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Personal Financing And Financial Performance Of Youth-Based Small And Medium Enterprises In Bungoma County, Kenya

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Abstract
*This study examined the influence of personal financing on the financial performance of youth-based Small and Medium Enterprises (SMEs) in Bungoma County, Kenya. Using a descriptive research design, data was collected from 231 youth entrepreneurs through structured questionnaires. The study employed correlation and regression analyses to examine the relationship between personal financing and financial performance. Results revealed a strong positive correlation (R = 0.847) between personal financing and financial performance, with personal financing explaining 71.8% of the variance in financial performance ($R^2 = 0.718$). The regression coefficient (B = 0.851, $p < 0.001$) indicated that a unit increase in personal financing leads to a 0.847 unit increase in financial performance. The findings demonstrate that personal savings, family support, and informal financing significantly enhance business profitability and sustainability among youth entrepreneurs. Anchored in the Pecking Order Theory***,*** which posits that firms prioritize internal financing before seeking external sources, this study affirms the preference among youth SMEs for using personal funds due to ease of access and lower perceived risk. However, reliance solely on personal financing limits business expansion capabilities. The study recommends that youth entrepreneurs should combine personal financing with other funding sources and that financial institutions should develop products that complement personal investments to maximize business growth potential.*

Keywords: *Economic growth, Financial Performance, Personal Finance, Small & Medium Enterprises, Youth Entrepreneurs*

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I. Introduction

Small and Medium Enterprises (SMEs) serve as a crucial engine of economic growth and employment creation, particularly in developing economies. In Kenya, SMEs contribute approximately 33.8% to the Gross Domestic Product (GDP) and account for about 80% of total employment (Onsomu et al., 2022). Youth-owned enterprises, representing individuals aged 18-35 years, play an instrumental role in addressing the country's high youth unemployment rate of 38.9% as recorded in the 2019 census (Kenya National Bureau of Statistics, 2024).

The financing landscape for youth-based SMEs presents unique challenges and opportunities. While formal financial institutions often impose stringent requirements that limit youth access to credit, personal financing emerges as a primary source of capital for young entrepreneurs (Beck & Demirgüç-Kunt, 2019). Personal financing encompasses resources derived from individual savings, family contributions, friends' support, and retained earnings from business operations (Nguyen & Cahn, 2021).

In Bungoma County, with a youth population exceeding 571,835 representing 32% of the total population, understanding the role of personal financing in SME performance is critical for economic development strategies (NCPD, 2017). The county's youth face significant challenges in accessing formal credit due to lack of collateral, limited credit history, and insufficient financial literacy (Youth Agenda, 2023). Consequently, personal financing becomes not just an option but often the primary means of business capitalization.

Recent studies have shown mixed results regarding the effectiveness of personal financing on business performance. While some research suggests that personal investment demonstrates owner commitment and provides operational flexibility (Fatoki & Asah, 2011), others argue that reliance on personal funds may limit growth potential due to resource constraints (Mwangi & Muturi, 2021). This study specifically examines how personal financing influences the financial performance of youth-based SMEs in Bungoma County, providing insights into optimal financing strategies for young entrepreneurs.

The significance of this research lies in its potential to inform policy makers, financial institutions, and youth entrepreneurs about the role of personal financing in business success. Understanding these dynamics can guide the development of complementary financial products and support mechanisms that enhance the effectiveness of personal investments in SME growth and sustainability.

II. Literature Review

Theoretical Framework

The study was based on the Pecking Order Theory that was developed by Myers & Majluf in 1984. According to this concept, Pecking order theory argues that firms first choose to employ internal sources like reserves & retain earnings to finance a project instead of arranging new debt, or prefer debt to issuance of new shares (Shahar, Bahari, & Shahar, 2015). Firms will prefer equity less than debt as equity is actually used as a final measure. This is for the reasons that a firm will have more control and flexibility with less debt obligations when their operations are financed by internal sources like personal savings and borrowing from friends. A firm will also prefer debt/formal finances to expand their businesses compared to equity share issue due to the risks of losing or sharing ownership and requirements of payment of dividends and other legal requirements associated with equity. The principles of the pecking order were supported by a number of authors such as Muhammed Jadheer (2020) which brought forward evidence of bad choice associated with equity financing issues.

The theory assumption is based on the information asymmetry. The pecking order theory assumes that insider (manager) has more information about the prospects of the firms than the outsiders (investors) do and hence managers act in the best interest of the owners of the firms (Modigliani and Miller, 1958). This theory is an alternative to the trade-off theory suggesting that firms prefer internal financing (such as retained earnings) to external financing. However, debt financing is preferred only when equity funds are not sufficient to finance the growth of the firm (Rahman, 2019). This theory, in this study, underpins personal financing as it is preferred first to other sources of finance. Additionally because managers act in the best interest of the owner of the firm, they ensure the firm financially performs.

The theory is limited in that it does not account for the impact of taxes and other floatation charges, such as issuance fees, agency costs, and security costs, among others, on the firm's actual capital structure (Martinez et al., 2019). Although the theory was designed for corporate bodies with debt equity ratio options, it can be tailored to lead the formation of preferred financing sources for youth-based SMEs by providing explanations for the available financing sources. This theory promotes personal finance (internal financing) as a financial source that might influence the financial performance of young SMEs in Bungoma County.

Literature Review

Personal financing and Performance of youth-based SMEs

Almanaseer (2024), study the impact of equity financing on financial performance of Jordan Industrial Companies. The main objective of this study is to examine the impact of equity financing on the financial performance of Jordanian industrial companies. The study population comprised 393 board directors from 55 Jordanian industrial companies. Purposive sampling was employed to select 346 board directors for the study sample. Data were collected via an online questionnaire, and the study used a descriptive analytical approach to examine the study hypotheses. The study concludes that equity financing positively impacts financial performance. Also, each of the angel investors, retained earnings, crowd funding, and ploughed-back profit positively impact financial performance. The study recommends that Jordanian industrial companies focus on retained earnings as a funding source; what help are the lower costs of obtaining financing from retained earnings compared with other funding sources. The study focused on large industrial companies in Jordan. This study will focus on SMEs operated by the youths in Bungoma County, Kenya.

Amarteifio, Marfo-Yiadom, Arthur, Cofie-Obiri, & Idun-Acquah, (2023) studied the effect of equity financing options, specifically internal and external equity, on small business growth in the Accra metropolis. This study used an explanatory research design. The population of the study was 257 small businesses in the Accra Metropolis registered with the Ghana Enterprise Agency. The statistical tools for analysis were the Statistical Product for Service Solution (SPSS version 24) and Smart PLS (version 3). The study's findings revealed that, while both internal and external equity had a significant and positive effect on small business growth. Small businesses prefer internal equity to external equity and resort to debt, particularly in the form of trade credit and bank loans (after exhausting internal equity options such as personal savings and support from family and friends) before considering external equity financing options (such as accelerators, angel investors, crowd funding, and venture capital) which are yet to gain acceptance. The study recommends small businesses take advantage of external equity financing sources like accelerators, angel investors, crowd funding and venture capitalists because not only do they supply funds but provide advisory services and help professionalize the small businesses. The government can develop an enabling environment for more equity providers, particularly private equity providers

Chindengwike (2022), on the study in the East Africa Countries (EAC) that sought to determine the effect of equity on financial performance among small business firms revealed that the equity had a statistically significant positive influence on the financial performance of small and business firms of EAC in terms of Return on Assets (ROA) with P- Value 0.001. The study adopted a panel data research design and cross - sectional survey research design where by secondary data were used. The population applied on the financial records of the 2,868 from 2016/17 - 2018/19 financial years (Annual Data). The sample size of the study was 828 observations from 296 small business firms registered as manufacturing service. Dar es Salaam, Arusha, Mwanza, Mbeya, Morogoro and Dodoma Regions were purposively sampled to be used as research locations of this study. Random sampling procedure was used to select small business firms registered as manufacturing service for all 6 Regions. The data collected from different reliable sources which included the Small Industries Development Organization (SIDO) and Business Registrations and Licensing Agency (BRELA).The study recommends small business firms to consider the essential determinants like size of the business which influence the financial performance among small business firms and minimize liquidation risk.

Muturi and Njeru (2019) conducted a study on the effects of equity finance on financial performance of Small and Medium Enterprises in Kenya. 92% of SME's in Kenya were financed by the owners' personal resources. The aim of this study was to determining the impact of funding sources on the financial performance of small and medium-sized businesses in Kenya. 291,449 licensed SMEs in the counties chosen by operational wholesale and retail trade were the study's target population. The study's sample was gathered using basic random approaches. The sample size consisted of 384 respondents who were chosen from the six designated counties. Tests of statistical significance revealed a substantial correlation between SMEs' financial success and equity financing. The study only looked at how equity financing affected small and medium-sized businesses' financial performance in six chosen counties. The purpose of this study is to investigate additional funding sources available to young SMEs in Bungoma County.

Lokwang et al. (2018) examined how retailers in Kenya's Trans Nzoia County fared financially and the impact of retained profits. The Yamane formula was used to determine a sample size of 137 from the target population of 210 employees from 4 supermarkets. The study analysed its data using a quantitative approach. According to the study, retained profits had a major impact on Supermarket's financial performance because they were a readily available source of funding for further business investments. The influence of personal finance, among other financial sources, on the performance of the young, Bungoma County-based SMEs was the main topic of this study.

Financial Performance of Youth-based SMEs

In their study, Cong, Lee, Qu, and Shen (2021) examine entrepreneurial finance for high-technology and innovation-driven SMEs in China, focusing on the financing challenges these firms face within a developing financial system. Limited access to traditional bank financing and strict IPO regulations forms a central part of the economic context that motivates their research. The authors aim to build an economic framework for understanding financing hurdles, assess major funding channels such as loans, venture capital, and government support, examine recent empirical evidence on financing constraints, and propose relevant public policy recommendations. The study is primarily literature-based but relies heavily on data from national surveys, particularly those conducted by the All-China Federation of Industry and Commerce, which gathered data through face-to-face interviews across 31 provinces. The research design integrates theoretical economic modeling including signaling and contract theories with empirical illustrations using national survey data. Data collection involved structured, pilot-tested questionnaires administered by trained interviewers. Responses were verified and reviewed by supervisors to ensure quality and accuracy. The target population included private entrepreneurial ventures across China from various sectors such as manufacturing, services, agriculture, and transportation, and ranged in size from micro to medium-scale firms. A total of 4,315 firms were randomly sampled, resulting in 3,837 valid responses and a final dataset of 3,235 firms. Stratified random sampling across all provinces ensured representativeness. Key findings reveal that China's bank-based financial system and capital market restrictions significantly hinder innovative SMEs. Venture capital and crowd funding offer alternative financing, though access depends on regulation and transparency. IPO rules were found to restrict firm growth and exit options. The study recommends reforms to relax IPO restrictions, expand government support schemes, and strengthen regulatory frameworks for venture capital and crowd funding to promote innovative entrepreneurship.

In a study set within Gulu City, Uganda, Nyeko et al. (2025) investigate how financial literacy and access to finance influence the financial performance of youth-led small and medium-sized enterprises (SMEs).

The researchers focus on the youth-led SME sector, aiming to determine whether these financial capabilities improve financial outcomes. To explore this relationship, they employ a quantitative research design, using self-administered, structured questionnaires as their data collection instrument. These questionnaires had been pilot-tested to ensure clarity and distributed among management teams or owners of youth-led SMEs. The target population consists of youth-led SMEs operating in Gulu City, with a sample size of 213 firms selected through non-probability sampling techniques appropriate for the local context. The study uses multiple regression analysis to assess the impact of financial literacy and access to finance on financial performance, while also controlling for characteristics inherent to youth-led enterprises. Conceptually, the study is framed around the Resource-Based View (RBV), which proposes internal competencies such as financial knowledge and the ability to obtain funding serve as valuable strategic resources that directly enhance firm performance. Multiple regression allows the authors to empirically test this hypothesis and establish both direct and indirect effects. The results reveal that both financial literacy and access to finance have significant positive effects on financial performance. Entrepreneurs with strong financial skills are better equipped to manage budgeting, investments, debt, savings, financial targets, and risk. Simultaneously, access to financial resources enables these youth-led enterprises to implement their financial strategies effectively. These findings reinforce RBV theory by highlighting financial literacy and financial access as strategic organizational resources. Based on these outcomes, Nyeko et al. recommend collaborative initiatives involving government ministries, private sector stakeholders, academic institutions, and industry associations. They advocate for formal and informal education programs, public–private partnerships, and youth-focused skilling initiatives aimed at enhancing financial literacy and improving access to finance, thereby promoting sustainable financial performance for youth-led SMEs.

In Turkana County, Kenya, Isaac and Ombaba (2024) investigate the financial outcomes of projects funded by the Youth Enterprise Development Fund (YEDF). Conceptually, the study relies on Modern Portfolio Theory to frame asset allocation as a strategic financial decision-making process that can optimize returns and mitigate risk for youth-led initiatives. Theoretical constructs around portfolio diversification and risk-return trade-offs anchor their analysis. Their methodology adopts a descriptive, cross-sectional survey design, with a philosophical emphasis on empirical, quantitative observation. The target population incorporates all 300 YEDF-registered and funded projects in Turkana County. From this, a simple random sample of 172 project managers was selected to participate. Before data collection, the structured questionnaire underwent a pilot test to ensure content validity via expert review and internal reliability, confirmed through Cronbach's alpha. Structured questionnaires served as the data collection instrument and were administered directly to the managers. The analysis combined descriptive statistics (frequencies, percentages, means, and standard deviations) with inferential statistics, including Pearson's correlation and multiple regression models. These methods allowed the authors to test hypotheses concerning the predictive power of strategic and tactical asset allocation on financial performance. The findings indicate that strategic asset allocation significantly predicts financial performance ($\beta = 0.561$, $p < 0.05$), while tactical adjustments further enhance outcomes. These results affirm the relevance of structured investment choices in improving loan repayment and profitability. Accordingly, Isaac and Ombaba recommend that YEDF should encourage beneficiaries to adopt formal asset allocation strategies. They advise training and resources to support project managers in applying Modern Portfolio Theory principles such as diversification, risk budgeting, and periodic portfolio review to optimize the financial performance and sustainability of youth enterprises in Turkana County.

In Baringo Constituency, Kiplagat and Makori (2024) explore how firm characteristics shape the financial performance of youth-funded enterprises under Kenya's Youth Enterprise Development Fund (YEDF). Their research design is descriptive and cross-sectional, enabling a snapshot view of these relationships at a single point in time. Data collection relied on structured self-administered questionnaires, which were carefully pilot-tested to ensure clarity and relevance and then distributed to recipients within the target population of YEDF-funded youth entrepreneurs in the constituency. The target population included 104 registered youth entrepreneurs in Baringo, from which the authors used simple random sampling to select 83 respondents. Findings indicate that funding source, ownership structure, firm age, and working capital all significantly affect financial performance. Notably, robust working capital management was positively linked to better financial results, while both firm age and ownership structure also yielded meaningful impacts. In light of these findings, Kiplagat and Makori advocate for strengthening financial frameworks for youth SMEs. They call for initiatives to refine funding model criteria, minimize political influence, improve management standards, and clarify eligibility rules, thereby enhancing youth access to and use of YEDF resources.

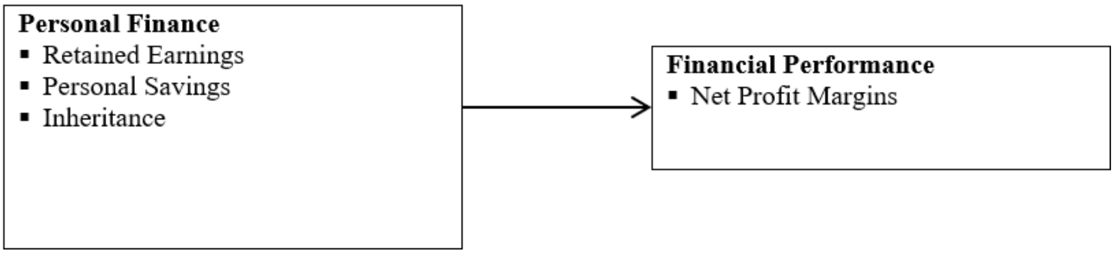
Research Gaps

While existing literature provides valuable insights into personal financing and SME performance, several gaps remain. Most studies focus on general SME populations without specifically examining youth-based enterprises, which face unique challenges and opportunities. Additionally, limited research exists on the optimal balance between personal financing and other funding sources for youth entrepreneurs in rural and peri-urban settings like Bungoma County.

Furthermore, previous studies have primarily examined developed economies or major urban centers, leaving a knowledge gap regarding personal financing dynamics in smaller Kenyan cities and counties. This study addresses these gaps by specifically focusing on youth-based SMEs in Bungoma County, providing contextual insights relevant to similar developing economy settings.

Conceptual Framework

The conceptual framework developed by Mugenda & Mugenda (2003) illustrates the figure below, which depicts the link between the independent and dependent variables in the study.



Source: Researcher's own concept (2025)

III. Research Methodology

Research Design

The study adopted a descriptive research design, which was deemed appropriate for examining the relationship between personal financing and financial performance of youth-based SMEs. This design enabled the collection, organization, and interpretation of quantitative data to generate meaningful insights into the phenomenon under investigation (Omolo, 2015).

Study Population and Sampling

The target population comprised 765 registered youth-based SMEs operating in Bungoma County, as recorded by the County Government of Bungoma Licensing Department (2024). These enterprises represented various sectors including retail, agribusiness, services, and small-scale manufacturing, with initial capital investment below Kenya Shillings 500,000.The study employed stratified random sampling to select youth-based SMEs for participation. Stratified random sampling was employed to ensure representation across different business categories, with simple random sampling used within each stratum to select individual enterprises. The sample size therefore composed 263 potential participants selected from the target population of 765 using Yamane's (1973) formula with a 95% confidence level.

$n = N / (1 + N(e)^2)$

Where: N- Population Size n- Sample Size e- Level of Precision at 95% confidence level. This formula was engaged, and the sample size will be computed as indicated below.

$n = 765/ (1+765(0.05)^2) = 263$ respondents

The sample therefore composed 263 potential participants selected from the target population of 765. Stratified random sampling was employed to ensure representation across different business categories, with simple random sampling used within each stratum to select individual enterprises.

S/N	Type of Business	Population (S)	n = (S/N)n	Sample Size (n)
1	Garages	12	4.1	4
2	Chemists	42	14.4	14
3	General Shops	82	28.2	28
4	Butcheries	44	15.1	15
5	Salons & Barbers	72	21.3	21
6	Tailors	47	16.2	16
7	Hotels & Restaurants	50	17.9	18
8	Boutiques	35	12.0	12
9	Betting shops	34	11.7	12
10	Fueling Stations	37	12.7	13
11	Electronic shops	50	17.2	17
12	Mobile phone repairs	72	24.8	25
13	Movie & PlayStation shops	40	13.8	14
14	Bookshops	63	21.7	22
15	Clinics	14	4.8	5

16	Motor Spares Shops	71	24.4	24
	TOTAL	**N=765**	**262.7**	**n=263**

Source: CGBLD2024

Data Collection

Primary data was collected using structured questionnaires administered to SME owners or managers. The questionnaire included sections on demographic characteristics, personal financing practices, and financial performance indicators. Personal financing was measured through variables including personal savings utilization, family and friends' contributions, retained earnings, and decision-making flexibility. Financial performance was assessed using profitability indicators, particularly net profit margins, business expansion capabilities, and financial stability measures.

Pilot Study and Reliability

A pilot study was conducted with 27 youth-based SME operators (10% of the sample) in Kakamega County to test instrument reliability and validity. Cronbach's Alpha coefficients were calculated for all constructs, with personal financing achieving $\alpha = 0.736$ and financial performance $\alpha = 0.717$, both exceeding the acceptable threshold of 0.70 (Tavakol & Dennick, 2011).

Data Analysis

Data analysis was conducted using SPSS version 27. Descriptive statistics provided an overview of respondent characteristics and variable distributions. Correlation analysis examined the strength and direction of relationships between personal financing and financial performance. Simple linear regression was employed to determine the predictive power of personal financing on financial performance, with the model specified as:

$Y = \alpha + \beta X_2 + \varepsilon$

Where Y = Financial Performance, X_2 = Personal Financing, α = constant, β = regression coefficient, and ε = error term.

Diagnostic test used Normality Quantile-Quantile test (Q-Q test) to ensure that collected was suitable for regression analysis.

IV. Study Findings

Response Rate

The response rate of the questionnaires distributed during the data collection process showed that a total of 263 questionnaires issued to the target respondents, 231 were successfully filled and returned, representing a high response rate of 87.8%. On the other hand, 32 questionnaires were not returned, accounting for 12.2% of the total. According to Babbie (1990) and Mugenda and Mugenda (2003), a response rate of 60% is considered good and can give reliable findings. Therefore, in this study, the response rate obtained was sufficient to give reliable insights on financial sources and financial performance of youth-based SMEs in Bungoma town. This high response rate enhances the reliability and validity of the study findings, as it indicates a strong participation level from the targeted respondents. The relatively low non-response rate suggests that the likelihood of response bias affecting the results is minimal. This level of participation is considered adequate for meaningful data analysis and generalization of the study findings.

Demographic Characteristics

This section presents the demographic characteristics of the respondents involved in the study. It highlights key variables such as age, gender, education level, and business experience.

Gender

According to gender distribution, the respondents who participated in the study, out of a total of 231 valid respondents, 136 were male, representing 58.9% of the sample, while 95 were female, accounting for 41.1%. This suggests that male youth are more involved in operating or managing SMEs in Bungoma County compared to their female counterparts.

The dominance of male respondents may reflect underlying socio-economic or cultural factors that influence youth entrepreneurship in the area. It could also indicate disparities in access to business opportunities, resources, or support systems between male and female youth. However, the significant representation of female respondents (over 40%) still demonstrates a notable level of participation by young women in entrepreneurial ventures, which may be attributed to growing gender empowerment initiatives and increased access to business financing and training among women in Kenya.

Overall, the gender distribution provides a balanced perspective and allows for the exploration of how gender dynamics might influence access to financial resources and financial performance within the youth-based SME sector in Bungoma County.

Age Bracket

According to age distribution, the respondents who participated in the study on finance sources and financial performance of youth-based SMEs in Bungoma County, out of the 231 respondents, the majority were aged 26 to 30 years, accounting for 88 individuals or 38.1% of the total sample. This indicates that most youth entrepreneurs in Bungoma Town fall within this age bracket, which is typically characterized by increasing independence, risk-taking, and a higher drive for economic empowerment. The second largest group was aged 21 to 25 years, representing 61 respondents or 26.4%. This suggests a strong interest and participation in entrepreneurship among relatively younger individuals, possibly fresh graduates or those just entering the job market and choosing self-employment due to limited formal employment opportunities.

Respondents aged 31 to 35 years formed 25.1% (58 individuals) of the sample, indicating continued engagement in entrepreneurial activities among older youth nearing the upper age limit of the youth category in Kenya. This group likely has more experience and possibly more stable business ventures compared to younger respondents. The youngest age group, those below 20 years, had the least representation, with only 24 individuals or 10.4%. This could be attributed to limited access to start-up capital, lack of entrepreneurial experience, or continued schooling, which reduces their participation in full-time business activities.

Overall, the data suggests that the most active youth entrepreneurs in Bungoma County are in their mid-to-late twenties, which aligns with national trends where individuals in this age group are often at the peak of pursuing economic opportunities. Understanding the age dynamics helps in designing targeted financial and capacity-building interventions that cater to the specific needs of each age bracket within the youth SME sector.

Education Level

A comprehensive overview of the educational qualifications of the 231 youth-based SME proprietors who participated in the study in Bungoma County is crucial in understanding the role of education in entrepreneurial engagement and financial decision-making among young business owners.

The largest proportion of respondents, 128 individuals or 55.4%, reported having attained a diploma as their highest level of education. This indicates that over half of the youth entrepreneurs in Bungoma County have undergone middle-level college training, which may equip them with practical skills relevant for business management, technical operations, or vocational trade. This also reflects the popularity and accessibility of diploma programs in Kenya as a pathway to self-employment. The second most common qualification was a bachelor's degree, with 60 respondents or 26.0% of the sample. This finding shows a significant number of entrepreneurs had pursued university education. These individuals likely possess higher-level analytical and managerial skills, and their participation in SME activities may stem from either personal choice or limited formal employment opportunities despite their academic qualifications.

In summary, the majority of youth SME owners in Bungoma County possess diploma and undergraduate qualifications. This implies that most have acquired a substantial educational foundation, potentially influencing their ability to make informed financial decisions, understand market trends, and manage business operations effectively. The presence of entrepreneurs across all educational levels also highlights the inclusivity and diverse nature of youth participation in the SME sector.

Years Working in SMEs

Detailed information on the years of service the youth-based SME proprietors in Bungoma County had been operating their businesses at the time of the study. Understanding the experience level of respondents helps in interpreting their level of exposure to business practices, financial management, and overall entrepreneurial maturity.

The majority of respondents, 98 out of 231, representing 42.4%, had been in operation for 2 to 5 years. This indicates that most youth-based SMEs were in their early to mid-stages of establishment, likely still working toward growth and stability. Businesses in this range often face challenges such as access to finance, customer retention, and market competition, but they also begin to develop sustainability if they overcome start up hurdles. Another significant portion, 71 respondents (30.7%), had been in business for 0 to 1 year. This group represents start-ups or newly established SMEs, indicating a vibrant entrepreneurial spirit among the youth, potentially spurred by unemployment, innovation, or support programs targeting youth empowerment. However, this group may still be highly vulnerable to failure due to limited experience and challenges in capital mobilization, customer base development, and regulatory compliance.

In conclusion, the data shows that most youth-based SMEs in Bungoma County are relatively young, with over 70% of respondents having operated for five years or less. This suggests a growing and youthful entrepreneurial ecosystem that is still in the process of maturing. The findings underline the importance of targeted capacity-building programs, access to credit, mentorship, and supportive policies to help these young businesses survive and thrive in a competitive economic environment.

Diagnostic Tests

Normality Quantile-Quantile Test (Q-Q Test) was performed to determine if the data was suitable for inferential analysis.

Normality Tests

A normality test was conducted to determine if the collected data followed a normal distribution and also suitable for regression analysis.

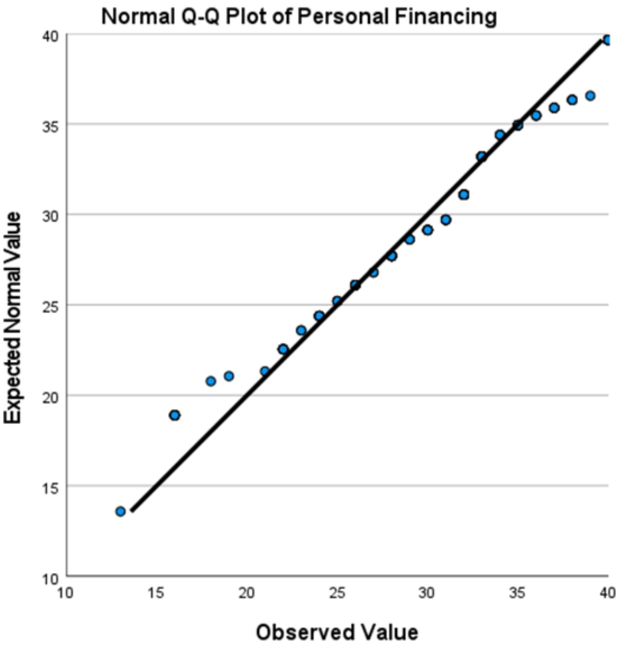


Figure 4.2 Normal Q-Q (Quantile-Quantile) Plot for the variable Personal Financing.

The diagram above presents a Normal Q-Q (Quantile-Quantile) Plot for the variable Personal Financing. From the figure, it was observed that most of the data points lie closely along the diagonal reference line, with only minor deviations at the lower and upper tails. This pattern indicates that the Personal Financing data is approximately normally distributed, which satisfies the assumption of normality required for many parametric statistical tests such as Pearson correlation, t-tests, and regression analysis (Kim, 2022).

Descriptive statistics

Personal Financing and Financial Performance of Youth-Based SMEs

Table 4.8 Personal Financing and Financial Performance of Youth-Based SMEs

	N	Min	Max	Mean	Std. Deviation
I mainly use my personal savings to finance my business.	231	1	5	4.09	1.088
Borrowing from family and friends plays a significant role in financing my SME.	231	1	5	3.83	1.286
My ability to save personally influences the financial performance of my business.	231	1	5	3.96	1.256
Personal financing gives me more flexibility in business decision-making than formal financing.	231	1	5	4.12	1.120
Lack of personal financial resources limits the growth of my business.	231	1	5	3.95	1.189
Relying on personal financing affects the ability to expand my business operations.	231	1	5	4.21	1.071
The use of personal financing enhances financial stability in my business.	231	1	5	3.89	1.184

Lack of sufficient personal savings prevents me from expanding my business.	231	1	5	3.80	1.186
Valid N (list wise)	231	1	5	3.98	1.173

Source: Field Data (2025)

The accompanying standard deviations further reveal the level of agreement or variability in the respondents' views. To begin with, the statement "I mainly use my personal savings to finance my business" recorded a high mean score of 4.09 and a standard deviation of 1.088. This suggests a strong reliance on personal savings among youth entrepreneurs. The relatively low standard deviation indicates that most respondents shared similar views, highlighting a consistent trend in using personal funds as the primary financing source for their businesses.

The statement "Borrowing from family and friends plays a significant role in financing my SME" yielded a mean of 3.83 with a standard deviation of 1.286. This shows a moderate agreement, with a slightly higher variation in responses, possibly reflecting differing levels of social support networks among the youth. While some entrepreneurs rely heavily on family and friends, others may have limited access to such support. Respondents also largely agreed that "My ability to save personally influences the financial performance of my business," which had a mean of 3.96 and a standard deviation of 1.256. This finding underscores the importance of personal financial discipline in ensuring business success. The moderate standard deviation indicates that while most agreed, there was some variation in how strongly this influence was felt.

Interestingly, the statement "Personal financing gives me more flexibility in business decision-making than formal financing" had the highest mean score of 4.12 and a standard deviation of 1.120. This reflects a strong perception among youth entrepreneurs that personal funds grant them greater autonomy and quicker decision-making, free from the constraints of formal financing institutions. The moderate spread in responses suggests that this advantage is widely experienced but may depend on the scale and type of the business. On the other hand, several statements highlighted the limitations of personal financing. The item "Lack of personal financial resources limits the growth of my business" had a mean score of 3.95 with a standard deviation of 1.189, pointing to a common challenge faced by many youth entrepreneurs. The data reveals that despite the benefits of personal financing; its insufficiency often hinders growth.

This was reinforced by the statement "Relying on personal financing affects the ability to expand my business operations," which recorded the highest overall mean of 4.21 and the lowest standard deviation of 1.071. This combination indicates very strong agreement and a high level of consistency among respondents. It clearly shows that most youth-based SMEs recognize that personal funds alone are inadequate for business expansion. Moreover, the statement "The use of personal financing enhances financial stability in my business" had a mean of 3.89 and a standard deviation of 1.184, suggesting that many respondents perceive personal financing as a stabilizing factor likely due to the avoidance of interest payments or repayment stress. However, the moderately high standard deviation reflects varied experiences among the respondents regarding financial stability.

The findings of this study, which show that youth-based SMEs heavily rely on personal savings and informal borrowing from family and friends to finance their businesses, align closely with the work of Nguyen et al. (2022)**.** Their research highlighted that young entrepreneurs in developing countries often depend on personal funds due to limited access to formal credit, valuing the flexibility and control that personal financing provides. This is reflected in the high mean scores on personal savings use and decision-making flexibility found in the current study. Additionally, the constraint posed by insufficient personal financial resources on business growth resonates with the conclusions of Mwangi and Muturi (2021)**.** They argued that while personal financing is essential for starting and sustaining SMEs, it often falls short in supporting expansion, underscoring the need for blended financing solutions. This matches the present findings where respondents strongly agreed that lack of sufficient personal savings limits their ability to scale operations

Financial performance

The data presented in Table 4.10 provides a comprehensive assessment of the financial performance of Small and Medium Enterprises (SMEs) based on various indicators, as perceived by 231 respondents. Each indicator was rated on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), and the results reveal several critical insights into how financial aspects impact SME performance.

Table 4.10 Financial Performance of SMEs

	N	Min	Max	Mean	Std. Deviation
The financial stability of my SME has improved over time.	231	1	5	3.55	1.464
My business has been able to expand due to adequate financial support.	231	1	5	3.57	1.368
I can effectively manage my cash flow due to the financing options available.	231	1	5	3.26	1.409

My business can easily meet its financial obligations, such as loan repayment and supplier payments.	231	1	5	3.81	1.245
Financial sources play a key role in ensuring the long-term survival of my business.	231	1	5	3.74	1.423
Increased financing options have enabled me to improve my business operations.	231	1	5	3.64	1.360
My SME has experienced growth in asset value due to proper financing strategies.	231	1	5	3.48	1.435
Lack of sufficient funding negatively affects my business performance and sustainability.	231	1	5	3.85	1.341
Valid N (list wise)	231				

Source: Field Data (2025)

First, a majority of respondents agreed that their financial stability had improved over time, as indicated by a mean score of 3.55. This suggests that many SMEs have made notable progress in achieving financial resilience, although the relatively high standard deviation of 1.464 indicates some level of variation among businesses. This perception is supported by evidence from recent studies, which suggest that access to reliable financing contributes positively to the financial sustainability of SMEs (Otieno & Nyang'au, 2022).

Secondly, the ability of businesses to expand due to adequate financial support received a slightly higher mean of 3.57. This shows that financing has played a crucial role in enabling business growth and scaling of operations. This finding resonates with the conclusions by Wambua and Muriuki (2020), who argued that accessible financing encourages SME expansion and competitiveness, especially in dynamic economic environments.

Cash flow management emerged as a relatively weaker area, with a mean of 3.26. This neutral score implies that while some SME owners benefit from financing sources to manage their cash flows effectively, others continue to experience difficulties. The standard deviation of 1.409 highlights the diverse experiences among SMEs in handling liquidity. These results align with Mugo, Mutua, and Chege (2023), who noted that poor cash flow management, even in the presence of financing sources, remains a critical challenge for many SMEs in Kenya. A notable observation from the table is the high mean of 3.81 on the statement regarding SMEs' ability to meet their financial obligations, such as loan repayments and supplier payments. This implies a strong capability among many businesses to handle their short-term liabilities, which is a positive sign of operational efficiency. Similarly, the role of financial sources in ensuring long-term business survival recorded a high mean of 3.74, indicating that SME owners appreciate the importance of financing in sustaining business operations over time.

Further, a significant number of respondents affirmed that increased financing sources had enabled them to improve their business operations, as reflected in a mean score of 3.64. This suggests that financing has not only supported growth but also enhanced efficiency in daily operations. This supports previous findings by Karani and Kibet (2021), which found that adequate and structured financing leads to improved SME productivity and operational effectiveness.

In summary, the data highlights the multifaceted relationship between financing and SME performance. While many businesses have experienced positive outcomes such as stability, expansion, and operational improvements due to adequate financing, challenges remain in areas like cash flow management and asset accumulation. The findings are consistent with recent studies conducted by Karani and Kibet (2021), which underscore the essential role of financing in driving SME growth, resilience, and sustainability.

Inferential statistics

Inferential analysis was conducted to determine the relationship between personal finance and the financial performance of youth-based SMEs in Bungoma County, Kenya. Regression analysis and correlation analysis were used for this.

Correlation Analysis

Correlation analysis was conducted to assess the non-causal relationship between the predictor variables and the outcome variable. Correlational analysis significant at 0.01 level 2- tailed showed that personal financing demonstrates a strong positive correlation with financial performance ($r = 0.847$), suggesting that the use of personal resources such as personal savings or funds from family and friends also supports improved financial outcomes.

Simple Regression Analysis

Simple regression analysis was employed to assess the influence of Personal financing on the financial performance of youth-based SMEs. The independent variable was regressed against the dependent variable to evaluate its influence on the dependent variable.

The results from the model yielded significant and insightful results. According to the model summary, personal financing demonstrated a strong positive correlation with financial performance, with a correlation coefficient (R) of 0.847. The coefficient of determination (R^2) was 0.718, indicating that approximately 71.8% of the variation in the financial performance of the youth-based SMEs could be explained by personal financing.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.718	.716	3.141
a. Predictors: (Constant), Personal Financing				

The adjusted R^2 value was slightly lower at 0.716, which still reflects a strong model fit after accounting for the number of predictors. The standard error of the estimate stood at 3.141, illustrating the average deviation of the observed financial performance values from the regression line.

ANOVA[a] Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5743.871	1	5743.871	582.277	.000[b]
	Residual	2258.969	229	9.864		
	Total	8002.840	230			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Personal Financing						

The ANOVA results confirmed the statistical significance of the model. The regression sum of squares was 5743.871with 1 degree of freedom, while the residual sum of squares was 8002.840 with 229 degrees of freedom. The F-statistic was 582.277 with a significance level of .000, indicating that the model was highly significant and that personal financing is a significant predictor of financial performance among youth-based SMEs in Bungoma County.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.799	1.138		4.218	.000
	Personal Financing	.851	.035	.847	24.130	.000
a. Dependent Variable: Financial Performance						

Source: Field Data (2025)

The following model was fitted:
$Y = 4.799+.851X_2$
Where;
Y= Financial performance of SMEs
X_2= Personal financing

This coefficient suggests that for every unit increase in personal financing (funds derived from owner's savings or inheritance), there was an associated increase of 0.851 units in financial performance (measured by net profit margin), holding other variables constant. The constant term was 4.799, indicating the baseline financial performance level when personal financing is zero. The T-value for personal financing was 4.218 and statistically significant at $P < 0.001$, reinforcing the strength and reliability of this predictor in the model.

In conclusion, personal financing emerged as a critical and statistically significant factor influencing the financial performance of youth-based SMEs in Bungoma County. This suggests that efforts to improve SME performance should not only focus on increasing access to formal finance but also recognize and support personal financial contributions, which remain a vital source of capital for young entrepreneurs. Policies encouraging savings, wealth accumulation, and efficient management of personal funds can therefore play a vital role in promoting SME sustainability and growth.

Hypothesis Testing

The results from the regression analysis coefficients indicate a significance level, p-values of 0.000. The p-values obtained below the predetermined level of significance of 5% (0.05) or a conservative level of significance of 1% (0.01), that minimizes the risks of rejecting the null hypothesis incorrectly leads to the rejecting the null hypothesis (Bevans, 2023). The summary is as shown in the table 4.19 below

Table 4.19: Summary of the Results of Test of Hypotheses

Hypothesis	Results	Decision
H_{01}: There is no statistically significant relationship between personal financing and the financial performance of youth-based SMEs in Bungoma County, Kenya	Personal financing resources have a positive impact on the financial performance of youth-based SMEs in Bungoma County (B =0.851, P=0.000, <0.05)	H_{01} Rejected

Source: Author, 2025

V. Findings And Conclusion

Summary

Personal financing was found to be one of the most common and influential sources of capital among youth-based SMEs in Bungoma County. The majority of young entrepreneurs relied on personal savings or financial support from family and friends to either start or sustain their businesses. This form of financing gave them more control and flexibility over their operations, as it often came without repayment pressure or interest obligations. The study found that businesses funded through personal sources exhibited steady growth, especially in their early stages.

The findings further revealed that while personal financing is advantageous due to its convenience and low risk, it may not be sustainable in the long term as the businesses grow. Many entrepreneurs reported depleting their personal resources, which limited their ability to expand or withstand financial shocks. Nonetheless, the positive contribution of personal financing to financial performance underscores its relevance, particularly for start-ups. These results echo those of Nduta and Karanja (2021), who observed that informal and personal sources of capital significantly contribute to the survival and short-term growth of small enterprises in Kenya.

Conclusion

The findings indicated that personal financing significantly influences the financial performance of youth-based SMEs in Bungoma County. Many young entrepreneurs primarily rely on personal savings, support from family and friends, and other informal sources to start and sustain their businesses. These sources are not only readily accessible but also flexible, allowing business owners to make independent financial decisions without the burden of debt obligations. This finding is consistent with Kibet et al. (2020), who emphasized that self-financing is a crucial enabler of entrepreneurial resilience and financial independence. The findings also collaborate with what, Amarteifio, Marfo-Yiadom, Arthur, Cofie-Obiri, & Idun-Acquah, (2023) did in Accra Metropolis, which revealed that, while both internal and external equity had a significant and positive effect on small business growth. Small businesses prefer internal equity to external equity and resort to debt, particularly in the form of trade credit and bank loans (after exhausting internal equity options such as personal savings and support from family and friends).

However, the reliance on personal financing can limit the growth and expansion of youth-led businesses due to the typically modest amounts available through such sources. Therefore, while personal financing plays a vital role in initial business stages, it should be complemented by external funding as enterprises grow. This highlights the importance of creating linkages between informal and formal financing channels, such as credit unions and SACCOs, to help youth entrepreneurs to transition into more scalable financial ecosystems. In doing so, youth SMEs can achieve sustained financial growth and increased economic contribution.

Recommendations

The study recommends that financial institutions should simplify loan application procedures, reduce collateral demands, and design SME-friendly credit products to encourage uptake. Government agencies establish and expand credit guarantee schemes that reduces the risk of lending to SMEs, making formal financing more accessible and impactful (Mutinda & Wambua, 2022).

Financial institutions align their financing products with the specific needs of SMEs at various stages; start-up, growth, or maturity. Such targeted support enables SMEs to access appropriate funding that supports their operational and strategic goals.

SME owners should combine personal financing with formal and government funding to reduce overreliance on any single source. Capacity-building programs should be put in place by the government and other development agencies to sensitize entrepreneurs on the benefits of diversified financing, which enhances financial resilience and operational stability.

Financial literacy programs should target more youth SME owners and equip them with skills in budgeting, debt management, and strategic investment. These initiatives strengthen their ability to utilize financing efficiently and improve financial performance over time (Mwangi & Kamau, 2021).

The government should increase budgetary allocations to youth-focused SME programs and ensures timely and inclusive disbursement of funds. Additionally it should develop policy frameworks to prioritize sustainable business support and remove bureaucratic barriers that hinder access to public funds.

SMEs should develop proactive financial strategies that help them plan for financial shortfalls. Stakeholders, including county governments and financial institutions, collaborate to provide emergency credit lines or revolving funds that cushion SMEs from unexpected financial shocks.

Suggestions for Further Research

The study suggests future research on: how financial literacy influences the relationship between financial sources and the financial performance of youth-based SMEs; adoption of a longitudinal design to track how changes in financing strategies affect SME growth over time; exploring gender differences in access to and utilization of financial sources could help tailor more inclusive financial policies and evaluate the effectiveness of county government financial programs in promoting youth-based SMEs at the local level.

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