

**FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF SMALL AND
MEDIUM ENTERPRISES IN KAJIADO COUNTY, KENYA**

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS IN
PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE OPTION) OF
KENYATTA UNIVERSITY**

DECLARATION

Declaration by candidate:

This is my original work and nowhere has it been either fully or partly presented for any certificate or degree to another learning institution.

Signature: ----- Date: -----

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Declaration by supervisor:

I confirm that the work in this proposal was done by the candidate under my supervision.

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DEDICATION

I'm dedicating this study work to my family: my wife, Jane, and our children, Louise, Tracy, Alistair and Israela of being encouragement to me as I pursued my studies.

ACKNOWLEDGEMENT

I'm grateful to God for His grace to enable me to endure the challenges that came along my way during the period of my studies. I'm also extending my appreciation to Dr Ambrose Jagongo, for his continued push during the research project process. It has been a wonderful journey with him on this research work.

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DEFINITION OF TERMS

Financial Literacy: Financial literacy refers to the ability to know and use financial skills that enables one to make informed financial decisions.

Financial Performance: This identifies and gives information on how an enterprise has used its financial resources to generate revenue or create wealth within a particular period.

Financial Budgeting: Financial Budgeting refers to process of drawing up estimates of both expenditure and income for a business for a defined period of time.

Financial Records Keeping: Financial records keeping refers to the process of maintaining books of accounts with the purpose of analyzing financial performance of a business entity.

Savings: Savings refers to the money set aside or deposited from the business surplus with intention of re-investing in future in the business.

SMEs: SMEs are businesses that have revenues, assets or employees below a certain threshold. These businesses usually have fewer employees and have smaller start-up financial resources as initial investments, and the business risks are borne wholly by the owners.

ABBREVIATIONS AND ACRONYMS

BDS	Business Development Services
FLT	Financial Literacy Theory
GDP	Gross Domestic Product
GOK	Government of Kenya
ILO	International Labour Organization
KNBS	Kenya National Bureau of Statistics
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Cooperation and Development
RBT	Resource-Based Theory
SMEs	Small and Medium Enterprises
TCT	Transaction Cost Theory

ABSTRACT

SMEs presence, in considering economic growth of any nation, it is a compelling reality that the SMEs sector has never escape thought of almost every nation in finding how crucial the role played by this sector in driving economic development. Faster growing economies have been observed to embrace strategic approaches that aim at improving the performances of the businesses in this sector purposely to achieve higher employment rate and attain growth of their national incomes. Kenya, in particular, the SMEs sector has employed ninety-three percent of the total labour force in its economy. This makes the sector to be vitally important in terms of improving financial stability, especially, if the sector is given timely and appropriate conditions support. The purpose of the study was to examine and determine the efficacy of financial literacy on SMEs in Kajiado town. A descriptive research design was adopted. Specific objectives of the study were to examine budgeting literacy, bookkeeping literacy and savings literacy on financial performance of SMEs in Kajiado county. A business entity may be known to have ascertained growth or declined if its financial performance is known. In determining this, the study focused on business profit and business growth. Using financial literacy theory, transaction cost theory and resource-based theory, the study was evaluated the factors that affect different levels of financial literacy and assessing the impact it had on both the long-life and success of the aforementioned businesses. In doing so, it related the previous studies that had identified the phenomenon in developing markets and makes a case for the continued improvement of financial literacy as a policy tool to achieve economic growth. The target population was 46,100 registered and licensed SMEs as was indicated in the recent published Kajiado County Integrated Development Plan, 2018 -2022. The study used simple random sampling procedure from a sample size of 399 SMEs which were operating businesses in Kajiado county. The study survey employed primary data source to obtain information, where the main study instrument to collect the data was questionnaire comprising of questions each addressing study objectives. Descriptive analysis was adopted to provide statistics in percentages. The collected data was analyzed and presented in the form of tables and charts. In addition, inferential statistics involved Pearson correlations regression analyses were applied.

The study found that financial literacy level is still quite low amongst the SMEs in Kajiado county. The study further found that Budgeting and Bookkeeping were still a major challenge amongst the respondents, and savings had insignificant effect on their financial performance.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

Chapter one discussed general introduction of the study, breaking it down into several sub-topics which included background of the study, financial literacy, financial performance, problem statement, research objectives, research questions, scope of the study, significance of the study, limitations of the study and organization of the study.

1.1 Background of the Study

In Kenya, SMEs are defined in different contexts. Small-sized enterprises fall within the definition described in the Micro and Small Enterprises Act, No.55 of 2012 as a firm, trade, service industry or a business activity whose revenue does not exceed five hundred thousand Kenya shillings, and employs less than ten people. Medium-sized enterprises are businesses whose turnover is upto fifty million Kenya shillings and employ between 50 and 99 employees.

According to the World Bank report (2017), SME sector has been considered as the key driver of an economy globally and which has created a range of economic benefits, including innovation and high productivity that are desirable for any society in the world. It is therefore for this reason that many countries around the world have adopted different approaches in finding ways and means of improving financial literacy amongst their citizens, and priority have been to those who have already been in the business and to some extent this has been luring prospective business people as they develop relevant strategies to educate or give financial education to them (Atkinson, 2011).

In Canada, Wise (2013) pointed out that a large group of business ventures have collapsed as a result of lack of or low level of business management skills amongst many people who have gotten into business. In Sri Lanka, Menike (2018), argued that because of inadequate business

management skills amongst SMEs, their businesses have performed dismally. Agyapong and Attram (2019), further gave an account of a number of SMEs which have been experiencing diminishing business growth, sales, and eventually collapsed in their early years in business.

In Uganda, Arinda (2019), in his study mentioned that financial performance of SMEs has not been impressive due to lack of proficiency of financial management. In Kenya, Chepngetich (2019), after carrying out a study on business results of SMEs, in Uasin Ghisu county, concluded the business performance was largely influenced by bookkeeping and budgeting literacy. Abongo (2017), had a view that financial performance of most of the SMEs was affected by budgeting process because many of them were neither having knowledge in business forecasting in terms of targeted income results nor had expenditure forecast in place for their businesses. Cherugong (2015), was of the view that the need for financial literacy has continually become a matter of interest in many nations because of ever changing economic environment circumstances.

1.2 Financial literacy

According to the OECD report (2011), gave the definition of financial literacy as the business skill and knowledge which are deemed to be necessary to help an individual or a firm make good judgement on financial matters. Chamwada (2015), reasoned that with sound financial knowledge, an individual or a firm would be able to make informed decision in financial issues, and also prudently navigate well in the changing economic conditions (Menike, 2018).

Even though financial literacy does not ultimately guarantee one's success in business engagements, it is considered a contributor for enabling an individual to respond effectively to the changing social and economic situations (Chamwada, 2015). Financial literacy is therefore an essential element in putting an individual at an advantage level to run a successful enterprise or

to operate an efficient and effective business venture in the dynamic business environment (Mapepeta, 2018). By acquiring good financial knowledge, a person would have increased confidence in handling business activities to achieve better financial performance as compared to when one has not gained necessary financial skill or having low level of financial literacy.

According to Atkinson and Messy (2012), a considerable number of governments around the globe, have embarked on strategies that are geared towards improving or finding effective approaches which could improve their citizens' financial literacy to achieve high level of business income, which in turn create more employment opportunities for their population and also enhances source of additional revenue for government (Kizza, 2019).

It can therefore be said or concluded that the topic of financial literacy is increasingly becoming a weighty agenda for many nations with aim of improving the performances of business sectors at large, especially, the SMEs sector which has been viewed as a critical component in driving the performance of economy.

1.3 Statement of the Problem

With the recognition of the role played by SMEs in a number of nations, which has been of necessity not by choice, socio-economic needs in the society around the world (Ibrahim,2017). He further argued that the SME sector adds value in many ways, such as creation of jobs, improvement of income, strengthening purchasing power among others. However, despite the clear importance this sector plays, nearly sixty per cent of these businesses in Kenya are estimated to collapse each year (KNBS, 2017). Wanjohi (2011), and Capital Market Authority report (2010), mentioned that lack of adequate enterprising and business skills has been considered as a setback to the business enhancement in this sector. The Capital Market Authority report (2010), further explained that this is mainly attributed to low levels of financial literacy as

a result of lack of adequate financial education.

More often than not, businesses are established with the aim of maximizing their profits which eventually ending up in improving their returns to equity invested into the business. It would therefore be unbiased to believe that the intention of every small and medium-sized businesses exist with the purpose of growing in their net-worths. Despite this notion, a number of factors may play key in influencing business financial performance, and this includes financial literacy. In a business point of view, financial literacy might be looked at from different ways, but this study will be focusing on a mix of financial budgeting, financial records keeping, and savings amongst other factors that an individual or a firm could use to improve a business financial performance.

Many academic researchers have highlighted the essence of acquiring business skills in view business performances of SME sector but have not exhaustively brought out clearly that lack of financial literacy could be a hindrance to business growth and may cause collapse of a number of SMEs (Niwaha, *et al*, 2016). Arinda (2019), in examining the business results of SMEs in Ntungamo municipality, and the outcome was that business skills and saving practice were yet to be studied. In addition, Osinde, *et al* (2013), pointed out that the owner-managers were mainly focused on training.

Because of the in-exhaustive studies highlighted above, and it will be encouraging to get to know more information on top what so far the previous scholars have come up with to add to the literature in this field. For example, financial budgeting, bookkeeping and saving seem to be a concern to many business undertakers, especially, which may bring clarity to know how the business is likely to perform in the future.

1.4 Objective of the study

The research study was to highlight both general and specific objectives as indicated below: -

1.4.1 General Objective

The study was to examine effect of financial literacy on financial performance of SMEs in Kajiado county.

1.4.2 Specific Objectives

The specific objectives of the study were:

1.4.2.1 To determine effect of budgeting literacy on financial performance of SMEs in Kajiado county.

1.4.2.2 To examine effect of financial records keeping literacy on financial performance of SMEs in Kajiado county.

1.4.2.3 To determine effect of savings literacy on financial performance of SMEs in Kajiado county.

1.5 Research Questions

The study sought to answer the following research questions:

1.5.1 Was there effect of budgeting literacy on financial performance of SMEs in Kajiado county?

1.5.2 Was there effect of bookkeeping literacy on financial performance of SMEs in Kajiado county?

1.5.3 Was there effect of savings literacy on financial performance of SMEs in Kajiado county?

1.6 Significance of the Study

The study is useful to the entrepreneurial enhancement policy formulators in both county government of Kajiado, and the national government of Kenya in finding out whether the

financial literacy training in institutions or colleges have any bearing to small and medium enterprises success. The research outcome further going to provide information on possible ways the county government sector regulators would be able handle the issue of lack of business skills amongst the business proprietors and also other possible ways of enhancing financial literacy among them. The research findings also to be beneficial to investors as well. The study further also of importance to the training institutions to help in coming up with relevant and up to-date curriculum in business financial management skills. In addition to the above mentioned benefits, the research results will be contributing to add material to the already available literature that may also lay a foundation for the future scholars who may wish to pursue studies in this field area.

1.7 Scope of the Study

The study found out to some extent there was correlation between financial literacy and financial performance. It focused on SMEs in Kajiado county, and sought to determine the effect of financial literacy on financial performance of business proprietors carrying out business activities in Kajiado county. The survey study was planned, executed and completed within a period of two weeks with the engagement of two competent research assistants after conducting a training of between four and five days for specific instructions, and familiarized themselves with the instruments that were to be used in the study.

Kajiado county was chosen because of numerous reports that highlighted an influx of business investors venturing into this region to invest in various spheres of business undertakings. Furthermore, there was no notable documented study research results that had been conducted on SMEs regarding the chosen area of study in Kajiado County.

1.8 Limitations of the Study

This study could be deemed to take a lot of time by the respondents and perhaps those who considered it inconsequential to their daily-life businesses, and therefore failed to respond in an objective manner. The researcher also found it challenging to get reliable information from the respondents. However, the researcher mitigated these challenges by first took time to explain to the respondents that the exercise was being carried out for academic and any information volunteered was being treated with utmost confidentiality and used only for the academic research study. They also had an option to indicate their names or opt not to give any kind of their identities. The researcher also presented a letter from the university authorizing the research study to show that it was a course work and the study data which was going to be collected was for the study purpose.

1.9 Organization of the study

This project research structured as follows: chapter one provided the background of the study, research objectives, significance of the study, scope, and limitations likely to be encountered in the course of the study. Chapter two presented literature review and a conceptual framework, chapter three presented research methodology, chapter four presented data analysis, presentation and interpretations, and chapter five presented summary of research findings, conclusions and recommendations.

CHAPTER TWO: LIETRATURE REVIEW

2.0 Introduction

Chapter two discussed a review of the theoretical literature that are already in existence on the effect of financial literacy and financial performance of SMEs. The focal point in this chapter will be highlighting relevant theoretical theories that show the correlation between financial literacy and financial performance of SMEs.

2.1 Theoretical Framework

SMEs are majorly considered to be playing a critical role in an economy, and because of their importance, a large number of researchers have been inspired to carry out studies to contribute greater knowledge of the financial literacy on financial performance in the sector of SMEs businesses. Due to this fact, many theories have emerged from different authors or have been written by different scholars in an attempt to explain any relationship which could exist in view of financial literacy and financial performance of a business. The research study will be introducing various theories relevant to the study in an effort to support this relationship. The study will look at financial literacy theory, transaction cost theory, and resource-based theory.

2.1.1 Financial Literacy Theory

The financial literacy theory explains that a decision an individual or firm will be making on financial management, will be playing a key role to the future performance of the firm. The theory further gives a view point that behavior is either driven by what one feels to be true even without conscious reasoning (Evans 2008).

Financial literacy empowers individuals doing business or one who intends to do business with useful financial knowledge that matters for making sound financial decisions that best fulfill an individual's personal or business goals. This theory will therefore be helpful in assessing how the business operators do come up with the decisions they do make in terms of business activities forecast, and also understanding what drives them to make those decisions in their business operations.

2.1.2 Transaction Cost Theory

This theory was written by Williamson (1981), which explains that business financial transactions involve costs, which in essence, reflect the cost of the business entity incurred within or outside the enterprise. The author is forwarding an argument that a transaction cost will automatically reflect the cost of a business activity regardless of whether it is within or outside of the business. Rindfleisch (2020), argued that it is through a transaction cost that an enterprise can measure how efficient its business operations has been in comparison to its planned business activities. Therefore, in order for a firm to manage the transaction costs effectively, one needs to acquire financial management skill.

Using this theory, lack of or low financial skills may cause an avoidable increase in transactions costs, which in turn could influence financial performance negatively. It is the needed financial management skills which would enable the business operator or the firm to identify transactions that are likely to improve or decrease financial performance of of the firm. Getting acquainted with the theory, an individual or business operator is tasked with the responsibility of managing a business will strive to avoid unproductive activities, and also to be keeping proper its books of accounts, through which accurate business affairs in the final analysis could be ascertained

(Rindfleisch, 2020).

This theory will greatly be beneficial to this study because many SMEs are operated by business owners who may be somehow not maintaining proper records of their business transactions, with the belief that they will remember or keep in their memory of the transactions simply because business transactions are of low amounts and it would not be difficult making follow up or monitoring.

2.1.3 Resource-Based Theory

The theory was written and presented by Barney (1995), and it suggests that an enterprise is comprised of assets and resources, which when utilized in an efficient manner will strengthen its capability of keeping the enterprise in a going concern. What the theory is advocating is that, if a business entity acquires financial resources and manages them efficiently, it is highly likely that the firm is going to gain competitive advantage over others in similar business or will be achieving high financial performance (Barney, 1991). The author of the theory further gave reasons why there occurs successful and struggling firms, by saying that the difference happens as a result of how they deploy and utilize their resources in the business.

The study is therefore going to use the concept of this theory because it brings out the element of business skill and knowledge as a resource that enhances competency in managing business affairs and to a large extent a quite number of studies have applied the theory to establish financial performance of business entities.

2.2 Literature Review

The literature review highlights the findings from the previous studies from different scholars or researchers and this study will be looking into other findings touching on budgeting, bookkeeping and savings and financial performance.

2.2.1 Financial Budgeting and Financial Performance

Asakania (2016) presented outcome of the study on budgeting and record keeping skills on business performance. The result of the study was that there existed relationship between financial literacy and financial performance of the business entities studied. The study recommended that both governmental agencies and NGOs should be exploring ways on how they could be facilitating training for the SMEs operators with the aim of equipping them with appropriate and relevant financial management skills to improve their efficiency in managing their business activities.

Arinda (2019), studied the relationship between financial literacy and financial performance of SMEs in Ntungamo municipality in Uganda. The study focused on three objectives namely effect of debt management, bookkeeping and budgeting. The outcome from the study mentioned there was a positive correlation between bookkeeping and debt management and therefore highly predicting results of their businesses.

Chepngetich (2016) did a study to assess correlation that could exist between literacy in finance knowledge and financial performance of Small Medium Enterprises in Uasin Gishu County. The study showed that there was a positive effect of budgeting on businesses performance.

2.2.2 Bookkeeping and Financial Performance

Mwaniki (2019) studied financial literacy on the expansion Small and Medium Enterprises in Nyeri County, focusing on examining on the effect bookkeeping and budgeting skills on the business expansion or growth of small and medium enterprises in the area. The survey study mentioned that bookkeeping skill had remarkable effect on the expansion or growth of these businesses. The study further presented that bookkeeping had made it easier for the business operators to know when their business obligations were due.

Mapepeta (2018), investigated bookkeeping literacy amongst the SMEs and how this could be applicable in measuring profitability of these businesses. The result of the research study mentioned that even though these businesses were viably operating businesses, there weren't sufficient or proper financial records keeping to measure their profitability. The study further mentioned that there were other market players who sometime take advantage of the absence of financial record keeping to dwarf their business growth aspirations. The study in its conclusion stated that if financial literacy could be acquired and good business activities records are kept, the measurement of financial performance would be beneficial to key stakeholders of this business information. For example, governmental regulatory agencies would use financial information available from the business operators to use in their forecast on revenues attainable from the sector .

2.2.3 Savings and Financial Performance

Mutiso and Muigai (2018), gave an account from their study on financial literacy and performance of the business groups which received financial grants or were given money for their businesses in Kirinyaga County. Using financial literacy theory, the study randomly selected eighty-eight businesses to find out the financial literacy level and its effect on the business performance of the small and medium enterprises in the county. The result of the survey was that there was a positive correlation between financial literacy and the financial performance amongst these businesses. The study outcome mentioned that the business proprietors had good business skills and knowledge of business operations in terms of savings and bookkeeping because of the skills they had acquired from the previous trainings from the local government initiatives, thus showing good business performance.

Chepkemoi, *et al.* (2017) studied the effect of the acquisition of business skill with aim of

understanding business profitability, in Kwale County, Kenya. The sampled population included those business people who had attended business skills training in the previous sessions offered by the World Bank through the initiative of county strategic development plan. The findings showed that the previous training conducted to improve business skills had had some good impact on financial performance of small and medium enterprises which immensely contributed to their businesses profitability.

2.3 Research Gaps

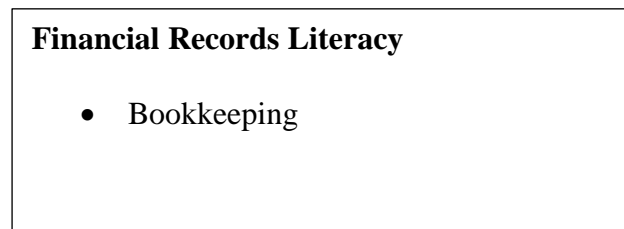
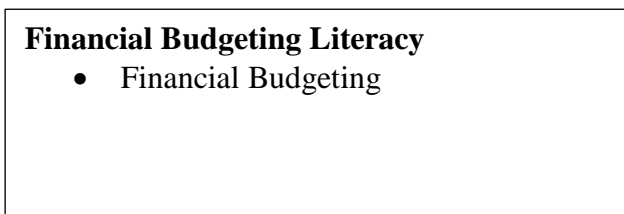
Having looked at a number of studies as mentioned above, it reveals that not much in-depth study had been carried out on bookkeeping, financial budgeting and savings. Therefore, this study was to investigate financial literacy on financial performance of small and medium enterprises and used the above variables with aim of enriching knowledge in this field area and presumably for the adoption by interested government agencies for their policy formulations with the view of improving this business sector, and also for established and prospective businesses for their business activities forecast.

2.4 Conceptual framework

Conceptual framework is a pictorial expression that shows an interaction between the study variables in a diagrammatic manner. Dependent variable in the study was financial performance focused on profit of small and medium enterprises, and the independent variable was financial literacy which focused on financial budgeting, bookkeeping and savings.

Financial Literacy

Independent Variables



Financial Performance

Dependent Variable

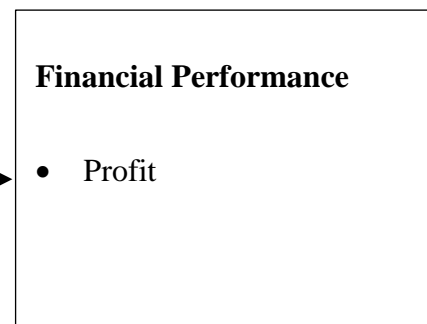


Figure 2.4. 1: Conceptual Framework

Source: Author (2023)

The figure 1.1, depicts financial literacy elements and the corresponding dependent variables which will be affected by a change or reaction of the independent variables.

2.5 Operationalization of research variables

Operationalization refers to defining variables and how specific variables will be measured and used in this study.

2.5.1 Financial Budgeting

A budget for business can provide guidelines for decision-making and future planning. It therefore helps in focusing on setting aside money for running and growing the business. This focus makes the business owner or firm decisions wiser, because not just only looking at the business current bottom-line and also planning to grow business in terms of income generation and also considering the best ways of spending business money appropriately based on a balanced view of the needs of the business.

Budgeting concept concerns with the planning of expenditure and income (Uddin & Chowdhury, 2009). In other words, it is the drawing up of forecasts on essential financial aspects of a business. Financial forecasting is crucial for the prediction of business future performance because it will be showing the components of financial information helpful for future financial performance analysis on a firm (Bragg and Burton, 2006). A good estimation of the expenditure and income is important because it will be an indicator of the business financial performance and also be a basis for planning for a business financial obligations to avoid financial distress which arise in future.

2.5.2 Bookkeeping

Having good knowledge of bookkeeping, enables an individual or a firm to determine its accurate profit at the end of financial or fiscal year. Maintaining good records of business transactions could also be helpful to support or achieve good credit rating status with financial institutions or goods suppliers or services providers (Karadag, 2015). It is also beneficial for purposes of computing accurate tax obligation from the business activities income. Additionally, keeping proper books of accounts will be enabling the business owner or entity to know its business assets which will be helpful in tracking their whereabouts in the business premise

(Siekei *et al*, 2013).

2.5.3 Savings

Saving is an essential factor in economic development as it enables the conversion of financial resources into capital which in turn invested to enhance the growth of business entity. It is critical to form savings stream in any business forecast as a way to achieve business goals, to prepare for unforeseen events, plan for business expansion, and keep business operations moving on even when sales are low and also earn interest from the spare money not being used in the business. Thus it serves as a long-term security to keep the firm as a going concern.

While in the business, a firm will be seen to be doing well when it does not experience difficulty in meeting its financial obligations when fall due. Business savings will be a boosting factor for relief. Saving habit is the most essential part in the process of building business liquidity safety net to cushion it during low sales season. Therefore, having savings and understanding why there is a need to have savings are indicators for saving literacy that will effectively affect business financial performance.

2.5.4 Financial Performance

The major challenge of a business enterprise is keep its performance in the positive and ascertain growth from daily operational activities (Arinda, 2019). Many of business entities measure their financial performance in terms of efficiency and effectiveness of meeting its planned targets revenue or net worth created within a specified period. Business operational performance is broadly viewed to measure profit, net-worth, market share amongst other business results which would be considered to lead to financial performance (Abongo, 2017). But various approaches have been adopted to measure financial performance and these include some of these: sales

revenue, profits, return on investment/equity, return on sales and its liquidity (Chamwada, 2015). For this study, the researcher will be quantifying financial performance by measuring business results in terms of profit.

According to Chamwada (2015), financial performance identifies and gives information to know how an enterprise has utilized its financial resources to generate revenue or created wealth within a specified period, whether directly or indirectly. In other words, it is the business operational results that enables an individual or firm to know whether there is business profit or loss, or growth or decline in wealth creation, which will eventually measure efficiency and effectiveness of the firm. It will however be showing how a firm's financial performance is well or badly off in its wealth creation which attribute to the competency of the business.

In conclusion, to assess and to get to know whether the business has been performing better or not, it will be important to measure its financial performance by computing its profit or growth in sales using the appropriate measures.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

Chapter three discussed methodology which applied in this research to address the objectives indicated for the study and attempted to answer questions designed for the study. The chapter further highlighted some of the key research methodology elements which included research design, target population, size of sample, and techniques of sampling, procedures for data collection, and analyses of data. And finally, the chapter explains the validity, reliability and ethical issues in the research study.

3.1 Research Design

Blumberg, *et al* (2011) and (Kothari, 2004), a research design is meant to describe how the collection, measurement and analysis of research data will be done. It mainly outlines what one decides to follow in addressing research problem and ultimately adopted in the study to record responses received from the designed research questions (Mugenda and Mugenda, 2019).

3.2 Target Population

A population is an entire group of elements which a researcher is aiming to draw a conclusion from to make a decision for the reason the survey study is being carried out, Kamau, *et al*, (2020). It therefore the actual elements that the researcher will communicate with or observe in his / her study. Mugenda and Mugenda (2019), explained that a target population consists of specific elements which the researcher has interest to examine for a particular purpose, and to get unbiased outcome.

The target population in this study consisted of 46,100 licensed traders as indicated in the latest

published strategic development plan of Kajiado County for the highlighted period between 2018 and 2022.

The choice of Kajiado county which was because of speedy mushrooming of various types of businesses and therefore became an appropriate representative of Kenyan small and medium-sized businesses in the SMEs sector.

3.3 Sampling Design

Sampling is the choosing of part of the target population on the basis of which a judgement about the aggregate population is made (Kothari, 2011). It is therefore the process of getting information from the targeted population by carrying out investigation on a portion of the target population. The process involves in selecting or coming up with a subset of the target population which will be used in a research to come up with a decision on the entire population basing on the responses received from the sampled size from the population. The study will adopt simple random sampling procedure.

A sample size comprise of individual items included in a research to represent a population (Kumar, *et al.*, 2013). When the target population size is known the following formula will be used (Yamane, 1967).

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

Where:

n = will represent the sample size

N = will represent the known business population size

e = will represent the confidence level, which will be set at 0.05 or 5%.

From the above formula the sample size of the population to be studied will be obtained as

follows:

$$n = \frac{46,100}{1 + 46,100(0.05)^2} = 396.5 \cong 397$$

A sample size of 397 SMEs was to be considered for the survey study and the sample size was going to be split between small and medium-sized businesses operating within Kajiado county. Therefore, on a fair basis the number of sampling was to be done randomly but on evenly basis, that is, small businesses will account for half of 397 sample size, that is, about 198 and the medium-sized businesses will be equally the same number

Table 3.3. 1: Sampling of Target Population

Target Population	Sample size
Small-sized businesses	198
Medium-sized businesses	199

Source: Author 2023

3.4 Data Collection

Research data is any information that has been collected to validate original research thought or come up with a new idea in a particular field of study (Mugenda and Mugenda, 2019). The study used questionnaires comprised of questions addressing each study objectives to record responses from the sampled population. The questions were short and precise to enable the respondents answer them with less difficulty, and also to minimize response error.

The data collection was done with the aid of research assistants, who were trained before conducting the research exercise. They followed a pre-determined guide designed to ensure that the population being targeted receives similar introduction to the study, and also ensuring that the data collection process was standardized. In administering the questionnaires, a drop and pick method was adopted. The data collected was handed over to the researcher within two weeks for

collation and subsequent data analysis.

3.5 Data Analysis and Presentation

Kamau, *et al*, (2020), stated data analysis is the process in which the collected data are converted to produce a meaningful information in order to address the research objectives. Before embarking on analyzing the responses collected, the completed questionnaires was reviewed to make sure that they're all complete and accurate. This involved consistent check with the view of ensuring that instructions were followed in the right way to give correct information for the research exercise. Simple linear regression was applied to analyze the data to establish the relationship of the variables. Descriptive analysis was employed to come up with statistical information to use in making conclusions and recommendations.

The study used regression analysis to show the relationship that could exist between the dependent variable (finance performance) and the independent variable (financial literacy) by using the following model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

3.6 Validity and Reliability

Validity in a research study refers to how well the instrument adopted for survey study or tool which is going to be used will produce appropriate result. It needs to measure the accuracy of the instruments used in the research, which for the purpose of the study questionnaire was used. The instrument was tested prior to the research exercise commencement in order to ensure that the questions in the instrument covers all aspects of information intended to be measured and accurate. In assessing the validity of the instrument, a pilot study was conducted based on a few

respondents which was drawn from a few SMEs in Kajiado county. The reason for carrying out a pilot study was to identify any errors that could be noticed in the questionnaire and correct them before embarking on the full exercise of collecting data.

Reliability is about the consistency of measurements of a given variable in a study over time (Mugenda and Mugenda, 2019). It refers to whether research study methods can reproduce the same results many times. In conducting the survey study, the researcher made sure that the reliability of the research instruments were achieved before data collection and arriving at the conclusions. This meant that the researcher had to do or carry out pre-tests in order to check reliability of the instrument before embarking on the actual field work.

3.7 Legal and Ethical Considerations

Ethics are the standards that are allowable and distinguish between right and wrong. Research ethics refer to the standards that are expected to be followed before, during and after research study (Mugenda and Mugenda, 2011). They further mentioned that when carrying out research study one should be guided by moral standards in research study in all stages of the research design.

An approval was sought from the University before the research study was carried out. The researcher explained the reason for conducting the research study to the respondents and gave an assurance of adherence to confidentiality of their responses. And finally, any research materials and citations from other scholars was acknowledged appropriately in the work written by the researcher.

CHAPTER 4: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter presents analysis and findings of the study as set out in the research objectives and methodology. The study utilizes primary data, which is gathered from the analysis of physical questionnaires which were filled in through interviews by research assistants. Both descriptive and inferential statistics were used to analyze the data collected. The results of the analyzed data were presented in form of frequency distribution tables, and pie-charts.

4.1: Gender of Respondents

The respondents were asked to indicate their gender, and the findings were that 244 (61.16%) of the respondents were male and the remaining were 155 (38.84%) were female. The findings above to a great extent indicated small and medium enterprises existing in this field study area were dominated by male compared to female. However, there is no clear reason as to why such discrepancy exists because the study was mainly focused on financial literacy in relation to financial performance for these types of businesses. The response was got by the interviewers ticking the gender on the questionnaire if either male or female when doing the interview.

4.2 Period in Business of the SMEs

Table 4.2.1 Period in Business of the SMEs

Period in Business of the SMEs	Frequency	Percentage
---------------------------------------	------------------	-------------------

Less than 2 years	178	44.62%
2 – 4 years	125	31.83%
5 years and above	94	23.55%
	397	100%

The study wanted to establish how long the SMEs had been in operation since their establishment. The responses from the study found out that 178 SMEs (44.62%) had been in operation less than 2 years, 125 SMEs (31.83%) had been in business between 2 and 4 years, and 94 SMEs (23.55%) had been in business for 5 years and above. This implies that majority of the SMEs were in the early of their businesses but as they remain in the business longer fewer were in businesses. This may be attributed to experiencing difficulty in business operations.

4.3 Number of Employees in the SMEs

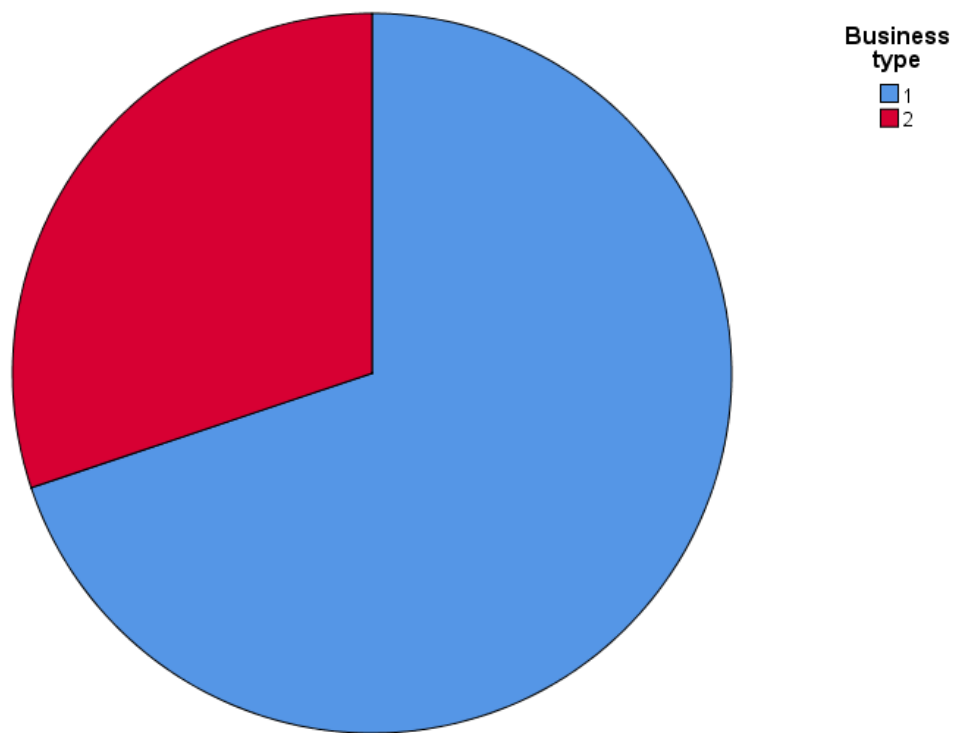
The study findings as shown by table 4.3.1, indicates that 161 (40.35%) SMEs had less than 5 employees, 118 (29.57%) SMEs had between 6 and 10 employees, and 120 (30.08%) SMEs had 11 employees and above. This implies that the majority of the respondents in the field study area were small-sized enterprises as shown the figure 4.3.1 below.

Table 4.3.1 Number of Employees in the SMEs

Number of Employees	Frequency	Percentage
Below 5 employees	161	40.35%
6 – 10 employees	116	29.57%
11 and above employees	120	30.08%
Total	397	100%

4.4 Business Types – Small and Medium Enterprises

Figure 4.4.1: Business Types – Small and Medium Enterprises



1. Small-sized enterprises
2. Medium-sized enterprises

Source: Data Collected (Author 2023)

The data in the figure 4.4.1 above shows that small businesses that operate in Kajiado county have a higher number compared to medium businesses. The study findings indicated by figure

4.4.1, 69.92% of them were small enterprises while 30.08% represented medium enterprises. A sample size of 397 SMEs was surveyed in the study and the respondents were randomly selected from the target population between small and medium-sized businesses operating within Kajiado county. The study intended to sample the respondents from the two different types of businesses equally, that is, small and medium enterprises picked on equal basis at random. That meant the small-sized businesses was account for 198 and the medium-sized businesses were 199, but in reality the small-sized businesses took a larger portion due to the fact they were the larger number of the enterprises in the studied field area.

4.6 Data Collected

The study used primary data, and a questionnaire was used to collect the data. Before analysis of the data collected, time was taken to go through the questionnaires received back to ensure that the data collected was duly filled in to ascertain their reliability, completeness and accuracy. The data was later coded to group responses which presented the information that gave accurate responses from the respondents using descriptive statistics.

4.7 Response Rate

The research study was administered using questionnaires and the response was got through drop and pick, but before the questionnaires were handed to the respondents, researcher took time to explain for what purpose the survey was being conducted and the use of the required information. The researcher adopted this method of drop and pick because many of the respondents requested to be given more time since they were involved in their daily business activities. The response rate of the study was 87%. Mugenda and Mugenda, 2003, notes that a response of rate of 50% is considered good enough to draw a representative conclusion of the

view of the targeted population.

4.8 Respondents Financial Literacy

Many of the respondents, 257 (64.42%) had a score of between 1-3 and 142 (35.58%) of the respondents had a score of between 3 – 5. This implies that a large number of the respondents had low financial literacy.

Table 4.8.1: Respondents Financial Literacy

Financial Literacy Score	Frequency	Percentage
1 - 3	255	64.42%
3 - 5	142	35.58%
	397	100%

4.9 Respondents Financial Performance

Several factors can determine the profit of a business gained from its business activities. From the respondents of 397 in the study, SMEs financial performance was measured by the business profit, comparing previous year profit with current year profit. Table 4.10.1 below shows many of the respondents, 203 (51.38%), had a reported profit of between 1% and 5%, a number of respondents mentioned that they were not sure whether they made a profit or not 141 (35.34%), 53 (13.28%) of the respondents made a profit of above 5%. This implies that the majority of the respondents either had no skill on financial literacy or the respondents did not understand why the need calculate their financial performance.

Table 4.9.1: SMEs Financial Performance

Financial Performance (Profit)	Frequency	Percent
Not Sure	141	35.34%
Between 1% and 5%	203	51.38%
Above 5%	53	13.28%
Total	397	100%

Source: Author 2023

4.10 Financial Literacy and Financial Performance

A simple linear regression analysis was done on the dependent and independent variables to determine correlation coefficient between financial literacy: budgeting, bookkeeping and savings, and financial performance: profit. The table 4.10.1 below shows correlation coefficient of 0.7818 indicating a strong positive relationship between financial literacy and financial performance which implies that it is highly likely any variation in independent variables, either by increasing or decreasing, explain up to correlation coefficient of 0.7818 or 78.18% of variations in the financial performance of these businesses.

Table 4.10.1: Model Summary: Financial Literacy and Financial Performance

R	R Square
0.8842	0.7818

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, conclusions and some of the recommendations made by the researcher. The conclusions and recommendations mentioned were done with the view of addressing research objectives on the financial literacy on financial performance with specific reference to the SMEs in Kajiado county.

5.2: Summary of findings of the Research Study

5.2.1 Budgeting on Financial Performance

From the findings, the study found out that budgeting was important to many business people in the county with 45.11% agreed to be aware of its importance but had low knowledge of budgeting process. The study also established that among the business people interviewed agreed

to be aware that there is process for budgeting but admitted they had no training.

5.2.2 Bookkeeping on Financial Performance

From the study findings, it was found that majority of the respondents (43.9%) had strongly agreed that keeping of proper financial records is important but they had no bookkeeping skill to maintain their business financial transactions records. This indicates that many of the respondents were not keeping their business financial records and therefore not sure on how their businesses had performed.

5.2.3 Savings on Financial Performance

Findings from the study, a large number of the respondents, 47.62%, agreed to have knowledge to the reasons why they need to save business surplus or part of the profit but were not saving all their business surpluses and with the smallest percentage of 2.51% who did not know they should do so.

5.3 Conclusions of the Research Study

The study showed that financial performance has myriads factors contributed to its achievement but having good knowledge of budgeting, proper keeping of financial records skill and having knowledge why one should be saving part of the business surplus will be a milestone in enhancing business financial performance. While many business operators may view acquiring these skills as a second-thought in the business operation, these are universally recognizable strategic steps for a business to remain a going concern entity and to a greater extent become a strategic action for any business venture to counter any threat to business continuity.

The study therefore concludes that there is a strong relationship between financial literacy and financial performance of small and medium enterprises. Gaining business skills in book-keeping, good knowledge of budgeting and also having understanding of the benefits of savings enhances greater chance of achieving high financial performance.

5.4 Recommendations of the Research Study

5.4.1 Budgeting Literacy

Budgeting is a business skill of knowing how to forecast for income and expenditure of the business operational activities. It is a skill helpful in understanding where funds for running a business are coming from. Therefore, the research study recommends that the business owners or operators should strive to acquire basic skill on budgeting so as to avoid failing to get sufficient income to keep an enterprise on a going concern. Further still, the study recommends that the county government needs to get more involved in empowering both potential and the existing business operators through trainings in business skills or organizing forums or workshops for creating awareness of the importance of such skills within their local regions for the purpose of improving the management of the business activities in a sustainable manner which in return will generate more revenues for the growth of the overall economy.

5.4.2 Bookkeeping Literacy

The study recommends that relevant department in the county government in charge of building capacities of the existing business operators be involved in rolling out training to empower or equip them so as to improve their business' performance capabilities in terms of understanding the benefits of bookkeeping functions. Additionally, creating a learning and development environment for business people will boost or promotes high level of self-reliance of the

economy of the country.

5.4.3 Savings

The study recommends that business people need to be educated on why they need to save and where to save the extra money they get from the business operations and also know the benefits it brings to business continuity.

5.5 Implication of the Research Study on Financial Literacy

The analysis done on the variables under the study have clearly indicated that consideration needs to be taken in order to achieve good financial performance. This is indicative of the business owners or managers putting more efforts in the development of skills in financial literacy in terms of budgeting literacy, bookkeeping literacy and savings in order to enhance confidence of the business operators in this field and improve their financial performance.

5.6 Recommendations for Further Studies

The study recommends another study should be conducted find out the reason why there is high discrepancy of the percentage between the number of male and female who are involved in these businesses in the county.

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Appendix I: Questionnaire

This questionnaire is to collect data for academic purposes only, and has been set in relation to the objectives of the study. The questionnaire is to be completed by MSEs owners only, and all the information provided will be treated with utmost confidentiality.

Section A: Background Information

1. What is your gender?

Male { } Female { }

2. How long have you been in business?

a) < 2 years { } b) 3 – 4 years { } c) 5 years and above { }

3. How many employees do you have currently?

a) < 5 employees { } b) 6 – 10 employees { } c) 11 employees and above { }

Section B: Financial Literacy

4. Do you keep your business financial transactions records?

a) Yes { } b) No { }

5. Do you carry out budgeting for your business?

a) Yes { } b) No { }

6. Do you have savings from your business?

a) Yes { } b) No { }

Section C: Financial Performance

7. Do you compute profit / loss from your business operations?

a) Yes { } b) No { }

8. In the past one year, how much annual profit or loss did your business have?

a) less than Ksh 100,000 { }

b) Between Ksh 100,000 and Ksh 500,000 { }

c) Ksh 500,000 and above { }

d) I am not sure { }