underwent extensive training by the researcher on data collection protocols. The research assistants personally delivered the questionnaires to respondents, allowing ample time for completion. This ensured adequate time for participants to provide comprehensive responses. The questionnaire focused on individuals owning or managing businesses operated by minors. It consisted of three distinct sections:

Section A:** General information

Section B:** Capital budgeting practices in youth-run businesses in Kisumu County

Section C:** Financial performance assessment of youth-owned businesses at the organizational level.

3.6.2 Reliability Test of the Research Instrument

Reliability, as defined by Bolarinwa (2015), refers to the consistency and stability of research outcomes. To be considered reliable, findings should be replicable under identical conditions. In other words, another researcher following the same procedures should obtain comparable results. Establishing reliability is crucial for validating research findings.

Internal consistency reliability measures the consistency of individual test or tool components. It reflects the degree to which items within a test or survey assess the same underlying concept. Cronbach's Alpha is commonly used to assess internal consistency, evaluating the average

correlation among all possible item pairs. Higher Alpha values indicate better internal consistency, with a standard threshold of 0.7 being acceptable. However, this threshold may be adjusted based on the study's context and objectives.

All the constructs of capital budgeting and financial performance were tested for reliability and their Cronbach's alpha coefficient were above 0.7 confirming that the instrument was reliable.

3.6.3. Validity test of the Research Instrument

Validity assesses the extent to which a research instrument accurately measures the intended concept. The validation process typically begins with face validity, which involves expert judgments to determine if the instrument appears to measure the construct it claims to. For this study, experts in finance were used to evaluate the instrument's items to ensure they align with the intended construct. Finally, construct validity, the most rigorous level of validity, was tested by examining the theory behind the instrument. Convergent validity assesses the correlation between two measures of related constructs, while discriminant validity verifies that a construct is distinct from unrelated constructs. The researcher used Average Variance Extracted (AVE) as a statistical measure to assess construct validity.

3.6 Data Analysis and Presentation

The first and second objectives of this study were analysed using descriptive statistics and results presented in form of tables of means and standard deviations. The third objective was analysed using multiple regression analysis and the regression ouput also presented in form of tables.

3.6.1 Model Specifications

The model that represented the relationship between capital budgeting practices and financial performance of youth owned businesses in Kisumu central sub-county is shown below:

$Y_t = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \epsilon$…………..............3.1
 Where:
Y_t=   Financial Performance
β_0= Constant
X_1= Payback period
X_2= Net present value
X_3= Average rate of Return
ϵ = error term

3.7 Regression Diagnostic Tests

3.7.1 Normality Test

Figure 2:Normality Test for financial performance, capital Budgeting Techniques
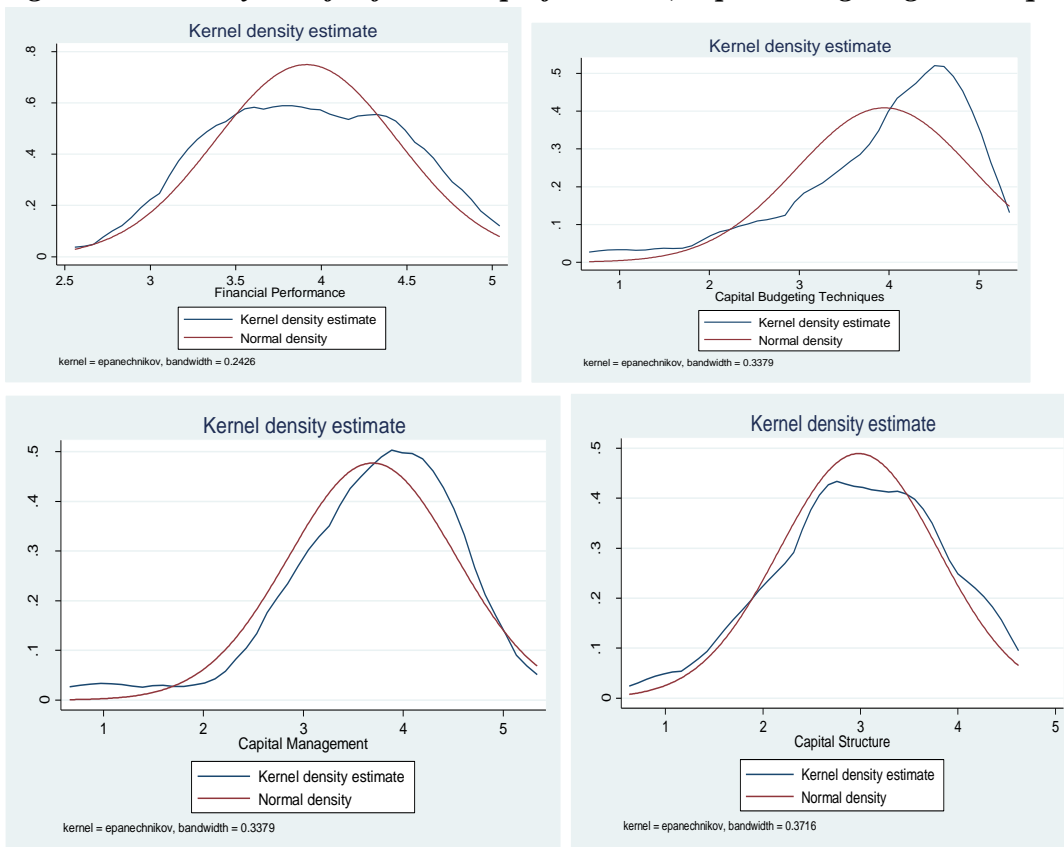
Figure 1 presents the kernel density estimate for financial performance and capital budgeting strategies. KDE can be utilized to assess normality by contrasting the KDE plot with the normal distribution curve. Deviations between the KDE and the normal curve suggest departures from normality.

The bell-shaped patterns observed in the kernel density estimation indicate the possibility of these variables conforming to the normal distribution. Statistical methodologies generally assume that data exhibit a normal distribution, implying that samples drawn from the population also follow a normal distribution (Ghasemi & Zahediasl, 2012).

3.7.2 Test for Independence of Errors

To assess the correlation of dependent errors, the Durbin-Watson statistic was employed. Values within the ranges of 1.50-2.50 or 1.0-3.0 (Tabachnick & Fidel, 2001) indicate uncorrelated errors. As shown in Table 1, the calculated Durbin-Watson statistic is 1.338, suggesting that the errors in the data are indeed uncorrelated.

Table 2: Test for Independence of Errors

	R	R Square	Adj R Square	Std. Error of the Estimate	Durbin-Watson
1	.823[a]	.678	.665	.50700	1.765

a. Predictors**:** (Constant), NPV,PBP,ARR
b. Dependent variable: *Financial Performance*

Source: Survey Data (2023)

3.7.3 Homogeneity of Variances Test

The Levenes test was utilized to evaluate the consistency of variances, as per the guidelines set forth by Glass (1966) and Ho (2013). According to these standards, the p-value for the Levenes test must surpass 0.05 to satisfy the conditions of variance consistency. A p-value below 0.05 indicates a breach of the homogeneity of variance assumption. This homogeneity principle implies that the distribution of results for each independent group is either equivalent or closely aligned. Discrepancies in meeting this standard among independent groups may lead to erroneous or inaccurate conclusions. Upon scrutinizing the p-values from the Levenes test, it was determined that the homogeneity of variance has been maintained. As a result, it is feasible to compare outcomes from different test groups, given their similar proportions.

Table 3: Test for the Homogeneity of Variances

	Levene Stat	df1	df2	Sig.
PBP	1.034	19	105	.430
NPV	1.034	19	105	.430
ARR	.915	19	103	.566
FP	1.440	19	105	.124

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter provides an overview of the response rate, outlines the descriptive statistics, and delivers a thorough analysis of different responses relating to primary variable constructs. Notably, it includes a moderation analysis of the proposed moderator variable. Crucially, it evaluates outcomes relative to the study's goals

4.1. Response Rate

The study used primary data to establish the specific capital budgeting techniques used by youth owned businesses and to analyse factors influencing the choice of capital budgeting techniques chosen by youth owned businesses in Kisumu central sub county. A total of 246 questionnaires were dispatched by the use of research assistants. However, only 192 questionnaires were received back for analysis accounting for 78.05% response rate which is deemed sufficient enough to make generalization to the entire population of youth owned business enterprises in Kisumu central as a whole. According to Nulty (2008), a reponse rate of 40% is sufficient enough to make generalizations to the entire population under study provided the subjects of the study have homogenous characteristics.

4.2 Data Screening and Cleaning

Before commencing the descriptive and inferential analysis, the data quality was thoroughly assessed. The search process entailed locating missing values and outliers within the dataset. The dataset comprised independent and dependent variables, which underwent descriptive analysis to identify any responses that exceeded the prescribed Likert scale range of 1 to 5. Any such responses were then discarded. The data met the established criteria, exhibiting no anomalies or missing data points. This confirmed that all data points adhered to the 1 to 5 range as required. As a result, the data was deemed fit for further rounds of analysis.

Table 4: Data Screening and Identifying Missing Values

Independent variable Construct	N	Min	Max	Missing value	Outliers
PBP	192	1	5	0	0.0
NPV	192	1	5	0	0.0
ARR	192	1.1667	5	0	0.0

Source: Survey data, (2023)

All 192 respondents provided complete answers to the survey questions on payback period(PBP),Net present value(NPV) and accounting rate of returns(ARR) as used by the youth owned businesses in Kisumu central sub county. This comprehensive response rate resulted from the provision of detailed explanations for each variable prior to data collection, ensuring respondents' understanding of the questions. Statistical analysis revealed no missing values or outliers, indicating the high quality of the data obtained.

4.3 Firm Specific Characteristics

Objective one aimed to gather perspectives from respondents regarding specific capital budgeting methods employed by youth-owned businesses in Kisumu Central Sub-County. A questionnaire was developed to assess their level of agreement with statements that described relevant capital budgeting techniques applicable to the small and medium enterprise (SME) sector. The responses enabled researchers to infer the commonly used capital budgeting techniques among youth-owned businesses in the sub-county.

4.3.1 Identifying the specific Capital Budgeting Techniques used by Youth Enterprises

To determine the capital budgeting techniques employed by youth-owned businesses in Kisumu Central Sub-County, respondents were presented with statements describing common practices in the SME sector. They were asked to rate their level of agreement on a Likert scale from 1 to 5, where 1 represented 'strongly disagree,' 2 represented 'disagree,' 3 represented 'neutral,' 4 represented 'agree,' and 5 represented 'strongly agree.'

Table 5: Specific Capital Budgeting Techniques Used by Youth Owned Businesses

Descriptive Statistics	N	Min	Max	Mean	SD
o Our company calculates the Payback Period for all significant investment projects	192	1	5	4.1615	1.15318
o Our firm frequently uses the Net Present Value (NPV) method to evaluate potential investment projects	192	1	5	4.2188	0.98898
o We consider the Internal Rate of Return (IRR) as a key factor when making long-term investment decisions	192	1	5	3.1823	1.43008
o Our firm has experienced significant benefits from using the profitability index as a capital budgeting technique	192	1	5	3.401	1.33051
o We believe that Average Rate of Return (ARR) provides a comprehensive assessment of an investment's financial viability.	192	1	5	3.8229	1.15314
Valid N (listwise)	192			μ=3.7573	

Source: Survey Data,(2023)

The table above highlights the commonly employed capital budgeting techniques by youth-owned businesses in Kisumu Central Sub County: Net Present Value (NPV), Payback Period (PBP), Internal Rate of Return (IRR), Profitability Index (PI), and Average Rate of Return (ARR). However, the application of these techniques varies across business sectors. NPV emerged as the most prevalent technique, with the highest mean of 4.2188. Payback Period was preferred by businesses in the retail and hospitality sectors, with a mean of 4.165 and a standard deviation of 1.15318. Average Rate of Return was also widely used, with a mean of 3.8229 and a standard deviation of 1.15314. These findings indicate that youth enterprises in Kisumu

Central Sub County generally embrace capital budgeting as a crucial factor in their investment decision-making process. All five techniques received above-average ratings (3.0), demonstrating the importance of these tools in evaluating the financial viability of capital projects.

This study's findings were compared to previous research and theoretical advancements. The results align with Ahmed (2013), who examined factors influencing capital budgeting techniques in UAE companies. Like Ahmed's study, this research found that companies used capital budgeting techniques in investment decisions, with Payback Period (PB), Net Present Value (NPV), and Internal Rate of Return (IRR) being the most prevalent.

However, these findings may not be generalizable to large-scale companies. Youth-owned businesses lack the economies of scale advantages enjoyed by larger firms. Wnuk-Pel (2015) also identified NPV, sensitivity analysis, scenario analysis, and formal investment appraisal processes as dominant methods in Polish companies. Notably, youth-owned businesses engage in capital budgeting practices typically associated with larger enterprises with significant capital investments.

4.3.2 Factors Influencing The choice of Capital Budgeting techniques by Youth Owned businesses In Kisumu Central Sub-County

The second objective of the study aimed to determine the factors that guide the selection of capital budgeting techniques employed by youth-owned businesses in their decision-making processes. To ensure objective responses, the researcher conducted a pilot study with a small group of respondents. The feedback gathered during the pilot study was integrated into the questionnaire, where factors were identified and respondents were asked to rate their level of agreement with statements describing various factors previously identified as influencing capital budgeting technique selection. The identified factors included time constraints, the expertise and experience of the management team, industry norms and best practices, regulatory requirements and guidelines and technological advancements like capital budgeting

software. The ratings of the respondents concerning the identified factors are shown in the table below:

Table 6: Factors influencing the choice of budgeting Technique by Youth Owned Businesses

Descriptive Statistics	N	Min	Max	Mean	SD
o The expertise and experience of the management team influence the choice of capital budgeting techniques, as some techniques require specialized knowledge	192	1	5	3.9688	1.14821
o Time constraints imposed on the capital budgeting process limit the choice of techniques that can be used effectively	192	1	5	3.8854	1.21827
o Regulatory requirements and guidelines can influence the choice of capital budgeting techniques, particularly for projects in regulated industries	192	1	5	3.6458	1.21491
o Industry norms and best practices play a role in shaping the choice of capital budgeting techniques used by businesses	192	1	5	3.25	1.26574
o Technological advancements and the availability of new capital budgeting tools and software impact the choice of techniques used by businesses	192	1	5	2.7135	1.46378
Valid N (listwise)	192			μ=3.4927	

Source: Survey Data,(2023)

The table above show that the factors identified to influence the choice of capital budgeting technique by youth owned business enterprises in Kisumu central sub county. Based on the foregoing detailed evaluation, every factor identified had an average individual response

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scores that exceeded 3.0, with a total average score of 3.4927 for all categories except for technological advancements which had an average score of 2.7135.This implies that on a scale from 1 to 5, with 1 being 'strongly disagree' and 5 being 'strongly agree', all the cases obtained high ratings. It is an indication that respondents believed that the firms under consideration had a high opinion of the factors believed to influence the choice of capital budgeting techniques. Analysis of the findings indicated that the expertise and experience of the management team was deemed the most significant factor influencing the selection of capital budgeting techniques within these firms (mean = 3.9688). Time constraints imposed on the capital budgeting process were also considered influential (mean = 3.1500). In contrast, technological advancements and the availability of new capital budgeting tools were perceived as the least influential factors (mean = 2.7135, standard deviation = 1.46378).

The findings provide confirmation for Ahmed (2013), who explored the determinants behind selecting capital budgeting techniques and pinpointed a variety of financial and non-financial elements influencing these choices. These elements included company size, revenue, profitability, leverage, expenditure, project familiarity, cash availability, and the educational level of decision-makers. In a similar vein, Wnuk-Pel (2015) documented that in Poland, the size of a company and the size of its capital expenditure budget positively influence the adoption of specific capital budgeting methods. Research by Alles *et al.* (2021) on capital budgeting methods among small and medium enterprises (SMEs) in the Colombo district of Sri Lanka indicated that foreign SMEs and those with 11 to 15 years in the industry favored the Net Present Value method. It was also noted that SME decision-makers with less than 10 years of experience showed a preference for the Payback Period (PBP) method, suggesting that time constraints are influential in capital budgeting decisions, echoing the conclusions of this present study.

Daunfeldt & Hartwig (2014) investigated Swedish listed companies and noted that industry norms and best practices influence the choice of capital budgeting methods; they found that companies with higher leverage opted for the payback method more frequently, and companies with stringent debt targets and lower management ownership were more likely to use the accounting rate of return method, while larger firms applied capital budgeting methods more consistently.

4.3.3 Effect of capital Budgeting Techniques on Financial Performance of Youth owned Enterprises in Kisumu County

To achieve the above objective, secondary data was collected from 192 registered youth owned business enterprises in various sectors in Kisumu central sub county.

4.3.3.1 Descriptive statistics

Descriptive statistics are crucial for researchers seeking to establish relationships between variables and draw conclusions. Borg & Gall (1996) emphasized the significance of these statistics in confirming associations. Kaur (2018) highlighted the role of descriptive statistics in characterizing the entire dataset. Among the measures of central tendency, the mean is particularly important. It represents the mathematical average and incorporates all relevant data characteristics and values. The mean is used in both interval and ratio scales and is widely recognized as the most representative measure of a dataset's central tendency.

Table 7:Summary of Statistics of the Study Variables

	ROAS	PBP	NPV	IRR
Mean	0.009987	4.11E-14	4.27E-16	0.177816
Median	0.014846	0.005886	0.000407	0.147509
Maximum	0.074021	3.559180	0.062593	8.491264
Minimum	-0.302464	-4.639080	-0.031407	-0.504693
Std. Dev.	0.046222	1.768463	0.011805	0.612979
Skewness	-3.649655	-0.032412	1.141766	13.29389
Kurtosis	21.48392	2.685284	9.311741	180.9311
Jarque-Bera	3110.114	0.813078	354.7891	254885.2
Probability	0.000000	0.665951	0.000000	0.000000
Sum	1.887451	7.76E-12	8.05E-14	33.60722
Sum Sq. Dev.	0.401656	587.9630	0.026201	70.63976
Observations	192	192	192	192

Source: Survey Data, (2023).

Key: ROA =Financial Performance of youth enterprises, PBP=Payback Period, NPV=Net Present Value, IRR=Internal Rate of Return

As indicated in the table presented above, the study analyzed descriptive statistics based on 192 observations gathered from registered youth enterprises during the period from 2016 to 2022. The financial performance of these enterprises was assessed using the Return on Assets (ROA) metric. This metric showcases that, on average, businesses owned by youth have maintained a positive financial stance over the past seven years. ROA, defined as net income divided by total assets, represents a firm's efficiency in using both financial and real assets to generate profits. For the entire sample studied, the average ROA was recorded at 0.09%, with a lowest value of -30% and the highest at 7%, suggesting that financial performance among these youth-owned enterprises varied between -30% and 7% with an average of 0.09%. Additionally, the standard deviation for ROA was discovered to be 0.046222, indicating a relatively low variability in profitability across the sampled enterprises.

Comparative studies such as those conducted by Agbenyo, Danquah, and Shuangshuang (2018) have identified a significant role of budgeting in the financial success of manufacturing firms listed on the Ghana Stock Exchange, confirming a critical correlation between budgeting practices and enhanced financial performance. Similarly, Kipkirui and Kimungunyi (2022) validated, through their research, that Net Present Value (NPV) investment appraisal practice substantially benefits the financial health of Cement Manufacturing Companies in Kenya.

On the other hand, Payback period measured by the period it takes to realize the return which is equivalent to the initial cash outlay had a mean of 4.11E-14 indicating that on average, youth owned firms were increasing their return with a standard deviation of 1.768463 while the mean for NPV was 4.27E-16 with a standard deviation of 0.011805. These results are in line with Dobrowolski and Drozdowski who sought to examine whether the net present value (NPV) serves as a suitable financial metric for green energy investment and their findings revealed that the fluctuating discount rate impacts the time value of money.

4.3.3.2 Regression Results

Multiple regression was used to test achieve objective three. However, this was done after performing several diagnostic tests as discussed in chapter three. This was to ensure non-violation of the classical linear regression model (CLRM) and also to establish how well the data fitted in the regression model. The results are shown in the table below:

Table 8: Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	.704	.034		23.555	.000		
PBP	.196	.034	.440	8.627	.000	.995	1.005
NPV	.194	.035	.439	8.522	.000	.973	1.028
IRR	.258	.035	.383	7.453	.000	.978	1.022
R	.727						
R Square	.584						
Adj R square	.574						

a. Dependent variable: Financial Performance

In regression analysis, multicollinearity occurs when two or more predictor variables are strongly correlated. This can lead to complications, as it undermines the statistical significance of the individual predictor variables. While low levels of multicollinearity are acceptable, it is generally recommended to keep the Variance Inflation Factor (VIF) below 10 (Paul, 2006).

In this study, the VIF and tolerance values indicated that the predictor variables did not exhibit multicollinearity. The tolerance values ranged from 0.97 to 0.99, suggesting a high level of independence. Additionally, the Durbin-Watson statistic was 2.006, which falls within the ideal range of 1.5 to 2.5, indicating no significant autocorrelation in the model.

The results show that standardized beta coefficients and p-values for the predictor variables were: PBP ($\beta = 0.440$, $p < .05$), NPV ($\beta = 0.439$, $p < .05$), and IRR ($\beta = 0.383$, $p < .05$). These

positive coefficients indicate that all three variables have a significant and positive influence on the financial performance of youth-owned firms. Specifically, a one-standard-deviation increase in PBP results in a 0.440-standard-deviation increase in financial performance, while similar increases in NPV and IRR lead to 0.439- and 0.383-standard-deviation increases, respectively.

As for un-standardized coefficients, a single percentage unit change in payback period is anticipated to produce a positive change in the firms financial performance by 0.296%. Similarly, for a single percentage unit change in NPV, it's expected to result in a positive change in the youth owned firms financial performance by 0.296%. Furthermore, a single percentage unit change in IRR practice by the firms is projected to effectuate a corresponding change in their financial performance by 0.258% in a positive way.

The outcomes of this study reflect previous research by Sulaiman & Shanak (2021), who analyzed the effects of working capital management on the financial performance of industrial companies on the Palestine Stock Exchange. Their findings indicated no significant influence of the average collection period on financial performance, while the average inventory period and average payment period positively affected financial performance. In a similar vein, Huimin and Matchado (2017) examined the impact of capital budget decisions on the financial performance of commercial banks in Malawi. Their research identified a strong positive relationship between the use of payback period, net present value, and accounting rate of return techniques in capital budgeting and the performance of commercial banks. Additionally, Wambua and Kooris (2018) investigated how investment appraisal techniques affect the financial performance of small and medium enterprises (SMEs) in Nairobi City County. The study assessed four techniques: Accounting Rate of Return (ARR), Payback Period (PBP), Net Present Value (NPV), and Internal Rate of Return (IRR), and found that all four had a statistically significant impact on financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter summarizes the results of the study and reports the conclusions drawn. In addition, practical contributions of the study are discussed together with observed limitations. The chapter concludes by providing potential avenues for future research.

5.1 Summary of the Findings

The purpose of this study was to investigate the effect of capital budgeting practices on financial performance of youth owned business enterprises in Kisumu central sub county. To achieve this purpose, the study first sought to identify specific capital budgeting techniques used by the youth owned businesses in Kisumu central sub county. The study identified the specific capital budgeting practices as Net, Present Value(NPV), Payback Period(PBP), Internal Rate of Return(IRR), Average Rate of Return(ARR) and Profitability Index (PI).These capital budgeting techniques were found to be applied variedly across different firms in different industries.

The second objective of the study sought to determine the factors that influence the choice of capital budgeting technique adopted by the youth owned firms in Kisumu central sub- county. The Opinions of the respondents were sought in an oral discussion and the study identified five key factors which included expertise and experience of management team, time constraints, regulatory requirements, Industry norms and best practices and technological advancements.

The third objective sought to establish the effect of capital budgeting techniques on financial performance of youth owned business enterprises in Kisumu central sub- county. A regression analysis was conducted using secondary data and results showed that net present value, payback period and internal rate of return were positive and significant predictors of financial performance of youth owned business enterprises.

5.2 Conclusions of the Study

The research indicates that youth-owned business enterprises within Kisumu County, particularly in Kisumu Central, predominantly utilize payback period, internal rate of return, average rate of return, and profitability index as the principal capital budgeting techniques in the SME sector. Furthermore, the selection of these capital budgeting methods is influenced by several factors, including the expertise and experience of the management team, time constraints, regulatory requirements, industry norms, best practices, and technological advancements. It has also been determined that the implementation of capital budgeting techniques significantly and positively impacts the financial performance of youth-owned business enterprises in both Kisumu Central Sub-county and the larger Kisumu County.

5.3. Recommendations

Based on the findings, the study has the following recommendations: Policymakers should invest in financial literacy programs that educate youth entrepreneurs on capital budgeting, financial analysis, and risk management. This will empower them to make informed decisions about capital allocation and improve their financial management capabilities. Universities and business schools should incorporate courses and programs that focus on capital budgeting and financial management for youth entrepreneurs. These programs should provide practical knowledge and skills that are tailored to the specific needs of youth-owned firms. Finally, Academic institutions should conduct research to identify the unique challenges and best practices in capital budgeting for youth-owned firms. This research can inform policy development and provide guidance to practitioners.

5.4 Contribution of the study

The study's findings have implications for policy development. It provides evidence-based recommendations for policymakers on how to promote effective capital budgeting practices in the economy. This can lead to policies that support business investment, job creation, and

economic growth. It also highlights the importance of a robust regulatory framework for capital budgeting. It suggests that clear and transparent guidelines for project evaluation can ensure that businesses make sound investment decisions. This can minimize risks and promote financial stability. Finally, the The study findings can guide policymakers in creating incentives and policies that encourage investment in infrastructure, innovation, and other projects that contribute to long-term economic growth.

5.4. Limitations of the Study

In this research, the term 'limitations/constraints' refers to the systemic biases that the investigator could not manage and may negatively impact the study findings, including the inherent shortfalls encountered throughout the research process (Price & Murnan, 2004). The study identified numerous limitations during the conduct of the research. One key limitation was the potential exclusion of participants through selective sampling, whose insights may have significantly enriched the development of theories and hypothesis testing. However, the collated data was thoroughly scrutinized and refined prior to analysis by considering non-responses and outlier responses. This process was implemented to enhance the precision and validity of the research findings.

The study's scope was deliberately limited to youth-owned businesses in Kisumu Central sub-county due to budgetary constraints. However, the findings are considered applicable to a wider range of youth organizations. Data collection was conducted using a structured questionnaire that was either self-administered or administered by trained research assistants with relevant expertise. To enhance the validity and reliability of the data, the head researcher supervised the data collection process and addressed any ambiguities or misunderstandings encountered by respondents.

5.5. Suggestions for Further Research

The study examined the short-term effects of capital budgeting techniques on financial performance. However, it would be beneficial to conduct a longitudinal study to assess the long-term impact of these techniques. This would provide a more comprehensive understanding of the sustainability of the positive effects observed in the short term. Similarly, the study did not differentiate between youth-owned businesses in different sectors. Further research could explore the sector-specific effects of capital budgeting techniques. This would help identify the industries where these techniques are most effective and provide tailored recommendations for businesses in each sector. Future research could investigate the role of risk management in the effectiveness of capital budgeting techniques. By examining how youth-owned businesses manage risk, researchers could develop strategies to mitigate the potential negative consequences of investment decisions.

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APPENDICES

Appendix I: Questionnaire

This academic questionnaire aims to gather data on how capital budgeting techniques affect the financial performance of youth-owned businesses in Kisumu County. As a valued participant, please indicate your responses by ticking the appropriate boxes. All information provided will be kept strictly confidential and used solely for academic purposes.

PART A - Capital Budgeting Techniques

Listed below are the commonly used capital budgeting techniques used by firms Tick one that best suits your organization. **5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree**

Statement for response	1	2	3	4	5
o Our company calculates the Payback Period for all significant investment projects					
o Our firm frequently uses the Net Present Value (NPV) method to evaluate potential investment projects					
o We consider the Internal Rate of Return (IRR) as a key factor when making long-term investment decisions					
o Our firm has experienced significant benefits from using the profitability index as a capital budgeting technique					
o We believe that Average Rate of Return (ARR) provides a comprehensive assessment of an investment's financial viability.					
o Our company calculates the Payback Period for all significant investment projects					

PART B: Factors Influencing the Choice of Capital Technique

Tick one statement that best suits your opinion on the factors that influence the choice of capital Budgeting Technique.**5= Strongly Agree 4=Agree 3 Neutral 2=Disagree 1=Strongly Disagree**

Statement for response	1	2	3	4	5
o The expertise and experience of the management team influence the choice of capital budgeting techniques, as some techniques require specialized knowledge					
o Time constraints imposed on the capital budgeting process limit the choice of techniques that can be used effectively					
o Regulatory requirements and guidelines can influence the choice of capital budgeting techniques, particularly for projects in regulated industries					
o Industry norms and best practices play a role in shaping the choice of capital budgeting techniques used by businesses					
o Technological advancements and the availability of new capital budgeting tools and software impact the choice of techniques used by businesses					

Appendix II: Work Plan

Work	MAY 2022	JUNE 2022	JULY 2022	OCT 2022	NOV 1ST TO 15TH	NOV 15TH TO 30TH
Preliminary study to find topic and variables						
Survey of literature and planning						
Draft proposal, corrections until final proposal is developed						
Data collection						
Data analysis						
Distribution of the complete research						

Appendix III: Study Budget

ACTIVITY	AMOUNT
STATIONERY	10000
QUESTIONNAIRE ADMINISTRATION	10000
TRANSPORT	30000
TYPING ANFD PRINTING	8800
MISCELLANEOUS	5000
TOTAL	**63,800**