FINANCIAL LITERACY AND PERFORMANCE OF SELECTED SMALL AND MEDIUM ENTERPRISES IN NYERI COUNTY, KENYA

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DECLARATION

I declare that the research work I've done is entirely original and has never before been submitted to an institution for review or a conferment.

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Declaration by supervisor

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

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DEDICATION

I dedicate this dissertation to my family in appreciation of their unwavering devotion, encouragement, and inspiration. My completion of this proposal could not be a success without support from my family, starting with my wife Veronica: My deepest gratitude for your encouragement and wise advice. To my daughter, Tonia, thank you for allowing me time to write and research. Lastly, my heartfelt gratitude to my mother for the support all through my schoolwork and research and to my Late Brother Alex for providing an insight into the key study area. To those that I may not have mentioned by name, please accept my appreciation.

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ACRONYMS AND ABBREVIATIONS

MFI	Micro-Finance Institutions
MBA	Master of Business Administration
ROE	Return on Equity
SMEs	Small and Medium Enterprises
SACCO	Savings and Credit Co-operative
SPSS	Statistical Package for Social Sciences
UN	United Nations

OPERATIONAL DEFINITION OF TERMS

Budgeting Skills: Relates to the ability of an individual to adopt a prudent strategy regarding managing their money or their business money. It involves a proactive decision about the allocation of money in a way that expenditure does not exceed income.

Financial Literacy: This is a component of human knowledge, which empowers a person to enter into effective and informed decisions with every financial resource at their disposal.

Financial Borrowing Skills: Refers to the capability of a person or a business entity to make informed borrowing decisions, and proper utilization of the same.

Micro-Finance Institutions: Refers to organizations that offer financial services to Small and Medium Enterprises and low-income earners.

Performance: Refers to the level in which a business has accomplished set financial standards, the process used to determine outcome resulting from the firm's operations and policies in monetary terms. For purposes of this study, performance was measured via profitability and sales turnover.

Profitability: This is the degree in which an enterprise produces profit from production factors, that is; capital, labour, and management.

Record keeping skills: Record keeping includes recording all financial transactions and preserving them in a secure manner, it includes book keeping, which entails single entry and double entry bookkeeping system.

Saving Skills: Refers to the process of being able to identify the proportion of deferred consumption or income not spent, which include putting money separately for example in a fixed deposit account, investment fund, pension, or cash.

Small and Medium Enterprises: Refers to the small-owned businesses, which need start-up capital, but cannot invite venture capitalists. The enterprises have sales revenue of between 1 million and 5 million, and 10 to 50 employees.

Sales Revenue: This refers to the amount of income generated from sale of the business good or services.

ABSTRACT

The unprecedented rate of dynamism of the global business environment prompts organizations to be strategically planned in order to neutralize the forces that threaten their performance. Thus performance of SMEs in Kenya depends on how swiftly the sectors respond to prevailing and emerging challenges that are inherent in a developing economy. Kenyan SMEs, which include agriculture and rural businesses, have contributed greatly to the growth of the economy, mainly in the creation of employment. Yet there have been high failure rates and poor performance levels. Many are faced with the threat of failure within the first few months. Many SMEs perform well after start up, but only a few experiences sustained growth through the full lifecycle and become large firms. The study aimed to determine the effect of financial literacy on SMEs performance in Nyeri County, Kenya. The explicit purposes of the study were: ascertain the effect of borrowing skills, budgeting skills, record keeping skills and saving skills, on SMEs performance in Mathira and Nyeri Town Constituencies, Nyeri County, Kenya. Null hypotheses were tested at 0.05 significance level. Accounting Exchange Theory, Transaction Cost Theory, and Dual Process Theory served as foundations for this study. The study utilized a cross-sectional research design. The target audience was made up of all SMEs registered in Mathira and Nyeri Town Constituencies, Nyeri County, Kenya. The target population of the study was 344 SME proprietors or their managers. Random stratified sampling was used to obtain a sample size of 52. The study utilized questionnaires for collection of primary data and adopted Likert Scale as a measure to ascertain respondent's attitude towards performance of SMEs in Mathira and Nyeri Constituencies. Descriptive statistics and multiple regression analysis were utilized to analyse the data collected. Data presentation was in form of tables and charts. The study ensured informed consent, voluntary participation, confidentiality besides adhering to all other ethical considerations. Descriptive statistics and multiple linear regression analysis were used to analyse the data. The study results demonstrated that there is a strong positive correlation ($r=0.885$) between financial literacy and financial performance of SMEs whereby adjusted R-square was 75.4% variation in SMEs performance can be explained by financial literacy. The findings indicated that borrowing skills ($\beta = 0.620$, $p = 0.000 < 0.05$), budgeting skills ($\beta = 0.405$, $p = 0.006 < 0.05$), recording keeping skills ($\beta = 0.355$, $p = 0.002 < 0.05$) were significant thereby rejecting the hypotheses. However, saving skills ($\beta = 0.193$, $p = 0.226 < 0.05$) was found to insignificant thereby supporting hypothesis four. Borrowing had the largest coefficient indicating that it had a significant effect on performance of SMEs in Mathira and Nyeri Constituencies whereas savings was not significant. The study therefore concluded that borrowing skills, budgeting skills and record keeping skills have a positive influence on the performance of SMES. The study recommended an extensive awareness to owners of SMEs on the importance of participating in financial training program provided by various stakeholders such as the national government, the county governments, non-governmental organizations and financial institutions.

CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

To a great extent, both developed and underdeveloped economies still depend SMEs to initiate and sustain economic progress and even development. According to an assertion by Mill and McCarthy (2014), SMEs account for half of the employment opportunities in the private sector, which consequently amounts to between 60% and 80% of fresh employment opportunities in the US, annually. UNIDO (1999) found that SMEs account for more than 90% of all private enterprises that provide more than half of the job prospects available, and raise over 50% of the (GDP) of the larger proportion of African economies.

Performance of SMEs is a prevalent issue universally. Particularly, it has been an important concern for governments, business entrepreneurs, development economists, financial institutions, investment capital firms, and NGOs, among other parties (Eniola *et. al*, 2014). Ideally, among the most dominant challenges facing these organizations is their limited ability to source adequate working capital and cash flow to remain operational and profitable. SMEs are the core drivers for economic growth and generation of employment opportunities, which is of exceptional importance in developed, developing, and emerging economies throughout the globe (Lockea, 2012). In a larger proportion of countries, SMEs encounter limitations in accessing credit, problems in utilizing available technology, inadequate management skills, low degree of production, and regulatory barriers within their corporate environment (KIPPRA, 2012).

According to approximations by Abor and Quartey (2010), SMEs account for 91% of formal enterprises within South Africa. Just like many nations across the globe, in Kenya, policy creators, business professionals, and economists agree that SMEs are critical components for economic advancement (Wanjohi, 2011). According to 2011 estimates by the KIPPRA, the SME sector has employed 42 percent of the entire employed population and three-quarters of all contemporary formations (KIPPRA, 2012). Hence, flourishing SMEs creates a major impact to economic growth by producing large bulks of products, growing exports, generating employment opportunities, and creating a fertile ground for the development of entrepreneurial and innovation skills.

Notwithstanding the many advantages of SMEs throughout the world, these businesses typically have a high birth and mortality rates, simultaneously (Turyahebwa *et.al*. 2014). Research reveals that few SMEs live to third anniversary since they retain their size, hence exposing themselves to the vulnerability of botch due to factors such as simple managerial blunders. That suggests that, due to the limited capital base for SMEs to endure consequent losses, their managers rarely find an opportunity to gain knowledge from past errors.

Growing evidence shows that besides an empowering environment and capital access, the success of SMEs is dependent on managerial skills in financial management. According to a study by Njoroge, (2014) and Fatoki, (2014) financially literate individuals enter into advanced credit decisions with less managerial hitches as compared to individuals with little financial knowledge. In the Enterprise Growth theory by Penrose, she alleges that business literacy, inspiration, and entrepreneurial operations concerning fundraising abilities and entrepreneurial decisions largely determines the growth of a firm.

1.1.1 Financial Literacy

Atkinson (2005) defined financial literacy as a component of knowledge and skills, which empowers an individual to enter into effective and informed decisions with every financial resource at their disposal. Entering into the correct financial decisions is a very critical skill for people with long-term financial concerns. Managing the finances of an organization is not a simple responsibility; SMEs must choose from a long menu of financial wants of which most are of a sophisticated nature. The SMEs Act (2011) was ratified as a guide in the provision of finances, in developing the capacity for micro-enterprises and SMEs in the nation consistent with the spirit of vision 2030 of Kenya (RoK, 2012). Financial literacy delivers comprehension of finance models as well as the abilities, inspiration, and confidence to deploy that kind of understanding and knowledge to enter into good judgements through a variety of business environments and to increase the financial wellness of SMEs (Hogarth, 2002).

Mutegi *et al*. (2015), holds that financial knowledge enhances processes involving decision making, for instance, timely settlement of bills, appropriate management of debts, appropriate bookkeeping that enhances the financial worthiness of prospective borrowers to improve incomes, grow the economy, establish firm financial systems, and decrease poverty. It as well establishes improved control over an entrepreneur's financial projections, better application of monetarist products and services, and decreased vulnerability towards ardent dealers or false arrangements (Sunday & Ssekajugo, 2013).

Miller *et al*. (*2009*) declared that while handling an informed party, financial controllers are compelled to advance the quality and efficiency of their financial services. That is because financially literate venture capitalist establishes competitive stressors for financial institutions to provide more transparent and better-priced services by asking the correct questions, comparing among options, and engaging in more effective negotiations. On their side, investors manage to examine and relate financial products like saving products, bank accounts, loan and credit alternatives, instruments of payment, insurance services, investments, and so on, to enter into the best decisions.

Siekei (2013) holds that skills in credit, debt, and budge management acquired via financial training programs improve performance in the acquisition of credit finances and loan portfolio management, which helps ensure minimal loan liability and expenses of interest. Skills in budgeting are very important in the growth of profits, sales, and guaranteeing the efficiency of an enterprise. Financial understanding maintains that skilled people in regard to finances may be predominant to the dual-process theories: the cognitive and intuition theories (Evans, 2008).

Study indicates that individuals with less financial literacy have less assets and do not plan for retirement (Lusardi & Mitchell, 2007; Stango & Zinman, 2006). Results of these studies have prompted developing and developed nations to put more efforts on financial education. Vaious approaches can be applied in determining financial literacy, including; Borrowing Skills, Budgeting skills, Record keeping skills, and Saving skills.

Borrowing skills entails the capability of a person or business entity to make wise borrowing decisions, and proper utilization of the same (Germain, 2009). Lusardi and Bassa, (2013) studied the relationship effects of financial literacy on the high-cost borrowers. Their study found that people with low financial knowledge make poor borrowing decisions. Kalli &

Tamimi (2009) through their study on effects of financial knowledge on investment choices, held that Male gender possess higher financial understanding compared to female gender.

Budgeting skills refers to the capability of a person to adopt a prudent strategy regarding managing their money or their business money. It involves a proactive decision about the allocation of money in a way that expenditure does not exceed income (Mahmood, 2008). The budgeting process in SMEs face challenges originating from the failure of the business to assume the ownership and become accountable Chidi and Shadare (2011). Joshi (2013) indicates that growth in the size of the organization compels an organization to implement a budgeting process that is more comprehensive to realize improved financial performance.

Record keeping skills refers to the process of transaction recording in an accounting system. It also refers to the act of storing business files, documents, invoices, etc. in an organized manner. Record keeping includes recording all financial transactions and preserving them in a secure manner, it includes book keeping, which entails single entry and double-entry bookkeeping system (Amos, et.al., 2015). A study by Longeneter *et al*, (2006) indicates that poor record keeping is the main course of failure of SMEs. Failure to maintain a proper record keeping system leads to the failure of a business a few months after establishment (Germain, 2009). Record keeping is however imperative to sales turnover and profitability of a business.

Saving skills refers to the process of being able to identify the proportion of deferred consumption or income not spent, which include setting money aside in investment funds, cash, pension accounts, or deposit accounts, among other places (Bime & Mbanasor, 2011). Viran (2012), refers saving skills as any action taken by a business or individual to scale down current consumption, to fulfill the daily req3uirement of the future. Kanjanapon (2004) holds that the amount saved by a business or individual could be re-invested for more profits. It could also be a source of interest income for banks and collateral for borrowing. Saving skills is therefore key to the financial performance of a business as it provides for an optimistic future and a key yardstick for capital accumulation.

1.1.2 Financial Performance

Financial Performance is the process of achieving a set financial standard over a period of time (Richard *et al.,* 2009). It refers to the level at which financial objectives have been accomplished. It relates to all those conducts of activities in a business that leads to achieving projected cost. Financial performance affirms a firms' efficiency in multiplication of resorces (Komppula, 2004). In view to measure financial performance, this study was guided by two key aspects of performance, that is, profitability and sales revenue.

The ability of sales revenue to substitute earnings as an indicator of a business performance appears functional. It is also more understood by financial statement users than earnings (Wagenhofer 2014). These performance measures are pointers of business success such as sales and market share growth, while some are pointers of financial achievement i.e. profitability (Miller, 2013).

Financial analysis tools refer to all financial statements; balance sheet and the income statement. These tools of financial analysis do not nevertheless, provide all information that relates to the business's financial operations, but rather the financial soundness of a business and profitability (Pisa, 2013).

1.1.3 SMEs in Mathira and Nyeri Town Constituencies, Nyeri County

Most of the SMEs in Mathira and Nyeri town constituencies operate within the urban regions. These SMEs throughout the constituencies include wholesalers, hardware, small processing plants such as milk processing, drinking water processing, minimarkets, and provision of skilled services such as lawyers and doctors, and hospitality firms. Various people establish these SMEs across the various demographics; young and old, skilled and unskilled, male and female are all in SMEs (Njoroge, 2012). Most of the small-scale businesses in the region are family-owned and managed by a few individuals, who are typically from the owner's immediate family. Financial training bodies in the county include microfinance institutions (MFIs), SACCOs, and Commercial Banks (See Appendix). Nyeri County Government appreciates SMEs significance in regard to job creation thus eradicating poverty. It has hence endeavored to offer support by training and providing finances. It has well-developed initiatives intended to promote growth in the SME sector (Kabue, 2016).

The establishment of a women's fund and a youth fund are some examples of efforts made by the county government to support local SMEs. Different parties including the government, the private sector, and NGOs have enhanced their efforts in the county, intending to improve the accessibility of affordable finances, to ensure SMEs utilize the available resources efficiently.

1.2 Statement of Problem

Wanjohi (2011) indicates the lack of adequate financial information to be a key problem in the financial performance of SMEs. These may largely be attributed to the low education levels, apparent lack of sufficient information, and ineffective business records. Despite the role played by SMEs in the county, and the entire country, CMA (2010) identified that SMEs in Kenya are faced with constraints, which compromise their capacity to endure risks hence making them not realizing their full potential. Problems related to the accessibility of financial information originate from both internal and external factors. Consequently, that makes it a challenge for these SMEs to attain their desired growth in liquidity, profitability, and long-term solvency, thus resulting in lost commercial chances as well as their ability to expand (Badagawa, 2011).

Nevertheless, there is fairly limited empirical study on effects of financial literacy on financial performance of SMEs' in the RoK. Mutegi *et al.* (2015) established that Banking institutions including Kenya Women Finance Trust, Equity, Faulu Bank, and Small and Medium Enterprise Program have created distinct units to establish higher responsiveness to SME customers, in their acknowledgment of innate variances among these SMEs, corporate clients, and the consumers. Factors hindering the growth of SMEs include the unavailability of enough business information and records (Phelister, 2015), which is the key deterrent to the involvement of banks in the SME sector. Due to the apparent scope of the problem, banks and MFIs have allocated some funds to offer training services to SMEs (Equity Bank, 2012). Despite these efforts, it remains unclear if financial literacy significantly explains SMEs performance in Kenya. This is a topic that require empirical investigation especially in Nyeri county where the relationship has very limited empirical support.

Njoroge (2013) undertook an analysis on financial literacy and SMEs' performance in Nairobi County. In the study, they found there exist direct connection amid business achievement and financial literacy. Nonetheless, the participants were selected from SMEs that have not less than 3 staff employees, over 5 years’ operations, and sales of at least 5 million. However, the study did not factor in the small and medium enterprises that typically have less sales, yet they account for the largest number of traders within the sector. Siekei (2013) examined the impact of financial literacy on the growth of SMEs in Njoro District. The study found that financial literacy training on management had a favourable effect on the performance of SMEs. The aforementioned evidence failed to ascertain the effect of financial literacy on SMEs financial performance, hence the motivation for the current study.

Notwithstanding the attention focused on issues affecting SMEs, scarce focus partakes the imoact of financial literacy on SMEs performance. On the contrary, empirical evidence (Wachira & Kihiu, 2012) found that enterprises that exists not financially literate seem to borrow extremely much and usually engage in expensive financial resources. These may hurt their performance and are as well likely to experience an extreme debt position or be unable to gauge the position of their debt. In their assessment of countrywide surveys carried out among various African nations. Liedholm and Mead (2005) approximated that between 17 and 27 percent of the employed population working in SMEs has financial literacy, which is almost double the employment by the public sector and large-scale businesses. In view of the gaps captured in the preceding paragraphs, this study aim to ascertain the effects of financial literacy on financial performance in Mathira and Nyeri town Constituencies.

1.3 Objectives of the Study

1.3.1 General Objective

The overall goal of this study was to ascertain the effect of financial literacy on financial performance of small medium enterprises in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.

1.3.2 Specific Objectives

The study's specific objectives were:

i. To determine the effect of financial borrowing skills on financial performance of small medium enterprises in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.
ii. To ascertain the effect of budgeting skills on financial performance of small medium enterprises in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.
iii. To ascertain the effect of record keeping skills on financial performance of small medium enterprises in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.
iv. To determine the effect of saving skills on financial performance of small medium enterprises in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.

1.4 Research Hypotheses

The research aimed at testing the following null hypotheses:

H_{01}: Financial borrowing skills have no significant effect on small medium enterprises performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

H_{02}: Budgeting skills have no significant effect on small medium enterprises performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

H_{03}: Record keeping skills have no significant effect on small medium enterprises performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

H_{04}: Saving skills have no significant effect on small medium enterprises performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

1.5 Significance of the Study

The results of this study help enhance how SMEs are managed and encourage the county government of Nyeri to prioritize on improving the financial literacy of SMEs. The study is of significant benefit to owners of SME since it will highpoint the gains that can be derived from the acquisition of financial knowledge in advancing the financial management of their enterprises to realize higher business growth projections, profitability, and desirable credit ratings by financiers. In addition, the study established SMEs expectations in gaining financial knowledge, which crucial to the Kenyan government. For policymakers, the study pointed out various parts that have policy gaps in financial education, hence sensitizing them on the essence of establishing intervention policies in the Nyeri County SME sector. These will facilitate the making of buyer-oriented guidelines and protocols in the Ministry of Devolution and the establishment of long-term development goals. The study will be of significant value to the proprietors since it will help them understand the time value of money. This will be key to the management of inflows and outflows especially where a business has a credit policy. The proprietors will also understand key business concepts, that is; saving skills, borrowing skills, bookkeeping for proper planning, and budgeting skills. The research is also relevant to researchers and scholars since it will greatly add to the existing knowledge and give worth y insights, which will assist them, discover gaps requiring more study.

1.6 Scope of the Study

The study purpose was to ascertain the effect of financial literacy on financial performance of SMEs in Mathira and Nyeri town Constituencies, Nyeri County, Kenya. Borrowing skills, budgeting skills, record keeping skills and saving skills were the main topics of focus. Geographically, the study focused on SMEs in Mathira constituency and Nyeri Town constituencies. The study involved the SMEs registered in Mathira and Nyeri Town constituencies. The study time scope was a five year period (2015 to year 2022).

1.7 Limitations of the Study

The study encountered some drawbacks among which included uncooperative respondents, who perceived the completion of the questionnaires as time consuming amidst their busy schedule. This challenge was likely to compromise the data collection process and acquisition of quality data. However, the researcher went an extra mile by recruit and train a few research assistants to assist in data collection. It was a prudent move that ensured that respondents would get the questions clarified and therefore fill in the correct data. A section of the participants considered the information as sensitive and confidential. They were hesitant on filling in their responses for fear that the information could get to rival businesses and be utilized to gain an unfair advantage. Nonetheless, researcher provided the respondents with a university letter declaring Information provided by participants was solely for the study. Accessibility of some of the SMEs was a challenge. Some SMEs had their businesses located in interior rural areas with no access to good roads especially during bad weather. It also took a lot of time to trace some due to unclear and incorrectly updated signage. However, the researcher did due diligence by establishing the location of these SMEs early enough. The researcher also ascertained the weather pattern and prioritized visiting the areas first and avoided jeopardizing the collection of data in those areas.

1.8 Organization of the Study

This study is organised into five chapters. First chapter of a research proposal includes an introduction to the research topic, the research problem, objectives and hypotheses. It also includes the significance, scope, limitations as well as organisation of the study. Second chapter contains a review of existing literature related to the research topic, an explanation of the theoretical framework for the research, empirical review in addition to conceptual framework. In third chapter, the researcher outlines the research design and methods that were utilized to meet the objectives outlined in chapter one. It also provides an overview of the plan for how the researcher approached the project, including data collection and analysis procedures. Ethical considerations, are also included in this section. Chapter four presents the study findings, interpretations and discussion in line with the research objectives. Hypothesis testing is also conducted in this chapter. Chapter five outlines the study's conclusions and recommendations along with a summary of the findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviewed the existing literature relating to financial literacy and financial performance of SMEs. Fundamentally, it analysed literature surrounding important theoretical frameworks in financial literacy and financial performance of SMEs. It also pinpointed, assessed, and presented pertinent empirical knowledge about financial literacy and financial performance of SMEs.

2.2 Theoretical Review

The research analysed four theories deemed appropriate.

2.2.1 Dual Process model

The theory proponents Richard E. Petty and John Cacioppo (1986) based their argument on social psychology. Financial literacy is likely to be reliant on the dominance of the two styles of though as per the dual-process theories, that is, cognition and intuition (Evans 2008). Financial literacy is an attention-grabbing subject in developing and developed nations. It has, however, occasioned considerable attention recently with the quick revolution in the finance scene (Lusardi *et.al.* 2011). The theory maintains holds that two thinking styles guide people behaviour, that is, intuition and cognition.

According to Wixted (2007), the positive outcome of financial literacy on realistic investment choices is determined by a high level of intuition. Hence, an enhanced application of intuition leads to the creation of sub-optimal venture choices. Alternatively, cognition refers to the method whereby the sensual contribution is altered, reduced, expounded, stored, retrieved, and eventually utilized. Cognition denoted the mental process of comprehension, solving problems making prudent decisions, and (Chan *et.al.* 2013).

An individual with a high degree of cognition appreciates thinking, is usually analytical, and has an advanced ability to store information, and more probable to seek fresh information. They are likely manipulated by relevant information rather than by irrelevant information like the appearance of the endorser or use of humour. Because the essence of cognition stimulates the application of the analytical process, it can directly influence the composition of an investment portfolio. Such kind of investors will thus more probably employ the systematic model of capital budgeting during the evaluation of investment options and are increasingly probable to expand their investments as opposed to those that have a low need for cognition. They will as well save more and borrow prudently (Glaser, *et.al.* 2014).

The dual-process theory was substantial in the study since it implies that people with high understanding levels will pursue financial information and are probably affected by significant information than irrelevant information. The applicability of the theory in the study lies in the fact that financial literacy assists in the empowerment and education of investors for them to apply the knowledge in the evaluation of products and creation of qualified decisions (Lusardi & Mitchell, 2011).

2.2.2 The Exchange Model

Robson and Ladner (2006) proposed the exchange theory, which holds that interactional, interpersonal, informational, and procedural elements are related to knowledge skills. Thus; the higher the degree of collaborations, the greater the degree of literacy that a person possess. Lusardi *et.al*. (2008) as well agreed with the theory in their conclusions, which showed that financial literacy is greater among employed individuals than unemployed.

Consequently, dissimilarity in individual stages of literacy as exhibited in the theory is due to the interchange of financial information among literate and less illiterate individuals, financial learning provided at the place of work, as well as skills obtained while working. Therefore, for an individual to have more financial knowledge, they must increase their degree of interaction with other individuals (Lusardi & Mitchell, 2008). Besides informing them about financial systems, it will as well inform them about the trends and variations in these systems (Prakash & Poudel, 2002). In the study the essence of the theory was to describe the inconsistency in the level of financial literacy among individuals and put forward ways through which the level of financial literacy may be improved.

2.2.3 The Transaction Cost Model

Polski *et al*, (2001), affirms that businesses accrue expenses as they consume resources. These costs reflect the organization costs. Ronald Coase (1981) holds that every company will expand provided the cost of performing activities is cheaper within the company for example by outsourcing services. Through the framework of transaction theory, the lack of financial skills may result into a rise in cost of transactions, which will negatively influence business performance (Williamson, 2005), Financial literacy skills are empower the owner of a firm to pinpoint transactions that can enhance the financial performance of a firm. As well, the management will find it possible to evade inappropriate debt and loans. Implementation of an apt record-keeping system for all undertaken financial transactions (Polski *et al*, 2001*)*, further improves that.

The transaction cost theory applied to the study in the sense that most owners of SMEs in Nyeri County had little financial knowledge and did not effectively manage their transactions. That is the case since the widespread belief is that individuals can 'remember' each transaction and that transactions involving small quantities of money do not necessarily need monitoring. That, however, is not what should be the case since it has negative implications on the performance of their SMEs, for instance, it facilitated a bad lending routine. Therefore, adopting this theory was recommendable.

2.2.4 Accounting Theory

The accounting theory tries to explain the accounting process as a platform of providing decision makers with most relevant information. The theory basically founded on logic. Based on this, and the fact that it provides a formal procedure in which individuals or entrepreneurs can make prudent decisions based on certain subjective probabilities. It was relevant to this study as it depicts the owners of SMEs as the key decision makers. The decision they make determine the profitability of their business as well as the sales turnover (Clelland, 1961).

Godfrey et al. (2010) explains how business owners prosper in their businesses. He holds that well performing entrepreneurs consider returns as an important gauge of their business competency and success. The entrepreneurs set SMART goals for their businesses and monitor how well they are being achieved. They therefore monitor each transaction and hence able to detect loss. The accounting theory contented to this study in that, for entrepreneurs to achieve profitability and increase their sales, they need to ensure; proper budgeting, save more, have a proper book keeping system, and manage their borrowing prudently.

2.3 Empirical Review

2.3.1 Borrowing Skills and Financial Performance of SMEs

Obago (2014) studied the relationship of financial literacy and individual finances management. The study found out that most workers experience stress due to money problem behaviors such as; overspending, over-indebtedness, unprofessional use of finances, poor management of finances, as well as insufficient resources to meet individual needs, which hurts productivity of these individuals at the workplace. Due to such employee-related problems, a significant proportion of American organizations have embraced financial knowledge at the places of work to equip their employees with individual financial management.

Siekei et al. (2013) explored accessibility to finances and financial literacy. The researchers concluded that access to finances is a core aspect for SMEs to make it in establishing a productive capacity, create employment opportunities, compete, and help in the alleviation of poverty in the developing nations. Nonetheless, the study discovered that SMEs, particularly in Africa, could scarcely satisfy the conditions laid down by financial institutions, which puts the SMEs in a risky position due to poor guarantees and inadequate information regarding their capacity to repay their debts. Nevertheless, though personal financing and financial lenders are viable alternatives, personal financing is compromised by the low saving capacity of the majority of SMEs while unmonitored financial lenders impose very high rates of interest because of the apparent risk of defaulting by SMEs.

Lusardi and Mitchell (2011) explored the effect of degree of literacy on the performance of entrepreneurs. The results of the study suggested that people of little financial literacy are probable to encounter more challenges relating to the management of debt, credit, and savings, and have less likelihood to make plans for the future. On the other hand, individuals with more financial literacy have a higher capability to manage their financial resources, take part in the stock trade, and exhibit an advanced performance in choosing their portfolio. They are as well more probable to pick mutual funds whose fees are lower. Furthermore, the researchers learned that those with more financial knowledge have a higher probability of accumulating vast quantities of wealth.

Omara (2010) studied the process of credit assessment and bank loan repayment in Kampala, Uganda. A group of 73 participants from Barclays bank was chosen and interviewed. The study found out that the Barclays bank had a delay in the scoring of loans as the bank-imposed commitment fees on both existing and new customers. Data obtained in the study was analyzed through tables and frequencies. It was discovered that the bank needed collateral for all loans, which exceeded UGShs. 20 Million. Djankov, McLiesh, & Shleifer, (2007), conducted a study on the impacts of credit management in the repayment of loans in private finances within 12 nations in Eastern Europe. Financial managers from various finance institutions were taken through an interview and the data collected was analyzed using standard deviation and mean. The study found out that financial literacy in the management of credit was a significant factor in the facilitation of loan repayment.

Lusardi and Tufano (2009) aimed to examine debt literacy, over-indebtedness, and financial capabilities among Americans. The study held that merely a third of the study respondents could employ the principles of compounding interest in day-to-day situations or comprehend how credit cards operate. Further, they found that debt illiteracy is more widespread among females, minority groups, aged and divorced individuals. Problems emanating from poor management of finances as well influences the effectiveness of the workforce. (Poor management of finances also affects the productivity of workers negatively).

2.3.2 Budgeting Skills and Financial Performance of SMEs

Warue and Wanjira (2013) studied factors contributing to the failure of businesses in Kenya, discovered that businesses fail due to poor skills in budgeting, a common characteristic among Kenyans. A survey by FinAccess found out that even though many Kenyans are aware of the budgeting concept, more than 51.2% of them feel that they do not control their finances (FSD, 2009). This research has indicated that financial knowledge is directly correlated to behaviors such human example wealth buildup, improved saving, management of debt, selection of investment portfolios, and the continuity of the business. Nonetheless, more and more knowledge indicate that the degree of financial knowledge is lower among adult generations across nations all over the world. The level of financial knowledge is higher among men as compared to women, which hurts women-owned enterprises.

Joshi (2013) studied 54 large and medium scale organizations in the Kingdom of Bahrain, with their objective being to examine budgeting financial literacy, focusing on budgetary planning and control, budget rewards, and participation, as well as performance assessment. The study discovered that growth in the size of the organization compels an organization to implement a budgeting process that is more comprehensive to realize improved performance. Moreover; the size of a firm, as well as the complexity of its operations have an influence on the budget implemented.

Wijewardena and DeZoysa (2011) investigated the contribution of budget planning and control on SMEs and discovered that formal planning and control possess two critical aspects of the regular process of budgeting adopted by SMEs. The researchers discovered that there are 3 distinct kinds of firms. These include firms that use no particular kind of budget. In the second category, firms adopt simple budgets whose planning process is less comprehensive and covers only a limited area of business operations. In the third category, firms include many diverse areas of operation in detailed budgets, which are adopted by the firms. The third category entails a much comprehensive process of planning. Additionally, the administrative regulation of the budget focuses on the third category concerning budget control.

Chidi and Shadare (2011) explored the limitations affecting the development of human capital in Nigeria. The study discovered that the budgeting process in SMEs faced challenges originating from the failure of the business to assume ownership and become accountable. Other challenges included the failure to cooperate and/or take part and the inexistence of budgeting plans as a result of the inability to honor a deadline, stuffing their budgets/developing impractical numbers, as well as the utter ignorance of the essence of budgeting by the owner of the business. The study upheld that the budgeting skills of managers are influential in the process of budgeting. The influence from the management informs of whether the budget man(made) be executed as prepared or not.

Mahmood (2008) in his study on the correlation between the process of budgeting and SME performance found that out SMEs owners who have identified a proper framework within their firms appreciate budgeting and have a formalized, accurate, and sophisticated system of budgeting because of the owner influence. Diamond *et al.* (2006) undertook a study on the systems of accounting among organizations in developing nations, particularly Africa. Their study revealed that the accounting processes and execution of the budget either supported very old and insufficiently serviced hardware and software applications, or they were manual. The study discovered that such a situation had negative repercussions on the functioning of SMEs because of the resultant nonexistence of steadfast and apt expenditure, and revenue data that is; necessary expenditure control, budget planning, monitoring, as well as reporting. This negatively influences the budget management. Moreover, the researchers discovered that the commitment of resources was poorly controlled, which means that the characteristic of computerized accounting largely influenced the process of budgeting.

2.3.3 Record Keeping Skills and Financial Performance of SMEs

Dawuda, (2015) in his study an assessment of financial records keeping behaviour of small scale businesses in Ghana found out that lack of education and high cost of hiring qualified staff made it very difficult for the owners to keep proper books of accounts. Some SMEs owners are ignorant of the value of keeping proper financial records and have perception that it is waste of time and resources to create finance and accounting department with qualified staff considering the scale of their operations. This may be true for businesses which are not generating much revenue. It could be argued from this evidence that, the volume and value of transactions can influence records keeping behaviour of SMEs owners.

Ezejiofor, (2014) aimed to identify the significance of accounting records in the financial performance of SMEs in Nigeria. The study determined that SMEs, which maintained appropriate accounting records, were capable of making precise measurements of their performance. The researchers as well portend that the decisions of a business relating to expansion, maintenance of competitive advantage, prevention of business collapse, and the completion of tax returns must be backed by exceptional financial records and financial information that must be appropriate, understandable, and accessible when needed. They caution that systems of accounting, which create the information, must be simple so that they do not impose unwanted operational hitches.

Sucuahi (2013) explored the impacts of record keeping skills on the performance of SME. He established that record keeping is an essential skill for managers of businesses since it avails key information for making decisions. The research held that record-keeping could be used as a tool to gauge financial literacy since not every summary for day-to-day transactions may be memorized in the human mind. The research indicated that the majority of business entrepreneurs, record business transactions on notebooks instead of using ledgers and journals. Kalekye and Memba (2015), in their study, revealed that the larger fraction of SME owners failed to make summaries of their records and they maintain their records in an informal form. Lusimbo and Muturi (2016) likewise held that most SMEs managers do not adopt bookkeeping in their business operations due to a lack of proper knowledge and skills.

Maseko and Manyani (2011) investigated the accounting methods employed by SMEs and discovered that many of the micro businesses apply manual techniques rather than computerized operations. As a result, these businesses are unable to utilize the accounting information efficiently in aiding the examination of their financial performance. The research emphasized the deployment of accounting software in enhancing the accounting process but bemoaned the absence of medium-sized computer applications for SMEs.

According to reports by the G20 Seoul Summit (2010), low degrees of financial literacy, especially skills in bookkeeping, have caused a significant share of SMEs worldwide to lose out on possibilities. Mill and McCarthy (2014) support the assertion of the report and claim that examining the creditworthiness of SMEs is challenging because of the existent of asymmetric information since their transactions are predominantly informal. Through business training, a business owner may learn primary skills of record keeping.

2.3.4 Savings Skills and Financial Performance of SMEs

Osinde et al (2013) observed that entrepreneurs who received business saving skills recorded an improvement in the growth of sales and growth in market shares on the various businesses they were operating. The study further established that those who attended the training services recorded an improvement in their businesses in terms of growth in sales and profits with 83.3% of the respondents who always attended training reporting to have good growth in profits as opposed to only 41.2% of those who never attended training.

Wachira and Kahiu (2012) assessed the consequence of financial literacy on credit access by households in Kenya. The researchers used the 2009 FinAccess empirical data through the multinomial logic model. The study's findings indicated that aspects like income, age, gender, and educational background of the borrower were significant factors in the determination of accessibility to credit services while the marital status of the borrower was inconsequential. Financial understanding was as well lowly ranked as an element influencing the judgement process of households which suggests that most people neither considered financial information to be valuable nor did they seek it in financial decision making.

Nyabwanga (2011) postulates that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attended any financial training programmes. He also established that over 60% of them had little or no knowledge in business management hence were void of management skills vital in the running of their enterprises. The study also established that the performance of small scale enterprises was on average low.

Rogg (2010) sort to ascertain the impact of savings on the performance of SMEs. The study established that increased savings are probable with an improvement in accessibility to credit resources because of the change of savings from near-liquid assets and liquid cash to deposit accounts. The study also found out that there is likely correspondence between a service charge and the security applied for the savings made by particular SMEs.

Michael (2009) studied the impacts of saving expertise on SMEs' financial performance. He found out that the possession of qualified saving skills is important for any organization. That is principally due to the difficulties of sourcing finances from financial lending institutions. Essentially, the study as well considers knowledge in financial management to be critical. Research conducted by Schrooten and Atephan (2003) and Sameroynina (2005) revealed that income has a progressive effect on savings of SMEs. As a result, a low level of savings is a consequence of low income. Improving the accessibility to credit is projected to negatively influence saving. SMEs may benefit from the advisory services offered to top businesses after they open a savings account or use loans offered by financing institutions.

2.4 Summary of Literature and Research Gap

Table 2.1: Summary of Literature and Research Gap

Author	**Objective**	**Findings**	**Study Gaps**	**How the study filled the gaps**
Lusardi et al (2011)	To determine the effect of degree of literacy on the performance of entrepreneurs.	The research results revealed that people of little financial literacy are probable to face increased obstacles related to the management of debt, credit, and savings, and have less likelihood to make plans for the future	The research did not establish the relationship of borrowing skills to key financial performance elements, such as profitability and sales turnover.	Impact of Financial borrowing skills on performance of SMEs.
Siekei *et al.* (2013)	To understand the accessibility to finances and financial literacy	The researchers concluded that access to finances is a core aspect for SMEs to make it in establishing a productive capacity, create employment opportunities, compete, and help in the alleviation of poverty in the developing nations	The study did not examine the impact of Credit management on financial Performance of SMEs	Impact of credit management skills on financial performance of SMEs
Obago (2014)	to ascertain the effects of financial literacy on the management of individual finances	The study found out that most workers experience stress due to money problem behaviors such as overspending, over-indebtedness, unprofessional utilization of finances, poor management of finances, as well as insufficient resources to meet individual needs, which hurts the productivity of these individuals at the workplace	The study was more on human behavior and productivity, hence not identifying the effect of financial literacy on financial performance of SMEs	Study on performance rather than human behavior.
Mahmood (2008)	To establish the correlation between the process of budgeting and the performance of SMEs	The research found if there is a proper relationship between enterprises and the owner, the process of budgeting is formalized, accurate, and sophisticated because of the limited influence of the owners	The study did not determine the impact of Budgeting literacy on profitability and sales turnover.	Effects of budgeting skills on performance of SMEs.

Joshi (2013)	To examine budgeting financial literacy and focus on budgetary control and planning, budget rewards, and participation, as well as performance assessment	The study discovered that growth in the size of the organization compels an organization to implement a budgeting process that is more comprehensive to realize improved performance	The study never ascertained the effect of Budgeting literacy on profitability and sales turnover.	Effects of budgeting skills on performance of SMEs.
Sucuahi (2013)	To ascertain the impacts of record-keeping on SMEs performance	The study found out that record keeping is an essential skill for managers of businesses since it avails key information for making decisions	The study never ascertained the effect of Record keeping skills on profitability and sales turnover.	Effects of record keeping skills on SMEs performance
Maseko and Manyani (2011), Fatoki (2014), and Agvei (2011)	To investigate the accounting methods employed by SMEs	The study discovered that many of the micro businesses apply manual techniques rather than computerized operations	The study never ascertained the effect of Record keeping skills on profitability and sales turnover.	Effects of record keeping skills on SMEs performance
Michael (2009)	To ascertain the impacts of saving expertise on the SMEs' financial performance	The study found out that the possession of qualified saving skills is important for any organization. That is principally due to the difficulties of sourcing finances from financial lending institutions	The study never ascertained the effect of saving skills on profitability and sales turnover.	Effects of saving skills on performance of SMEs.

Source: Researcher, 2023

2.5 Conceptual Framework

A conceptual framework is generally a depiction representing the relationship between study variables Gordon, et.al. (2015). Financial literacy comprises borrowing skills, record keeping skills, saving skills, and budgeting skills. These variables have been conceptualized as the independent variables as in the illustration below. The study sort to determine the effects of the changes in the independent variables (financial literacy) on dependent variable (financial performance). Financial performance in this study was broken into profitability and sales revenue.

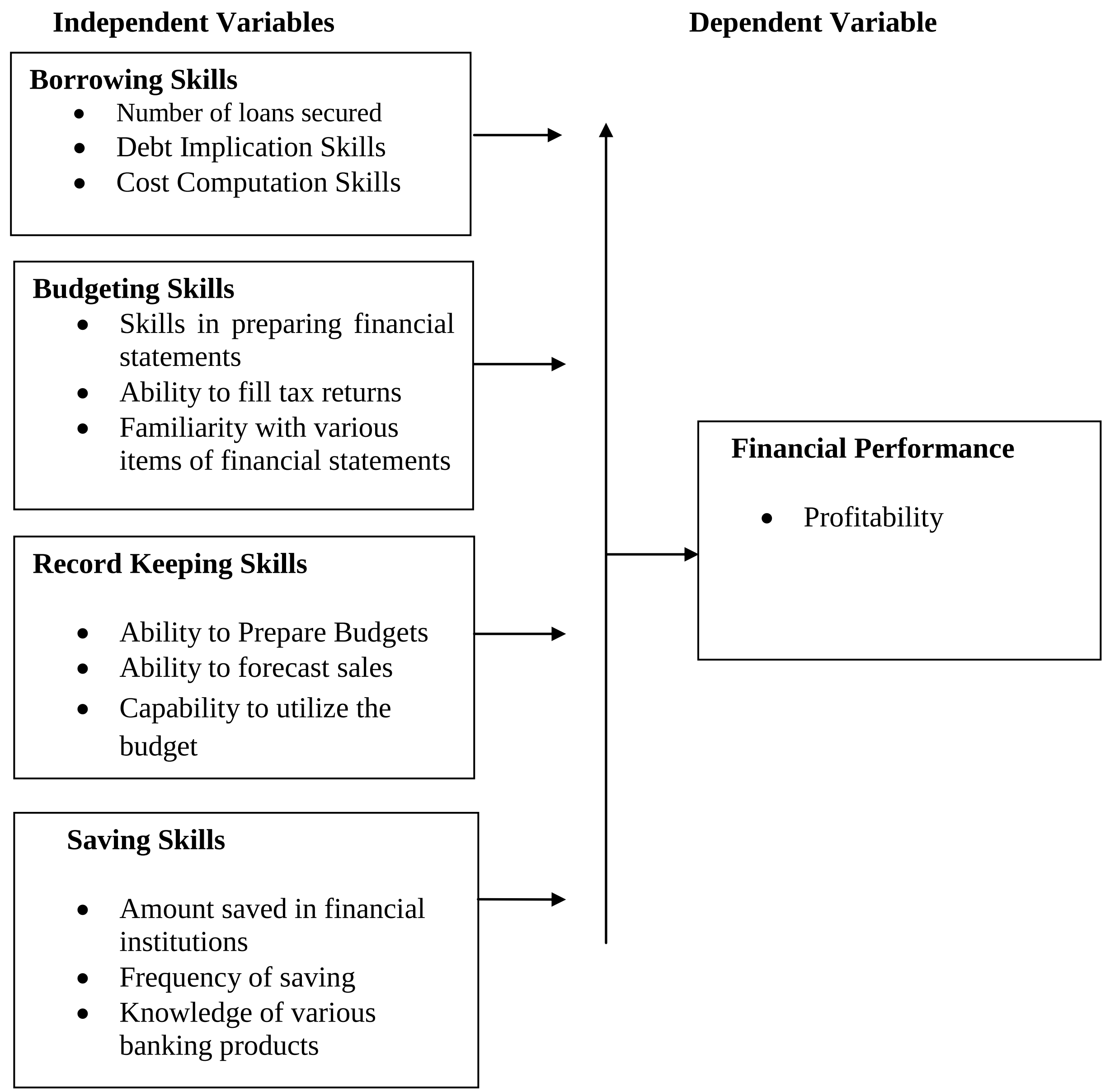

Figure 2.1: Conceptual Framework

Source: Researcher (2023)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter includes a detailed explanation of the research methodology applied in the study. It includes the design of the study, processes, as well as the analytical methods of data analysis employed in the field for the proposed research. In addition, the chapter also presents the ethical aspects.

3.2 Research Design

According to Orodho (2008), research design is a comprehensive plan for data collection and analysis. The researchers' beliefs and understanding of the world influence the research design. Cross-sectional study design is a type of observational study design. In a cross-sectional study, the investigator measures the outcome and the exposures in the study participants at the same time. The study utilized a cross sectional study design. This was justified by the fact that the scenario under research could not be manipulated as it entailed a pre-existent state of affairs. It painted a clear picture of how financial literacy among SMEs in Mathira and Nyeri Constituencies, Nyeri County, Kenya affected their financial performance.

3.3 Target Population

Oso et.al. (2005) defines target population as a broad set of units, individuals, elements, and/or objects who have mutual characteristics. Mugenda and Mugenda (2003) assert that a target populace typically possesses various notable features which the research aims at generalizing the findings of the research. Bryman (2006) holds that the target population studies are more representative due to the identical odds that each understudy has of being selected for the final sample. Kothari (2004) defines the study population as the sum of all the components from which conclusions are to be drawn. This study included a target population of 344 SMEs in Mathira and Nyeri town constituencies. The target audience were the SME proprietors or their Managers in the absence of the proprietors.

Table 3.1: Target Population

Constituency	SMEs
Nyeri Town	189
Mathira	155
Total	**344**

Source: Nyeri County Government Licensing Office (2020)

These comprised of SMEs in Service, Manufacturing, and Retain sectors. The target respondents entirely consisted of 344 SME proprietors or managers. This referred to SMEs registered with Nyeri County Government licensing office.

3.4 Sampling Design

The study assumed a stratified random sampling in selection of 52 SMEs that took part in this study. Purposive sampling was, however, adopted in selecting the sample size of 52 respondents, which was one manager or proprietor per SME. Mugenda and Mugenda (2003) underpinned that a 10 - 30 % proportion of the populace is an adequate representation. Therefore, the study sampled 15% of the total population, which was 52 proprietors or managers in the absence of the former as demonstrated in table 2.1 below. The target population was divided into strata based on heterogeneous SMEs.

Table 3.2: Sampling Frame

SMEs classifications	Target Population	Sample Percentage	Sample Size (of SMEs)	Sample size (for respondents)
Service	91	15%	14	14
Manufacturing	52	15%	8	8
Retail	201	15%	30	30
Total	344		52	52

Source: Nyeri County Government Licensing Office (2020)

3.5 Data Collection Instrument

This research depended on primary data and it was gathered using a semi structured questionnaire. The questionnaire was used to elicit responses from the respondents in regard to the effect of non-financial rewards. Mugenda (2003) notes that use of questionnaires leads to conservation of time; they are convenient and provide anonymity. The questionnaire in this research had semi structured questions to save on money and time and also enhance an easier analysis. The questionnaire was grouped into two parts, Part A asked about the background information and Part B asked about the objectives of the study. The questionnaire was structured / measured in a Likert scale of five points (Strongly agree =5, Agree=4, Undecided=3, Disagree=2, strongly disagree=1).

3.6 Data Collection Procedure

An introduction letter stating the purpose of data collection was obtained from Kenyatta University. The letter was used to apply for the NACOSTI permit. A copy of this letter of introduction was issued to the proprietors or managers in the unavailability of the proprietor of SMEs as an assurance of discretion and guaranteed that the study's sole objective is scholarly. The administration of questionnaires was undertaken through the "*drop and pick later"* technique. Cooper and Schindler (2006) held that the use of "*drop and* pick" method would result in a significantly high response rate. Specifically, these questionnaires were distributed to the individual participants who were given considerable time to fill in their responses. The use of the drop and pick technique in the administration of the questionnaire was justified for this particular study since the targeted respondents were mostly occupied with duties and obligations. Thus, it was somewhat disappointing to secure time with the respondents for them to complete the questionnaires in the presence of the researcher.

3.7 Validity and Reliability of the Research Instrument

3.7.1 Validity of Research Instrument

Validity is the level at which the data acquired from the analysis accurately represents the population under research. Content, construct, and predictive validity test was carried out in this research (Bryman *et.al.* 2015). Predictive validity denotes the degree in which a score on a test measures Chen, 2015). Thorough literature review helped to improve content validity and conduct widespread consultations on the subject. Primarily, the instruments validity of research involves the level in which the instrument gathers correct data which assists in the fulfilment of the research objectives.

3.7.2 Reliability of Research Instrument

Reliability Tests were conducted on the research instrument. Most importantly, issues about reliability revolve around their ability to generate steady results if a repeat test was to be undertaken. Kothari (2011) articulates that the entire concept underlying the reliability of study instruments is that a worthy result need to be beyond a one off occasion result and hence ought to appear inherently on repeat. The research examined internal consistency dependability of the study instrument. To satisfy this research applied the Cronbach's Alpha Reliability test. Gliem and Gliem (2003) affirmed that reliability factor that is > 0.70 is regarded as "acceptable" in research scenarios in social science. This particular study adopted that scale in explaining the reliability or unreliability of a study instrument.

3.8 Data Analysis and Presentation

According to Sounders *et al*. (2009), data analysis is the process of transforming acquired data into useful information. After gathering data using questionnaires, preparation for analysis was done by editing it, handling responses that are blank, coding, grouping, and posting it using the SPSS (Version 24). Following data collection, descriptive and inferential statistics were used to analyse, present and interpret quantitative data and a regression analysis model was used to assess the relationship between the variables that are independent and those that are dependent. For data description, bar graphs and pie charts were used for easier understanding and interpretation of findings.

Multiple regression method was used to determine the statistical relationship between variables. The independent variables were regressed against the dependent variable to determine the quantitative effect created on the dependent variable. The analysed data was presented in form of tables. Regression data analysis method was conducted at 95% confidence level ($\alpha = 0.05$). Specifically, the regression model was of the form:

$$\mathbf{Y = \partial + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where,

Y = Performance
α = Constant value
β_0 = Intercept
$\beta_1 - \beta_4$ = Regression Coefficient
X_1 = Borrowing Skills
X_2 = Record Keeping Skills
X_3 = Budgeting Skills
X_4 = Saving Skills
ε = Error Term

Operationalization and Measurements of Study Variables

Table 3.3: Operationalization and Measurements of Study Variables

Variable	**Type**	**Operationalization**	**Indicators**	**Variable measurement**	**Measurement scale**
Financial performance	Dependent	Refers to the level in which a business has accomplished set financial standards, the process used to determine outcome resulting from the firm's operations and policies in monetary terms.	Profitability	• Financial performance rating • Sales revenue • Annual sales turnover	Ratio/ Interval
Borrowing skills	Independent	Refers to the capability of a person or a business entity to make informed borrowing decisions, and proper utilization	• Number of loans secured • Debt Implication Skills • Cost Computati	• Total number of loans, debt and cost implications	Ordinal

		of the same	on Skills		
Budgeting skills	Independent	Relates to the ability of an individual to adopt a prudent strategy regarding managing their money or their business money.	• Skills in preparing financial statements • Ability to fill tax returns • Familiarity with various items of financial statements	• Financial knowledge	Ordinal
Record keeping skills	Independent	Record keeping includes recording all financial transactions and preserving them in a secure manner.	• Ability to Prepare Budgets • Ability to forecast sales • Capability to utilize the budget	• Book keeping knowledge	Ordinal
Saving skills	Independent	Refers to the process of being able to identify the proportion of deferred consumption or income not spent, which include putting money separately.	• Amount saved in financial institutions • Frequency of saving • Knowledge of various banking products	• Saving knowledge and frequency of saving	Ordinal

Source: Researcher (2023)

3.9 Ethical Considerations

Kothari (2011) in his study held that ethics involves the process followed to ascertain that the research is undertaken in a way that upholds the rights and privacy or confidentiality of other parties. In this study, the researcher obtained study permits from appropriate authorities, which included Kenyatta University, the NACOSTI, and the Ministry of Education, which ensured that the information given by responders was kept private. Also, and very important, the research cited secondary resource materials for secondary information obtained online, to acknowledge knowledge that has been developed by external parties.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSION

4.1 Introduction

In this chapter, the findings, interpretations and discussion according to the research objectives were presented. It included the response rate, background information as well as results of the four independent variables and the dependent variable. Hypothesis testing was also conducted in this chapter. Study Results were displayed in the form of bar graphs, tables, and pie charts.

4.2 Response Rate

Of the target population of 52 respondents, 37 filled and resubmitted the questionnaires making the response rate at 71%. Mugenda and Mugenda (2012) hold that a response rate of 50% is adequate, 60% as good, and over 70% as excellent. The response rate is deemed sufficient in this regard to make conclusions about the study population.

4.3 Background information

4.3.1 Age of Owner/Manager

For the purpose of obtaining opinion on a wider perspective, the study purposed to collect data from various age groups. Therefore, the responders were asked to specify their age range and the results were as in figure 4.1 below.

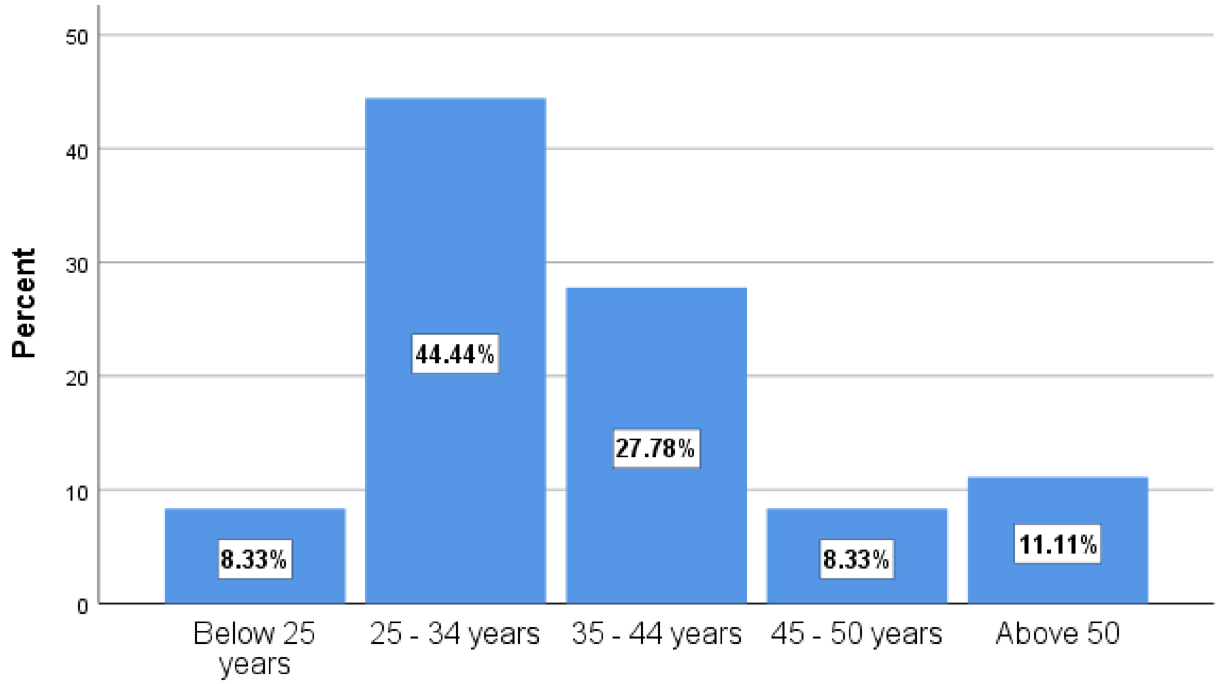

Figure 4.1: Age of owner

From the analysis in figure 4.1, most of the responders at 44.44% were between the age of 25 – 34 years, 27.78% were between 35- 44 years, 11.11% above 50 years, and 8.33% were below 25% and 45 – 50%. Most the analysis also shows that most of the SMEs in Nyeri Town and Mathira constituencies were between the age of 25 and 34 years. The results show that there is a likelihood that most SMEs grows to the next stage as they age.

4.3.2 Gender of Owner

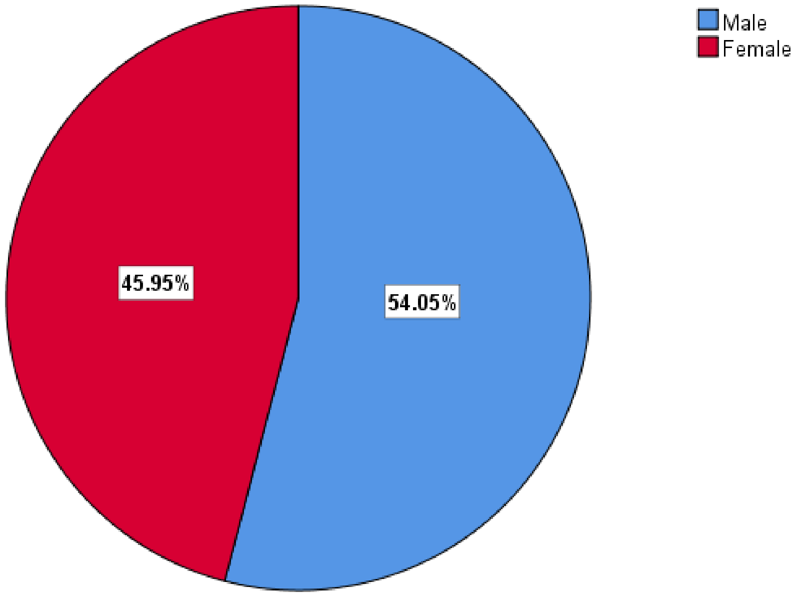

Figure 4.2: Gender of Owner

From the research findings, most of the responders were male at 54.05% while female was 45.95%. The results indicate that most SMEs in Mathira and Nyeri town constituencies were male.

4.3.3 Educational Level of the Owner

The study sort to establish the educational level of the owners. These would help to determine the ability of the respondents to respond to the study questions. As a result, respondents were asked to specify their level of education.

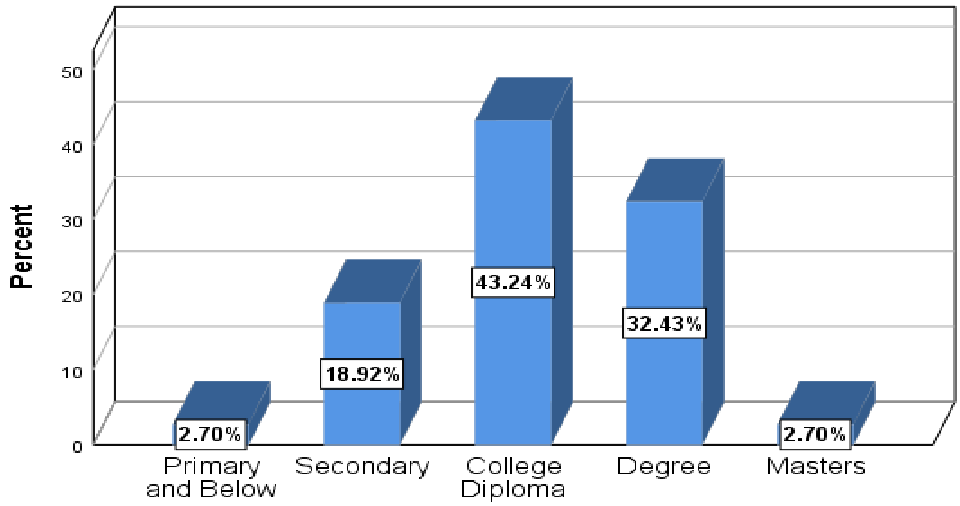

Figure 4.3: Level of Education of the Owner

The research findings indicated that most of the responders at 43.24% education level was college diploma. 32.43% degree, 18.92% secondary level, with masters and presecondary both having 2.70%. The data shows that most of the SMEs owners had post-secondary education at a total of 78.37%, which meant that the respondent successfully comprehended and responded to the questionnaire's questions.

4.3.4 Age of Business

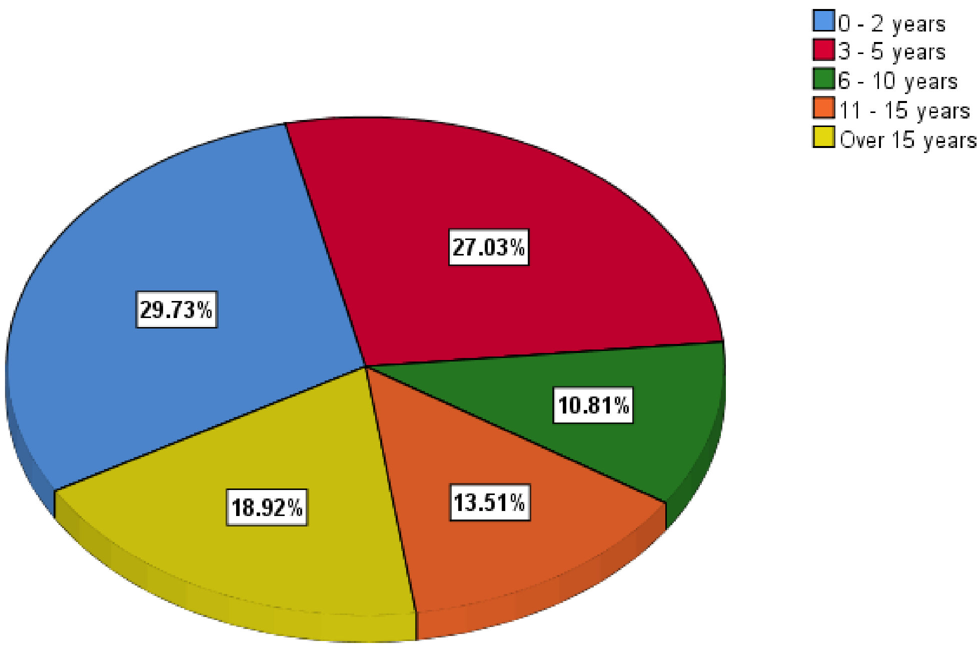

Figure 4.4: Age of Business

From the research data, most of the SMEs that were identified were below 2 years at 29.73%. 3-5 years amounted to 27.03% while SMES over 15 years of age were 18.92%. 11-15 years at 13.51%, and 10.81% for SMEs 6 – 10 years. These implies that most SMEs in Mathira and Nyeri town constituencies have been in operations between 0 – 5 years.

4.3.5 Type of business

The study sort to ascertain the kind of business the respondents were running. In this view, the responders had to select their industry from one of three categories. That is manufacturing, Retail and service.

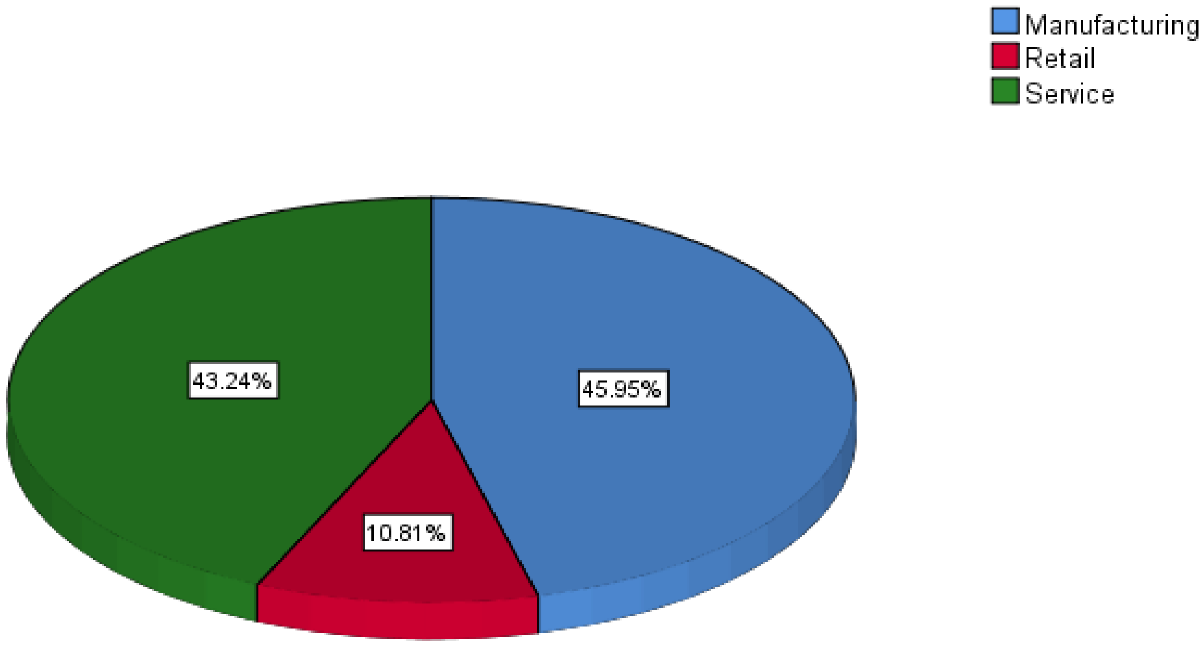

Figure 4.5: Type of business

Results of the study inferred that the highest number of SMEs were in the manufacturing business with 45.95%. Those in the service formed 43.24% with retail forming 10.81%.

4.3.6 Business Financing

The study sort to establish how SMEs are financed. The study results were as indicated in figure 4.6 below.

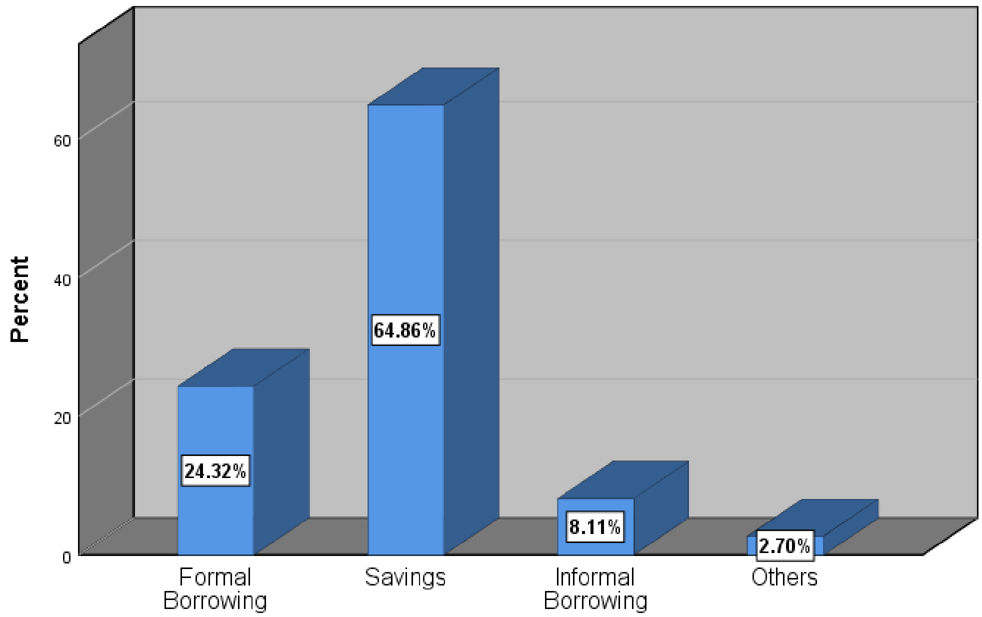

Figure 4.6: Business financing

The results indicate that 64.86% of the SMEs in Mathira and Nyeri town constituencies are financed through owners' savings. 24.32% are finance through formal borrowing such as borrowing from credit institutions example banks, and SACCOs. 8.11% are financed through informal borrowing such as borrowing from unregistered lenders and friends. The result of the study indicates that most of the SMEs in Mathira and Nyeri town constituencies are financed through formal borrowing.

4.3.7 Business Legal Information

The study sort to establish SMEs legal information. In view of this, the responders were asked to specify the type of business they run. The study results were as exhibited in figure 4.7 below.

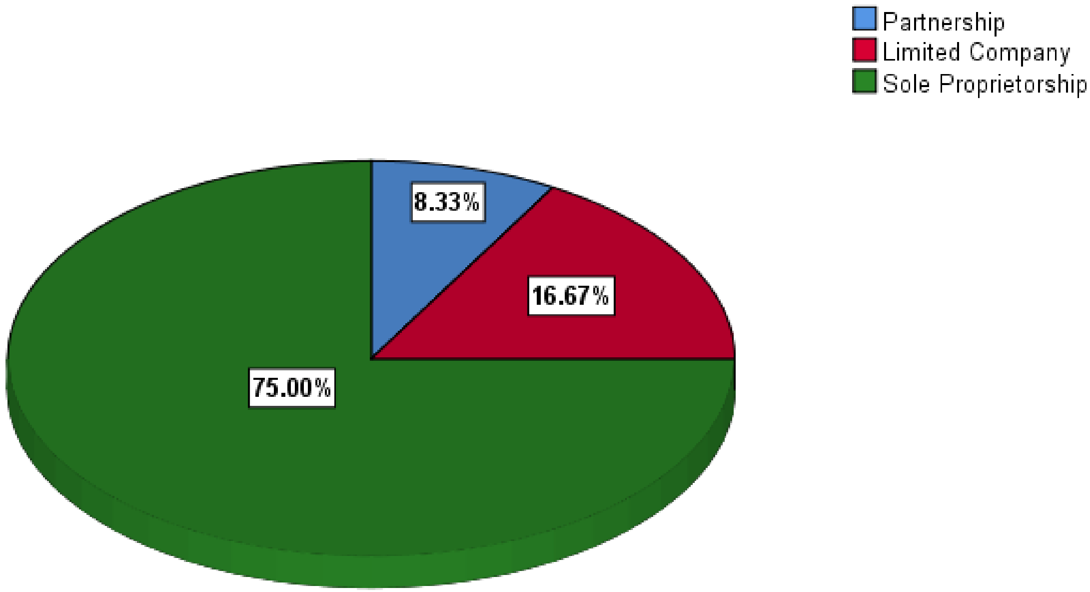

Figure 4.7: Business Legal Information

75% of the responders indicated that their SMEs were Sole proprietorship. This means that they owned the owned their own business and they carry the legal burden of their business. 16.67% indicated that their SMEs were Limited Companies, meaning that their business was a separate legal entity from them. 8.33% indicated that they operated a partnership with close relatives or friends. The results of the study therefore show that most SMEs in Mathira and Nyeri town constituencies, Nyeri County were a sole proprietor. This explains the need of financial training for SMEs owners to make them understand the different types of businesses and the benefits of each for them.

4.4 Borrowing Skills

4.4.1 Knowledge of Financial Training Organization

The study sort to ascertain if SMEs were aware of the financial training organization. Results are as exhibited in figure 4.8 below.

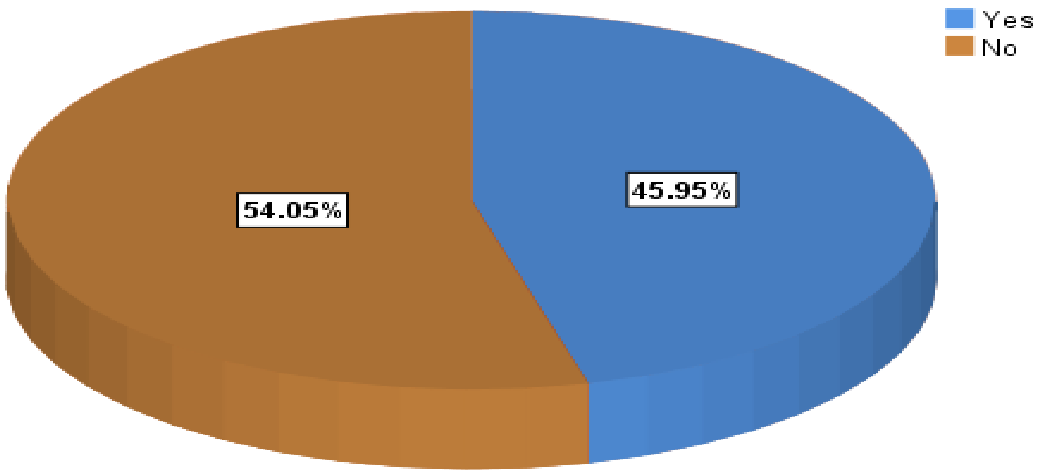

Figure 4.8: Knowledge of Financial Training Organization

From the research findings 54% of the responders indicated no knowledge of any financial training institution. 45.95% were aware of financial training institutions. The results of the study show that a large percentage of SMEs were not likely to obtain financial training.

4.4.2 Businesses with Credit Facility

The study sort to establish SMEs with a credit facility. Results of the findings were as indicated in figure 4.9 below.

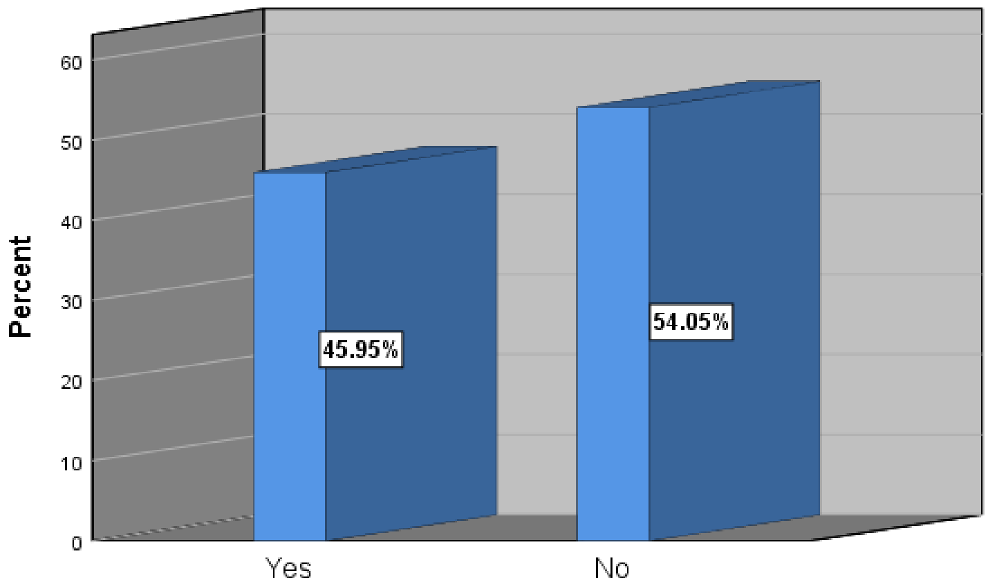

Figure 4.9: Businesses with Credit Facility

The study results indicated that 45.95% of the respondents had a credit facility while 54.05% had no credit facility. This shows that most SMEs in Mathira and Nyeri town constituencies did not borrow for their businesses.

4.4.3 Borrowing Practices

Table 4.1: Borrowing Practices

Assertions	1	2	3	4	5	Mean	SDV
My business repays its loan on time	43.8%	50.0%	6.3%	0.0%	0.0%	1.63	0.61
my company evaluates the terms and circumstances offered by various financiers prior to obtaining a loan,	54.8%	32.3%	9.7%	0.0%	3.2%	1.65	0.92
My business use more than 50% of revenue generated on loan repayment	12.9%	19.4%	6.5%	29.0%	32.3%	3.48	1.46
My business is aware of the impact of inflation and interest rate on the acquired loan	37.5%	40.6%	6.3%	0.0%	15.6%	2.16	1.37
My company can determine the current state of my business's debt.	46.7%	33.3%	10.0%	6.7%	3.3%	1.87	1.07

Source: Research Data (2023)

The results of the research showed that most of SMEs in Mathira and Nyeri town constituencies repay their loan on time with a mean score of 1.63. This demonstrates that the majority of responders knew about the consequences of non-repayment of their loans. The research also established that most SMEs do a comparison of different financiers terms of loan acquisition to establish the friendliest. In the question of loan repayment from the revenue generated, most SMEs held that they do not use over 50% of revenue generated to repay their loans. The study's findings also demonstrated that the majority of SMEs are aware of how inflation and interest rates affect the loans they have taken out. Additionally, the study determined that that most SMEs with a mean of 1.87 were able to establish their debt position as at a given date. The results of the study therefore indicate that most of the SME owners in Mathira and Nyeri town constituencies have fairly good borrowing skills, which have a positive effect on their performance.

4.5 Budgeting Skills

4.5.1 Knowledge of Business Expenditure

The study sort to establish SMEs Knowledge of expenditure. In view of this, in light of this the respondents were asked if they were aware of their expenses. The study results were as indicated in figure 4.7 below.

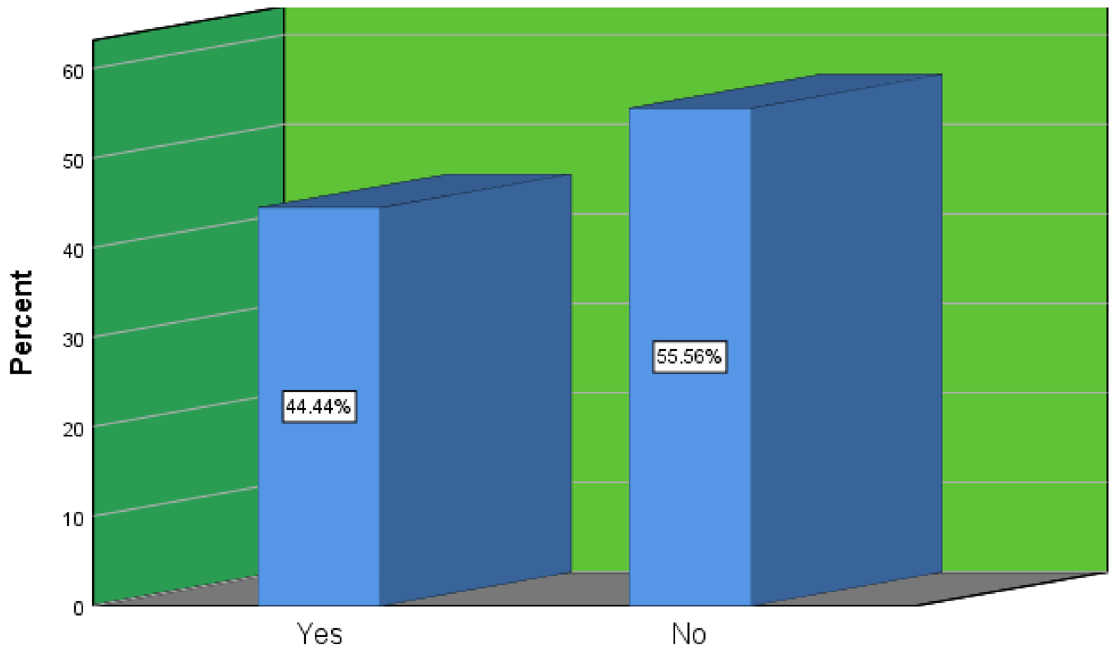

Figure 4.10: Knowledge of Business Expenditure

The result of the study indicated that 55.66% of business owners were not aware of their business expenditure. This indicates that such SMEs did not have records of their expenditure and their expenditure was spontaneous.

4.5.2 Knowledge of Business Total Fixed Cost Per Annum

The study sort to establish SMEs Knowledge of their total fixed cost per Annum. In view of this, the respondents were required to indicate if they were aware of their total fixed cost per annum. The study results were as indicated in figure 4.7 below.

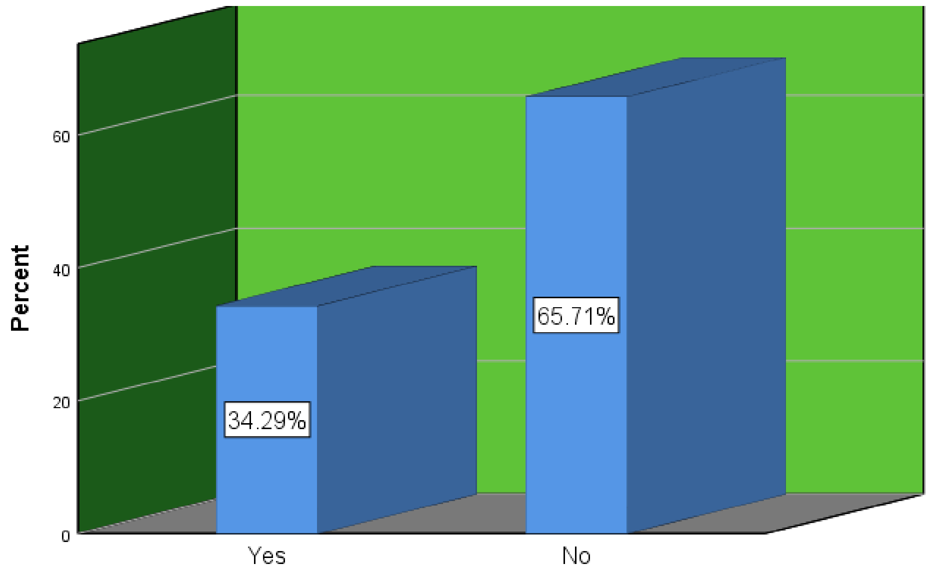

Figure 4.11: Knowledge of Business Total Fixed Cost Per Annum

The study's results demonstrate that only 34.29% of SMEs were aware of their business fixed cost. Most of the respondents indicated they had no knowledge which indicates that they have little knowledge in regard to computation of fixed costs.

4.5.3 Budget Planning

The study sort to establish on SMEs that plan their budget based of previous years' comparison. The results of the study indicated that 62.86% of SMEs use their previous years' performance in planning their budgets, while 37.14% indicated that they do not plan based on previous year performance.

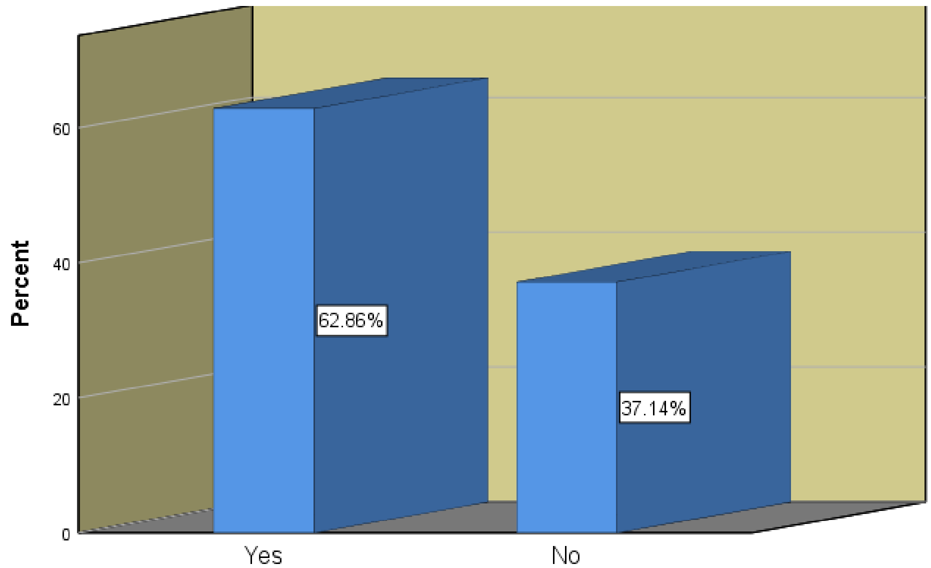

Figure 4.12: Knowledge of Business Total Fixed Cost Per Annum

The study's findings therefore suggest that most respondents despite having no technical knowledge on the budget making process understood the importance of budgeting.

Table 4.2: Descriptive Analysis on Budgeting Skills

Statement	Always	Often	Sometime	Rarely	Never	Mean	SDV
I write down my annual expectations	2.4%	6.4%	11.8%	79.4%	0.0%	4.82	1.56
I make budges for my business every year	17.6%	14.7%	14.7%	17.6%	35.3%	3.38	1.54
I analyze the business actual performance against the budget	48.6%	11.4%	11.4%	8.6%	20.0%	2.40	1.63
I set employees target based on the budget	38.2%	11.8%	17.6%	5.9%	26.5%	2.71	1.66
I track spending using the budget	38.2%	8.8%	20.6%	11.8%	20.6%	2.68	1.59

Source: Research Data (2023)

The study's findings showed that 79.4% of the respondents do not write down their annual expectation, while 8.8% write down their annual expectations. In addition, the study sort to establish if SMEs prepare their annual budget. The study results indicated that 32.6% of the respondents prepare their annual budgets. 52.9% indicated they never prepare annual budgets, while 14.7% were not aware of the budgeting process. The results of the study also indicated that of those that budget, 60% analyse their performance against the budget, while 40% do not. 50% of the respondents indicated that they set their employee targets based on the budget, while 50% do not. 45% of the respondents indicated that they track their spending using the budget, while 23.28% do not. The average mean of 3.20 suggesting that majority of the study responders had average knowledge on budgeting.

4.6 Record-Keeping Skills

4.6.1 Record of Day to Day Transactions

The study sort to establish SMEs that maintain records of their day to day financial transactions. The study results are as displayed in figure 4.2 below.

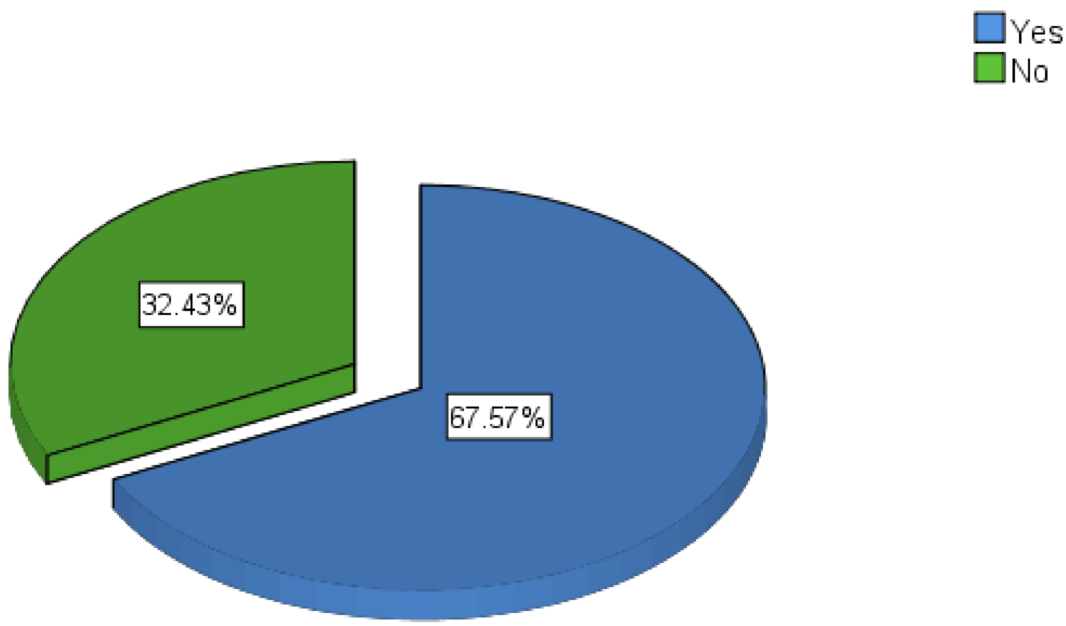

Figure 4.13: Record of Day to Day Transactions

The study results indicated that 67.57% of SMEs maintain a record of their day-to-day transactions. 32.43% indicated that they do not maintain a record of their day-to-day financial transactions. The results demonstrate that the majority of responders were aware of the effects of record keeping to performance of their SME.

4.6.2 Preparation of Balance Sheets

The study sort to establish the businesses that prepare a balance sheet at the year's end.. The study results are as indicated below.

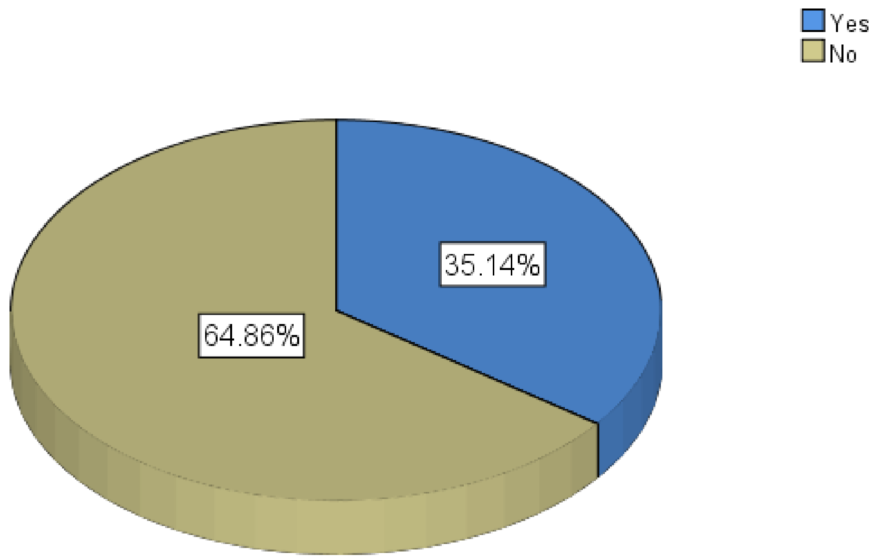

Figure 4.14: Preparation of Balance Sheets

The study's findings showed that 64.86% of the responders do not prepare a balance sheet at the end of the year. 35.14% indicated they prepare a balance sheet at the end of the year. The findings of this study indicate that most of the respondents were unaware of the significance of maintaining a balance sheet.

Table 4.3: Descriptive Analysis of Record Keeping Skills

Statement	Excellent	Good	Satisfactory	Unsatisfactory	No Knowledge	Mean	SDV
Ability to prepare business financial statement (Balance sheet and Income statement)	25.7%	17.1%	20.0%	11.4%	25.7%	2.94	1.55
Ability to analyze financial statements (such as calculating current ratio, profit margin, debt ratio etc.)	28.6%	20.0%	17.1%	11.4%	22.9%	2.8	1.55
Ability to prepare cashbook and do bank reconciliation	22.2%	25.0%	22.2%	11.1%	19.4%	2.81	1.43
Ability to file tax return	27.8%	16.7%	16.7%	16.7%	22.2%	2.89	1.55
Ability to balance ledger accounts accurately	22.9%	17.1%	22.9%	11.4%	25.7%	3	1.51

Source: Research Data (2023)

The study's findings showed that most respondents had mediocre knowledge on how to prepare financial statements (Balance sheet and the income statement) with a mean of 2.94. Majority of the respondents with a mean of 2.80 indicated that their ability to analyze financial statements was satisfactory. A majority of respondents with a mean of 2.81, 2.89, and 3.0 respectively indicated they had average ability to prepare their cashbook, do bank reconciliation, file tax return and balance ledger accounts accurately. The results of this study therefore inferred that majority of the responders had a fairly satisfactory knowledge in budgeting.

4.7 Savings Skills

4.7.1 Computation of Annual Income

The study sort to ascertain the SMEs that compute return from their business. the study results were as indicated in figure below.

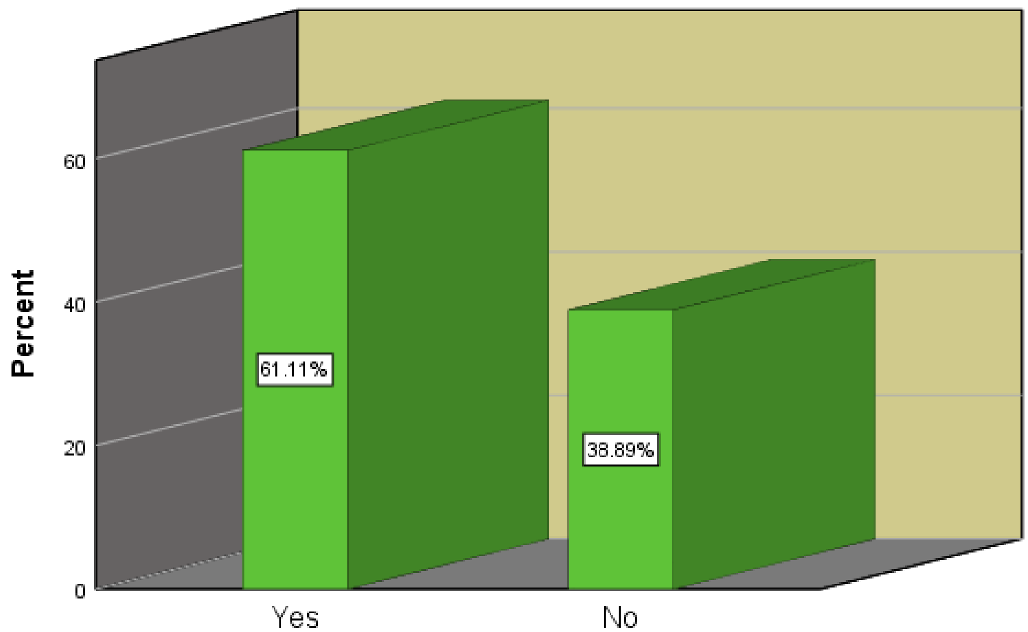

Figure 4.15: Computation of Annual Income

Results of the study indicate that 61.11% of the responders computed return from their business. 38.89% indicated they never compute income from their businesses.

4.7.2 Reasons for Not Computing Annual Income

The study sort to establish the reason as to why respondents do not compute returns from their business. The study results are as displayed in figure below.

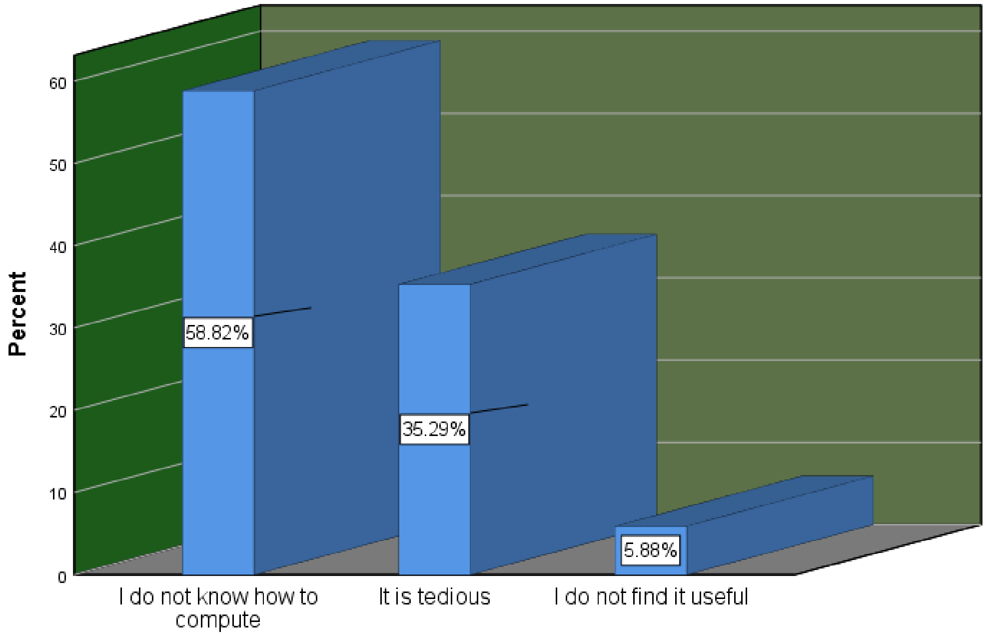

Figure 4.16: Reasons for Not Computing Annual Income

From the study results, 58.82% indicated they do not know how to compute, 35.29% indicated they process is tedious while 5.88% indicated they do not find it important.

4.7.3 Retirement Saving

The study sort to establish if owners of SMEs save for retirement. The study results were as indicated in figure below.

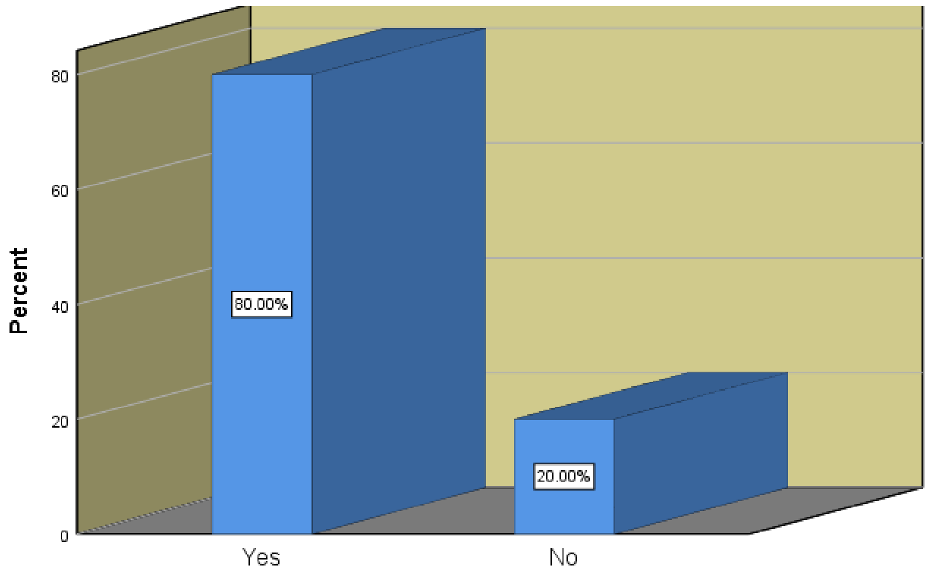

Figure 4.17: Retirement Saving

The study's findings showed that 80% of responders save for retirement while 20% never save for retirement. This indicate that most respondents are well aware of the need to save for retirement.

Table 4.4: Descriptive Analysis of Saving Skills

Statement	Highly Agree	Agree	Not sure	Disagree	Highly Disagree	Mean	SDV
I save the remaining funds after all business expenditures have been paid,	41.2%	41.2%	5.9%	8.8%	2.9%	1.91	1.06
I spend the remaining funds after all business expenditures have been paid	5.9%	29.4%	14.7%	32.4%	17.6%	3.27	1.24
I reinvest the remaining funds when the business has paid all of its expenses,	38.2%	35.3%	26.5%	0.0%	0.0%	1.24	0.81

The study's findings showed that the majority of responders, with a mean of 1.19 save money left after the business have paid all expenses. Most respondents with a 3.27 mean indicated that they do not spend the money left, but rather reinvest the money, with a mean of 0.81 indicating that most respondents highly agreed.

4.7.4 Cash Deposits in Banks

The study sort to establish if SMS deposit money with their banks. The study results were as indicated in figure below.

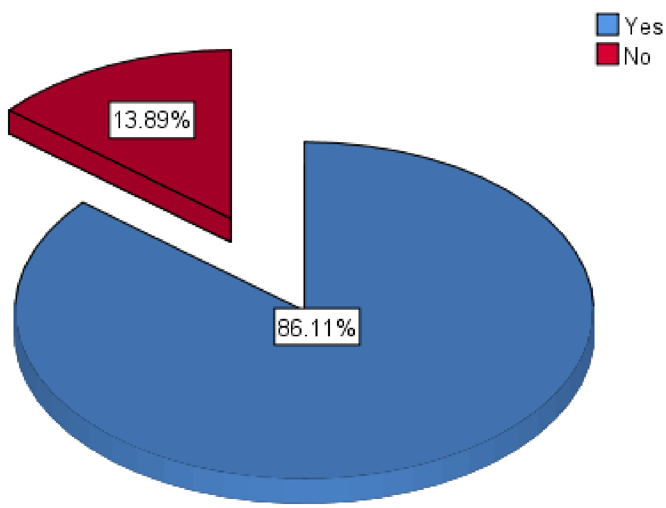

Figure 4.18: Cash Deposits in Banks

The study's findings showed that 86.11% of the responders do deposit money with their banks. 13.89% indicated the contrary.

4.7.5 Receipt of Bank statements

The research aimed to determine how frequently respondents received bank statements. The result of the study is as indicated in figure below.

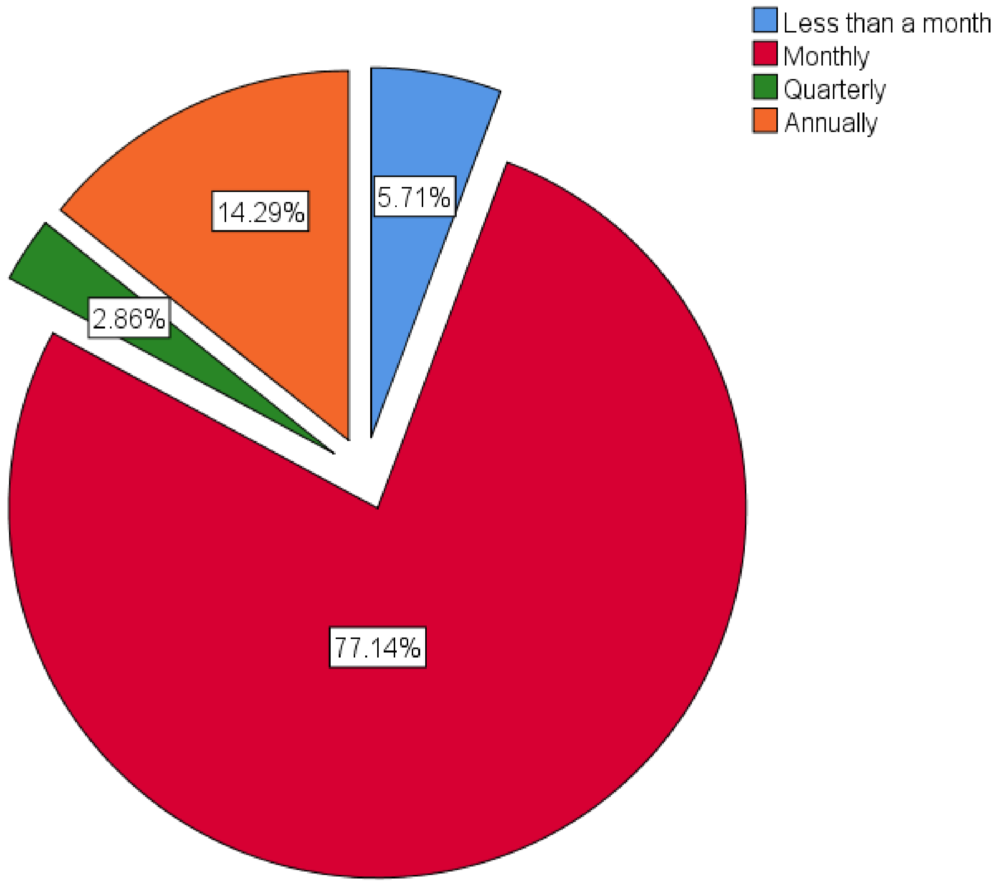

Figure 4.19: Receipt of Bank Statements

Majority of the respondents at 75.14% indicated they received their bank statements on a monthly basis. 14.29% on an annual basis, 5.71% less than a month, and 2.86% quarterly. This demonstrates that the majority of respondrts reconcile their banks once a month.

4.7.6 Frequency of Bank Reconciliations

The study aimed to determine how frequently the respondent performed bank reconciliations. The study results were as displayed in figure below.

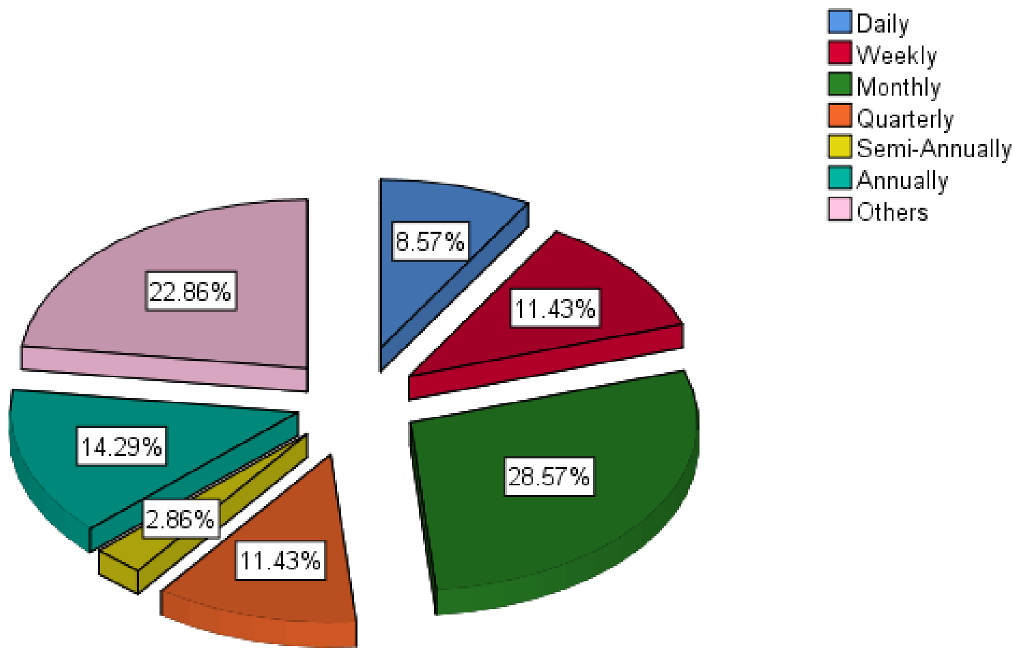

Figure 4.20: Frequency of Bank Reconciliations

Majority of the respondents at 28.57% indicated they carry out their reconciliation on a monthly basis. 22.86% indicated they either never carried out or never knew how to do it. 14.29% carried out bank reconciliation annually, 11.43% quarterly, 11.43% weekly, 8.57% and 2.86% daily and semi-annually respectively.

4.8 Financial performance

4.8.1 Performance Rating

The study sort to ascertain the performance of SMEs in the last 5 years. As such, the responders were asked to provide feedback on whether performance improved, was fair, or poor. The study results were as indicated in figure below.

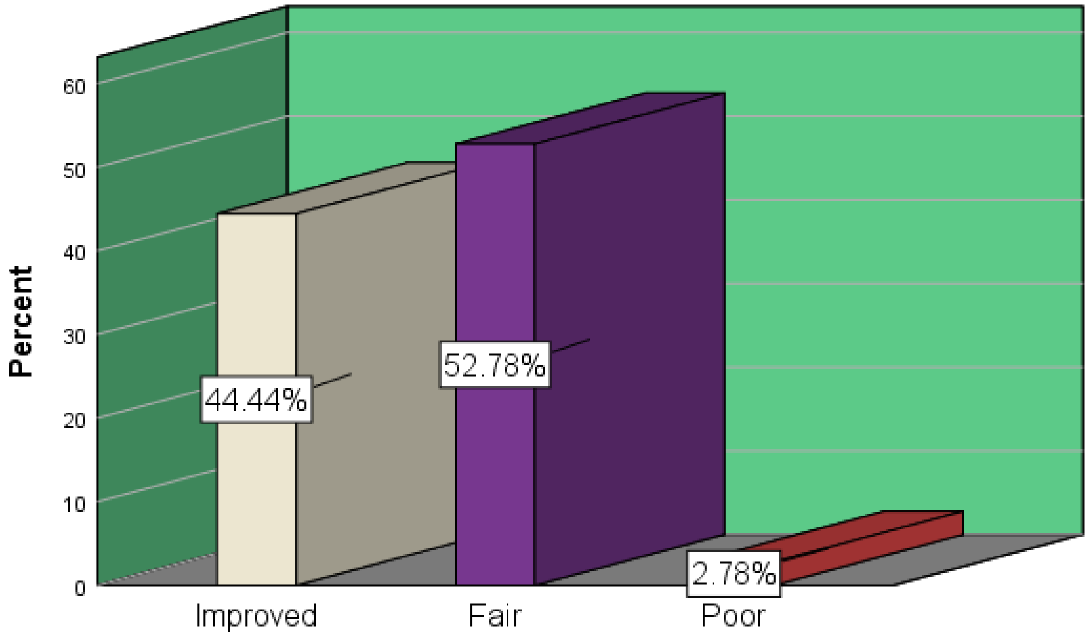

Figure 4.21: Performance Rating

Majority of the respondents at 52.78% indicated that their business performance was fair, 44.44% indicated that their business performance had improved for the last 5 years, while 2.78% indicated that the performance of their businesses was poor.

4.8.2 Sales Revenue

The study sort to establish if SMEs sales had changed in the last 5 years. The results of the study are as exhibited in figure below.

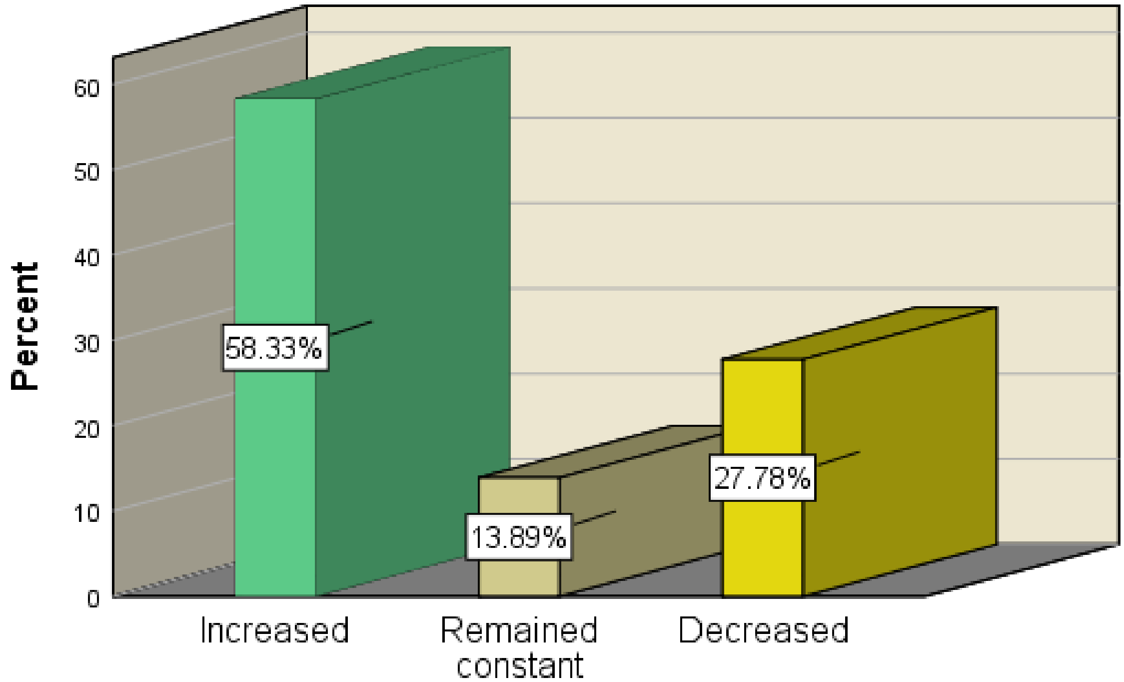

Figure 4.22: Sales Revenue

Majority of the respondent at 58.33% indicated their sales revenue had gone up, 17.78% indicated their sales revenue had gone down, while 13.89% indicated that the sales revenue remained constant.

4.8.3 Annual Sales turnover

The study sort to determine the sales turnover of respondents on average. The study results were as indicated in figure below.

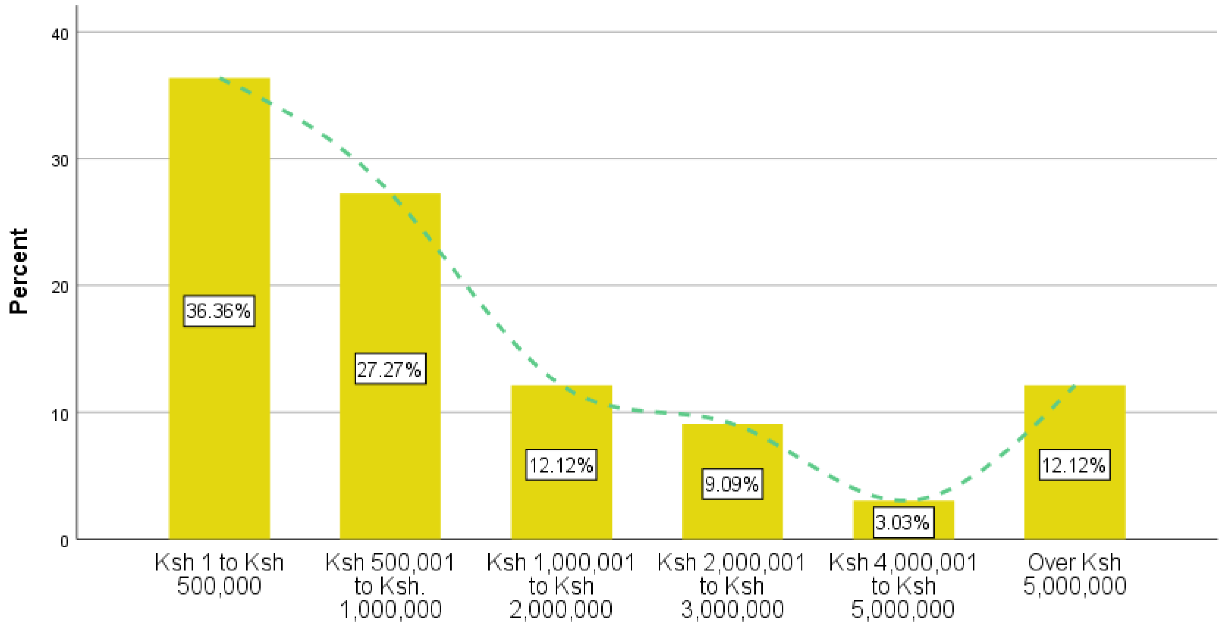

Figure 4.23: Average Annual Sales Turnover

The result of the study indicates that majority of SMEs at 36.36% had an average turnover of Ksh I to 500,000.00. 27.27% between 500,001.00 to 1,000,000.00, 12.12% between 1,000,0000.00 and 2,000,000.00, 9.09% between 2,000,001.00 and 3,000,000.00, 3.03% between 4,000,001.00 and 5,000,000.00, and 12.12 over Ksh 5,000,000.00. The study indicated that the average annual sales turnover of majority of SMEs under study were between the range of Ksh 1 and 1,000,000.00.

4.9 Multiple Regression Analysis

To ascertain the effects of financial literacy on performance of SMEs within Nyeri county, Kenya, a multiple regression analysis was conducted to determine the relationship between the independent and dependent variables. The regression analysis was done though SPSS and the study results were as exhibited in the tables below. Table 4.5 illustrates the model summary, which indicates the strength between the model and the dependent variable.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.885[a]	.784	.754	.214

Source: Research Data (2023)

The R value of 0.885, shows that there is a significant positive connection amongst the variables. The value for adjusted R squared is 0.754 which indicates that the variations of the study independent variables, that is, borrowing skills, budgeting skills, record keeping skills and saving skills have a 75.4 % effect on the performance of SMEs. The value indicates that a 75.4% variation in SMEs performance can be explained by borrowing skills, budgeting skills, record keeping skills, and Saving skills. Table 4.6 shows the ANOVA results. In regression, ANOVA tables are used to determine whether or not there is a significant difference between the predictor variable and the response variable.

Table 4.6: ANOVA Output

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.795	4	1.199	26.283	.000b
	Residual	1.323	29	.046		
	Total	6.118	33			

a Dependent Variable: Financial performance
b Predictors: (Constant), Borrowing skills, Budgeting skills, Record keeping skills, Saving skills

Source: Research Data (2023)

From the data analysis in ANOVA statistics in table 4.6, the confidence level is less than 0.05, where p<0.0005, which confirms that the model applied overall was statistically significant to predict the outcome of the variables. This affirms that performance of SMEs is affected by borrowing skills, record keeping skills, budgeting skills, and saving skills. Table 4.7 shows the coefficients

Table 4.7: Coefficients

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.001	.130		-.008	.994
	Borrowing	.227	.046	.620	4.946	.000
	Budgeting	.249	.084	.405	2.969	.006
	Records	.164	.047	.355	3.489	.002
	Savings	.165	.133	.193	1.237	.226

a Dependent Variable: Financial performance
Source: Research Data (2023)

The four research hypotheses that served as the study's compass were;

H_{01} stated that financial borrowing skills have an insignificant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

Results in table 4.7 demonstrate that financial borrowing skills was significant ($\beta = 0.620$, $p = 0.000 < 0.05$). The first hypothesis was thus rejected and the study finds that financial borrowing skills have a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. This finding congruent with those of Prakash and Poudel (2002) who suggested that financial literacy in the management of credit risk is the most effective form of financial literacy for financial institutions. It also agrees with Omara (2010) found out that financial literacy in the management of credit was a significant factor in the facilitation of loan repayment.

H_{02} posited that budgeting skills have an insignificant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

Results of regression analysis showed that budgeting skills were significant ($\beta = 0.405$, $p = 0.006 < 0.05$). Hypothesis number 2 was therefore rejected and the study finds that budgeting skills have a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. This finding is similar to Chidi and Shadare (2011) who established that budgeting skills of managers are influential in the process of budgeting. The findings are also congruent with those of studies by Joshi (2013), Wijewardena and DeZoysa (2011) and Warue and Wanjira (2013) in Bahrain Australia and Japan and Kenya respectively who also found that budgeting skills influenced performance of small business.

H_{03} stated that record keeping skills have an insignificant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

Record keeping skills were significant ($\beta = 0.355$, $p = 0.002 < 0.05$). The third hypothesis is thus rejected and the study hereby finds that record keeping skills have a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. This result is in support of findings of studies by Maseko and Manyani (2011), Fatoki (2014) and Agvei (2011) where record keeping skills were also found to significantly influence performance, Similarly, Ezejiofor, (2014) study established out that SMEs, which maintained appropriate accounting records, were capable of making precise measurements of their performance. In addition, Succah (2013) found record keeping is an essential skill for managers of businesses since it avails key information for making decisions in agreement with the findings of this study.

H_{04} stated that saving skills have an insignificant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya.

Results in table 4.7 show that saving skills was not significant ($\beta = 0.193$, $p = 0.226 < 0.05$). H_{04} was therefore supported and the study finds that saving skills have an insignificant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. This result differs with findings of Michael (2009) who found out that the possession of qualified saving skills is important for any organization. It also differs to results of studies by Rogg (2010) Schrooten and Atephan (2003) and Sameroynina (2005) Wachira and Kahiu (2012) where saving skills were found to significantly influence performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter contains the summary, conclusion and recommendations. The summary of findings presents the most important results of the study per objective. The conclusion section of the chapter gives a brief summary of the main points of the project and its findings. In the recommendations of the study, the researcher makes specific recommendations for interventions or methods to address the problems and shortcomings noted in the study.

5.2 Summary

The study's purpose was to ascertain the effect of financial literacy on financial performance of SMEs in Mathira and Nyeri town Constituencies, Nyeri County, Kenya. The objectives of the study were to ascertain the effect of financial borrowing skills on financial performance of SMEs, to determine the effect of budgeting skills on financial performance of SMEs, to determine the effect of record keeping skills on financial performance of SMEs and to determine the effect of saving skills on financial performance of SMEs. a sample size of 52 respondents provided information.

5.2.1 Borrowing Skills

The study results suggested that majority of the responders had no credit facility. This shows that most SMEs in Mathira and Nyeri town constituencies did not borrow for their businesses. The research findings also demonstrated that most of the SMEs in Mathira and Nyeri town constituencies repay their loan on time with a mean score of 1.63. This indicated that most responders agreed to the fact that they are aware of the consequences of non-repayment of their loans. The study's findings also showed that the majority of responders were aware of the impact of inflation and interest rates on their acquired loans. Additionally, the study determined that most were able to establish their debt position as at a given date. The results of the study therefore indicate that most of the SME owners in Mathira and Nyeri town constituencies have fairly good borrowing skills, which have a favourable impact on their performance.

5.2.2 Budgeting Skills

The study established that a majority of SMEs use their previous years' performance in planning their budgets. The study results also indicated that most respondents do not write down their annual expectation while only a minority of these plan their annual budget. Additionally, a small percentage indicated that they are not aware of the budgeting process. The study's findings also demonstrated that of those that budget, a majority analyse their performance against the budget. However, half of those that analyse their performance set their employee targets based on the budget. The majority of respondents claimed they don't use a budget to track their expenditures.

5.2.3 Record Keeping Skills

The study results indicated that majority SMEs maintained a record of their day-to-day transactions and were aware of the effects of record keeping to performance of their SME. The results showed that majority of responders had average knowledge on how to prepare financial statements (Balance sheet and the income statement). Majority of the responders indicated that their aptitude to analyse financial statements was satisfactory. Additionally, a majority of respondents indicated they had an average ability to prepare their cashbook, do bank reconciliation, file tax return and balance ledger accounts accurately. The results of this study consequently indicate that majority of the responders had a fairly satisfactory knowledge in budgeting, which had an effect on the performance of their businesses over the past 5 years.

5.2.4 Saving Skills

The study found that most responders save for their retirement. This indicated that most respondents are well aware of the need to save. The study's findings also showed that the majority of responders save money after their companies have covered all of their expenses. A majority of the respondents as well indicated that they do not spend the money left but rather reinvest the money. Essentially, the study results indicated that most SMEs performance was positively influenced by SMEs saving skills. However, saving skills does not significantly affect the financial performance of SMEs in Mathira and Nyeri Constituencies.

5.3 Conclusions

Based on the study findings, it was evident that borrowing skills, budgeting skills and record keeping skills had a significant effect on financial performance of SMEs in Mathira and Nyeri town Constituencies, Nyeri County, Kenya.

The study concluded that borrowing skills had a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. In essence, those SMEs that have their owners or managers equipped with good borrowing skills perform better as compared to those that have limited borrowing skills. The borrowing skills help SMEs establish the most ideal and friendly credit facilities and have a proper repayment plan. Ideally, one of the most common hindrances for growth of SMEs is their inability to access credit facilities. Therefore a deliberate effort is paramount to train SMEs on how to manage their businesses effectively with a view to enhance growth of SMEs.

The study concluded that budgeting skills had a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. The study concluded that there is need to improve budgeting preparation skills as this would improve growth of SMEs as money will be allocated to specific areas which are determined in advance as this would facilitate controls as actual performance is compared to budgeted performance. In addition budgeting enhances coordination of various functions with ultimate goal of meeting the agreed performance levels. Moreover most of the SMEs do not prepare the business annual budget hence business transactions are undertaken based on the prevailing circumstances which leads to impulse expenditure. Therefore managers need to be trained on budgeting skills and the importance of adherence to the set budget.

The study concluded that record keeping skills had a significant effect on SMEs performance in Mathira and Nyeri town constituencies, Nyeri County, Kenya. Those SMEs owners or managers that have good record keeping skills pose good performance. They are able to track their day-to-day activities as well as keep a record of their customers, suppliers, government, creditors and other stakeholders, which is key in ascertaining profits. The growth of SMEs is highly dependent on the book keeping literacy level as higher level of literacy would enable SMEs to maintain proper records and books of accounts which could clearly show the performance of the business and consequently assist in decision making. The study also concluded that although some personnel operating SMEs have the general knowledge on accounting for the business transaction, such knowledge could not enable them to prepare financial statements independently. SMEs also need to be taken through the general concept of file the tax returns which may not necessarily require professionals.

The study concluded that saving skills does not significantly affect the financial performance of SMEs in Mathira and Nyeri town constituencies, Nyeri County, Kenya. Consequently, SMEs who have good saving skills and budgeting skills did not affect the performance of their businesses as they are able to plan, execute and account for all the activities, as well as do a forecast in respect to their business future. However, saving skills are relevant in enhancing profitability of the SMEs. This is because the skills help them to focus on making personal savings hence increase more capital for re-investing and business expansion, this in the long run brings in more profits.

5.4 Recommendations

The study recommends an extensive awareness to owners of SMEs regarding the significance of taking part in financial training programs provided by various stakeholders such as the national government, the County governments, Non-governmental organizations and financial institutions, and so on. Small business owners can be provided with education and training programs to improve their financial borrowing skills, such as courses on budgeting, financial management, and loan application.

SME owners can benefit from seeking advice from financial advisors or accountants who can provide guidance on budgeting and financial management. They also sought to look for educational resources, such as online courses, workshops, or books, that can help improve budgeting skills. In addition, there are many budgeting software available which can automate the budgeting process and make it easier to track expenses and monitor cash flow.

It is critical to encourage small firms to establish regular record-keeping practices. They should be prodded to create organized and standardized record-keeping processes and procedures. They can utilize accounting software to automate record keeping tasks such as invoicing, tracking expenses, and generating financial reports. This can save time and reduce the risk of errors. In addition, they ought to be encouraged to use their record keeping data to make informed business decisions.

The study also recommends that stakeholders providing financial literacy in Kenya should consider adding ICT as one of the critical components of the training as this opens more doors to source for raw materials at fair prices. Through technology, businesses can get greater access to markets. Further, it recommends that research work should be undertaken to look at how financial literacy influence SMEs entrepreneurs in other parts of the country for comparison purposes.

5.5 Contribution to Knowledge

This study that found a correlation between financial literacy and the performance of small businesses contributes to the finance literature by providing empirical evidence that supports the idea that financial literacy is an important factor in the success of small businesses. This study's findings suggest that improving financial literacy could be a cost-effective way for small businesses to improve their performance, providing further empirical evidence to support the transaction cost model. The specific findings of the study, such as the correlation between certain financial skills (borrowing, budgeting and record keeping) and small business performance, also provides valuable information for policymakers and practitioners in the field of small business finance. Additionally, it can be used as a benchmark for future research or as a starting point for more detailed studies on the topic.

5.6 Suggestions for Further Research

A further study could assess the correlation between financial literacy and performance of small businesses for different economic sectors. Further work would also need to be done to investigate whether differences exist in the effect of financial literacy on performance of small businesses across geographical regions. Further studies would also be carried out to determine if trends or patterns exist between financial literacy and performance of small businesses based on type, size or age of the business entity would be worthwhile.

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APPENDICES

Appendix I: Introduction Letter

DEAR RESPONDENT,

I am Student at Kenyatta University doing my MBA (finance option) and would wish to carry out a study on your firm on (FINANCIAL LITERACY AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN MATHIRA AND NYERI TOWN CONSTITUENCES, NYERI COUNTY KENYA). This survey's sole objective is to gather information for academic research. The information offered will be handled in the strictest of confidence.

Please do not provide your identity on this questionnaire. The owner or management of the Small and Medium Enterprise (SME) is the only person who should fill out the questionnaire.

Thanks you.

Anthony Gathee Kamau.

D53/NYI/PT/33533/2015

Appendix II: Questionnaire

DEAR RESPONDENT,

The information obtained will only be utilized for educational work. The given information will be handled with the highest secrecy.

Please do not write your identity or identification on the questionnaire. The questionnaire will only be completed by the owner of manager of the business.

PART A: BACKGROUND INFORMATION

1. your age category

Below 25 years	[ ]	25 - 34 years	[ ]
35 - 44 years	[ ]	45 - 50 years	[ ]
Above 50	[ ]		

2. your Gender

Male [ ] Female [ ]

3. your highest educational level.

Primary Education & Below	[ ]
Secondary	[ ]
College Diploma	[ ]
Degree	[ ]
Masters	[ ]
Doctorate	[ ]

4. Which year did you establish your business? …………………………………………

5. What business are you in?

Service [ ]

Manufacturing [ ]

Retail [ ]

6. How long have you been in business?

0 – 2 years [ ] 3 – 5 years [ ] 6 – 10 years [ ]

11 – 15 years [ ] Over 15 years [ ]

7. How is your business financed?

Formal Borrowing [ ]

Savings [ ]

Informal Borrowing [ ]

Others (specify) ……………………………………………………

8. Business legal information

Partnership [ ]

Limited Company [ ]

Sole proprietorship [ ]

PART B: BORROWING SKILLS

1. Do you know of any organization that train Small Business owners on finance matters?
[ ] Yes [ ] No

If yes, please state which organization(s)

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………

2. Do you have a credit facility? [ ] Yes [ ] No

If yes, please state form which organization(s)

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………

2. Have you ever acquired a loan? [ ] Yes [ ] No

3. What are your thoughts about interest rate charged on loans?

…………………………………………………………………

4. Are you aware of the minimum interest rate?
…………………………………………………………………

6. Select the choice that most accurately reflects your SME.

S/No	Borrowing Skills	1	2	3	4	5
i.	My business repays its loan on time					
ii.	my company evaluates the terms and circumstances offered by various financiers prior to obtaining a loan,					
iii.	My business use more than 50% of revenue generated on loan repayment					
iv.	My business is aware of the impact of inflation and interest rate on the acquired loan					
v.	My company can determine the current state of my business's debt.					

1 – Strangly Agree, 2 – Agree, 3 – Not Sure, 4 – Disagree, 5 – Strongly Disagree

PART C: BUDGETING SKILLS

7. Do you know how much the business will spend every financial year? [ ] Yes [ ] No

8. Do you know your business total fixed cost per Annum? [ ] Yes [ ] No

9. Do you plan your new financial year in comparison to previous year performance?

[ ] Yes [ ] No

10. If yes, please list 4 factors you consider when budgeting?

………………………………………………………………………………..

………………………………………………………………………………..

………………………………………………………………………………..

………………………………………………………………………………..

11. Select the choice that most accurately reflects your SME.

1. Always 2. Often 3. Sometime 4. Rarely 5. Never

Budgeting Skills	**1**	**2**	**3**	**4**	**5**
I write down my annual expectations					
I make budges for my business every year					
I analyze the business actual performance against the budget					
I set employees target based on the budget					
I track spending using the budget					
I use the budget to project profits					

PART E: RECORD-KEEPING SKILLS

12. I keep a record of all day to day financial transactions of the business?

[ ] Yes [ ] No

13. I prepare a balance sheet at the year end.

[ ] Yes [ ] No

14. List 4 document your business finds crucial to its operations

………………………………………………………..

………………………………………………………..

………………………………………………………..

………………………………………………………..

15. Choose the level of your knowledge and skills, whether:

Excellent ii. Good iii. Satisfactory iv. Unsatisfactory v. No Knowledge

Record keeping skills	**1**	**2**	**3**	**4**	**5**
Ability to prepare business financial statement (Balance sheet and Income statement)					
Ability to analyse financial statements (such as calculating current ratio, profit margin, debt ratio etc.)					
Ability to prepare cashbook and do bank reconciliation					
Ability to file tax return					
Ability to balance ledger accounts accurately					

PART F: SAVINGS SKILLS

Tick where appropriate

16Do you ever calculate the revenue or return from your business?

Yes [ ] No [ ]

If No, please state why?

I am not proficient in computing. [ ]

It is tedious [ ]

It is not helpful to me. [ ]

17. Do you save for retirement?

Yes [ ] No [ ]

If yes above, what form do you save in?

Accumulate assets [ ]

Contribute to retirement benefit scheme [ ]

Save money in bank or Sacco accounts [ ]

If no in (I). above, why do you not save?

I do not find it necessary [ ]

I do not have the ability to save [ ]

Others [ ]

Please specify, if others

…………………………………………………………………………………….

18. Choose whether you:

1 – Strangly Agree, 2 – Agree, 3 – Not Sure, 4 – Disagree, 5 – Strongly Disagree

.

S/No	Saving	1	2	3	4	5
i.	I save the remaining funds after all business expenditures have been paid,					
ii.	I spend the remaining funds after all business expenditures have been paid					
iii.	I reinvest the remaining funds when the business has paid all of its expenses,					

19. Do you deposit any money you have earned at your bank?

Yes [ ] No [ ]

20. How frequently do you get bank statements?

Less than a month [ ]

Monthly [ ]

Quarterly [ ]

Semi – annually [ ]

Annually [ ]

Others specify …………………………………………….

21. How frequently do you do bank reconciliation?

Less than a month [ ]

Monthly [ ]

Quarterly [ ]

Semi – annually [ ]

Annually [ ]

Others specify ……………………………………………………………

PART G: FINANCIAL PERFORMANCE

Please give an overview of your business performance over the last 5 years

22. In general, how would you rank the SME's performance during the past five years?

Excellent [ ]

Improved [ ]

Fair [ ]

Poor [ ]

23. What changes have you seen in your sales revenue over the past five years?

Increased [ ]

Remained Constant [ ]

Decreased [ ]

24. What financial knowledge would you be interested in to improve your business performance? Rank them from 1 – most important to 6 – least important

Budgeting	[ ]	Loan management	[ ]
Investing	[ ]	Saving Skills	[ ]
Inflation and interest rate	[ ]	Record keeping Skills	[ ]

25. Kindly provide profitability and sales revenue data for your SME for year 2015 to year 2020

Financials	2015	2016	2017	2018	2019	2020
Profitability						
Sales revenue(Ksh.)						

26. On average, what is your Annual Sales turnover?

Ksh. 1 – Ksh 500,000 [ ]

Ksh. 500,001 – Ksh. 1,000,000 [ ]

Ksh. 1,000,001 – Ksh. 2,000,000[ ]

Ksh. 2,000,001 – Ksh. 3,000,000[ ]

Ksh. 3,000,001 – Ksh. 4,000,000[ ]

Ksh. 4,000,001 – Ksh. 5,000,000[ ]

Over Ksh. 5,000,000 [ ]

Thank you

Appendix III: Letter of Authorisation

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 8710901 Ext. 57530

Our Ref: D53/NYI/PT/33533/2015

DATE: 12th April, 2022

Director General,
National Commission for Science, Technology and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR ANTHONY GATHEE KAMAU – REG. NO. D53/NYI/PT/33533/2015

I write to introduce **Anthony Gathee Kamau** who is a Postgraduate Student of this University. The student is registered for MBA degree programme in the Department of Accounting and Finance.

Kamau intends to conduct research for a MBA Project Proposal entitled, **"Financial Literacy and Performance of Selected Small and Medium Enterprises in Nyeri County, Kenya."**

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL

AM/mo

Appendix IV: Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **778148**

Date of Issue: **06/May/2022**

RESEARCH LICENSE

This is to Certify that Mr.. Anthony Gathee Kamau of Kenyatta University, has been licensed to conduct research in Nyeri on the topic: Financial Literacy and Performance of Selected Small and Medium Enterprises in Nyeri County, Kenya for the period ending : 06/May/2023.

License No: **NACOSTI/P/22/17344**

778148

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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