International Journal of Economics, Commerce and Management
United Kingdom Vol. IV, Issue 11, November 2016
http://ijecm.co.uk/ ISSN 2348 0386

A STUDY ON THE INFLUENCE OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN RUIRU TOWN, KIAMBU COUNTY, KENYA

Geoffrey Kimunduu
Lecturer, School of Business, Kenyatta University, Kenya
gkmbuva@gmail.com

Otieno Erick
Master's Student, Faculty of Commerce,
Department Of Accounting, Finance and Management Science Egerton University, Kenya
erickotieno84@gmail.com

Adam Shisia
PhD Scholar, School of Business and Economics, Machakos University, Kenya
adamshisia@gmail.com

Abstract

Financial literacy has been identified as a one of the key competencies required for the establishing, management and thriving of SMEs. However, the exact effect they have on the financial performance of SMEs hasn't been fully established by the available literature thus the need for further research in this area. This study sought to establish the influence of financial literacy on the financial performance of SMEs in Ruiru sub county, Kiambu County. A descriptive survey design was adopted in conducting the study. The study population entailed the registered SMEs in Ruiru Sub County and who have undergone some financial literacy training by Equity bank through a programme known as financial knowledge for Africa (FiKA). A sample of 100 respondents was selected out of the total population of 334 respondents. The study used stratified sampling to get the sample of respondents. The data collected was analyzed using SPSS and the significance of the results tested using inferential statistics. The results of the multiple regressions revealed that there is a significant strong positive relationship

Licensed under Creative Common

between financial literacy and financial performance of SMEs. From the results, the study concluded that high levels of financial literacy among SME owners led to higher financial performance of SMEs. The study recommended that awareness be created to the SMEs on the importance of being financially literate by encouraging them to participate in financial literacy training programmes and also for the trainers to consider including ICT as one of units on which participants will be trained.

Keywords: Financial Literacy, Skills Training, Small and Medium Enterprises, Financial Performance

INTRODUCTION

Financial literacy has attracted increasing attention in both the developed and developing world due to its role in financial decision. For example, in January 2008, the United States government set up a President's Advisory Council on Financial Literacy tasked to improve financial education at all levels of the economy. Developing economies have also not been left behind; countries like Indonesia and Ghana have set up programs that are aimed at increasing financial literacy. Financial literacy encompasses the knowledge and skill required by individual to function effectively in the money economy and make informed judgments in respect to their own and their family circumstances. The need for financial literacy among entrepreneurs and business owners has henceforth become an issue of interest in both developed and developing economies (Hilgert&Hogath, 2003). Though it might not be an absolute state, it enables individuals to be able to respond effectively to ever changing personal, social and economic circumstances. Financial literacy is hypothesized to be a major determinant of the firm's success or failure. It is for this reason, many countries have created task forces to study and evaluate the level of the financial literacy of their citizens (Alessie, Van &Lusardi, 2011).

Past literature depicts correlation between financial literacy and financial performance trend of Small and Medium Enterprises (SMEs) although the direction of causality is unclear (Hilgert& Hogarth, 2003). For instance, according to Bosma and Harding (2006), many SMEs firms fail because they lack financial literacy, insufficient business acuity, as well as poor financial literacy, undermines entrepreneurial activity. Most scholars agree that entrepreneurs, regardless of their age, consistently engaged in decision-making activities concerning resource procurement, allocation and utilization. Such activities almost always have financial consequences and thus, in order to be effective, entrepreneurs must be imparted with financial knowledge (Oseifuah, 2010). Drexler, Fischer, and Schoar (2014) posited that entrepreneurs

Licensed under Creative Common

usually suffer from insufficient financial literacy to make the complex financial decisions they face. This is unfortunate, since according to Oseifuah (2010), financial literacy among youth entrepreneur contributes meaningfully to their entrepreneurship skills. Entrepreneurs wanting to grow need to have confident of their finances, as well be adequately informed (Kotzè&Smit, 2008). If the owners-managers are illiterate concerning their organizational finances, the financial knowledge of their firms will also be lacking and this will lead to reduction in innovation that can transform into competitive capability, unable to access different sources of financing provision due to non-awareness and this attitude will lead to possible failures of SMEs (Kotzè&Smit, 2008). In conclusion entrepreneurs suffer from lack of financial literacy and such deficiency undermines the probability of getting different sources of financing that can result into competitive capability and firm superior performance.

Financial literacy refers to the knowledge of money and financial products that people can apply to financial choices in order to make informed decisions about how to handle their finances (Basu, 2005). It includes the ability to make informed judgments and to take effective decision regarding financial matters (Worthington, 2005). OECD (2005) argued that financial literacy must involve not only the investors but also the customers, both having the knowledge of financial products and concepts and their ability to consider financial risks in their decision making and to make other effective actions to improve their financial levels. Financial literacy is essential in helping individuals to identify vital financial issues and behaviors that support effective management of financial resources (Hilgert&Hogath, 2003). It enables one to have the knowledge of critical financial concepts for instance, types of interests, risks and returns of investments, diversification of investments, among others. Hence it equips the ability to understand important financial products needed in life including various bank products, basic investments, ideas and saving plans. It improves how individuals are able to examine and appreciate money and financial issues. This aids greatly in making effective financial decisions regarding financial managements (Greenspan, 2001).

Financial literacy not only enables one make decisions while confident and sure, but also assists individuals to respond competently to changes that affect their everyday financial wellbeing including events in the general economy like collapse of financial markets, rising unemployment and the threat of rapid inflation (Hilgert&Hogath, 2003). Hereafter for any financial system to be effective, financial literacy is required in order to avoid pitfalls and to take appropriate actions to improve the firm's present and future conditions (OCED, 2009). Having the numeracy and capacity to do calculations, understanding the financial systems and understanding the risks of financial decisions are some of the fundamental concepts about financial literacy. Common measures of financial literacy being money basic knowledge,

Licensed under Creative Common

financial management, debt, savings, insurance and investment literacy (Rooij, Lusardi, &Alessie, 2007). As argued by Mandell (2008), there should be more emphasis on rising up the level of financial literacy as this would help in achieving many objectives of organizations.

Financial performance refers to the total economic results of activities undertaken by an organization, whether directly or indirectly (Lusch and Laczniak, 1989). It is the efficiency and effectiveness of the organization (Letting, 2009). Specifically, financial performance of a firm determines how well the business is doing in wealth creation and acquiring of resources (Komppula, 2004). Daft (1997) attributes performance to the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organization goals. To measure financial performance, varied measure approaches have been adopted by various researchers including sales revenue, profits, return on investment/ equity (Wijewardena, Zoysa, Fonseka&Perera, 2004). The measures include, return on sales, combination of ROI and ROS (Pegels& Yang, 2000) and by its liquidity which is the amount of cash a company can put its hands on quickly to settle its debts as adopted by Gill (1990). Colvin (1991) provide various financial measures which include sales level, sales growth rate, cash flow, return on shareholder equity, gross profit margin, net profit from operations, and ability to fund business growth from profits.

Financial performance majorly influences the firm's growth. The enterprise growth is the unification of quantity and quality. Growth is often closely associated with firm overall success and survival (Johannisson, 1993). Hence growth is a measure of performance (Ochieng, 2012). Schayek (2011) argues that most SME owners or managers are very sensitive about disclosing information relating to their firm financial performance. In addition Watson (2007) suggests that because most SMEs are not required to report and publish their financial records, it is difficult to obtain, directly, the financial figures on sales and profitability of most SMEs. Therefore, most research studies such as Lechner, Dowling and Welpe (2006) and Watson (2007) have developed the use of a five point Likert scale which measures sales growth and profitability growth as financial performance measures. A similar technique is used by Sawyerret al. (2003) Thrikawala (2011) and Watson (2011). This approach is implemented as it avoids the direct approach of asking for sales or profitability figures but infers the performance, indirectly, through the responses on the level of satisfaction with sales and profitability growth of the firm. However, it is important to note that sales and profitability growth should not be viewed in isolation as profits and sales may increase as a result of some underlying factor such as price increases or sales promotions, respectively, and not due to the improved performance of the firm or its products.

Licensed under Creative Common

There is no standard definition of SME in Kenya, according to the micro and small enterprise act of 2012, a micro enterprise is a business with a sales turnover of less than Kshs.500, 000 a year, or has 1-9 people working in it. A small enterprise is a business that has sales of between Kshs.1, 000,000 and Kshs.5, 000,000 in a year, or has 10-50 people working it. These two types of enterprises are usually put in one group called micro and small Enterprises, or MSEs. The reason for this is that they face similar opportunities and challenges, especially when compared with bigger businesses.

Several countries in the world are promoting financial literacy amongst SME proprietors as a tool of fighting poverty (UN, 2003), some of the countries involved are Egypt, Uganda, Ghana, South Africa, Tanzania, Kenya (African Development Bank, 2007). In Kenya, key efforts have been made by the government through Financial Sector Deepening (FSD), which educates people to enhance financial freedom. The central bank has direct interest in financial literacy and ensures that commercial banks show the public their charges so as to enable persons to compare and make decisions. Commercial banks involvement has been mainly relying on their marketing activities e.g. market activations. Further financial institutions such as Equity Bank and KCB has made deliberate effort to educate Kenyans on finance. Equity Group Foundation (EGF) has partnered with The Master Card Foundation while KCB has partnered with Visa International to provide finance literacy programs that are aimed to giving Kenyan SME owners an opportunity to learn how to effectively manage their finances.

Purpose of the study

The general objective of the study was to establish the influence of financial literacy on financial performance of small and medium enterprises in Kiambu County, Kenya.

THEORETICAL REVIEW

This study is anchored on the following three theories, namely; Social learning theory, financial literacy and behavior theory and the knowledge spill over theory.

Social Learning Theory

The social learning theory of Bandura emphasizes the importance of observing and modeling the behaviors, attitudes, and emotional reactions of others. Bandura (1977) states: "Learning would be exceedingly laborious, not to mention hazardous, if people had to rely solely on the effects of their own actions to inform them what to do. Fortunately, most human behavior is learned observationally through modeling, from observing others one forms an idea of how new behaviors are performed, and on later occasions this coded information serves as a guide for

Licensed under Creative Common

action." The component processes underlying observational learning are: Attention, including modeled events and observer characteristics. Retention, including symbolic coding, cognitive organization, symbolic rehearsal, motor rehearsal, motor reproduction, including physical capabilities, self-observation of reproduction, accuracy of feedback; and Motivation, including external, vicarious and self-reinforcement.

Social learning theory has been applied extensively to the understanding of aggression and psychological disorders, particularly in the context of behavior modification (Bandura, 1969). It is also the theoretical foundation for the technique of behavior modeling which is widely used in training programs. Social learning theory is extensively used in financial literacy programs alike. In financial literacy programs, its components of motor reproduction, motivation, retention and the attention paid by the trainees are of key importance to produce desired results. However, money management characteristics can be said to innate, some studies support the idea that psychological attributes associated with money management can be culturally and experientially acquired (Gorman et al., 1997).

Financial Literacy and Behavior theory

Several studies showed that financial literacy is positively related to self-beneficial financial behavior. Hilgert, Hogarth, and Beverly (2003) added financial behavior and financial literacy questions to the nationwide survey of consumer finances. They formed a financial practices index based upon behavior in four variables, cash-flow management, credit management, savings, and investment practices.

Comparing the results of this index with scores on the financial literacy quiz, they found that those who were more financially literate had higher financial practices index scores, indicating that financial knowledge is related to financial behavior. Further they found that those with low financial literacy are more likely than others to base their behavior on financial advice from friends and are less likely to invest in stocks.

The Knowledge Spill over Theory

In this theory the creation of new knowledge expands the set of technological opportunity. Entrepreneurial activity does not involve simply the arbitrage of opportunities, but also the exploitation of intra-temporal knowledge spill over not appropriated by incumbent firms. The theory focuses on individual agents with endowments of new economic knowledge as the unit of analysis in a model of economic growth, rather than exogenously assumed firms. Agents with new knowledge endogenously pursue the exploitation of knowledge. This suggests that knowledge spill over come from the stock of knowledge, and there is a strong

Licensed under Creative Common

relationship between such spill over and entrepreneurial activity. If incumbent firms appropriated all the rents of R&D, there would be no intra-temporal knowledge spill over (Zoltan et al 2008).

EMPIRICAL REVIEW

There are several empirical studies that were undertaken by different scholars concerning SMEs, both in developed and emerging economies. This are discussed as follows;

Personal Saving skills and financial performance of SMEs.

Bowen et al. (2009) observed that over 50% of SMEs continue to have a deteriorating performance with 3 in every 5 SMEs failing within months of establishment. Only 2.5% respondents saying their businesses were very successful. They established that 49.5% of those who had received training in their areas of business reported that their businesses were doing well hence the conclusion that relevant training or education is positively related to business success and recommendation of the need for SMEs owners to get trained in an area that is relevant to the business carried.

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.

Osinde et al (2013) observed that entrepreneurs who received business development services 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.

Longenecker et al. (1994) observed that personal savings and contribution of business partners constitutes an important source of funds, particularly in the formative stages of a firm. Significant financial commitments made by owners of a company tend to build a lot of confidence among potential investors. Kuriloff et al. (1993) these include borrowing using one's personal assets such as house and bonds as collateral.

Loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve. This source of funds, however, comes with one

Licensed under Creative Common

serious challenge whereby many friends and relatives find it very difficult to stay as creditors or investors without having to interfere with the business operations. They usually try to interfere with policy and operational issues of the business (Kuriloff et al. 1993; Longenecker et al. 1994). As a remedy to this problem, Kuriloff et al. (1993) recommended the treatment of such loans like bank loans by putting in writing all the terms including interest rates and payment schedule.

Entrepreneurship Skills and Financial Performance of SMEs

Solomon & Winslow, (1988) indicated that business management training transforms one into an innovative person who creates something unique with value by devoting time and effort, assuming the financial, psychological and social risks in an action oriented perspective and receiving the resulting rewards [and punishments] of monetary and personal satisfaction" Carland, et al, (1984) suggest the business management skills are critical factors in business as it gives entrepreneurial owners innovation, with entrepreneurial types showing more innovative combination of resources to achieve a profit and stability.

Katz & Green, (2006), postulates that businesses entrepreneurship skills are important for owners who are interested in control, financial independence and autonomy. Basic entrepreneurship skills augmented with networking and resource management are foremost in the minds of the business owner-manager. The high growth venture entrepreneurs are fascinated by the birth and growth of their ideas. They want to create wealth, are highly innovative and creative and seek to form, where feasible, strategic alliances. This is well facilitated by quality entrepreneurship skills.

Entrepreneurship education provides students motivation, knowledge, and skills essential for launching and managing a successful venture company (Cho, 1998). Nevertheless, the extent of entrepreneurship education to train on business management by country differs according to each country's unique cultural context (Peterson, 2000). Education is one of the critical factors in distinguishing entrepreneurs from non-entrepreneurs. Based on the point that home-education from parents has a significant impact on an individual's life, entrepreneurial parents should also be included in the education category. In addition, many organizations allocate a great deal of resources to training their members through external as well as internal education opportunities on business management.

Entrepreneurship training concerns itself with the conversion of inputs into outputs, using physical resources, so as to provide the desired utilities to the customer while meeting the other organizational objectives of effectiveness and efficiency. Entrepreneurship is also concerned with the achievement of both satisfactory customer service and resource utilization (Flynn, 1995). An improvement in one will often give rise to deterioration in the other. Often both cannot

Licensed under Creative Common

be maximized, and hence a satisfactory performance must be achieved on both objectives. When entrepreneurs are equipped with entrepreneurship skills most often they are motivated into self-employment (Chase et al. 2006). It distinguishes itself from other functions such as personnel, marketing and finance by its primary concern for 'conversion by using physical resources.'

Book keeping skills and financial performance of SMEs

Asquith et al, (2004) found that small and medium term enterprises (SMEs) comprise the largest proportion of businesses in most economies and frequently offer the greatest potential for job creation The government of Kenya has placed a lot of emphasis on the development of SMEs as a means of encouraging self employment, poverty reduction and accelerating economic growth.

This has seen SMEs contribute over 50% of the employment opportunities in Kenya and over 40% of the GDP. Despite their significance, recent studies show that 60% of the SMEs fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). It is hard for the SMEs to access finances from the financial institutions since they lack proper financial records as a requirement (William et al 2003).

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 behavior of SMEs owners.

The overall effect of lack or poor financial records keeping is that, the owners cannot perform financial analysis to establish trends to know whether their businesses are doing well or not. They cannot understand and predict business environment and this can lead to business losses. Inadequate or poor financial records affect users such as government agencies, financial institutions, investors and other users in decision making and economic planning. He recommended that accounting software packages should also be made available by government to all institutions and also for sale at affordable prices, so that they can purchase and use the packages, secondly a law on financial records of small scale businesses should be passed and strictly enforced.

Licensed under Creative Common

Banking Services Access Skills and financial performance of SMEs

Andoh and Nunoo (2005) discussed how to sustain small and medium enterprises through financial service utilization. In the analysis, two equations were estimated: (1) financial literacy level, and (2) utilization of financial service which includes financial literacy as an endogenous variable.

Overall, the results show that there was modest level of financial literacy among small and medium entrepreneurs in Ghana. Moreover, it was discovered that the better and more financially literate entrepreneurs were more likely to utilize financial service. The most commonly utilized financial service was operating a bank account. This has important policy implication. Finally, the instrument for financial literacy, recipient of financial education, also had positive relationship with utilization of financial service.

METHODOLOGY

Research Design

The researcher used descriptive research design. Descriptive studies are usually the best methods for collecting information that will demonstrate relationships and describe the world as it exists. Bickman and Rog (1998) suggest that descriptive studies can answer questions such as “what is” or “what was.” Experiments can typically answer “why” or “how.” The design was appropriate for the study because the study came up with findings that will showed the influence of financial literacy on financial performance of small and medium enterprises in Ruiru Sub County.

Population of the study

The population of the study included all the licensed SMEs by Ruiru Municipal Council and had undergone financial literacy training by Equity group foundation in partnership with MasterCard foundation through a programme known as financial knowledge for Africa, (FiKA) in the last five years between 2011 to 2015. In Ruiru Sub County 334 SMEs had undergone financial literacy training on book keeping skills, entrepreneurship skills, personal saving skills and access to banking services. These SMEs are registered by Ruiru municipal council.

Sample Size and Sampling Technique

Sampling is the process of selecting a sufficient number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho and Kombo, 2002). The sample of respondents was determined using stratified sampling which relies on mere chance to determine who will be

Licensed under Creative Common

selected in the sample and called for random selection in the inclusion of the cases into the sample. According to Hayer (1997), it is a statistical determination of the appropriate sample size and it will enable the researcher to generalize results to the population. Stratified sampling eliminates the possibility of biasness in the selection of a sample under investigation. A sample size of 100 respondents out of a population of 334 respondents was be given questionnaires. This represented 30% of the total sample which was fair number to generate results. This sample is recognized as being representative of the entire population (Kothari, 2006)

Data collection Instruments

Primary data was collected using questionnaires distributed to the registered small and medium enterprises in Ruiru Sub County. The questionnaires evaluated their response on the influence of financial literacy on financial performance of small and medium enterprises in Ruiru Sub County, by indicating scores along a 5 point Likert scale ranging from 'strongly agree' to 'strongly disagree'. The researcher used research assistants to administer the questionnaires to the respondents and left them to fill it at their own time.

Data Analysis and Presentation

The study involved collection of both qualitative and quantitative data. After data collection, the data was edited and coded in readiness for analysis by the researcher. The qualitative data collected was subjected to content analysis. On the other hand the researcher used descriptive and inferential statistics to analyze the quantitative data. This study utilized the SPSS software to perform correlation and regression analysis on the collected data.

EMPIRICAL FINDINGS

Model Summary

Table 1 gives the regression model summary results. It presents the R value which is the measure of association between the dependent and the independent variables, the R Square which is the coefficient of determination measuring the extent at which the independent variables influence the dependent variable as well as the Adjusted R Square which measures the reliability of the regression results.

Table 1: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.889	.0790	0.736	.22462

Licensed under Creative Common

From the findings in the above table the value of adjusted R squared was 0.736 an indication that there was variation of 73.6 percent on financial performance of small and medium enterprise due to changes in training on personal saving, training on entrepreneurship skills, training on book keeping and training on access to financial services at 95 percent confidence interval. This shows that 73.6 percent changes in financial performance of small and medium enterprise could be accounted to training on personal saving, training on entrepreneurship skills, training on book keeping and training on access to financial services.

Analysis of Variance

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.724	4	.431	3.814	.001[b]
	Residual	7.006	62	.113		
	Total	8.73	66			

Critical value =1.997

From the ANOVA statistics, the study established the regression model had a significance level of 0.3% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (3.814>1.997) an indication that training on personal saving, training on entrepreneurship skills, training on book keeping and training on access to financial services all affects financial performance of small and medium enterprise in Kenya. The significance value was less than 0.05 indicating that the model was significant.

Regression Coefficients

Table 3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.508	1.131		1.333	.001
	Training on personal saving	.481	.228	0.203	2.110	.002
	Training on entrepreneurship Skills	.347	.127	.217	2.732	.003
	Training on book keeping	.416	.115	.316	3.617	.001
	Training on access to financial services	.267	.103	.125	2.592	.000

From the data in the table below, the established regression equation was:

$$Y = 1.508 + 0.481X_1 + 0.347 X_2 + 0.416 X_3 + 0.267 X_4$$

From the above regression equation it was revealed that holding training on personal saving, training on entrepreneurship skills, training on book keeping and training on access to financial services to a constant zero, the financial performance of small and medium enterprise in Kenya would be at 1.508, a unit increase in training on personal saving would lead to an increase in financial performance of small and medium enterprise in Kenya by a factors of 0.481, a unit increase in training on entrepreneurship skills would lead to increase in financial performance of small and medium enterprise in Kenya by factors of 0.347, a unit increase in training on book keeping would lead to increase an in financial performance of small and medium enterprise in Kenya by a factor of 0.416, and a unit increase in training on access to financial services would lead to an increase in financial performance of small and medium enterprise in Kenya by a factors of 0.267 and . All the variables were significant as their significant value was less than ($p<0.05$).

Tests of Independence

Durbin Watson Test

Independence of error terms, which implies that observations are independent, was assessed through the Durbin-Watson test. Durbin Watson (DW) test check that the residuals of the models were not autocorrelated since independence of the residuals is one of the basic hypotheses of regression analysis. Its statistic ranges from zero to four. Scores between 1.5 and 2.5 indicate independent observations (Garson, 2012). The DW statistics were close to the prescribed value of 2.0. Thus, it can be concluded that there was no autocorrelation and the residuals were independent.

Table 4: Durbin Watson Test

Variables	Durbin Watson
Personal saving	1.987
Entrepreneurship Skills	2.084
Book keeping Skills	2.231
Access to banking services skills	2.026

Licensed under Creative Common

Heteroskedasticity Test

Heteroskedasticity test was used to examine the assumptions of homoskedasticity in the residuals. According to this assumption, residuals in the regression model must have constant variances. If they are not constant, the situation can be defined as heteroskedastic.

Table 1: Heteroskedasticity Test

F-statistic	4.619239	Prob. F(4,103)	0.0018
Obs*R-squared	0.82708	Prob. Chi-Square(4)	0.0025
Scaled explained SS	17.34903	Prob. Chi-Square(4)	0.0017
Prob(F-statistic)	0.000000		

To confirm for heteroskedasticity assumption in the error term of the regression model, this study applied heteroskedasticity test by Breuch-Pagan-Godfrey test. If the P-value of the observed* R-squared is greater than 5 percent, then null hypothesis which state that residuals was not heteroskedastic would not be rejected. If P-value is less than 5 percent, the null hypothesis would rejected, it would be concluded that there is significant evidence of heteroscedasticity, so that it is not be plausible to assume that the variance of the errors is constant in this case.

Discussions of findings

The study sought to determine whether, for the past five years, training on personal saving skills, entrepreneurship skills, book keeping skills and access to banking services has any influence on the financial performance of the respondent's SMEs.

Concerning the influence of training on personal saving the findings established that majority of the respondents owned bank accounts for easy acquisition of loans for business expansion and also for personal savings. Only a minority of the respondents indicated that they don't own bank accounts since they don't make much profit from their small enterprises hence they do not need banks accounts for saving purposes. Though majority of the respondents owned bank accounts, the study established they do not use this accounts frequently for making savings into their accounts. This may be an indication that either the amount of profits derived from the businesses is not enough to sustain these businesses as well as make frequent savings in the banks or the SME owners are ploughing back most of their profits into their businesses for faster growth and bigger profits in the future.

Licensed under Creative Common

The study established that for the past five years, training on entrepreneurship skills has influenced financial performance of the respondents' small and medium enterprises. Majority of the respondents agreed that training on entrepreneurship skills has influenced financial performance of their SMEs. Only a minority of the respondents did not agree. They stated the main reason being their inability to leverage on the internet to market their finished goods and also source for quality raw materials at fair price. For it is not sufficient to know how to produce a high quality product. The producer must also know how to sell it. They attributed this as the main reason for revenues of their businesses not growing fairly first as compared to those SMEs that leveraged on technology.

The study found out that for the past five years, training on book keeping skills has influenced financial performance of the respondents' small and medium enterprises. Majority of the respondents agreed that training on book keeping has positively influenced financial performance of their SMEs by helping them plan ahead for the businesses, for instance budgeting, equipped them with necessary skills for generating financial statements needed by government, supplies, creditors and other stakeholders, also equipped them with skills necessary to ascertain profits earned.

The study found out that training on access to banking services has influenced financial performance of the respondents' small and medium enterprises. All the respondents agreed that for the past five years, training on access to banking services such as, how to secure an affordable loan for business expansion, how to manage business account to transact day-to-day affairs, for example paying wages, paying bills such as water bills etc., how to use facilities such as bank cheque, credit cards, bank drafts etc. for smooth day to day payments and revenue collection of their business has positively influenced financial performance of their SMEs to a very great extent.

CONCLUSION

The findings established that personal saving skills are relevant in enhancing profitability of the SMEs. Therefore, the study concludes that entrepreneurs who are adequately equipped with personal saving skills are seen to make more profits as compared to those with no knowledge in personal saving. 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.

The findings further revealed that entrepreneur skills positively influence sales volume of a business to a very great extent. The study thus concludes that in an industry characterized with many sellers, an entrepreneur can be able to stay competitive and maintain profits if he had

Licensed under Creative Common

adequate and necessary entrepreneurial skills. These skills help in maintaining the old as well as attracting new customers.

The study found that book keeping skills help in proper budgeting of the resources of an enterprise. Therefore, the study concludes that book keeping skills are necessary in a business since they help the entrepreneur to avoid setting unachievable goals with the limited financial resources. They also help to ascertain profits earned or losses incurred.

The study further concludes that limited access to financial services is a major hindrance to expansion of small and medium enterprises. This is because borrowing from the banking sector is very costly due to the interests that are involved when paying the bank loans. These high interest rates result to SMEs shunning most financial institutions despite them being ready to offer financial support to the SMEs.

RECOMMENDATIONS

This study focused on the influence of financial literacy on financial performance of small and medium enterprises in Ruiru Sub-County and established that financial literacy improves financial performance of SMEs. However, the study recommends that awareness be created to the SMEs on the importance of participating in financial literacy training program to quip the staff with financial literacy skills.

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 for their finished products as well as to new and cheap technology for use in production through the use of the internet. 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.

REFERENCES

Agnew, J., Szykman, L., Utkus, P. & Young, J. (2007).Literacy, Trust and 401 (K) Savings Behavior, Center for Retirement Research.

Belch, K., & Belch, M. (2000). Advertising and Promotion: An integrated Marketing Communications Perspective. New York: McGrow Hill

Berge, Lars IvarOppedal, KjetilBjorvatin, &BertilTungodden. (2011). Human and

financial capital for microenterprise development: Evidence from a field and lab experiment. NHH Discussion Paper. Norwegian School of Economics and Business Administration, January 12.

Bloom, Nicholas, AprajitMahajan, David McKenzie, & John Roberts. 2010. Why Do Firms in Developing Countries Have Low Productivity? American Economic Review,100(2), 619-623.

Bridget, S., &Lewin, C. (2005).Research Methods in the Social Sciences. London: Sage publications Inc

Bruhn, Miriam, Dean Karlan, & Antoinette Schoar. 2010. What Capital Is Missing in

Developing Countries?American Economic Review, 100 (2), 629-633.

Bucher, K.T. &Ziegelmeyer, M. (2011). Who Lost the Most? Financial

Literacy, Cognitive Abilities, and the Financial Crisis.Working Paper Series. European Central Bank, February.

Caleb, Njage, Nyagah. (2009). Non Financial Constraints Hindering Growth of SMEs in Kenya.The Case of Plastic Manufacturing Companies in Industrial Area in Nairobi County.

Calvet, Laurent E., John Y. Campbell, & Paolo Sodini. 2009. —Measuring the Financial Sophistication of Households.National Bureau of Economic Research Working Paper 47 SeriesNo. 14699 (February 2009).

Charney, A., &Libecap, G. D. (2000). Impact of Entrepreneurship Education: Kauffman Center for Entrepreneurial Leadership.

Cochran, D.I .(1997). Sampling Technique.(3rd Ed.). New York: John Wily and Sons.

Cooper, D.R & Schindler, P.S. (2003), Business Research Methods (8th edn) McGraw-Hill: New York

Creswell, J. W. (2003). Research Design: Qualitative, Quantitative, and Mixed Methods Approaches. Thousand Oaks: Sage Publications, Inc.

Cronbach, L. J. (1971). Test validation. In R. L. Thorndike (Ed.).Educational Measurement (2nd Ed.). Washington, D. C.: American Council on Education.

Dibb, S. &Smikin, L. (2000). Marketing Briefs: A revision and study guide, Chartered Institute of Marketing, 2(7), 67 – 103

Edwards, G. (2007), The Role of Banks in Economic Development, Macmillan, London, (2004), The European Observatory for SMEs:

Erasmus, B. J. (2005). Training management in South Africa. Cape Town: Oxford.

FSD (2008). Financial Education in Kenya: Scoping Exercise Reports. [Online] Available; www.fsdkenya.org/publications.(Retrieved 20 January 2013).

FSD (2008). Financial Exclusion in Kenya: An Analysis of Financial Service Use. [Online] Available; www.fsdkenya.org/publications.(Retrieved 31 July 2013).

FSD (2009). FIN Access National Survey 2009: Dynamics of Kenya's changing Financial Landscape. [Online] Available; www.fsdkenya.org/publications.(Retrieved 20 January 2013).

Gerardi, Kristopher, Lorenz Goette, & Stephan Meier. 2010. Financial Literacy and Subprime Mortgage Delinquency: Evidence from a Survey Matched to Administrative Data. Federal Reserve Bank of Atlanta.

Gorman, G., Hanlon, D. & King, W. (1997). Some Research Perspectives on Entrepreneurship Education, Enterprise Education and Education for Small Business Management: A Ten-Year Literature Review, International Small Business Journal, 15(3), 56 -77.

Kefela, G. (2010). Promoting Access to Finance by Empowering Consumers – Financial Literacy in Developing Countries, Education Research Reviews, 5(5), 205 – 212.

Kinyua, R. W. (2012). A Survey of Relationship between Entrepreneurship Training and Self Employment: Adventure of Gikomba Market Business Enterprises, unpublished MBA thesis, Kenya Methodist University.

Kombo, D.K. & Tromp D.L.A, (2006). Proposal & Thesis Writing; An Introduction. Nairobi: Paulines Publications Africa.

Kothari, C. R. (2000), Research Methodology: Methods and Techniques. New Delhi: Wiley.

Krejcie, R. V. & Morgan, D. W. (1970). Determining Sample Size for Research Activities, Educational and Psychological Measurement,

Licensed under Creative Common

Lacity, M., & Jansen, M. A. (1994). Understanding qualitative data: A framework of text analysis methods. Journal of Management Information System, 11, 137-160.

Lusardi, A. & Mitchell, O. (2006), Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education, Michigan Retirement Research Center. WP 2006-144.

Lusardi, A., & Mitchell, O. S. (2006). Financial Literacy and Retirement Preparedness: Evidence and Implications for Financial Education.

Lusardi, A., Mitchell, O. &Curto, V. (2010). Financial Literacy among the Young, Journal of Consumer Affairs, Summer, 358 – 380

Mano, Yukuchi, John Akoten, KeijiroOtsuka, &TetsushiSonobe. 2009. ―Impacts of

Managerial Training: The Case of a Metalworking Cluster in Nairobi.‖ World Bank mimeo.

Mano, Yukichi, AlhassanIddrisu, Yutaka Yoshino, &TetsushiSonobe. 2011. How can

micro and small enterprises in Sub-Saharan Africa become more productive? the impacts of experimental basic managerial training. Policy Research Working Paper Series. The World Bank, August.

Mccarthy, J. K., &Perreault, T. F. (2003). 5 Basic Marketing,11th Edition, New York: McGrow Hill

Migiro, Stephen, Oseko. (2005). Small and Medium Scale Manufacturing Enterprises in Kenya: A Perspective on Alternative Sources of Financing.

Mugenda M. O. &Mugenda A. (1999), Research Methods: Qualitative and Quantitative Approaches, African Centre for Technology Studies, Nairobi, Kenya.

Mugenda, O.M &Mugenda, A.G (2003). Research Methods, Quantitative & Qualitative Approaches, Acts Press, Nairobi

Mungai, N. W (2012).Effect of Financial Literacy Programs on The Survival of Women Entrepreneurs in Kawangware, unpublished MBA thesis, Kenyatta University.

Ngechu.M. (2004).Understanding the research process and methods.An introduction to research methods.Acts Press, Nairobi.

Nunnally, J. C. (1978). Psychometric theory (2nd ed.). New York: McGraw-Hill.

OECD (2008).Recommendation on Good Practices for Financial Education relating to Private Pensions, OECD Publishing.

Orodho, A.J. &Kombo D.K. (2002).Research Methods. Nairobi: Kenyatta University, Institute of Open Learning.

Oso, W. Y. &Onen, D. (2005).A Guide to writing Research Proposals and Reports. Kisumu: Option Press.

Perks, S. & Smith, E. E. (2006). Investigating training interventions required for upgrading black micro-entrepreneurial skills: An empirical study. Paper presented at the Eighteenth Annual Conference of the Southern Africa Institute for Management Scientists, Stellenbosch University, Stellenbosch, 13–15 September.

Remund, D. (2010). Financial Literacy Explicated: The Case for a Clearer Definition in an Increasingly Complex Economy, Journal of Consumer Affairs,Summer, 276 – 295

Rosenbloom, B. (2003). Marketing Channels, A marketing View, 4(3), 33 – 59.

Volpe, Ronald P., Haiyang Chen, & Sheen Liu. 2006. ―An Analysis of the Importance of Personal Finance Topics and the Level of Knowledge Possessed by Working Adults.‖ Financial Services Review, 1(15), 81–99.

Worthington, A. (2005). Debt as a Source of Financial Stress in Australian Households, International Journal of Consumer Studies, 2, 201 – 222.