INFLUENCE OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN RUIRU TOWN, KENYA

ERICK OTIENO

A Research Project Submitted to the Graduate School in Partial Fulfillment of the Requirement for the Award of Degree of Master of Business Administration, Egerton University.

EGERTON UNIVERSITY

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DECLARATION AND RECOMMENDATION

DECLARATION

I the undersigned declare that this research project is my original work and has not been presented in any other university, college or institution of higher learning other than Egerton University.

Signature………………………………….

Date…………………………………..……

Erick Otieno

CM16/0228/12

RECOMMENDATION AND APPROVAL

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

Supervisor: Mr. Geoffrey Mbuva

Signature…………………………………..…

Date……………………………………….

Lecturer, Department of Accounting, Finance and Management science

Faculty of Commerce

Egerton University

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DEDICATION

I dedicate this research project to my family, my parents Mr. and Mrs. Otieno who have advised and supported me all through my academic life. My late grandfather James Okonji Omukhulu who did not have much an education but really emphasized education by encouraging me to go to the highest academic level I could possibly achieve and above all I thank the almighty God for guidance and provision towards completion of this research project.

ABSTRACT

Financial literacy has been identified as one of the key competencies required for the establishment, management and thriving of SMEs. However, the exact effect financial literacy has on the financial performance of SMEs has not been fully established by the past 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, the specific objectives emanating from this study were; to identify the influence of personal saving skills, entrepreneurship skills, book keeping skills and skills on access to banking services on the financial performance of small and medium enterprises in Ruiru Sub County. A descriptive survey design was adopted in conducting the study. The study population entailed the 334 owners of registered SMEs in Ruiru Sub County and who have undergone some financial literacy training. The target population of this study was 334 SMEs operating in Ruiru town. A sample of 100 respondents was selected out of the total population using stratified sampling to get the sample of respondents and with the aid of the Yamanes' formula. The study used primary data which was collected using questionnaire which comprised of both open ended and close ended questions each addressing the study's objectives. The data collected was analyzed using SPSS and the significance of the results tested using inferential statistics such as analysis of variance. The results of the multiple regressions revealed that there is significant strong positive relationship between financial literacy; personal savings skills, entrepreneurship skills, access to banking services skills and book keeping skills on financial performance of SMEs; growth in profitability, sales revenue turnover and return on equity. 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 the SME owners to participate in financial literacy training programmes. Secondly, trainers should consider including information technology skills related modules as one of units on which participants will be trained on, this is because information technology helps an entrepreneur do business on line hence increase his competitive edge.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis Of Variance
DW	Durbin Watson test
FSD	Financial Sector Deepening
GPD	Gross Domestic Product
KCB	Kenya Commercial Bank
KMO	Kaiser-Meyer-Olkin test
NGOs	Non-Governmental Organizations
OECD	Organization for Economic Co-operation and Development
R&D	Research and Development
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Shares
SMEs	Small and Medium-sized Enterprises
SPSS	Statistic Package for Social Science
UN	United Nations
VIF	Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

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 a subject 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 and 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 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 who want to grow, need to have confident of their finances, as well be adequately informed (Kotzè&Smit, 2008). If the owners or managers of SMEs 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 accessing 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 advances 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, 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 & 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 proxies 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 Sawyerr et 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.

There are diversified definitions for SMEs depending on the country of location but there is no universal definition to suit the SMEs in Kenya. This according to the micro and small enterprise Act of 2012. However, an SME 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 employed. Small and Medium Enterprises (SMEs) play a major role in economic growth and development in both established and growing economies in the world (Stanworth & Gray 1993). In particular, SMEs globally participate in creating employment opportunities to millions of people especially youth and women and as a source of technological innovation to create new products and eradication of poverty (Wolff & Pett 2006).

Several countries in the world are promoting financial literacy amongst SMEs 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 financial literacy programs that are aimed to equipping Kenyan SME owners on opportunities to learn how to effectively manage their finances.

1.2 Statement of the Problem

The financial performance and growth of Small and Medium Sized Enterprises (SMEs) has been of great concern to many market players, such as development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organizations (Eniola & Entebang, 2014). Past studies on the influence of financial literacy on financial performance of SMEs reveal disparities on the outcome. Cole et al. (2011), evaluated a financial literacy program designed to promote savings behaviour among households from Indonesia and found that the financial literacy had no effect on the overall savings behaviour of the population. Berge et al. (2011), in a study on a program for microfinance clients in Tanzania implemented by the University of Dar es Salaam entrepreneurship centre, found out that financial literacy affects financial performance in respect to profitability but only for male entrepreneurs.

Nunoo et al. (2012), in a study which sought to examine how financial literacy influenced SMEs in Ghana, found out that financial literacy is crucial in stimulating the SME sectors. It was concluded that financially literate SME owners may save more and manage risk in a better way. The results of the study proved that financial literacy has a positive effect on SMEs financial performance. Given this variance on the influence of financial literacy on financial performance of SMEs, this study sought to find out whether financial literacy influenced financial performance of SMEs in Ruiru Sub County.

1.3. Objectives 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. The specific objectives emanating from this study were to;

i. Identify the influence of personal saving skills on financial performance of small and medium enterprises in Ruiru Sub County.

ii. Assess the influence of entrepreneurship skills on financial performance of small and medium enterprises in Ruiru Sub County.
iii. Establish how book keeping skills influence financial performance of small and medium enterprises in Ruiru Sub County.
iv. Determine how banking services access skills influence the financial performance of small and medium enterprises in Ruiru Sub County.

1.4 Research Questions

This research sought to answer the following research questions;

i. Do personal saving skills influence financial performance of small and medium enterprises in Ruiru Sub County?
ii. What relationship is there between entrepreneurship skills and financial performance of small and medium enterprises in Ruiru Sub County?
iii. How do book keeping skills influence financial performance of small and medium enterprises in Ruiru Sub County?
iv. Do access to banking services skills influence the financial performance of small and medium enterprises in Ruiru Sub County?

1.5 Significance of the Study

The research will majorly be significant to government policy makers, banks and related financial institutions, other researchers among others. The research will be significant to banks and related financial institutions because it will help them better understand influence of financial literacy on financial performance of SMEs and come up with even better financial literacy programmes that will ensure increased productivity of the small and micro enterprises.

The research will again be significant to other researchers by adding to their knowledge of the SME sector and incite them to go for further research about SMEs all in an effort to improve the SME sector which currently has created employment to so many Kenyans. The research will also be significant to the government policy makers as it will help them come up with better policies that will guarantee emergence, growth and better financial performance of SMEs, this is owing to the immense contribution of the SME sector to the economy of Kenya.

1.6 Scope of the Study

The study was done in Ruiru town within Kiambu County. It involved studying the influence of financial literacy on financial performance of small and medium enterprises in Ruiru town, the study specifically dealt with the influence of personal saving skills, entrepreneurship skills, book keeping skills and access to banking services on financial performance of SMEs. It also looked at financial performance in reference to profitability, Sales revenue and Return on Equity.

1.7 Limitations of the study

The study to a limited extent was hindered by a number of challenges, like uncooperative respondents who feared exposing their literacy levels. However, the researcher assured the respondents that the study is for academic purposes only and that the information given by the respondents would be treated with utmost confidentiality. Further, the researcher obtained an introduction letter from the university indicating that the study was purely for academic purposes.

Other respondents said they did not have adequate time to take part in the study as a result of their busy schedules. This posed a serious challenge, as entrepreneurs in SME sector were the key respondents to the study. Proper prior arrangements were therefore done with the respondents to avail themselves for the study. Also, the researcher administered the questionnaire through a drop and pick later method so that the respondents filled the questionnaires at their own time.

1.8 Assumptions of the Study

The study findings from the selected sample observations comprehensively represented the attributes of the population under consideration. Control variables such as other factors enhancing performance and or hindering the variables under investigation remained constant within the period of the study. The questionnaires used will give the same results when the study is replicated at a later stage or when a different sample is used and the same instrument gave the intended constructs. On the other hand, the respondents answered questions correctly and truthfully without any biasness. Lastly, the time frame of five years was assumed to be adequate to cover substantial information to depict the cause-effect relationships among the variables which were under study.

1.9 Operational definition of terms

Banking service access skills: In this study Banking service access skills refers to the skills or various ways in which a customer can access banking services such as operating accounts, making transfers, paying standing orders and selling foreign currency in a way that brings most profits to the customer.

Bookkeeping skills: In this study bookkeeping skills involves the process of recording, analyzing and interpreting the financial transactions of a business or individual. The discipline of bookkeeping accounts for a large proportion of the accounting process. A bookkeeper's duty is to set up financial statements so that an accountant can easily perform legal and tax management in a timely manner.

Entrepreneurship skills: In this study entrepreneurship skills refer to the skills necessary for running a small business and assuming all the risk and reward of the given business venture. Entrepreneurship skills produce a business leader and Innovator of new ideas and business processes. Entrepreneurship skills help people to take good new ideas to Market and make the right decisions to make the idea Profitable. The reward for the risks taken is the potential Economic profits the entrepreneur could earn.

Financial literacy: In this study financial literacy has been taken to mean the ability to understand how money works in the world, how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills based on knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Such skills include, personal saving skills, entrepreneurship skills, book keeping skills and access to banking skills.

Financial Performance: In this study financial performance refers to the act of performing financial activity, the degree to which financial objectives are being or has been accomplished, the process of measuring the results of a firm's policies and operations in monetary terms. There are many different ways to measure financial performance, but this study only considered profitability, sales volume and return on equity.

Personal savings skills: In this study personal saving skills is the money that an individual has been able to put aside for non immediate use. This is the money that a person, rather than a business or organization, keeps in an account in a bank or similar financial institution.

Self-Employment: In this study self employment refers to a situation in which an individual works for himself or herself instead of working for an employer that pays a salary or a wage. A self employed individual earns their income through conducting profitable operations from a trade or business that they operate directly.

Small and Medium enterprises: A Small and Medium Enterprise is a business that has Sales of between kshs.1, 000,000 and kshs 5,000,000 in a year or has employed 10-50 people.

CHAPTER TWO

LITERATURE REVIEW

2.1 Concept of financial literacy

There is no universally accepted definition of financial literacy (Huston, 2010). However, Lusardi and Mitchell (2007b) used the definition of OECD (2005) which defines financial literacy as the process by which financial consumers/investors improve their understanding of financial products and concepts and through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help and to take other effective actions to improve their financial well-being".

Financial literacy is the ability to understand matters of financial nature, consisting in the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. It is associated with the set of attitudes that are relevant for the financial decision-making, behavior and knowledge. These decisions include when to save, when to spend, managing a budget, choosing the right financial products and willingness to address other events, such as financing children's education and planning for retirement. The higher the financial literacy, the higher the benefit for people because it helps them making better financial decisions and gives them more control over their money. Consequently, it improves the economy performance. More financially literate contribute to broader economic growth and development (Kefela, 2010). However, Mak and Braspenning (2012) argue that consumers generally do not have a sufficient level of financial literacy in order to enable them to make informed and rational decisions, concluding that behavioral biases have a distorting influence on consumer decision-making.

According to Consumer and Financial Literacy Taskforce, (2004), the recent evolutions in financial markets, has become increasingly necessary for entrepreneurs and consumers to be more knowledgeable and competent in administering their finances. This is because changes in financial markets have resulted in the availability of a wider selection of financial products and services, making financial decisions multifaceted and more complicated. Easier access to credit facilities, deregulation of financial markets and technological improvements in the way financial services are distributed have undoubtedly left many entrepreneurs with a confusing array of investing opportunities and decisions to be made

Financial literacy skills enable individuals to navigate the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal &Delpachitra, 2003; CBF, 2004b; Raven, 2005).The literature suggests that there is a strong relationship between financial literacy and entrepreneurs’ welfare. Studies indicate that households with less financial knowledge or literacy, tend not to plan for their retirement (Lusardi, Mitchell, 2007a), receive lower asset levels (Lusardi, Mitchell, 2007a), and usually borrow at higher interest rates (Stango, Zinman, 2006). These results have convinced policy makers in both, developed and developing countries to increase efforts in advancing financial literacy. Financial literacy can be measured in diversified approaches, namely; personal savings skills, entrepreneurship skills, book keeping skills and access to banking services skills.

Personal saving skills are defined as the strategy of setting a side part of disposable income which is not spent on consumption (Bime & Mbanasor, 2011). According to Virani (2012) saving skills is any action undertaken by an individual resulting to scarifying the current consumption in order to increase the living standard and fulfilling the daily requirements in future. The amount saved by the entrepreneur could be used for investment to earn interest (profit) or be used to purchase assets such as buildings. Personal savings skills help in increasing savings base for an individual especially when the interest rate in banks and other financial institutions is high, hence possible to borrow using the savings as the collateral (Kanjanapon, 2004).Personal saving skills is an essential yard stick for capital accumulation and formation which further enhance economic growth and development through investing the saved fund.

Entrepreneurship skills can be defined as the process of using private initiative to transform a business concept into a new venture or to grow and diversify an existing venture or enterprise with high growth potential. Entrepreneurs identify an innovation to seize an opportunity, mobilize money and management skills and take calculated risks to open markets for new products, processes and services. Entrepreneurship skills enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generation and economic development. According to Aminu, (2009), entrepreneurial skills can be measured in terms of desire to take risk to invest, own a business, start a business, be self-employed, create a new product, open a new market, do something new, form a new method of production, self-confidence and internal locus control.

Bookkeeping skills is the ability to undertake the recording the accounts and transactions of a business. The transactions include sales, purchases, income and expenses by an individual or organizations (Larson et al, 1999). Bookkeeping differs from accountancy in that bookkeeping ends at the trial balance stage. Accountancy uses the trial balance information and ledgers to prepare the income statement and the statement of financial position. There are some common methods of bookkeeping such as the single entry bookkeeping system and the double entry bookkeeping system (Pinson et al, 1993). Bookkeeping refers to the recording of financial transactions and events either manually or electronically.

Poor book keeping skills has been posted as the main cause of failure on the SME (Longeneter*et al*. 2006). Bowen (2009) observed that there is a strong relationship between business performance and book keeping skills. Business management entails keeping proper records of the business transactions. Knowledge and skills in bookkeeping is a major factor that impacts positively on sustainability and growth of SMEs. Failure to record business financial transactions (bookkeeping) leads to collapsing of the business within few month of its establishment (Germain 2009). In essence, bookkeeping is one thing an entrepreneur cannot afford to ignore. Research has shown that in any business, bookkeeping is the first step of the accounting process, which also includes classifying, reporting and analyzing the business financial data. It involves organizing and tracking receipts, cancelled checks and other records generated by financial transactions. Bookkeepers chronologically record all transactions: cash disbursements, cash receipts, sales and purchases, and others in a journal and post the journal entries to a general ledger of accounts, which is essential for preparation of monthly financial statements. This is imperative for a profitable business.

Access to banking services skills entails the ability to identify, selection and actual utilization of available banks' credit facilities (Germain, 2009). Lusardi and Michell (2006) suggested that financial literacy is needed to create a measure of financial competence, i.e., to stay knowledgeable about financial matters. These literate people are more participating in financial markets because they know financial matters. Lusardi and Bassa Scheresberg (2013) examined the impact of financial literacy and high cost of the borrowers. The result indicated that there is a relationship between financial literacy and low-cost borrowers. Most high-cost borrowers display very low levels of financial literacy, lack knowledge of basic financial concepts, which affect their performance level in a business. Tamimi and Kalli (2009) examined the impact of financial literacy on financial knowledge. Their results showed that the field of individual activities affects the financial literacy level and people that invest in financial awareness have a higher level of financial literacy. The review also showed that male gender possesses higher financial literacy

2.2 The concept and nature of SMEs

The small and medium enterprises have a long history which stretches back to over 4000 years ago when the first piece of writing about the small and medium enterprises was done, this writing was about loaning from a bank for small and medium enterprises with terms and conditions. Since then small and medium enterprises have become the backbone of most economies providing products and services to the customers. When Adam Smith published "Wealth of Nations" in 1776, he was describing an economy in which local small and medium enterprises were virtually the only economic entities.

SMEs have been identified the world over as the stepping stones for industrialization. Robust economies like the United States of America and the United Kingdom trace their development from growth and development of their SMEs. Currently, it is estimated that the contribution to the GDP by this sector stands at over 25% (Economic Survey, 2012). As such, policy provisions remain fundamental in propelling these enterprises towards self sustenance and realization of their full potentials in contributing towards economic growth. (SMEs management journal 2010). SMEs operations cut across almost all sectors of the economy and sustain majority of households in Kenya, Wanjohi (2010). This was well recognized by the

2003, national budget. David Mwiraria, the then minister for finance noted that "SME activities form a breeding ground for businesses and employees and provide one of the most prolific sources of employment. Their operations are more labour intensive than the larger manufacturers." As such, policy provisions would mean boosting not only the operations of these enterprises but the country's economy as well.

The importance of SMEs in Kenya was first recognized in the international labour organization report on' Employment, Income and Equity in Kenya' in 1972. The report underscored SMEs as an engine for employment and income growth. SMEs create about 85 percent of Kenya's employment (African Economic Outlook, 2011 report). While the subsector constitutes close to 85 percent of employment, it only contributes to about 20 percent of the total GDP. This implies dismal performance of the subsector. The development trajectory of the subsector thus requires a system which holistically fosters SME development. The current constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act, 2012) provide a window of opportunity through which the evolution of SMEs can be realized through the devolution framework. However, the impact of devolution on SMEs development depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy (Kiggundu, 2000; Reddy, 1991)

2.3 Financial performance

Performance refers to the act of performing; execution, accomplishment, fulfilment, etc. In border sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. In the words of Frich (2009), "The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time often with reference to past or projected cost efficiency, management responsibility or accountability or the like". Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm's success, conditions, and compliance. Some of the measures for financial analysis that determine a firm's financial performance are profitability, Sales revenue, Return on Equity, Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business.

The financial performance analysis tools include all the financial statements (balance sheet, income statements). However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness. Thus analysis of financial statements is an important aid to financial performance analysis. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business. Metcalf and Titard, (1976) claims that the financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account.

2.4 Theoretical Framework

The study applies the following theories, contingency theory, financial literacy and behaviour theory, accounting theory and motivational theory.

2.4.1 Contingency theory

Contingency theory claims that there is no optimum method of systematizing a firm and the organization structure of the company (fielder, 1964). It argues that the most appropriate, structure for an organization is the one that best fits a given operating contingency, such as technology (Woodward 1968, Penon 1970) or environment (Burns and Stalker, 1961; Lawrence and Lorsch, 1967). Moorthy (2012) postulated that contingency theory has been widely used in researches on measuring the performance and effectiveness of an organization. Cacciolatti and McNeil (2011) indicated that SMEs that make good use of their structural marketing information presented a higher probability of growth. This concurs with what would Mahmoud (2011) established on SME's in Ghana that the higher the level of market orientation the greater the level of performance. This shows that there is a positive relationship between information utilization and the firm performance as noted by Keh and Nguyen (2007)

2.4.2 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.

2.4.3 Accounting theory

In terms of its theoretical framework, this study drawn on the Accounting theory and particularly the decision usefulness theory. This theory attempts to describe accounting as a process of providing the relevant information to the relevant decision makers. Since the theory set out a formal procedure whereby an individual can make the best decision given his or her subjective probabilities, it is then relevant in this research where the SMEs managers are expected not only to monitor their business transactions but also to make the most accurate decisions that would bring profit to their enterprises. Clelland (1961) explains how entrepreneurs succeed in their business. He contends that successful business operators consider profit to be a measure of success and competency. They set personal but attainable goal for their business and are concern in how well they are doing. In this sense, they are conscious of every transactions accruing from their business and hence they are in a better position to control loss. The decision usefulness accounting theory emphasizes the recording of business transaction for the purpose of effective decision making in business.

2.4.4 Motivational theory

Motivational theory suggests that measures of financial literacy should be related to financial behavior that is in the consumer's best interests, Hilgert et al, (2003) formed a "Financial Practices Index" based upon (self-benefiting) behavior in cash-flow management, credit management, saving and investment practices. When they compared the results of this index with scores on a financial literacy quiz, they found a positive relation between financial literacy scores and Financial Practices Index scores. Their results suggest that financial knowledge is related to financial practices. Although financial behavior seems to be positively affected by financial literacy, the long-term effects of financial education on financial behavior are less certain, Bemheim, Garrett and Maki (2001) found that those who took a financial management course in high school tended in middle age to save a higher proportion of their incomes than others. On the other hand, Mandell (2006a) found little positive impact of a well-regarded high school personal finance course on post high school financial behavior from one to five years after taking such a course.

2.5 Empirical studies

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

Lusimbo and Muturi (2016) investigated the relationship between financial literacy and the growth of MSEs in Kenya. Descriptive cross sectional survey design was used. 306 MSEs were selected using stratified random sampling from a population of 1300 MSEs registered in Kakamega Central Sub County as of 2015. A questionnaire was used to collect primary data while document analysis was used for secondary data. Data was analyzed using percentages and frequencies using SPSS. Findings reveal that; although MSE managers had a fair knowledge of debt management literacy majority do not understand the effect of inflation and interest rates on loans they borrow and were not comparing terms and conditions before purchasing financial products, most managers have low book keeping literacy. Managers with low financial literacy have recorded minimal or no growth.

Mabhanda, (2016) explored the impact of financial illiteracy to SMEs in spite of various interventions to promote growth of SMEs. All the participants of this study were purposefully selected in line with qualitative research approach used in data analysis. The researcher employed a qualitative research approach where document analysis, focus group discussions, open-ended questionnaires and face to face interviews were used. The study revealed that several factors that include lack of financial education contributed further to poor management skills, poor budgeting skills, lack of business information, poor decision making and lack of non-business behavior. The study revealed a considerable low level of financial literacy among entrepreneurs and this has far reaching consequences to the management of their ventures. Such factors worsened the state of SMEs in Zimbabwe. The study therefore recommends that the government, stakeholders, banks, financial support institutions and individuals conduct financial literacy programmes to revive and strengthen the viability 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.

Mazzarol, Reboud and Clark (2015) examined the financial management practices in small to medium enterprises (SMEs) from a study of 289 small business owner-managers across 30 industry sectors in Australia and Singapore. The data was collected using a case study survey by MBA students and analyzed via three stages: first was the examination of the quantitative survey data; second was the NVivo analysis of the interview data; and thirdly was the Leximancer analysis of the selected coded transcripts. The findings show that SMEs have largely informal and ad hoc financial management practices. Differences by size and financial literacy levels were found. As the firm grows in size and complexity the owner-manager is required to adopt more sophisticated and systematic approaches to financial management. SMEs with higher financial literacy have greater capacity to monitor and control the financial performance of their businesses. Challenges for SMEs negotiating with more powerful players were also identified and approaches to address this issue briefly discussed.

Ngek, (2016) sought to find out the impact of financial literacy on firm performance, as well as to examine the moderating effect of financial capital availability on the financial literacy – performance relationship, amongst SME in the Free State province of South Africa. The results showed that on average SME have low levels of financial literacy and financial capital availability. It was also observed that financial literacy positively influenced SME performance, and that the relationship is positively moderated by financial capital availability. It is, therefore, necessary for SME owners to develop financial literacy skills as an essential part of entrepreneurial activities. Likewise, since businesses rely on financial capital to invest, develop and grow, policy makers should put in place measures on how to bridge the access to finance gap, and, thus, ensure that entrepreneurs are relieved from financing constraints.

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 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.

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.

Bruhn and Zia (2011) in their study on the impact of business and financial literacy for young SMEs in Bosnia and Herzegovina found that business outcomes and practices is the difference in effects of the training on individuals with below and above median financial literacy at baseline. They also found that both entrepreneurs with below and above median financial literacy changed some of their business practices, such as separating personal accounts from business, and making investments in their business; however, only entrepreneurs with above median financial literacy at baseline reported increases in sales and profits as a result of the training. These findings suggest that baseline knowledge and information conveyed in the financial training act as complements in increasing the productivity and sales of a business.

Barte (2012), on a study on financial literacy in SMEs, also found out that financial literacy was directly linked to performance. The study was conducted using descriptive research survey design. Data was analyzed using descriptive statics and simple regression analysis. The study found out that Entrepreneurs had low levels of financial literacy as demonstrated lack of financial records, lack of monitoring of profit and losses and lack of cash management practices. The vendors were also confined to high interest loan. The study however did not show the exact influence of financial literacy on these 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.

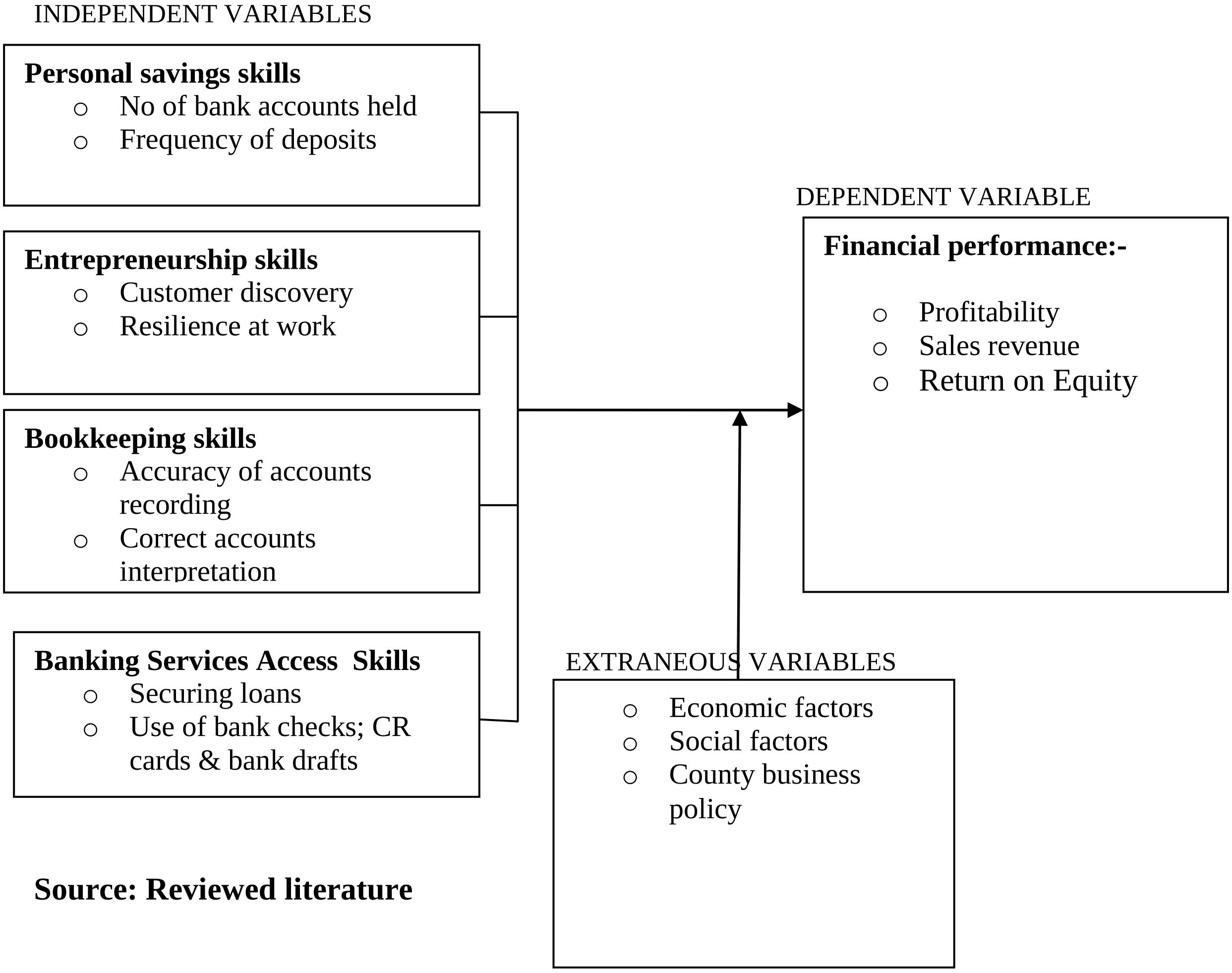
The overall effect of lack or poor financial records keeping is that, the owners cannot perform financial analysis to establish trends to know whether their businesses are doing well or not. They cannot understand and predict business environment and this can lead to business losses. Inadequate or poor 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.

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.

Sagana (2014) conducted a study on entrepreneur financial literacy, financial access, transaction costs and performance of micro enterprises in Nairobi County, Kenya. A cross-section design was adopted for the study. The study population comprised of all microenterprises in Nairobi County, from which a representative sample of 396 microenterprises was drawn. The main study instrument was a questionnaire which comprised of likert-type scale questions on the main variables of the study. The data was analyzed using both descriptive and inferential statistics. The findings of the study indicated that entrepreneur financial literacy had a statistically significant influence on enterprise performance therefore the hypothesis that financial literacy influences enterprise performance was supported.

2.6 Conceptual Framework

Figure 2.1 Conceptual Framework



Source: Reviewed literature

Conceptual framework is a diagrammatic representation of variable interrelations. Financial literacy comprises of Personal savings skills, entrepreneurship skills, book keeping skills and access to banking services skills. These have been conceptualized as the independent variables in the diagram above. The study seeks to investigate the influence or effect of changes in these variables on the dependent variable which is financial performance. Financial performance in this study includes amount of profits made, the size of sales made and the return in monetary value on equity or SME owner's capital. Financial performance is the dependent variable which attempts to indicate the total influence arising from the influence of the independent variables.

The extraneous variables namely social factors, economic factors and county business policies may affect the dependent variable, but in this study the extraneous variables have been held at a constant or at zero meaning they will not have an effect on the dependent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

The researcher used descriptive research design. This design involved selecting a sample that was representative of the population, conduct the research on it and then draw conclusions about the entire population from the sample. It involved collection of information from SME owners from the target population. This kind of design allows measuring of many variables without substantially increasing time and cost (Saleemi 1997) for it involves taking a sample which is representative of the target population.

3.2 Population of the study

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 through financial knowledge for Africa programme by Equity group foundation in partnership with MasterCard foundation in the last five years from 2011 to 2015. The 334 SMEs are registered by Ruiru municipal council and represent the target population for this study. The whole population was divided into strata on the basis of heterogeneous SME sectors found in Ruiru Sub County. This is represented by a sampling frame as shown in table 3.1

Table 3.1 Sampling Frame

Sector (Strata)	Population
All SMEs dealing with woodwork; carpenters, timber yards	100
All SMEs dealing with motor vehicle parts; Garage owners, sellers of new and used motor accessories	124
All SMEs dealing with human foodstuffs; hotels, green groceries, market vendors	48
All SMEs dealing with nonfood items; sellers of household items, farm ware, clothing	62
TOTAL	**334**

Source: Ruiru sub county business licensing office 2016

3.3 Sample Size and Sampling Technique

Sampling is the process of selecting a sufficient number of individuals or objects (samples) from a population such that the selected group contains elements representative of the characteristics found in the entire group (Orodho & Kombo, 2002). The sample size is summarized in table 3.2

Table 3.2 Sample size

Sector (Strata)	Sample size	%
All SMEs dealing with woodwork; carpenters, timber yards	30	30
All SMEs dealing with motor vehicle parts; Garage owners, sellers of new and used motor accessories	37	37
All SMEs dealing with human foodstuffs; hotels, green groceries, market vendors	14	14
All SMEs dealing with nonfood items; sellers of household items, farm ware, clothing	19	19
TOTAL	**100**	**100**

Source: Ruiru sub county business licensing office 2016

The sample size was determined with an aid of Stratified sampling technique, whereby, after identifying the strata, the researcher predetermined a desired sample size of 100 units of observation (Yamane, 1967) and then used the Yamane formula (1967) to compute relevant sample sizes for each specific strata as per Yamane's formula (1967) below

$n_i = (N_i/N)*n$

Where

N_i is the population of category i

N is the overall population size

n is the desired sample size. My desired sample (n) in this study was be 100 respondents (Yamane, 1967).

3.4 Research Instruments

Primary data was collected using questionnaires distributed to the registered small and medium enterprises in Ruiru Sub County. The questionnaire was divided into two sections; background information and research questions. It had closed–ended questions which were objective questions that the study would like to find out relating to the research topic. The objective questions were meant to reduce ambiguity and ensure that the respondents were more likely to answer the questions as required by the study. The study used this mode of data collection because with closed ended questions, they were easy to process due to uniformity in structure and being objective, the questions were easy to code them for data analysis.

3.5 Reliability and Validity of Research Instrument

In qualitative research, Kruger, (2003) defines validity to refer to the goodness of data, accuracy, relevance and richness. Data was moved from the field only by the researcher to ensure confidentiality and validity was observed. The researcher used the Cronbach's Alpha that is widely used to assess internal consistency and reliability for three, four, or five point likert scale items with 0.7 being the cut-off point (Oncu, 1994). The study also ensured that the instrument was reliable in collecting the required information by pre-testing the instrument. The research instruments were pre tested by conducting a pilot test in a selected sample of 30 SMEs in Ruiru but outside the population sample before actual research began. (Kombo and Tromb, 2006), a pre test was used to help researcher to discover potential misunderstandings, errors or biasing effects. The necessary adjustments were done before administering actual research questionnaires.

3.6 Data Analysis

The study involved collection of both qualitative and quantitative data. After data collection, the data was edited and coded in readiness for analysis. The study used descriptive statistics such as mean, frequencies, percentages and standard deviation to analyse the data. Computation of mean and standard deviation helped in conveying information about the average and make inference about the population. By use of standard deviation it was easy to know the dispersion of a random variable from its expected value or mean and able to infer about its relationship to the mean (Kothari, 2011).

Data analysis was done with the aid of the SPSS software to perform regression analysis on the collected data. The regression model is shown below and thereafter the definition and measurement of the variables. The multiple linear regression model was used to determine the relative importance (sensitivity) of each independent variable in affecting the financial performance of SMEs.

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$ Where;

Y – Financial Performance of the SMEs as measured by profitability, sales revenue and return on equity

α – Constant Value

X_1 – Personal saving skills

X_2 – Entrepreneurship skills

X_3 – Book keeping skills

X_4 -- Access to Banking service skills

β_1- Coefficient of personal saving skills, indicating change in financial performance due to 1 unit increase in Personal saving skills.

β_2- Coefficient of entrepreneurship skills, indicating change in financial performance due to 1 unit increase in entrepreneurship skills.

β_3- Coefficient of book keeping skills, indicating change in financial performance due to 1 unit increase in book keeping skills

β_4- Coefficient of access to banking services, indicating change in financial performance due to 1 unit increase in access to banking services

ε – The error or disturbance term

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSIIONS

4.1 Response Rate

The study targeted a sample size of 100 respondents from which 67 filled in and returned the questionnaires making a response rate of 67 percent. This response rate was satisfactory to make conclusions for the study. The response rate was representative. According to Mugenda and Mugenda (1999), a response rate of 50 percent is adequate for analysis and reporting; a rate of 60 percent is good and a response rate of 70 percent and over is excellent. Based on the assertion, the response rate was considered to be good.

4.2. Background Information

4.2.1 Age Category

Different age groups are perceived to hold different opinion on various issues, to ensure that study collected wide range of opinions from different age groups; respondents were requested to indicate their age category. Results are as shown in figure 4.1

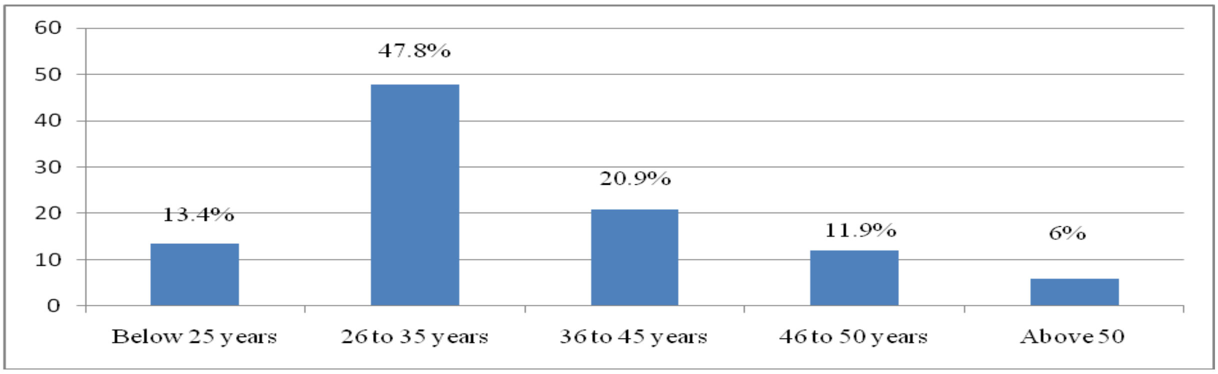


Figure 4.1: Age category

From the findings, most of the respondents as shown by 47.8% were aged between 26 and 35 years, 20.9% of the respondents were aged between 36 to 45 years, 13.4% of the respondents were aged Below 25 years, 11.9% of the respondents between 46 and 50 years and 6.0% of the respondents were above 50 years. These findings indicate that the respondents were drawn from all the age categories. However, it is clear that the number of the SME owners is reducing from age bracket of 36 to 45 years upwards, an indication that some SME's evolve from being small and medium entrepreneurs to potential entrepreneurs.

4.2.2 Gender Category

The study sought to establish the gender category of the respondents. This was done in view of ensuring fair engagement of respondents in terms of their gender. Results are show in figure 4.2

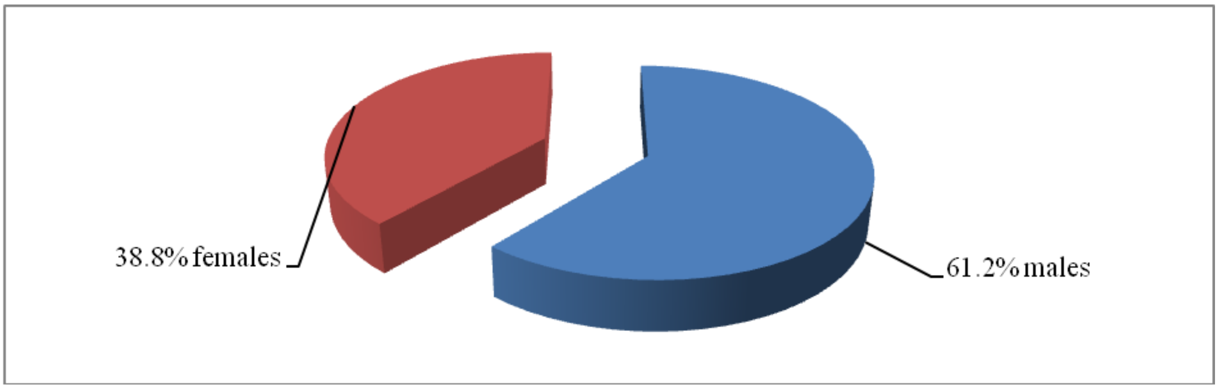


Figure 4.2:Gender Distribution

From the research results, the study noted that majority of the respondents as shown by 61.5% were males whereas 38.5% females. This shows SMEs industry was highly dominated by male gender.

4.2.3 Level of Education Attained

Individual level of education determines the personal uptake/understandability of different issues. In view of establishing the respondent's ability to respond to research questions, respondents' were requested to indicate their educational qualifications. Results are show in figure 4.3

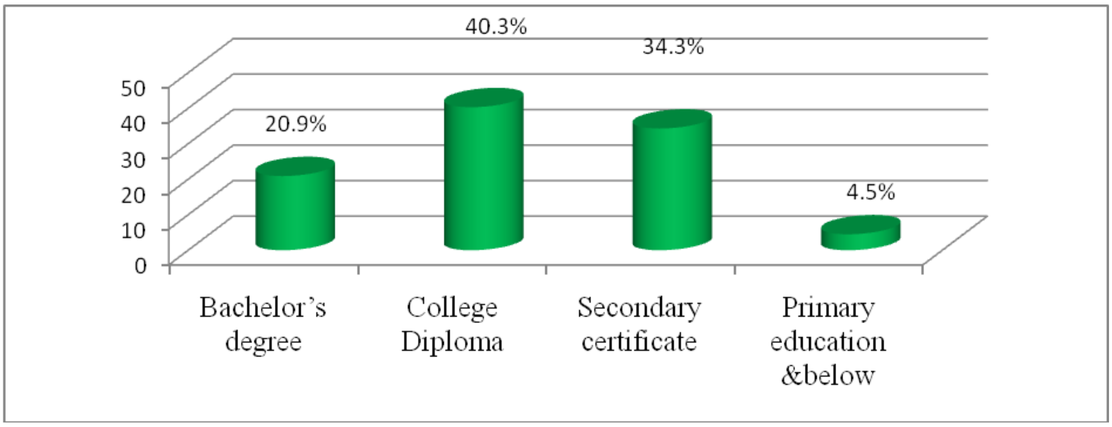


Figure 4.3: Level of education attained

From the research findings, the study noted that most of the respondents as shown by 40.3% held College Diploma certificates , 34.3% of the respondents held Secondary certificate, 20.9% of the respondents held Bachelor's degree whereas 4.5%of the respondents held Primary education &below. This implies that most of the SME owners engaged in this research were in a position to respondents to research questions effectively

4.2.4 Period of Business Operation

The respondents were requested to indicate the period which they have operated their business. The results are as shown in figure 4.4

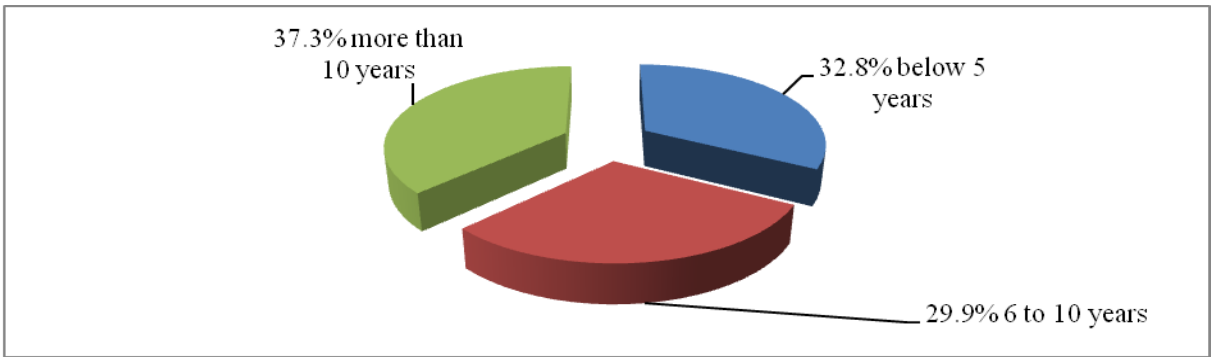


Figure 4.4: Period of business operation

Most of the respondents as shown by 37.3% indicated that they had operated their business for more than 10 years. 32.8% indicated that they had operated their business for not more than 5 years, while 29.9% indicated that they had operated their business for a period of 6- 10 years. The respondents involved in this study had been operating in their businesses for a long time and would therefore be very much aware of the influence of financial literacy on financial performance of their enterprises.

4.2.5 Number of Permanent Employees

The study also sought to find out the number of permanent employees the respondents had. Results are as depicted in figure 4.5

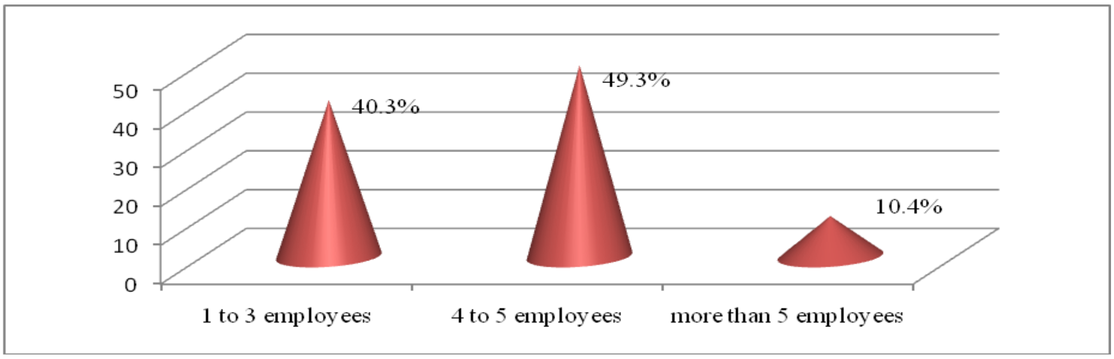


Figure 4.5: Number of Permanent Employees

From the findings, most of the respondents as shown by 49.3% indicated that they had between 4 to 5 permanent employees, 40.3% of the respondents indicated between1 and 3 permanent employees while 10.4% of the respondents indicated that the firm had more than 5 permanent employees. This is a clear indication that if nurtured well SMEs could be a bigger source of employment than the number they employ currently

4.3 Personal Saving skills

The study sought to find out the number of SMEs owners with bank account. Results are as shown in figure 4.6

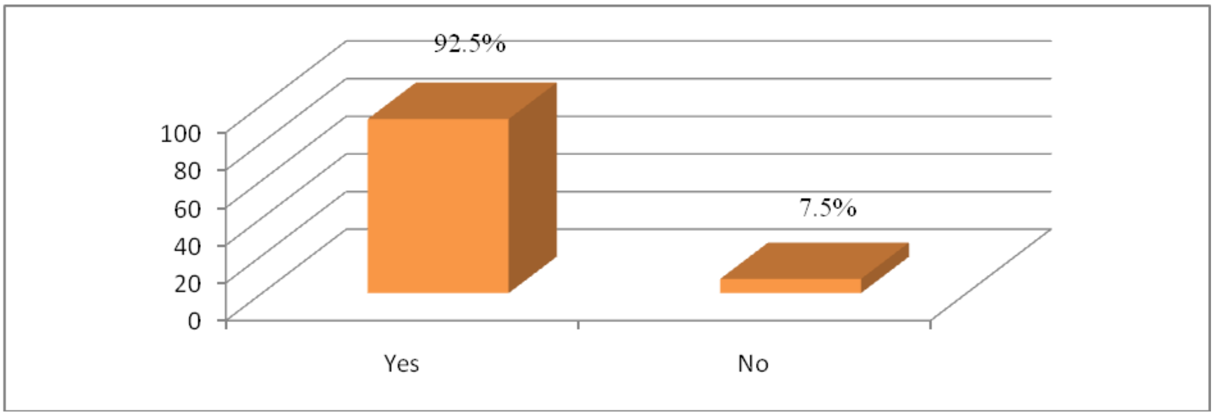


Figure 4.6: SMEs owners with bank account

From the findings, majority of the respondents as shown by 92.5% response rate indicated that they owned bank account with local banking institutions, whereas 92.5% of the respondents indicated otherwise. This implies that majority of the SME owners in Ruiru owned bank account with local banking institutions.

4.3.1 Frequency in making deposits or savings

The respondents who owned bank accounts were requested to indicate how frequently they have been making deposits or savings into the accounts. Results are as shown in figure 4.7

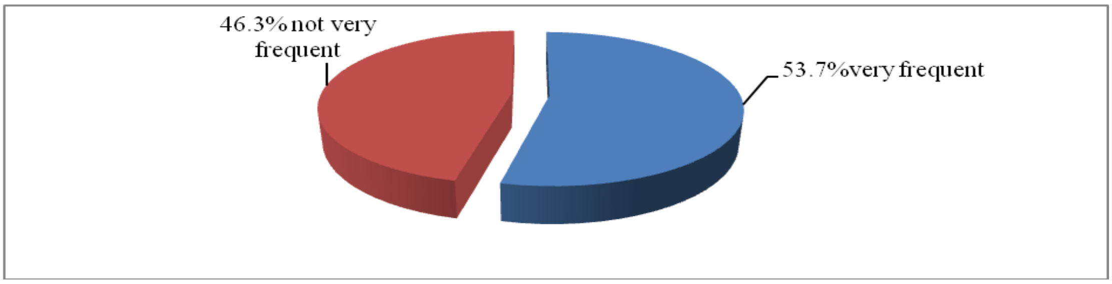


Figure 4.7: Frequency in making deposits or savings

From the findings, majority of the respondents as shown by 53.7% indicated very frequent, while 46.3% of the respondents indicated not very. this shows that all the respondents did activity in their bank accounts in relation to making savings and deposits, they indicated that apart from all other benefits of owning a bank account stated earlier these accounts provide them with safe custody of business money.

4.3.2 Influence of personal savings skills on financial performance of SMEs

The study sought to know if personal savings skills influenced financial performance of the small and medium enterprises. Results are as shown in figure 4.8

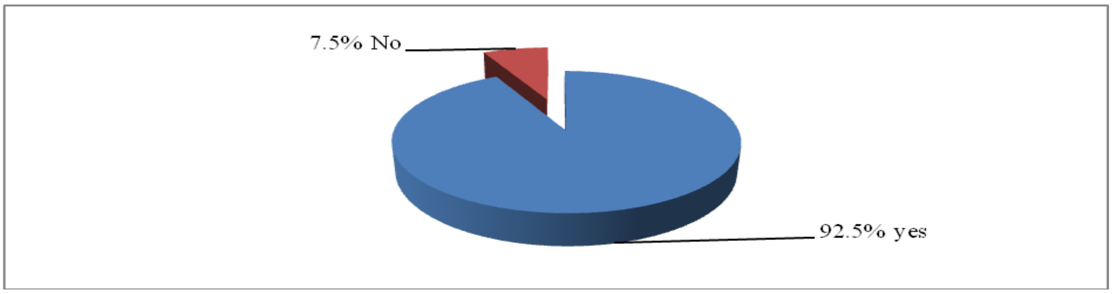


Figure 4.8: Influence of personal savings skills on financial performance of SMEs

From the research findings majority of the respondents as shown by 92.5% indicated that training on personal savings influenced financial performance of small and medium enterprise whereas 7.5 % were of the contrary opinion. This implies that training on personal savings influenced the financial performance of small and medium enterprise in Ruiru.

Table 4.1: Extent to which personal savings skills influence financial performance of SMEs

The numbers listed below shall be taken to mean the following, 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statement	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
Personal saving skills helped me reduce expenditures, such as impulse buying	4.5%	3.0%	7.5%	50.7%	34.3%	4.07	0.97
Personal Saving skills helped me increase the amount of fixed capital available, which I re-invested and improved my sales levels	3.0%	3.0	4.5%	46.3%	43.3%	4.24	0.91
Personal savings skills helped me focus on the kind of investment I wanted to do to increase financial performance	0%	0%	9.0%	49.3%	41.8%	4.33	0.64
Personal saving skills generally helped me in specifying low-risk preservation of money	0%	13.4 %	4.5%	53.7%	28.4%	3.97	0.94
Personal savings skills did not help me increase investment hence sales remained the same.	0%	0%	0%	35.8%	64.2%	1.64	0.48

From the research findings, majority of the respondents agreed that personal savings skills helped SME owners to focus on the kind of investment they wanted to do as shown by a mean of 4.33, personal savings skills helped the SME owners to increase the amount of fixed capital available, which i re-invested as shown by a mean of 4.24, personal savings skills helped SME owners to reduce expenditures, such as impulse buying as shown by a mean of 4.07 in terms of personal finance, personal savings skills generally helped the SME owners in specifying low-risk preservation of money as shown by a mean of 3.97. Further the respondents disagreed on the statement that personal savings skills did not help them increase investment as shown by a mean of 1.64. These findings concur with those of Andoh and Nunoo (2011) that personal savings skills equips entrepreneurs with necessary skills for managing business account to transact day-to-day affairs, for example paying wages, paying bills such as water bills etc. which help maintain high profits.

4.4 Entrepreneurship Skills

4.4.1 Influence of entrepreneurship Skills on financial performance of SMEs

The research sought to establish the effect of entrepreneurship skills on financial performance of small and medium enterprise. Results are shown in figure 4.9

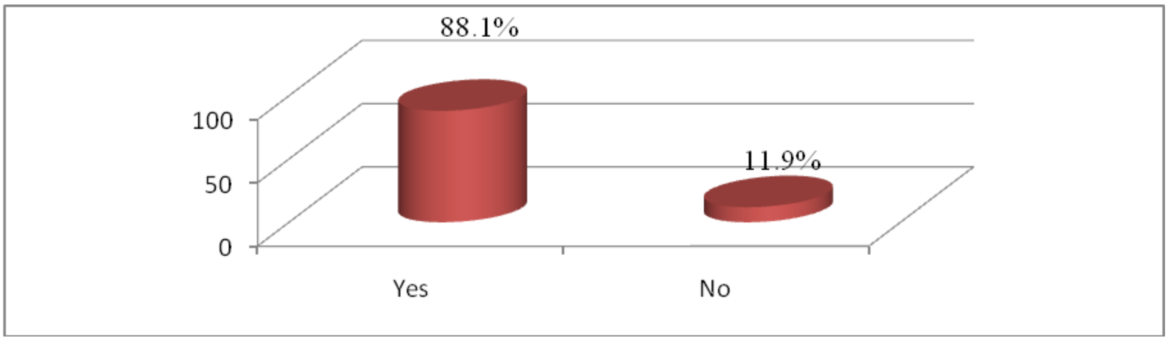


Figure 4.9: Influence of entrepreneurship Skills on financial performance of SMEs

From the research findings, majority the respondents as shown by 88.1% indicated that entrepreneurship skills influenced the profitability of the small and medium enterprise, whereas 11.9% of the respondents were of the contrary opinion. This implies that entrepreneurship skills influence financial performance of small and medium enterprise in Ruiru town.

4.4.2 Extent to which Influence of entrepreneurship skills on the financial performance of SMEs

Extent to which entrepreneurship skills influence the financial performance of small and medium enterprise. Results are shown in table 4.2

Table 4.2: Extent to which Influence of entrepreneurship skills on the financial performance of SMEs

The numbers listed below shall be taken to mean the following, 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statement	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
Entrepreneurship skills equipped me with business skills which kept customers coming back hence more profits.	0%	0%	0%	52.2%	47.8%	4.48	0.50
Entrepreneurship skills helped me make realistic business plans like budgeting and stick to them, this reduced uncertain expenditures in business.	0%	0%	6.0%	58.2%	35.8%	4.30	0.58
Entrepreneurship skills helped me develop communication skills which kept employees, customers loyal to the business hence constant income.	3.0%	1.5%	13.4%	52.2%	29.9%	4.04	0.88
Entrepreneurship skills helped me to know how to handle customers while running the businesses hence attracting more clients.	0%	0%	0%	59.7%	40.3%	4.40	0.49
Entrepreneurship skills equipped me with business skills necessary for successful small business development.	0%	0%	0%	61.2%	38.8%	4.39	0.49
Entrepreneurship skills helped me develop business skills of fighting of competition and reaching out to new customers	0%	0%	1.5%	59.7%	38.8%	4.15	6.20

From the research findings, majority of the respondents agreed that, entrepreneurship skills equipped entrepreneurs with business skills which kept customers coming back hence more profits as shown by a mean of 4.48, entrepreneurship skills helped entrepreneurs to know how to handle customers while running the businesses hence attracting more clients as shown by a mean of 4.40, entrepreneurship skills equipped entrepreneurs with business skills necessary for successful small business development as shown by a mean of 4.39, entrepreneurship skills helped entrepreneurs make realistic business plans like budgeting and stick to them, this reduced uncertain expenditures in business as shown by a mean of 4.30, entrepreneurship skills helped entrepreneurs develop business skills of fighting of competition and reaching out to new customers as shown by a mean of 4.15 and that entrepreneurship skills helped entrepreneurs develop communication skills which kept employees, customers loyal to the business hence constant income as shown by a mean of 4.04 the findings conforms with the research by Solomon & Winslow, (2008) that indicated that entrepreneurship skills 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 of monetary and personal satisfaction.

4.5 Book keeping skills

4.5.1 Influence of book keeping Skills on financial performance of SMEs

The study sought to establish the extent to which book keeping skills, like instance, training on decisive interpretation of information from transactions, influenced financial performance of small and medium enterprise. Results are shown in figure 4.10

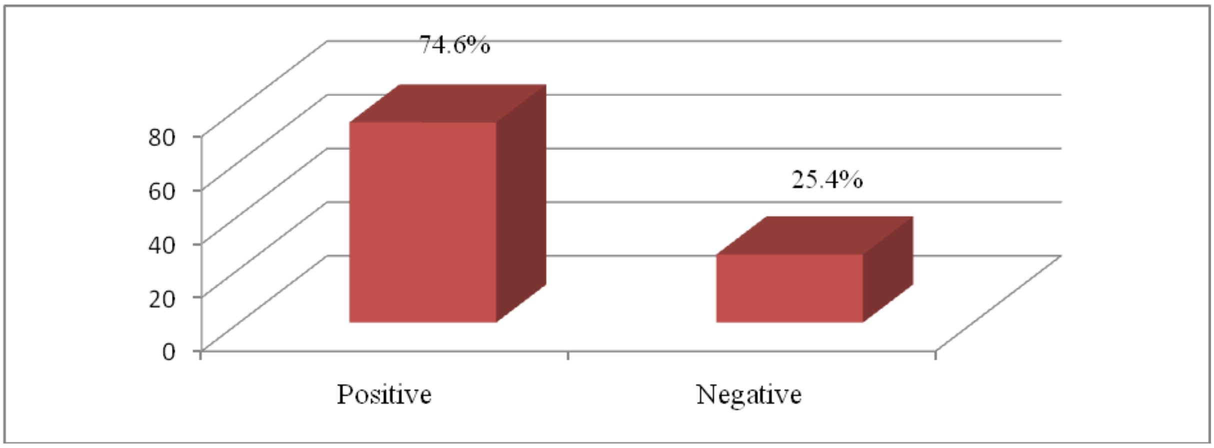


Figure 4.10: Influence of book keeping skills on financial performance of SMEs

From the research findings majority of respondents as shown by 74.6% indicated that book keeping skills have a positive influence on financial performance of small and medium enterprise in Ruiru town. Whereas 25.4% indicated otherwise. This implies that book keeping skills have a positive influence on financial performance of small and medium enterprise in Ruiru town.

4.5.2 Extent to which book keeping skills influence financial performance of SMEs

The research sought to determine the level of respondent's agreement with the following statements relating to influence of book keeping skills on financial performance of small and medium enterprise for the past five years. Results are shown in table 4.3

Table 4.3: Extent to which book keeping skills influence financial performance of SMEs

The numbers listed below shall be taken to mean the following, 1 =Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statement	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
Book keeping skills has equipped me with skills necessary to ascertain profits earned or losses sustained.	0%	0%	7.5%	56.7%	35.8%	4.28	0.60
Book keeping skills has equipped me with forecasting skills necessary for setting projections and goals of the business.	0%	0%	4.5%	62.7%	32.8%	4.28	0.55
Book keeping skills has helped me plan ahead for the businesses. i.e budgeting	0%	3.0%	4.5%	56.7%	35.8%	4.25	0.68
Book keeping skills has equipped me with necessary skills for generating financial statements needed by government, supplies, creditors	0%	3.0%	4.5%	55.2%	37.3%	4.27	0.69

From the research findings, majority of the respondents agreed that book keeping skills has equipped entrepreneurs with forecasting skills necessary for setting projections and goals of the business. Book keeping has equipped entrepreneurs with skills necessary to ascertain profits earned or losses sustained as shown by a mean of 4.28 in each case book keeping skills has equipped entrepreneurs with necessary skills for generating financial statements needed by government, supplies, creditors as shown by a mean of 4.27 and that book keeping skills has helped entrepreneurs plan ahead for the businesses. i.e budgeting as shown by a mean of 4.25. These findings were found to be consistent with those of Dawuda (2015) who noted that 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.

4.6 Access to Banking Services Skills

4.6.1 Influence of banking services access skills on financial performance of SMEs

The study sought to reveal how banking services access skills influence the financial performance of small and medium enterprise. Results are as shown in figure 4.11

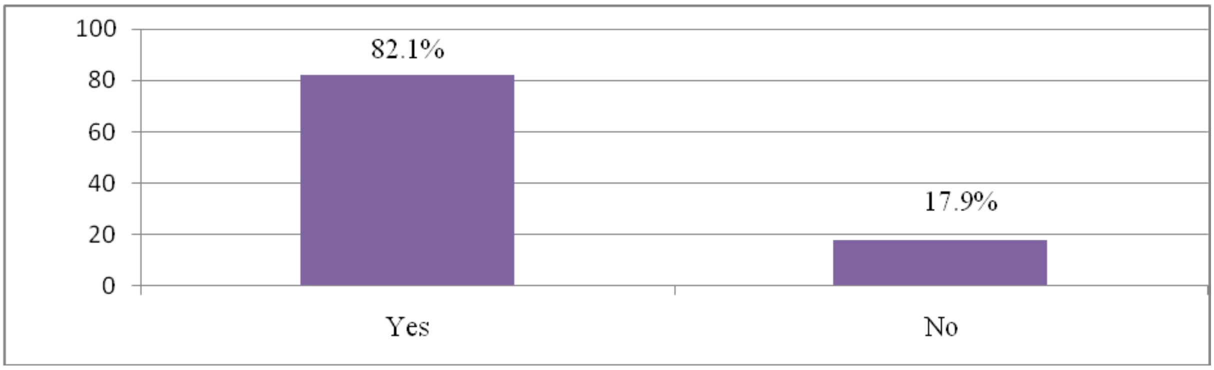


Figure 4.11: Influence of banking services access skills on financial performance of SMEs

From the research findings majority of the respondents as shown by 82.1% indicated that banking services access skills influence financial performance of small and medium enterprise whereas 17.9% were of the contrary opinion. This implies that banking services access skills influences the financial performance of small and medium enterprise in Ruiru.

4.6.2 Extent to which access to banking services skills influenced financial performance of SMEs

The research sought to establish the level of respondent’s agreement with following statements relating to influence of access to banking services on financial performance of SME for the past five years. Results are as shown in table 4.4

Table 4.4: Influence of access to banking services skills on financial performance of SME

The numbers listed below shall be taken to mean the following, 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statement	**1**	**2**	**3**	**4**	**5**	**Mean**	**SD**
Access to banking services skills has helped me secure loans for businesses expansion.	0%	0%	7.5%	49.3%	43.3%	4.36	0.62
Access to banking services skills has equipped me with necessary skills for managing business account to transact day-to-day affairs, for example paying wages, paying bills such as water bills	0%	0%	7.5%	58.2%	34.3%	4.27	0.59
Access to banking services skills has equipped me with necessary skills for exploring banking facilities such as overdraft to help my business out of cash flow problems.	0%	0%	0%	49.3%	50.7%	4.50	0.50
Access to banking services skills has equipped with necessary skills on how to use cheques, credit cards, bank drafts e.t.c. for smooth day to day payments and revenue collection of my business.	0%	0%	7.5%	50.7%	41.8%	4.34	0.62

From the research findings, majority of the respondents agreed that Access to banking services skills has equipped SME owners with necessary skills for exploring banking facilities such as overdraft to help my business out of cash flow problems as shown by a mean of 4.50, Access to banking services skills has equipped SME owners with necessary skills on how to use cheques, credit cards, bank drafts e.t.c. for smooth day to day payments and revenue collection of my business as shown by a mean of 4.37, access to banking services skills has helped SME owners secure loans for businesses expansion as shown by a mean of 4.36 and that Access to banking services skills has equipped SME owners with necessary skills on how to use cheques, credit cards, bank drafts e.t.c. for smooth day to day payments and revenue collection of my business as shown by a mean of 4.34. These findings concur with those of

Andoh and Nunoo (2005) who argued that the better and more financially literate entrepreneurs were, the more likely they would utilize financial service. They further added that Access to banking services skills has equiped entrepreneurs with necessary skills for managing business account to transact day-to-day affairs, for example paying wages; paying bills such as water bills etc. which help maintain high profits.

4.7 Financial performance

The financial performance of SMEs was assessed by asking indirect questions to the respondents and the following inferences were noted.

4.7.1 Consolidated Financial performance of the SME in the last five years (2011-2015)

Respondents were requested to rate the performance of the SME in the last five years. Results are shown in table 4.5

Table 4.5: Consolidated financial performance of the SME in the last five years

	Frequency	Percent
Excellence	25	37.3
Improved	33	49.3
Fair	9	13.4
Total	**67**	**100**

From the research findings, majority of the respondents as shown by 49.3% indicated that the SME registered improved performance in the last five years, 37.3% of the respondents indicated that the SME registered an excellence performance in the last five years whereas 13.4% of the respondents indicated that the SME registered a fair performance in the last five years. This implies that most of the SME registered improved performance in the last five years.

4.7.2 Extent to which the SMEs performed in the following areas

The researcher sought to establish the extent to which the SMEs performed in, Profitability, Sales revenue and Return on Equity in the last five years i.e. from January 2011 to December 2015. Results are as shown in table 4.6

Table 4.6: Extent to which the SMEs performed in the following areas

The numbers listed below shall be taken to mean the following, 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree,

Statement	1	2	3	4	5	Mean	SD
Profitability	0%	10.4%	9.0%	55.2%	25.4%	3.96	0.88
Sales revenue	6.0%	0%	3.0%	56.7%	34.3%	4.13	0.95
Return on equity	4.5%	17.9%	0%	41.8%	35.8%	3.87	0.22

From the research findings, the study noted that most of the SMEs in Ruiru had significant increase in sales revenue as shown by a mean of 4.13, profitability as shown by a mean of 3.96 and return on equity as shown by a mean of 3.87.

Table 4.7 Sales Revenue

Category in (Kshs)	Frequency	Percent (%)
1 – 500,000	27	40.3
500, 001 – 1,000, 000	13	19.4
1, 000, 001 – 2,000,000	11	16.4
2,000,001 – 3,000,000	9	13.4
3,000,001 – 4,000,000	5	7.5
4,000,001 – 5,000,000	2	3.0
Total	**67**	**100**

The findings of the study indicate that most (40.3 %) of the total SMEs under study had annual sales revenue of between 1-500,000 Kenya shillings, while the least (3%) were in the category of annual Gross turnover of between 4,000,000 – 5,000,000 Kenya Shillings. From the above it can be deduced that majority of the SME's had annual Gross turnover of between 1-500,000 Kenya shillings.

4.8 Regression analysis

In determining the influence of personal saving skills, entrepreneurship skills, book keeping skills and access to banking services skills on the financial performance of SMEs in Ruiru town, the study conducted a multiple regression analysis to determine the nature of relationship between the variables. The regression model specification was as follows;

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

Where; Y – Financial Performance of the SMEs as measured by profitability, sales revenue and return on equity; α – Constant Value; X_1 – Personal saving skills; X_2 – Entrepreneurship skills; X_3 – Book keeping skills; X_4 -- Access to Banking service skills α=constant and ε= error term and $\beta 1$- $\beta 4$ = coefficients of the independent variables.

This section presents a discussion of the results of the multiple regression analysis. The study conducted a multiple regression analysis to determine the influence of personal saving skills, entrepreneurship skills, book keeping skills and access to banking services skills on the financial performance of SMEs in Ruiru town. The study applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The findings are as presented in the following tables,

Table 4.8: Model summary

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

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. 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 personal saving skills, entrepreneurship skills, book keeping skills and access to financial services skills at 05 percent confidence interval. This shows that 73.6 percent changes in financial performance of small and medium enterprise could be accounted to personal saving skills, entrepreneurship skills, book keeping skills and access to financial services skills.

Table 4.10: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.508	1.131		1.333	.001
	Personal saving skills	.481	.228	0.203	2.110	.002
	Entrepreneurship Skills	.347	.127	.217	2.732	.003
	Book keeping skills	.416	.115	.316	3.617	.001
	Access to banking services	.267	.103	.125	2.592	.000

From the data in the above table the established regression equation was

$$\mathbf{Y = 1.508 + 0.481X_1 + 0.347\ X_2 + 0.416\ X_3 + 0.267\ X_4}$$

From the above regression equation it was revealed that personal saving, training on entrepreneurship skills, book keeping skill and access to financial services skills to a constant zero, the financial performance of small and medium enterprise in Kenya would be at 1.508, a unit increase in personal savings skills would lead to an increase in financial performance of small and medium enterprise in Kenya by a factors of 0.481, a unit increase 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 book keeping skills 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 access to financial services skills 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 ($p<0.05$).

Table 4.9: Analysis of Variance (ANOVA)

	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 personal saving, entrepreneurship skills, book keeping and on access to financial services skills 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.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

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

Concerning personal savings skills, the findings established that majority of the respondents owned bank accounts for easy acquisition of loans for business expansion and also for personal savings. 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 bank 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.

The study established that for the past five years, entrepreneurship skills have influenced financial performance of the respondents' small and medium enterprises. Majority of the respondents agreed that entrepreneurship skills have 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 fast as compared to those SMEs that leveraged on technology.

The study found out that for the past five years, book keeping skills has influenced financial performance of the respondents' small and medium enterprises. Majority of the respondents agreed that book keeping have positively influenced financial performance of their SMEs by helping them plan ahead for the businesses, for instance budgeting, it 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 access to banking services skills has influenced financial performance of the respondents' small and medium enterprises. All the respondents agreed that for the past five years, access to banking services such as, securing an affordable loan for business expansion, managing business account to transact day-to-day affairs, for example paying wages, paying bills such as water bills, use of facilities such as bank cheque, credit cards and bank drafts 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.

5.2 Conclusion

The findings established that personal saving skills are relevant in enhancing profitability of the SMEs. Therefore, the study has concluded that entrepreneurs who are adequately equipped with personal saving skills 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 entrepreneurship skills positively influence sales revenue of a business to a very great extent. The study thus concludes that in an industry characterized with many sellers, an entrepreneur is competitive and maintain profits if he had 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.

5.3 Recommendations

Since in general the study has established that financial literacy has improved the financial performance of SMEs in Ruiru town, the study recommended that more awareness be created to the SME owners on the importance of participating in financial literacy training programmes.

Lack of information technology skills for online marketing, online sourcing of raw materials and online networking to learn of new cost effective means of production was noted as a major hindrance to the success of SMEs even if they are financially literate. The study recommended that stakeholders providing financial literacy in Kenya should consider consider including information technology skills related modules as one of units on which participants should be trained on; this is because information technology helps an entrepreneur do business online hence increase his competitive edge.

5.4 Suggestion for Further research

i) The study established that personal saving skills, entrepreneurship skills, book keeping skills and access to banking services skills caused a 73.6 percent change in financial performance, the study therefore recommends further research to establish other factors or variables that contribute to positive financial performance of SMEs.

ii) A further study is needed to comprehensively look at innovative approaches the SME sector should adopt to reduce unemployment rate, improve the economy and reduce insecurity in the long run.

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APPENDICES

APPENDIX I: COVER LETTER

ERICK OTIENO,
P.O.BOX 2,
RUIRU.
Tel No. 0724 98 44 28
Email: erickotieno84gmail.com

Dear Respondent,

RE: Research project questionnaire

This is to introduce you to an academic based research study being conducted. The research topic is influence of financial literacy on financial performance of small and medium enterprises in Ruiru town, Kiambu County.

I kindly request you to fill the attached questionnaire to enable me complete my research. The questionnaire is strictly for academic purposes and any information given shall be treated with strict confidentiality; Please give the information as accurately as possible. Thank you in advance and I look forward to your support and cooperation,

Yours faithfully

ERICK OTIENO.

APPENDIX II: QUESTIONNAIRE

Section A: Background Information

This questionnaire is collecting information that will be used to analyze the influence of financial literacy on financial performance of small and medium enterprises in Ruiru town, Kenya. The information will be kept confidential and will be used for academic purpose. You are kindly requested that where brackets are shown please tick inside the bracket to your relevant answer.

Section A: Background information

1. Indicate your age category

   Below 25 years [ ] 26 to 35 years [ ] 36 to 45 years [ ]

   46 to 50 years [ ] Above 50 [ ]

2. Indicate your gender

   Male [ ]

   Female [ ]

3. Indicate your highest level of education attained

   Bachelor's degree [ ] College Diploma [ ]

   Secondary certificate [ ] Primary education &below [ ]

4. How long have you been in business?

   Below 5yrs [ ]

   6- 10yrs [ ]

   Above 10 years [ ]

5. How many permanent employees do you have?

   1-3 [ ]

   4-5 [ ]

   Over 5 [ ]

Section B: Personal Saving skills

6. For the past five years have you owned any bank account(s)

No [ ] Yes [ ]

If yes how frequent have you been making deposits or savings into the accounts(s)

Very frequent [ ] Not very frequent [ ] Did not deposit [ ]

7. Has personal savings skills acquired for the past five years influenced financial performance of your small and medium enterprise? Yes [ ] No [ ]
8. Indicate your level of agreement with the following statements relating to influence of personal savings skills on the financial performance of your small and medium enterprise for the past five years.

   1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statements	**1**	**2**	**3**	**4**	**5**
Personal savings skills helped me reduce expenditures, such as impulse buying					
Personal Savings skills helped me increase the amount of fixed capital available, which I re-invested and profitability increased					
Personal Savings helped me focus on the kind of investment I wanted to do					
Personal savings generally helped me in specifying low-risk preservation of money					
Personal savings did not help me increase investment.					

Section C: Entrepreneurship Skills

9. For the past five years how has entrepreneurship skills for instance, customer discovery, influenced financial performance of your small and medium enterprise.

   Yes [ ]   No [ ]
10. For the past five years, to what extent would you say entrepreneurship skills like resilience in your business, influenced the financial performance of your small and medium enterprise.

    To a very greater extent [ ]

    To a moderate extent [ ]

    Very little extent [ ]
11. Indicate your level of agreement with the following statements relating to influence of entrepreneurship skills on the financial performance of your small and medium enterprise for the past five years. 1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statements	1	2	3	4	5
Entrepreneurship skills have equipped me with business skills which kept customers coming back hence more profits.					
Entrepreneurship skills have helped me make realistic business plans like budgeting and stick to them, these reduced uncertain expenditures in business.					
Entrepreneurship skills have helped me develop communication skills which kept employees, customers loyal to the business hence constant income..					
Entrepreneurship skills have helped me to know how to handle customers while running the businesses hence attracting more clients.					
Entrepreneurship skills have equipped me with business skills necessary for successful small business development.					
Entrepreneurship skills have helped me develop business skills of fighting of competition and reaching out to new customers					

Section D: Book keeping skills

12. For the past five years, has book keeping skills, for instance, accuracy in recording transactions influenced financial performance of your small and medium enterprise.

Yes [ ] No [ ]

13. For the past five years, to what extent would you say training on book keeping skills, for instance, training on decisive interpretation of information from transactions, influenced financial performance of your of small and medium enterprise.

To a very greater extent [ ]

To a moderate extent [ ]

Very little extent [ ]

14. Indicate your level of agreement with the following statements relating to influence of book keeping skills on financial performance of your small and medium enterprise for the past five years.

1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statements	**1**	**2**	**3**	**4**	**5**
Book keeping skills have equipped me to ascertain profits earned or losses sustained by the business.					
Book keeping skills have equipped me with forecasting skills necessary for setting projections and goals of the business.					
Book keeping skills have helped me plan ahead for the businesses such as budgeting					
Book keeping have equipped me with necessary skills for generating financial statements needed by government, supplies, creditors					

Section E: Access to Banking services skills

15. For the past five years, has access to banking services skills, for instance, how to secure an affordable loan, influenced financial performance of your small and medium enterprise.

Yes [ ] No [ ]

16. For the past five years, to what extent would you consider access to banking services skills such as effective use of services such as cheques and credit cards have influenced financial performance of your small and medium enterprise.

To a very greater extent [ ]

To a moderate extent [ ]

Very little extent [ ]

17. Indicate your level of agreement with the following statements relating to influence of access to banking services skills on financial performance of your small and medium enterprise for the past five years.

1 = Strongly Disagree, 2 = Disagree, 3 = Moderate, 4 = Agree, 5 = Strongly Agree.

Statements	**1**	**2**	**3**	**4**	**5**
Access to banking services skills have helped me secure loans for businesses expansion					
Access to banking services skills have equipped me with necessary skills for managing business account to transact day-to-day affairs, for example paying wages, paying bills such as water bills					
Access to banking services skills have equipped me with necessary skills for exploring banking facilities such as overdraft to help my business out of cash flow problems.					
Access to banking services skills have equipped with necessary skills on how to use cheques, credit cards, bank drafts e.t.c. for smooth day to day payments and revenue collection of my business.					

Section E: Financial performance

18. Generally how would you rate the performance of the SME in the last five years?

Excellence ( )

Improved ( )

Fair ( )

Poor ( )

19. How has the SMEs performed in the following areas in the last five years. Use the scale provided; A= Highly Increased B=Increased C= Moderate D= Somehow Decreased E= Decreased

Variables	**A**	**B**	**C**	**D**	**E**
Profitability					
Sales Revenue					
Return on Equity					

20. What is your Annual Sales Turnover?

☐ Ksh 1 to Ksh 500,000

☐ Ksh 500,001 to Ksh. 1,000,000

☐ Ksh 1,000,001 to Ksh 2,000,000

☐ Ksh 2,000,001 to Ksh 3,000,000

☐ Ksh 3,000,001 to Ksh 4,000,000

☐ Ksh 4,000,001 to Kshs 5,000,000

Thank you for your time