FINANCIAL LITERACY AND THE GROWTH OF MEDIUM AND SMALL ENTERPRISES IN KIAMBU COUNTY, KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF REQUIREMENTS FOR THE AWARD OF DEGREE OF THE MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

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DECLARATION

I, the undersigned, affirm that this is my original work and that it has not been presented for a degree to any other learning institution or university other than the University of Nairobi.

Signed...Margaret Date...November 12, 2022

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

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I am indebted to Almighty God for bringing me this far, truly it is because of His unending love that has made it possible to come to this far.

I also want to appreciate my mentor **Dr. Joshua Wanjare** for his endeavors during this investigation and journey.

DEDICATION

I wish to dedicate this project to my Mum encouraged me to undertake this course and for her financial and emotional support.

To my other family members, colleagues, friends, and classmates, am also grateful for your motivation and support throughout the period of study

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ABSTRACT

Although SMEs contribute largely to economic development and provision of employment opportunities to many individuals in developing countries, many of the owners of the firms still lack essential financial skills as well as abilities to work with banks and access loans. This is negatively affecting the growth, success and management of resources among many SMEs. Many SMEs cannot invest in risky projects and fail to operate more than five years due to lack of capital. This is a challenge that can be solved through financial inclusion and literacy in all regions in Kenya. The overall aim of this inquiry is to review and relate how financial skills and literacy can promote the growth of SMEs within Kiambu County. The inquiry reviewed the book keeping abilities, credit management skills, intellectual capital values as well as the financial planning of the various SMEs owners in Kiambu and how this influence their firm growth. The inquiry adopted descriptive models and data was collected from 326 SMEs managers in the county. The study achieved 76% in terms of response rate and data was analyzed using quantitative models. The analysis noted that skills in financial management promote success and had a significant positive value on the growth of the firms. The inquiry also confirmed that debt and credit management skills were essential among the managers and it allowed them to meet their financial obligations while working with banks and other platforms that provide loans. Majority of the SMEs managers had the ability to understand financial books since they are able to read and write. The study concluded that financial skills are important towards promoting growth of SMEs. It is important that managers of various SMEs find ways of increasing and developing their financial abilities. This is important in working with different agencies such as banks as well as in managing risky projects when investing.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Financial Literacy refers to entrepreneur's ability to make financial decisions by individuals and businesses which are complex in order to maximize on returns for Investments. It involves the optimal use of financial knowledge and skills such as risks, diversification, rate of return, retirement among others. It covers financial areas to include the stock market, insurance, investments business and personal finance. The concepts covered under financial literacy include time value for money, interest rates, loans and bank overdraft, accumulated interest. The topic of financial literacy is one that receives a lot of attention worldwide. Both the developed and less developed economies of the globe have paid it a lot of attention. Across the board, there is a global rising trend toward raising financial standards (Waithaka, 2016). Firm growth is important in promoting success in firms since it involves changes in the number of customers, sales and market share. With strong firm growth, managers can expand their operations and achieve active investment in different projects.

This study will be based on three major theories. These include the theory of capital budgeting as well as the accounting theory and the RBV model. According to the accounting theory, the goal of the firm is to create a plan that can promote effective accounts and budgets leading to success in the firm. However, the theory of budgeting supports the view that firms must provide controls and plans in their operations to enjoy high growth. On the other hand, the resource-based theory is associated with Wernerfelt (1995) and it supports the fact that resources can benefit firms in the long run. Firm's success and growth is based on the capital, resources as well as assets the management has for investment in different opportunities (Barney (1991). These theories support financial literacy and growth of firms.

In Kenya, many firms in different sectors including the SMEs have realized the importance of financial literacy and development of skills in their operations. Over 50% of all employment and over 40% of Kenya's GDP are based on the medium-businesses programs (KNBS, 2013). Nevertheless, high transaction costs as well as poor access to loans and lack of skills are major challenges facing business owners in Kenya (Njoroge, 2013). Research shows that financial power and management can promote firm success in Kenya and the majority of SMEs are crucial for economic growth and for providing jobs for the general public in Kenya and in regions such as Kiambu County; SMEs provide 70% of the job market and employment options to people. SMEs play a significant role in generation of income in the region, and this is partly why financial literacy and empowerment is needed in the sector.

1.1.1 Financial Literacy

Financial skills and literacy allow people to have the ability to make financial decisions and improve their success and growth. The process is associated with optimal use of financial knowledge and skills. People with financial skills have the ability to take risks and engage in diversification operations. Njoroge (2013) noted that decision-making in various financial domains and basic financial concepts are significantly influenced by financial literacy. It necessitates a deeper comprehension of the foundations of financial management and accounting. Growing financial literacy is one of the SME strategy's foundations. This is founded on the view that financial skills and power promote success of the economy through use of different resources.

Financial literacy among entrepreneurs is essential for the launch and sustainability of small enterprises. This is according to policymakers and experts in both developing and developed nations during the past 20 years (Wise, 2013). A fundamental element of entrepreneurship is financial literacy for business owners since it empowers them to make decisions and take actions that have an impact on their finances. Small companies are the backbone of many countries in regard to macroeconomic level, and when entrepreneurs lack the financial literacy skills needed to run successful firms, the entire country economy is at great danger (Dahmen et al, 2014). A model is needed to support the view that financial skills promote success of firms as indicated by the resource-based theory of entrepreneurship (RBT).

Analysis reveals that financial literacy is important to all workers and business owners. This is because it helps to understand the stability of the firm and where to invest. Several analyses show that lacking in basic financial literacy is a problem that should be solved. Developing countries are lacking financial power and only developed countries such as Norway as well as Sweden, Netherlands and Australia have the greatest rates of financial literacy in their operations. In this paper, financial literacy will be based on the financial skills and knowledge of the people.

1.1.2 Firm Growth

The concept of firm growth refers to changes in the portfolio or operations in the firm in terms of market share, number of customers as well as increase in sales and diversification levels. When firms invest in new areas they experience growth. This means that growth can be measured on terms of changes in performance. Additionally, there is growth when firms acquire new talents and resources in their operations.

Analysis also confirms that growth is important to firms. This is because it allows firms to enjoy their profits, gain new ways of operations and increase the firm success. SMEs and other small businesses success is dependent on their growth model. Growth of firms is seen when the firm penetrate new markets, develop new products and acquire partnership deals. It is important that SMEs collaborate with other firms to enjoy high growth (Atkison & Messy, 2012). Growth in firms is measured in terms of sales volume, the number of customers and the market share level.

1.1.3 Financial Literacy and Firm Growth

According to Lusardi and Mitchel (2014), financial power and management skills promote business success in all angles. Analysis indicates that studies done in global scale discovered that financial literacy promote firm success. Atkison and Messy (2012) conducted a financial literacy survey and the results showed a pattern of inadequate financial literacy that was consistent with what had been documented in the United States. The research concentrated on how people's numeracy skills and how these skills affected their financial decisions and confirmed that literacy promote good money management.

To achieve success, there is need for literacy in managing capital and financial authorities are compelled to increase the effectiveness and caliber of financial services because of the educated population (Miller et al., 2019). Due to their ability to compare options, ask the relevant questions, and negotiate more skillfully, financially literate investors put pressure on financial institutions to provide services that are more transparent and fairly priced. This promotes growth in their operations.

Moreover, Fatoki (2014) discovered that although financial literacy showed a favorable link with SME success, there are some firms that have poor capital skills. Agyei (2014) found that women micro-entrepreneurs in Accra, Ghana, have a poor degree of financial literacy, which affects their business negatively. Hence, these findings may suggest that poor financial power and literacy is one of the primary reasons why the majority of SMEs stagnates, perform poorly, or collapse. Therefore, it is correct to conclude that financial information of individuals frequently makes poor judgments that have negative consequences. Financial education may, however, give these people the tools to handle their limited assets more wisely and to select the financial services and products that best suit their needs by acquiring an important message on wise money management. This means that financial literacy is critical for boosting the SME sectors and according to Nunoo et al (2012) study on how financial literacy affects SMEs in Ghana. SMEs with strong financial management skills can reduce risk and save money by taking out insurance contracts. The study's findings demonstrated that financial literacy improves the performance of SMEs. Basic education improves an entrepreneur's overall quality by giving them the fundamental financial and math abilities that increase their chance of survival in the country (Carter and Jones-Evans (2000). Managers are capable of impacting survival and growth of firms in the country; this is because they have higher education degree.

1.1.4 Medium-Enterprises Sector in Kiambu County, Kenya

A medium enterprise is defined by the Kenyan government's Microenterprise ACT (GoK, 2012) as an industry, commercial activity, trade, service, or company that employs 1-49 people and has an annual revenue of less than 500,000 shillings. The industry contributes significantly to the Kenyan economy, accounting for almost 40% of GDP and nearly 82% of all employment (KNBS, 2013). Medium businesses boost overall output, and provide jobs, allowing for the effective use of labor and capital. This fosters indigenous entrepreneurship and management abilities, bringing about regional balance, and enhancing income distribution (World Bank, 1978).

As of 1999, there were 1.3 million businesses operating in the industry, employing 2.3 million people, up from 900,000 businesses in 1993 that employed 1.3 million people in the country (USAID, 1999). The industry maintained its upward development trend, making up the greatest portion of all employment in the nation by 2013. (KNBS, 2014). Government policy efforts have been focused on decreasing the limits by establishing an enabling environment for medium enterprises in acknowledgment of the relevance of medium enterprises in the economy as well as the challenges they confront. As a result, the Medium and Small Enterprises (SME) Act was passed in the country (GOK, 2012).

In Kiambu County, there are different sectors of SMEs, and the government should adopt legal framework to guide SMEs operations. This is because the sector is important to many people. Medium businesses nevertheless face obstacles that limit their success despite this support. Both internal and external constraints that limit the performance of medium enterprises have been discovered through empirical investigations (Bowen et al, 2009). A constant need for research that finds and investigates new elements that impact the success of medium enterprises results from the dynamic character of the business world is needed.

1.2 Research Problem

Economists, decision-makers, and business professionals, agree that SMEs are key contributors to economic growth in Kenya, as they do in many other nations throughout the world. According to KIPPRA, the small-scale sector was responsible for 75% of all modern firms and employed 42% of the working population (KIPPRA, 2012). Therefore, a thriving SME sector makes a considerable contribution to the economy by generating vast quantities of products and services, opening up job possibilities, raising exports, and serving as a favorable environment for fostering entrepreneurial skills and innovation. This suggests that SME competitiveness and performance must be improved in order to effectively address the challenges of creating sustainable and productive employment opportunities, combating poverty in the nation, and fostering economic growth.

In Kenya, especially in Kiambu County, many of the SMEs face different challenges due to lack of financial skills. The region has a poor foundation for sustainable development and industrial growth (KIPPRA, 2012). Low financial literacy has also been linked to a high failure rate because it leads to poor financial management, limited access to financing, and poor planning (Oluoch, 2014). In agreement with these claims, Fatoki (2014) adds that entrepreneurs' challenging financial decisions about their corporate or personal money may also be a contributing factor. A number of studies from England, the United States, and Australia revealed that between 80% and 90% of SMEs fail within 5 to 10 years globally. According to the Financial Capability Report from 2009, 25% of Kenyans have credit problems; have little control over their money, which makes them borrow money frequently to pay back debts. Therefore, developing financial literacy skills would influence a person's behavior in a good way by building wealth, increasing savings and avoiding needless spending. As a result, SME managers would be wiser managers of their companies limited financial resources, better clients for the banks, and better equipped to choose the right solutions for their companies. However, just 18.4% of Kenya's GDP is contributed by the informal sector, which accounts for more than 80% of all employment (RoK, 2011). The development of jobs and economic growth in both developed and developing nations are often credited to the SME sector. This has in turn caused the growth of SMEs to stagnate, which prevents the majority of them from becoming medium-sized businesses, which are vital in the expansion of national economies and crucial to the industrialization process (Bunyasi, et al, 2014).

Several studies have been done to evaluate the effects of financial literacy on the growth and the expansion of, small, and medium-sized businesses across the globe. Al-Husainy and Jadah (2021) examined how credit risks models influence the profit value in firms in Iraq and noted that financial power and information is important towards growth of firms. In Oman, Salim, and Bilal, (2016) evaluated how liquidity levels influence performance of firms and he noted that success of firms is through effective risks management management. In addition, Okpala (2019) indicated that poor profit management is a challenge among SMEs in Nigeria. Dispute this, all these studies were done outside Kenya and this leaves a conceptual gap.

Locally, Siekei,Wagoki,and Kalio,(2013) reviewed the importance of financial knowledge on the success of firms in Kenya and noted that financial skills promote productivity and management of SMEs. However, the study adopted random sampling and only focus on SMEs in Njoro Town. In late 2016, Lusimbo, (2016) also investigated how financial power and skills influence the success of small firms in Kakamega Central Sub County and noted that financial skills provide high growth and success among the firms. However, the data analysis model adopted in the study was bias and only focused on SMEs in Kakamega.

Based on the analysis of the studies above, there are few studies done on the topic of the study. The few studies done on the topic also focus on companies outside Kenya. The majority of the studies were done outside the Kenyan context. In addition, the studies were done mainly among

Banks and fail to focus on SMEs. Therefore, this study will fill the contextual, methodological, and contextual gaps by answering the research question-What is the effect of financial literacy on the growth and success of small firms in Kiambu County?

1.3 Research Objectives

The objective of this study was to establish the effects of financial literacy on the growth and the expansion of small and medium-sized businesses in Kiambu County, Kenya.

1.4 Value of the Study

This study would benefit different stakeholders including management of SMEs, policy makers and future researchers. The management of SMEs would learn how they can use financial skills to promote growth and success of their firms. Investors would profit from this study since it would emphasize the advantages that their businesses will get from acquiring financial literacy. These advantages would include good money management abilities that would result in the success of their businesses. Additionally, it would highlight the need of financial literacy for investors who receive assistance from others so they can comprehend financial reports of the company. The report would include what debt-to-equity ratio to utilize, how to generate additional profits, and how assets are distributed. Financial institutions would find it easier to evaluate an SME's legitimacy by looking at the owners' financial expertise.

Policy makers would also gain and according to the findings of this study, the government may be able to combat the problem of financial illiteracy among business owners and encourage financial literacy among entrepreneurs and small company owners, which would help SMEs, expand. Additionally, it would assist the financial authorities and government to include SMEs in the policy making activities.

Scholars would learn from this study because the model will promote new knowledge among other scholars. They would see the importance of literacy in all financial aspects. The promotion of innovations of all types is a goal shared by all governments, and small and medium businesses cannot be disregarded due to their importance to the economy. SME development has long been seen by policymakers as a way to raise the incomes of the disadvantaged in addition to the expected economic advantages.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Past studies are presented in this chapter. The researcher examined literature specifically on the four distinct variables of financial literacy such as bookkeeping skills, financial planning skills, intellectual capital, and credit management skills. This chapter reviews the different theories that helped in predicting the inquiry values. The chapter also includes theoretical review, conceptual framework, study variables discussion, and study-related literature criticism.

2.2 Theoretical Framework

The theories under review are; Theory of Budgeting, as well as RBV and other accounting based models of financial skills and management.

2.2.1 Accounting Theory

This theory supports the creation of competent accounting processes (Kaplan & Norton,1996). According to Norreklit and Mitchell (2010), the goal of creating a theory of accounting is to offer criteria for evaluating whether accounting practices are appropriate. Predictions of the anticipated result of budgetary action in a certain set of circumstances have been made with the use of this concept. Horvath (2009) makes the case that accounting practices that do not adhere to the established norms should be disregarded, basing his argument on accounting theory.

According to Henry (1985), accounting theory aids in directing management decisions when it comes to discovering and identifying the data required for budget preparation. The accounting idea of money measurement has significantly aided in giving benchmarks for discussing, classifying, and converting numerous inputs in regard to the machines and equipment needed to prepare a budget. The theory promotes and support adoption of effective budgeting systems.

In this study, this theory is suitable since it indicates that several control metrics, including variance analysis can be provided by management to promote firm growth. The theory indicates that when budgets are implemented, the management of an organization receives feedback on how effectively financial assets are handled based on the alignment of plans and actual status. In order to estimate future financial goals, past data is used to generate financial statements. This is important towards budget control and analysis in all sectors.

2.2.2 Theory of Budgeting

Establishing an effective control system, a detector of differences between performance and organizational objectives, a management control system effectively addresses an organization's requirement to prepare and think through how to address future possible opportunities and hazards (Anthony & Goviandarajan, 2007). The foundational components of a successful control process are believed to be budgets, which is why they play a key role in the overarching MCS idea.

The timeliness, quantity, and amount of the resources required are identified, reflecting the financial impact of the business strategies (Innes, 2005). By communicating corporate objectives and establishing a standard against which to measure success, budgeting may further affect how people behave and make decisions (Sandino, 2007). Alternative reasons of action are taken into account throughout the budget development process, which increases logic. A budget enables the setting of a goal and a performance standard, followed by a comparison of actual outcomes with the specified standard. People engaged must look ahead rather than backward in order to succeed. By comparing actual outcomes to planned budgets, they create benchmarks and, if required, take remedial action (Sharma, 2012). As a result, it has been shown that budgets serve a variety of functions, such as entering into contracts with other parties, coding learning, facilitating control, and making objectives explicit (Coltman & Jagels, 2001). As SMEs create financial plans that promote success of the firms.

The model is suitable in this study since it indicates some of the budget programs that can be used by firms to promote their growth. The theory explain how budgeting is important in promoting financial growth and success among firms. With effective budgeting, firms can enjoy high growth.

2.2.3 Resource Based View Theory

This theory was proposed by Wernerfelt (1995) as cited by Njiraini, (2019). According to the theory, firms are entities that are a collection of various types of resources where the amount of value that is derivable from a particular resource depends largely on the ease of availability of other resources. Firms often have a long list of available resources or resources that they need to put together. According to this theory, not all the resources that are available to a firm carry equal importance or are capable of becoming a source of competitive advantage. It is therefore essential that firms concentrate on resources that give them a competitive advantage in a particular sector or industry. According to Barney (1991), the need to create a competitive advantage must adhere to four critical conditions which are rareness, value, imitability and non-substitutability. Grant (1991) contends that the amount of reliability, transparency, and transferability are crucial factors. On the other hand, Collis and Montgomery

(1995) propose that resources must possess five essential characteristics for them to give a firm competitive advantage.

This theory is relevance since it indicates how resources can promote growth of firms. A majority of SMEs operate under immense pressure where financial, time, and expert resources are constraints. This means they will tend to control how they use their resources which influence their success in the long run. The resource-based view theory will promote success of firms in terms of assets management.

2.3 Empirical Literature Review

According to González-Loureiro and Dorrego, (2012), some of the factors that promote the success of SMEs include the adoption of innovation models. The study noted that innovation promote knowledge and success of firms in the long run. The authors argued that SMEs senior managers should adopt knowledge systems in their major operations. Some of the important issues associated with knowledge management include the analysis of the investment areas and adopting creative models in business (Inkinen, 2015).

A study done in Zimbabwe by Nyathi, Nyoni and Bonga (2018) also noted that book-keeping is important in promoting information sharing among SMEs. This means that all firms should find ways of promoting bookkeeping data to enjoy high success. Some of the ways where well organized bookkeeping data help firms includes in cases of looking for new funding opportunities. Importantly, there is need for adoption of different bookkeeping data models in all companies.

A study by Lusimbo, (2016) noted that financial planning is one of the aspects that promote innovation and success among SMEs in Kenya. The financial planning promotes growth of firms through consideration new opportunities and investing in the right aspects of business. Although the study was done in late 2015, it confirmed that financial planning should be part of firms since it helps to review challenges and get new opportunities.

According to Inkinen, (2015), value creation is important in intellectual capital management. This is because it supports the promotion of intellectual capital (IC) in terms of different assets. The IC systems promote the growth and success of firms as noted by Demartini, and Beretta, (2020) who argued that IC is the bedrock of SMEs value and long-term success. This is based on systematic literature on innovation as well as on knowledge management. All SMEs should adopt IC value in their operations.

A study by Ngah, Abd Wahab, and Salleh, (2015) also noted that intellectual capital is the basis of SMEs growth. Firms that adopt IC models have the power to enjoy high sustainability. This makes firms resilient, and they can explore new investment opportunities. The IC systems are associated with low competition and good entrepreneurship models. This means that firm competitive advantage is gained through IC systems. It is imperative that firms adopt effective IC in the operations.

Amin, Usman, Sohail, and Aslam, (2018) also evaluated how IC influence firm success and noted that firm success is based on resource and knowledge assets. The study used data from the Australian market and confirms that IC models can promote market share and power of firms in the region. However, the study noted that this is mostly possible in the knowledge economy. As such, firm should adopt knowledge systems as noted by a study by Jardon, and Catalina, (2015) which was based on Latin America context.

A study by Raymond, and Adigwe, (2015) noted that credit management promotes profits of firms. This study was done in Nigeria and used data from companies listed in Nigerian Stock Exchange. The study also confirmed that to maximize profit and success firms should adopt effective credit management framework. There is a connection between credit management framework and firm profit increase in many of the firms adopted.

In their study, Munangi and Bongani (2020) also evaluated how credit risk is a big challenge among banks in South Africa. The study used longitudinal design from the year 2008 to late 2018. The findings confirmed that credit management is the most effective way of managing investment models in the country. This means that high competitive advantage among banks can be achieved through effective credit management framework.

Moreover, Al-Husainy and Jadah (2021) examined how credit risks models influence the profit value in firms in Iraq. The study was done in 2015 to late 2020. The authors found that credit management help reduce risks in organizations. The study used credit risks theory a well as the liability management models. The study focused commercial banks in the country and noted that credit risks should be the hallmark of firm's success and profit management. The firm success was based on ROA and credit risks models.

Salim, and Bilal, (2016) also evaluated how liquidity levels influence performance of firms in Oman. The study was conducted among banks, and it noted that liquidity of banks is promoted through effective risks management models. The authors focused on Omani banks and used more than four banks. Ratio was used including ROA as well as ROE. The study concluded that firm's success is best on short term management of assets.

Finally, a study done by Okpala (2019) indicated that poor profit management was due to lack of resources. The study noted that firms should adopt effective credit management and ensure different investment levels. However, this study was done in Nigeria and involves around 500 staff in the banking sector in the country. The authors concluded that firms should adopt effective credit-based management models and support financial skills in their operations.

Studies by, Siekei,Wagoki,and Kalio,(2013) sought to evaluate the important of financial knowledge on the success of firms in Kenya. The authors' main aim was to determine how financial power and knowledge improve success among SMEs. The study adopted descriptive models and it was evident that financial skills promote the success of SMEs in Njoro Kenya. The authors concluded that managers should adopt financial skills and knowledge to empower their business and increase success. Some of the financial skills necessary among businesses include bookkeeping, management of budget and credit portfolio. However, the study adopted random sampling and only focus on SMEs. The random sampling method adopted is also associated with bias in data gathering.

Lusimbo, (2016) also investigated how financial power and skills influence the success of small firms in the country. The study used 1300 SMEs in the region and the focus was in Kakamega Central Sub County. The study adopted cross-sectional models and used 306 sample sizes of SMEs. The study found that SMEs with powerful financial skills enjoyed high growth and success. Some of the challenges that managers should understand in their business include inflation effects and how to manage interest rate problems. Managers should also understand budget management and effective planning of their capital. However, the data analysis model adopted in the study was bias and only focused on SMEs in Kakamega.

Inkinen (2015) studied how capital power influence growth of firms and adopted systematic review. The study noted that firm capital is important in promoting firm success. It is important that managers adopt innovate ways of managing their capital. This is important for long term success. The study also noted that financial information is the basis of firm success. However, this study adopted systemic review and meta-analysis models. In addition, Raymond, and Adigwe, (2015) investigated how credit management models promote growth and profit of farms, especially in the production and manufacturing industry. The study adopted descriptive methods and it was confirmed that credit management can promote success of firms. However, the study only focused on descriptive models which provided only descriptive results.

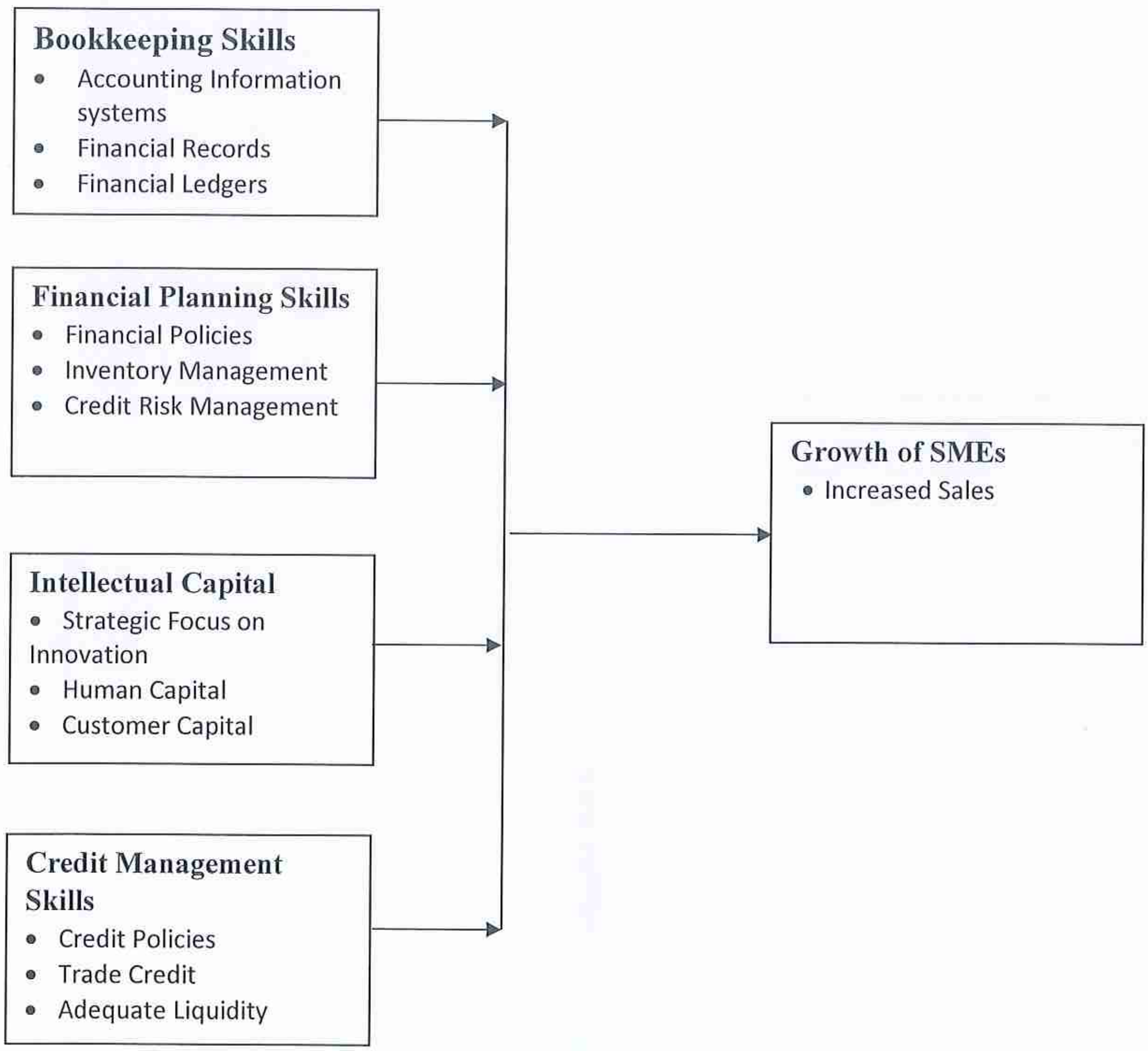
Finally, Munangi and Bongani (2020) reviewed how credit systems influence firm production and used 18 banks in South African region. The study used panel data and it was evident that credit management is important in promoting return on assets. The study concluded that firms should adopt effective credit management models to improve their sustainability. However, the study only focused on South African firms and only used panel data which is associated with various omission and errors.

2.4 Conceptual Framework

This model is a research instrument made to aid in effectively communicating a researcher's knowledge and grasp of the subject being studied. It served to give a preferred approach to a problem or idea as well as to indicate potential research directions in terms of predictor and other variables.

Independent

Financial Literacy



2.5 Summary of Literature Review and Research Gaps

Analysis shows that effective financial records are important in promoting business success. Many firms use their financial records to promote their strategic decisions and to improve success. This is important in funding business operations, especially in reducing legal and other moral obligations of the firm. It is imperative that firms keep their financial records and risk management to avoid credit challenges. This is also important towards their cash control, money management and future planning of their budget. With effective financial control, firms can manage their plans and programs in the long run. Siekei,Wagoki,and Kalio,(2013) did a study on how financial skills influence operations in SMEs in Njoro in late 2013.. Despite this, the study was done in late 2013 and cannot apply in the present markets.

A study by Lusimbo, (2016) also investigated how financial skills are important on growth of SMEs, especially within the Kenyan context. However, the study did not establish the relationship between bookkeeping skills and the growth a gap the present study will seek to fill. On the other hand, Inkinen,(2015) conducted an empirical review on how firm performance is influenced by financial power and models.. However, the study employed a systematic review procedure whereas the present study will use descriptive research design. Raymond, and Adigwe, (2015) also conducted a study on credit management systems and how this affects the growth and profit levels in firms. However, the study failed to recommend some of the ways of promoting credit worthiness among firms and it only focused on manufacturing firms. The study was also done in late 2016 and things have changed currently.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter identifies the appropriate research procedures as well as methods that were adopted for this study to respond to the research question. This includes all procedures used in the analysis. The chapter also includes the data analysis tools that were adopted after data collection to analyze the study findings. It also includes the instruments validity as well as the reliability measures.

3.2 Research Design

Research design is important in all studies since it depict the plan of the study. This study aims to adopt quantitative research to achieve the objective. The integration of the descriptive models will promote gaining of more insights on the topic of the study. The researcher developed a model for understanding the characteristics of the group of focus.

Creswell (2017) defines a study design as combination of strategies one uses to solve a research problem. The mixed method provided different information gathering tactics, measurement instruments plus data scrutiny that combines both qualitative and quantitative design. The study involved cross sectional design to gather multiple data during the study. This helped to gain different insights on understanding how financial literacy promotes the success of the focus firms.

3.3 Population of the Study

This is the group that the researcher intends to gather data from. The target group can be used to generalize the study results (Kothari, 2012). There are also those who argue that 10-30% of the group is reliable to gather data (Mugenda and Mugenda, 2003). The target group helps to gain data based on their distribution and number.

In this study, the target group was SMES in Kiambu County. The researcher focused on 900 SMEs in Kiambu County. The study focused on a total of 1778 respondents working with the aforementioned small firms in Kiambu County. The SMEs were in different sectors including health, education and commercial services.

3.4 Sampling Frame

The process of selecting different units in a study is known as sampling. The researcher plans to use simple random sampling. This is important in providing different respondents with equal chance to participate in the study. With simple random sampling, it was easier to get equal probability of participants to gain access and participate in the study. The method reduced discrimination and any bias in selecting the study group and participants

3.5 Sample size and Sampling Technique

According to Kothari (2003), sample size is important when dealing with a large population. Since this study will involve many SMEs, a sample size model was adopted. Specifically, the study adopted Yamane (2007) formula as shown below.

The formula is shown below;

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

$$n = \frac{1778}{1 + 1778(0.05)^2}$$

= 326

The researcher sampled 326 SMEs in the study. This is shown in the Table 3.1.

Table 3. 1: Spreading the sample across the study area

Category	Population size	Sample Size
Managers	889	163
Finance Officers	889	163
Total	**1778**	**326**

3.6 Data Collection Instrument

In this study, data were collected using questionnaire. The questionnaire was gathered through the use email and self-administers of pick and drop method in providing the questionnaire to the respondents. The questionnaires helped to collect huge data within time. The method helped reduce bias and provide reliable data (Mugenda & Mugenda, 2003).

3.7 Data Collection Procedure

Questionnaire was used to gather information. The first part and section of the question highlighted demographic data while Section B-determined financial literacy levels and Last Section C-delve on the growth of the firms. The researcher used Likert scale in gauging the attitudes of the respondents. The researcher supplements the primary data using secondary data from books, website data, publications and peer reviewed journal articles associated with the topic of the study. The researcher sought permission from NACOSTI and use introduction letter from the college.

3.8 Pilot Test

Field (2009) noted that pilot study help to reduce bias in actual data collection. This is because it helps to identify errors on the tools. This promotes accuracy and relevance in the study instruments. In this study, the instrument will be piloted in three different schools. The pilot study gave the researcher a chance to test the instruments of data collection and correct errors where necessary. The researcher conducted pilot study among SMEs in Nairobi County.

3.8.1 Reliability Test

According to Mugenda and Mugenda (2003), reliable instruments provide consistence results. This means that reliable instruments consider the objective of the study and yield similar results when the study is redone. In this study, the Cronbach's alpha coefficient was used to test reliability of the data tools. The study sought to achieve a high level of internal consistency and this will be achieved by using Cronbach's alpha coefficient above 0.7.

3.8.2 Validity Test

Validity is the aspects that promote accuracy in data gathering. The validity of the tools helped to measure specific objectives of the study. There are various measures of ensuring study validity. In this study, the author adopted content validity measures (Mugenda & Mugenda, 2009). This was done after careful after review of the instruments of the study. Any errors were rephrased and corrected to promote the validity of the tools

3.9 Data Analysis and Presentation

The quantiative data in this study was involving numbers. The data involving numbers was reviewed. Analysis was done using descriptive models. Descriptive values as well as statistics were used and they included the frequencies, mean and standard deviation and they were presented into percentages, table and charts. The quantitative data was based on the model below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where,

y = Growth of Small and Medium Enterprises in Kiambu County, Kenya

β_0 = Constant

X_1 = Bookkeeping Skills

X_2 = Financial Planning Skills

X_3 = Intellectual Capital

X_4 = Credit Management Skills

β_1 to β_4, are the coefficients in the model.

e = the estimated error constant

3.9.1 Operationalization of the Variables

In this study, construct of each variable measured as shown in the table below.

Variables	Variable	Measures	Source
Dependent	Growth of Small and Medium Enterprises	Volume of sales	Williams (2013)
Independent	Bookkeeping	Ability to keep records	Waithaka (2016).
	Financial Planning	Ability to plan for future	Thottolim (2021).
	Credit Management	Credit management skills	Waithaka (2016).
	Intellectual Capital	Ability to understand capital flow	Williams (2013)

Source: Author, (2022).

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The study data was collected from SMEs in Kiambu region. Analysis is provided here based on the information gained. The findings as well as their discussions based on the models of analysis are also presented. This was done with the aim of getting simpler interpretation of the results.

4.2 Response Rate

More than 325 participants were contacted during the inquiry. The inquiry achieved 76% responses back and this is a good rate. Mugenda & Mugenda (2003) confirmed the view that using more 70% of the response in a study is acceptable. The response rate from the participants is shown in the table below.

Table 4.1: Response Rate

Questionnaires	Frequency	Percentage
Adequately filled	247	76
Unreturned	70	22
Incomplete questionnaires	8	2
Total	**325**	**100.0**

Source: Research Data (2022)

4.3 Participants Demographics

The study sought to determine the distribution of respondents in terms of gender, age range, highest formal learning and the duration the respondents had been working at the facility. The findings are presented in Table 4.2.

Table 4.2: Demographic characteristics

		Frequency	**Percent**
Gender	Male	140	56
	Female	107	44
Age range	< 30	10	3.6
	31-35	180	72.8
	36-40	50	20.8
	>40	7	2.8
Highest Formal Learning	Diploma	145	58.7
	Bachelor's degree	97	39.3
	Masters' degree	5	2.0
	PhD	0	0.0

Length of Service	Less than 3 years	103	41.7
	3-5 years	129	52.3
	5 years and above	15	6.0

Source: Research Data (2022)

From the table, it is true that there are more males than females in the SMEs sector in the county. 56% are males while only 44% are females. The analysis also indicates that majority is between 31 to around 35 years at 72% and only 2.8% are above 40 years. However, 20.8% are in the 36 to around 40 years. This indicates that many people working within the sector are in 31 to around 35 years. In addition, in terms of their educational achievement, the analysis of the respondent's educational level and the majority of the people had literacy skills and they have been in schools and colleges. Diploma was highest at 58.7% while degree holders were only 39.3%.Only 2% were in the category of masters and there were no PhD holders. This means that the majority of the respondents had diploma and degree level of education. In the length of operations, majority had been working for about 3 to 5 years at 52.3% and only 6% had operated for more than five years. 41.7% have operated for less than three years and this explains the view that many SMEs rarely operate past five years. From the above figure, it is evident that many failed within five years of operations.

4.4 Descriptive Analysis of Study Variables

The analysis determined the skill set achieved by the managers. The aspects of analysis included bookkeeping skills, financial planning abilities as well as intellectual capital and credit management skills. The responses were rated on a 5-point likert scale of the form "1=strongly disagree, 2=disagree, 3=undecided, 4=agree, and 5=strongly agree." The findings are presented below;

4.4.1 Credit Management Skills

The study sought to understand how credit management skills influence the growth of the SMEs in the county. The analysis confirmed that majority of the respondents had somewhat credit management power. This is depicted in the table 4.3 below.

Table 4.3: Credit Management Skills

Statement	**N**	**Mean**	**Std. Deviation**
I have the power and knowledge and skills to manage loans.	247	4.1801	1.3925
I have the ability to calculate the loan interest rates.	247	4.1010	1.40089
I understand the implication of accumulating debt to my firm	247	3.8143	1.36665
I am able to adhere and use the loan for its purpose	247	3.6712	1.32250
Multiple borrowing always affects my operations	247	3.3856	1.42599
Borrowing always helps to protect my business failure.	247	3.3131	1.56880
Overall mean		**3.1456**	

Source: Research Data (2022)

In regards to whether credit management skills was common among the respondents, the analysis reveals that many of the respondents had the power and knowledge and skills to manage loans at (M=4.1801). The study also revealed that many have the skills to calculate the loan interest rates at (M=3.81434). However, a few of them noted that borrowing always helps to protect my business failure at a mean of (M=3.3131). This confirms the view that credit management is important to the firms and there is need for more credit management skills among the SMEs in the county.

4.4.2 Financial Planning Skills

The inquiry was interested in determining financial skills of the firm managers. The findings are presented in Table 4.4.

Table 4.4: Financial Skills

Statement	N	Mean	Std. Deviation
I can prepare budgets and plan for the firm	247	4.1090	1.31424
We always plan for our spending	247	4.1916	1.34223
I plan for the money we use long term	247	3.4570	1.43145
We have systems that update our plans	247	3.9576	1.43184
Overall mean		**3.8571**	

Source: Research Data (2022)

The findings revealed that the respondents had the power to prepare budgets (M=4.1090). In regards to whether they plan for their spending, majority of the respondents revealed that they plan for their spending (M=4.1916). On whether they plan for the money long term, the, majority of the respondents agreed at mean (M=3.4570). However, only some noted that they have systems that update their plans (M=3.9576). This means that some SMEs require proper financial management skills to promote their success. There is also the need for more emphasis on setting money aside for future operations of the SMEs.

4.4.3 Bookkeeping Abilities

The inquiry was interested in determining book keeping skills of the participants. The findings are presented in Table 4.5.

Table 4.5: Book Keeping Skills

Statement	N	Mean	Std. Deviation
I have book keeping ability	247	4.2428	1.21120
I can interpret financial statements	247	4. 1672	1.42212
We book keep to file returns	247	3.8283	1.21190
We use book keeping to meet tax conditions	247	3.5851	1.30020
Overall mean		**3.61131**	

Source: Research Data (2022)

The findings revealed that the respondents had the power to book keep (M=4.2428). In regards to whether they interpret financial statements, many had the ability (M=4. 1672). They also indicated that they book keep to meet return and tax conditions at (M=3.5851). From this, it is true that book keeping is important for all SMEs.

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4.4.4 Intellectual Capital

The inquiry also evaluated the Intellectual Capital skills. The findings are presented in Table 4.6.

Table 4.6: Intellectual Capital skills

Statement	N	Mean	Std. Deviation
We partner with other firms to gain more skills	247	1.3118	1.12389
We are aware of different rules for money activities	247	4. 8911	1.34445
We monitor bank verifications	247	3.1100	1.10006
Managers always review bank operations and plans	247	3.23300	1.61123
Overall mean		**3.31229**	

Source: Research Data (2022)

The findings revealed that the respondents had some collaboration with other firms with the aim of gaining new skills (M=1.3118). Majority of the respondents were also aware of the bank rules (M=4. 8911). However, a few noted that they do bank review and verification to achieve their goals (M=3.1100). It is important that the SMEs partner with other stakeholders in their operations and attend seminars to hone their workers skills.

4.5 Firm Growth

In this study, the overall growth of the SMEs was determined based on sales volume over the last two years. The analysis noted that the SMEs have been experiencing high growth rate due to financial management skills. The growth of volume of sales was high in many of the firms. This is depicted in the table below.

Table 4.7: Firm Growth

Volume of Sales	**Mean**	**Standard Deviation**
The company experience high volume of sales than rivals	4.16	0.4319
The company experience high customers than rivals	4.53	0.4077
The company is witnessing high costs of operations	4.99	1.3819

From the above table, it can be argued that the majority of the SMEs enjoyed high volume of sales. This was partly due to adoption of financial practices in their operations. However, some of the firms were experiencing high costs of operations at a mean 4.99 and SD of 1.38. This means that there is need for provision of ways that the firms can use to reduce and control their costs if operations.

4.6 Regression Analysis

The results of the review depict a good fit and link between the main concepts. This is shown by the R as well as well as R-square values. The analysis was based on F ratio at the 0.05 and the interpretation of the findings is shown below.

Table 4.7: Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.512[a]	.262	.201	0.03113

a. Predictors: (Constant), Intellectual Capital, Credit management skills, financial planning skills and book keeping skills.

The results for model summary indicated in the table indicate that there was a correlation and financial skills promote the growth of the firms at 26.2% as shown in the R-square value. This means that the growth of the SMEs is due to effective financial skills among the managers.

4.6.1 ANOVA Table

Table 4.8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	38.857	5	9.110	9.266	.000[b]
1	Residual	134.139	128	1.122		

Total	178.306	132

a. **Dependent Variable**: Growth of the firms

b. **Predictors:** *(Constant), Intellectual Capital, Credit management skills, financial planning skills and book keeping skills*

With an F-test value of 9.266, it is true that the model is fit and indicates that firm growth depends on the financial skills. This is shown with a p-value of 0.000 which is significant

4.6.2 Coefficient Table

The analysis is based on the Table 4:9 below.

Table 4.9: Coefficient

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	.701	1.402		.434	.494
Credit Management Literacy	.317	.072	.381	4.431	.001
Financial Planning abilities	.098	.088	.174	.830	.354
Book Keeping	.354	.060	.395	2.127	.000
Intellectual Capita	.126	.381	.130	.489	.598

a. Dependent Variable: Growth of SMEs

From the above table it is true that there is a positive relationship between Intellectual Capitals, Credit management skills as well as between financial planning skills and book keeping skills and growth of SMEs in county with $\beta 1=0.317$, $\beta 2=0.098$, $\beta 3 = 0.354$ and $B4=0.126$respectively. A regression model adopted by this study was:

$$Y=\beta o+\beta 1X1+\beta 2X2+\beta 3X3 + \beta 4X4+ \alpha.$$

$$Y= 0.701+ 0.317X1 + 0.098X2 + 0.354X3 + 0.126X4.$$

This indicates that SMEs success depend on financials skills and abilities of the managers. The independent variables which are Intellectual Capital, Credit management skills, financial planning skills and book keeping skills are important in promoting firm value. This confirms the view that financial skills and power promote the growth of firms in the county.

4.7 Discussion of Findings

The inquiry confirms that financial literacy and skills is one of the most important aspects of business, especially among managers of the SMEs in the county. Majority of the SMEs in the county had adopted financial literacy models as a way of promoting their success. The managers of the firms had the ability to manage their credit, book keep and plan for their financial challenges. However, it was also noted that despite the ability of the managers to manage their financial books, the majority of the banks were not willing to provide the managers with loans.

In addition, many of the managers were not diligent in paying their taxes and this was a challenge in promoting their credit score and ratings.

Moreover, the analysis confirmed that growth and success of the SMEs were mainly attributed to their credit management, intellectual abilities and financial planning skills. Preparation of tax books and values was a big challenge among many of the SMEs. However, their sales volume improves with time and some of the SMEs were planning to expand outside Kiambu region. This was mainly after the adoption of effective financial plans and consideration of the business environment. Debt obligation is a challenge, and it is one of the areas that the SMEs need to cover to promote their growth and increase in customer accumulation and access to new markets.

The findings of this study were similar to Kabethi (2013) who noted that SMEs success depends on the financial skills on their managers. He also argued that it is imperative for firms to adopt financial management in their operations to promote their growth and success in the long term. There are various factors affecting SMEs growth, however, the main issue is lack of resources, and this should be managed by improving number of partners and working with different stakeholders.

The results are also in line with Fatoki (2014) argument which indicated that finance and capital challenges are common problem among SMEs in developing counties in Africa. The author argued that lack of resources has been the main challenge facing many SMEs in Africa. He noted that there is need for SMEs managers to work with various financial groups and improve their access to resources. This is the basis and model that can promote their performance and success.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The results, policy suggestions, and conclusion that came out of the study are summarized in this chapter. Future research will be based on the research gaps found throughout this study. The analysis also includes suggestions that can help other readers and writers to learn and plan for their further inquiry. All these reviews are provided based on the study objective.

5.2 Summary of the Findings

The study's key objectives were to determine the impact of debt management, bookkeeping, budgeting, and knowledge of financial services on the development of SMEs in Kenya's Kiambu County. All four of the study's factors were shown to have a favorable impact on the expansion of SMEs. Nevertheless, knowledge of bookkeeping techniques and debt management literacy had a significant impact on the development of SMEs in Kiambu County.

The analysis found that the application of credit management skills as well as the consideration of financial planning skills helps many managers to understand how they can with banks and other financial support groups. It was also noted that banks do not supports many of SMEs due to the risks involved in their operations and it is important that SMEs managers find ways of collaborating with banks. With effective credit management skills and intellectual capital management, the study noted that owners of the firms can manage their operations and work well with banks.

5.3 Conclusion

The study's findings suggest that the debt management literacy level has a significant impact on the growth of SMEs in Kiambu County. Therefore, it is essential to make a conscious effort to teach SMEs in good business management in order to promote the growth of SMEs. This would therefore result in improved financial performance of organizations in the county. Moreover, according to the study's findings, the majority of SMEs acquire credit facilities before looking for advice on debt management, and as a result, they find themselves amassing debt by taking out several loans from both informal and formal sectors. Additionally, the research shows that SMEs misuse money, which hinders their ability to expand.

The study found that better budgeting preparation skills are required since doing so will boost SMEs growth by enabling controls when actual performance is compared to the budgeted performance and allocating funds to predetermined regions. Additionally, budgeting improves function coordination with the ultimate objective of achieving the specified performance standards. Furthermore, because the majority of SMEs do not create an annual company budget, business decisions are made based on the current situation; this encourages impulsive spending. Thus, managers need to get training on the significance of adhering to the established budget and best budgeting techniques used in the organization.

According to the study's findings, SMEs' ability to keep accurate records and books of accounts, which may clearly depict their financial performance and therefore help them make decisions, is substantially correlated with their ability to expand. According to the study's findings, while some employees of SMEs have a broad understanding of accounting; this knowledge does not necessarily allow them to independently create financial statements. SMEs must be guided through the fundamentals of filing tax returns; this does not always need specialists.

Another finding from the research is that understanding financial services is essential for SMEs because it helps them avoid penalties and fees for not adhering to the terms and conditions of the services they get. The study also found that while most managers of SMEs interview customers on different bank products, relatively few frequently check the standings of their savings and loans.

5.4 Recommendations for the Study

According to the study's conclusions, SMEs should develop strategies for managing their debt because doing so is favorably and significantly related to their ability to expand. some of the tactics include avoiding numerous borrowings and accumulating a large amount of debt in the company since this might impair debt payments. Furthermore, SMEs management should develop better debt management techniques that would lower the debt to a manageable level that is serviceable by the company. The research suggests that SMEs receive budget preparation training in order to improve their financial success. This would result in the expansion of SMEs, the reduction of waste and cost growth, and more productive growth.

It should be noted that growth of SMEs is supported by ability of the managers to manage their books and financial plans. This means that it is important for the managers to join training grounds where they can learn these important skills. With good planning and ability to meet tax rules, many of the SMEs can promote their success and even expand outside the county. With this knowledge, SMEs may create financial statements that will allow them to assess their value and, as a result, make wise decisions that could foster growth in the company.

The study advises that management of SME should learn more about bank operations to prevent being charged heavy penalties and interest, since banking service literacy has a favorable connection with growth of SMEs. The study suggests that SME management should learn more about bank operations to prevent being penalized severe interest and fines which might be addressed as they would result in higher operating costs, which in turn might impair growth strategies.

5.5 Limitations of the Study

This study was predicted to have a number of severe limitations. One limitation of the study is the unwillingness of some respondents to comply, believing that it would be a waste of their time given how long it would take them to complete the questionnaire. The questionnaires were abandoned in order to choose the surveys as previously agreed. A research assistant who had received training in data collection was hired to help the researcher because time was another issue in the study. Additionally, the respondents could be reluctant to divulge private details about their progress owing to competitive commercial relationships. They were reassured that the data would only be used for academic purposes in order to comply.

5.6 Suggestions for Further Research

According to the study's findings, financial literacy accounts for 22.8% of the variances in the development of SMEs, with the remaining explanations being provided by other factors; therefore, in order to explain the remaining portion of the changes, it is suggested by this study that more research be done on these SMEs. There is also the need for further studies focusing on more than one region to help understand how financial skills can promote success of various companies. This is effective in generalizing the results of the study done. Scholars should also find ways of reviewing and determining how the application of credit management power and financial inclusion skills can help SMEs in understanding their success and growth in the long term.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Kindly fill all the questions either by ticking (□) in the boxes or writing in the spaces provided.

1. What is your Age?

a.20– 25 [ ]

b.26 – 30 [ ]

c.31– 35 [ ]

d. Above36years [ ]

2. What is your Gender?

Male [ ]

Female[ ]

3. What is your highest level of education?

Diploma [ ]

Bachelors [ ]

Masters [ ]

Doctorate [ ]

Other (Please specify).

4. What are your years of experience working in this company?

Less than3years [ ]

3 –5years [ ]

6 –10years [ ]

More than10years [ ]

SECTION B: FINANCIAL LITERACY

8. What is your level of agreement with the following statements relating to your company financial literacy levels? **(1- strongly disagree, 2- Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)**

Performance	**1**	**2**	**3**	**4**	**5**
The company managers and employees have effective book keeping skills.					
The company engage in financial planning activities					
The company management supports profitable investments					
The company has introduced new budgeting and accounting in its operations					

The company is enjoying high intellectual capital					
The company management has effective credit management skills					

SECTION C: GROWTH OF THE SMES

6. What is your level of agreement with the following statements relating to growth of your company? **(1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)**

	1	2	3	4	5
The company is experience high sales volume					
The company is experience increase in number of customers					
The company has a high market share than					

rivals					