FINANCIAL LITERACY AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES IN KAJIADO COUNTY, KENYA

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ENTREPRENEURSHIP AND ECONOMICS, SCHOOL OF BUSINESS AND ECONOMICS PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD MASTER'S IN BUSINESS ADMINISTRATION (FINANCE OPTION), AT THE COOPERATIVE UNIVERSITY OF KENYA

NOVEMBER 2024

DECLARATION

This research project report is my original work and has not been presented to any university for the award of a degree.

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DEDICATION

I dedicate this Research Project to my friends, my father John, my brother Fredrick as well as Rael Achieng my mother for their continued prayers and support in my life.

ACKNOWLEDGEMENT

I want to express my gratitude to the Almighty for the gift of life and good health, which had sustained me throughout the development of this research project. I extend special thanks to my dedicated supervisors, Dr. Monica Nderitu and Dr. Wicliffe Anyango, for their invaluable insights, expertise, and unwavering support. Additionally, I am thankful for the camaraderie and assistance of my course mates, including Prisca, Ann, Martha, Mugambi, Silvia, Nickol and Victoria among others, whose contributions had greatly enriched this research project.

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DEFINITION OF KEY TERMS

ACRONYMS/ABBREVIATIONS

ADB - Asian Development Bank

CIDP - County Integrated Development Plan

GDP - Gross Domestic Product

IFC - International Finance Corporation

KES - Kenyan Shillings

MOE - Margin of Error

MSEA - Micro and Small Enterprises Authority

RBV - Resource-Based View

SE - Standard Error

SMEs - Small and Medium Enterprises

UNIDO - United Nations Industrial Development Organization

ABSTRACT

and multiple linear regression and simple linear regression analysis for data interpretation. Tests for regression assumptions—normality, multicollinearity, autocorrelation, and sampling adequacy—were conducted to ensure the robustness of the model. Descriptive statistics

CHAPTER ONE

INTRODUCTION

This chapter provides the background of the study, elaborating on the origins of the research problem and its relevance from global, regional, and local perspectives. By contextualizing the topic within these levels, the chapter highlights the broader implications and specific local dynamics that shape the issue under investigation. It also includes the statement of the problem, which identifies the challenges or gaps the research aims to address, alongside the research objectives and questions that guide the study's focus. Furthermore, the chapter defines the scope of the study, outlining its geographical, thematic, and methodological boundaries to establish a clear framework for the research.

Small and medium-sized enterprises (SMEs) play an essential role in Kenya's economic development, contributing between 30–50% of the national Gross Domestic Product (GDP)

The challenges affecting SME financial performance are critical to Kenya's Vision 2030, which particularly Goal 8, which focuses on promoting inclusive and sustainable economic growth. However, the high rate of SME failures in Kenya—often attributed to poor financial management—raises concerns about the ability of this sector to fulfill its potential. Addressing

sinesses but also affect the county's overall economic development. This study seeks to he financial literacy of SME owners. For example, the IFC's SME Toolkit provides

The lack of formal business registration is a third challenge, limiting SMEs' access to resources

1.2: Statement of the problem

30–50% of Kenya's GDP and account for 80% of employment nationally (Kenya National

es, while 70% experience difficulties in securing external financing. Such constraints limit their potential to contribute effectively to the County Integrated Development Plan (CIDP) 2018–

SMEs in Kajiado County operate within a unique economic landscape, characterized by a mix of rural and urban enterprises and significant reliance on informal business practices. The region's underperformance in SME development contrasts with national development goals outlined in Kenya's Vision 2030, which identifies SMEs as key drivers of economic

1.3: Objectives of the study

1.3.1: General objective

The main objective of this study is assessing the influence of financial literacy on the financial performance of Small and medium-scale enterprises in Kajiado County, Kenya.

1.3.2: Specific objectives

1. To establish the effect of bookkeeping skills on the financial performance of SMEs in Kajiado County.
2. To investigate the influence of debt management practices on the financial performance of SMEs in Kajiado County.
3. To determine the influence of running formal businesses on the financial performance of SMEs in Kajiado County.

1.3.3 Research questions.

1.4: Significance of the study

The study-on owners' financial literacy and small and medium-scale enterprises' (SMEs) financial performance in Kajiado County has significant implications for both business owners and policymakers. It addresses the critical issue of bookkeeping skills among SME owners, focusing on proper bookkeeping, debt management, and running formal businesses. Understanding financial transactions, recording them accurately, and interpreting financial statements are essential for decision-making. By examining the relationship between owners' financial literacy and bookkeeping practices, the study shed light on whether improved financial literacy leads to better bookkeeping, ultimately helping SMEs maintain proper financial records and make informed financial decisions.

Additionally, the study investigated debt management in SMEs, which was crucial for their financial health. It aims to determine if improved financial literacy resulted in better debt handling, timely repayments, and optimized borrowing. These insights guids SME owners in

Kajiado County in making informed decisions about debt usage for business growth and avoiding excessive liabilities.

The research also explores the interplay between formal business operations, revealing their combined impact on SMEs' financial performance. It highlighted how these businesses handle challenges like cash flow and limited credit, impacting their sustainability (Nyamweya, 2021). Overall, the findings offers guidance for strengthening small business support, fostering sustainable growth, and encouraging strategic decision-making among entrepreneurs.

1.5: Scope of the study

The scope of this study revolves around an in-depth exploration of the interplay between three crucial variables: bookkeeping skills, debt management, and running formal businesses. It aims to investigate how these variables collectively affect the financial performance of small and medium-sized enterprises (SMEs) operating within the context of Kajiado County, Kenya. By focusing on these factors, the study seeks to provide actionable insights that could enhance SMEs' sustainability and financial stability in the region (Omondi, 2023).

Firstly, the study assessed the proficiency of SME owners in bookkeeping skills, delving into the quality of their financial book keeping practices. This involves evaluating the accuracy, completeness, and adherence to established accounting principles in maintaining financial records (Nyamweya, 2021). Improved bookkeeping skills are expected to enhance SMEs' financial tracking and support more strategic planning (Kamau & Onyango, 2022).

Secondly, the study focused on debt management, a critical aspect of SME financial health. It analyses the capability of SMEs to service their debt obligations, and the effectiveness of debt repayment strategies employed within the business (Omondi, 2023). This variable seeks to unveil the potential impact of prudent debt management on SMEs' overall financial performance, highlighting strategies that could reduce financial strain and foster growth.

Effective debt management is seen as crucial for maintaining business solvency and reducing financial risks (Kamau & Onyango, 2022).

Lastly, the research explored the running of formal businesses, using questionnaires to understand their approach to risk, planning, and decision-making. The study aims to find links between specific mindsets and improved financial performance in Kajiado County's SME sector, offering valuable insights for business owners and policymakers seeking to support business resilience and adaptability (Nyamweya, 2021).

CHAPTER TWO
LITERATURE REVIEW

2.0: Introduction

This chapter presents a comprehensive review of the existing literature related to book keeping skills of small and medium-sized enterprises (SMEs), debt management for SMEs, and running formal business of SMEs owners. The chapter aims to provide a theoretical foundation and contextual understanding of these three key research areas, which form the basis for investigating book keeping skills, debt management practices and running formal business in Kajiado county.

2.1: Empirical review

The empirical literature review comprises an exploration of previous research conducted on a specific topic of interest. The primary objective of this literature review is to meticulously examined existing studies, identified gaps in the literature, and ascertain areas where further research was needed. (Abdullah, 2022). By conducting a thorough empirical literature review, researchers could lay a robust theoretical foundation for their own research endeavors. This process involves analyzing and synthesizing findings from prior studies to gain valuable insights, shape research questions, and established a context for the new study.

2.1.1: Book keeping skills and financial performance

The relationship between bookkeeping skills and financial performance in small and medium-sized enterprises (SMEs) have been a topic of substantial research interest in recent years. These studies have consistently demonstrated the critical role that proficient bookkeeping skills play in enhancing SME financial performance. One key finding emerging from research is the impact of enhanced bookkeeping skills on financial decision-making. Smith's study in 2019 emphasizes that SMEs with strong bookkeeping practices tend to maintain accurate and up-to-date financial records.

Such records provide crucial insights into a company's financial health, enabling more informed and strategic decision-making (Nik, 2022). This includes better resource allocation, identification of growth opportunities, and risk mitigation. SMEs that prioritize and invest in effective bookkeeping skills were better equipped to make sound financial choices, thereby contributing positively to their financial performance.

Another critical aspect underscored in this body of work was the link between bookkeeping skills and accessing external sources of funding. Research conducted by Blach (2022) SMEs with well-maintained financial records were more likely to secure loans or investments from external sources. This access to external capital could be instrumental in facilitating business growth, expanding operations, or addressing financial challenges. It underscores that bookkeeping skills not only promote financial stability but also position SMEs favorably for external financial support, thereby bolstering their financial performance.

Furthermore, recent research, delves into the role of bookkeeping skills in risk mitigation and fraud prevention within SMEs. Effective bookkeeping practices enable the early detection of irregularities and discrepancies in financial records. This, in turn, reduces the risk of financial mismanagement and fraudulent activities. By promptly identifying and addressing financial issues, SMEs could safeguard their financial resources and maintain the integrity of their financial performance (Pham & Vu, 2022).

From the above studies, it is clear that these skills empower SME owners and managers to make informed decisions, secure external funding, and mitigate financial risks. Thus, fostering and enhancing bookkeeping capabilities should be a strategic priority for SMEs seeking to improve their overall financial health, sustainability, and competitiveness in today's dynamic business landscape (Falahuddin, 2022).

2.1.2: Debt management practices and financial performance.

financial distress and bankruptcy risk). In the context of SMEs, effective debt management strategies—such as balancing short-term and long-term debt, and ensuring timely payments—

ht the significant role of trade credit management in the sustainability of SMEs, particularly in the Nigerian context. This research finds that SMEs with well-managed trade credit policies—such as efficient credit collection practices—are more likely to remain financially stable and

the argument that trade credit and payment duration have a positive impact on the financial performance of SMEs. The research found that favorable trade credit terms—such as extended payment periods and reliable collection policies—contribute to the growth and success of SMEs

2.1.4: Summary of literature

These scholars provide valuable insights on SMEs and their performance, which is crucial because a significant portion of employment in Kenya relies on the formal sector, mainly driven by SMEs. Focusing on these businesses could be the key to advancing the economy and aligning with the nation's 2030-vision plan. (Juma, 2023).

2.2: Research gap

While extensive research has explored bookkeeping skills, debt management practices, and the implications of formal business operations on the financial performance of SMEs, a notable gap exists in comprehensively understanding how these factors interrelate within Kenya's unique business environment (Nik Abdullah, Cele, & Raza, 2022; Pham & Vu, 2022). Most studies tend to focus either on specific financial practices or on geographical contexts outside of Kenya, limiting the applicability of their findings to the challenges faced by Kenyan SMEs (Jain, 2023; Peter, 2022).

Furthermore, although the benefits of formal registration for enhancing the financial stability of SMEs are well-documented, there is insufficient exploration of how registered SMEs can effectively leverage their financial literacy and debt management skills to optimize their operations and enhance overall performance (Omeihe, 2023; Kiambi, 2020). This research aims to address this gap by examining the collective impact of financial literacy, debt management practices, and formal operations on the financial performance of registered SMEs in Kenya.

2.3: Theoretical review

This section introduces several theories relevant to this study, providing a foundation for understanding SMEs' financial performance. The research applies Human capital theory, emphasizing the value of knowledge and skills (Mankiw, 2020); Pecking-order theory, which prioritizes funding sources (Ahn & Choi, 2021); and Behavioral finance theory, focusing on psychological influences on decision-making (Shleifer, 2020). These theories collectively frame the investigation of how SMEs in Kajiado County manage financial challenges, particularly in bookkeeping, debt management, and formal business operations.

2.3.1: Human capital theory, Gary Becker (1964)

Human Capital theory was authored by Gary Becker in 1964. This theory offers valuable insights when exploring the influence of bookkeeping skills on the financial performance of Small and Medium-sized Enterprises (SMEs). This theory asserts that individuals could invest in their own human capital by acquiring skills and knowledge through education and training (Deming, 2022). In the context of SMEs, bookkeeping skills were akin to this human capital, representing an investment in the form of expertise.

SMEs with employees possessing robust bookkeeping skills were better positioned to enhance productivity (Igbokwe-Ibeto, 2023). Accurate and efficient book keeping could streamline financial processes, minimize errors, and save valuable time, leading to cost savings and heightened operational efficiency. Consequently, this could have a direct, positive impact on the profitability of SMEs (Thakker & Japee, 2023).

Human Capital Theory, when applied to bookkeeping skills and SMEs' financial performance, assumes that individuals or employees within these enterprises actively invest in their education and training to enhance bookkeeping skills (Madara, 2023). This presupposes that individuals recognize the value of these skills and make rational decisions to acquire them, with SMEs expecting employees to voluntarily seek out training in bookkeeping.

The assumption that bookkeeping skills are universally valuable across SMEs suggests that one unit of such skill should yield equal benefits in any context. However, the actual impact of these skills can vary based on the specific nature and complexity of an SME's operations, indicating that while theory posits uniform improvements in financial performance through skill investment, real-world applicability may differ (Japee, 2022). Jacob Mincer's contributions to Human Capital Theory highlight the importance of education, training, and experience in enhancing earning potential. Therefore, for SMEs, investing in bookkeeping skills not only has the potential to improve financial performance but also to create diverse career opportunities, aligning with Human Capital Theory (Raza, 2022). Ultimately, the effectiveness of such investments will depend on the unique circumstances of each business.

Yet another scholar was Theodore Schultz's, his contribution to Human Capital Theory emphasized that education and training have wider societal implications, beyond individual benefits. In the context of bookkeeping skills and SMEs, this means that investing in the development of these skills not only enhances financial performance within the business but also contributes to economic growth and stability at the societal level. Schultz's insights underscore the importance of recognizing the broader positive impacts of human capital investments, aligning with the notion that fostering bookkeeping expertise within SMEs have far-reaching economic benefits. (Al-Qudah et al., 2022)

2.3.2: The trade-off theory Franco Modigliani and Merton Miller (1958)

The trade-off theory in finance was first introduced by economists Franco Modigliani and Merton Miller in their seminal paper "The Cost of Capital, Corporation Finance, and the Theory of Investment," published in the American Economic Review. This theory was often referred to as the Modigliani-Miller theorem (Cardao-Pito, 2021). The trade-off in this context involves evaluating the trade-offs between the advantages of selling on credit and the potential drawbacks. On one hand, offering credit could lead to higher sales volume and customer satisfaction, contributing to long-term business relationships. On the other hand, SMEs have to consider the financial implications, such as administrative expenses related to credit management, the risk of late or non-payment, and the impact on cash flow. (Zayed, 2022)

One critical aspect of the trade-off is the consideration of opportunity costs. When SMEs sell goods on credit, they delay the receipt of cash, affecting their liquidity. This trade-off requires SMEs to weigh the benefits of increased sales against the opportunity cost of tying up funds that could be used elsewhere in the business. (Špička, 2020)

Another contributor to the trade if theory was James E. Stiglitz, an American economist Stiglitz's work emphasizes the trade-off between the benefits of extending credit to customers (increased sales and customer loyalty) and the costs associated with potential default or delayed payments. Firms need to strike a balance in offering credit terms that attract customers while considering the risk of non-payment. (Stiglitz & Kosenko, 2020)

In selling goods on credit, the trade-off theory assumes a balance between the benefits (increased revenue, customer loyalty) and costs (financial distress) of offering credit. Credit sales stimulate revenue by providing payment flexibility, attracting customers who might have delay payments. However, excessive debt reliance, including credit extensions, might lead to financial distress if customers default or if working capital management falters due to delayed receipts. The assumption highlights the importance of firms carefully weighing the advantages of credit sales against potential financial distress costs in their capital structure decisions. (Aguilar, 2024)

2.3.3: Behavioral finance theory

Behavioral finance is not associated with a single owner or publication year. However, in the recent years, there have been a growing interest in understanding the financial attitudes of small and medium-sized enterprise (SME) owners and their perspectives on business registration. Behavioural finance, a field that explores the impact of psychological and behavioural factors on financial attitudes and decision-making, provides valuable insights into why some SME owners choose not to register or register their businesses. (Ogunlusi & Obademi, 2019)

One influential figure in the field of behavioural finance was Richard H. Thaler, who had significantly contributed to challenging the traditional assumption of rationality in economic and financial models. Thaler's work, particularly his book "Misbehaving: The Making of Behavioural Economics" (2015), had shed light on the cognitive biases, emotions, and social influences that shape financial decisions. SME owners, influential in the business landscape, exhibit unique financial attitudes that influence their decisions, notably in the realm of business registration. The decision of some SME owners to consider formal business could be analyzed through behavioral finance, where cognitive biases and emotions play a crucial role. (Thoto , 2021)

Cognitive biases, like overconfidence and optimism, might lead SME owners to perceive their businesses as too small for formal registration. Richard Thaler's research emphasizes how biases influence decisions, shaping SME owners' choices regarding business registration. Emotions, such as fear of bureaucracy and aversion to formalities, also play a significant role, discouraging SME owners from opting for registration. (Skrzek-Lubasińska, 2020)

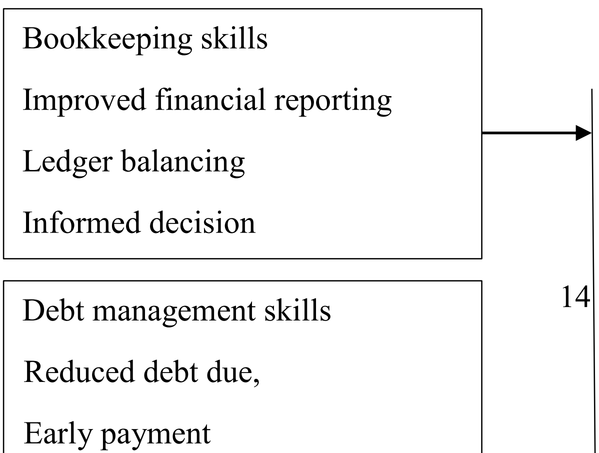
Social influences within the business community further shape decision-making. If SME owners see peers operating without formal registration and facing minimal consequences, they might be inclined to follow suit. This aligns with behavioural finance, where individuals rely on social cues and norms in decision-making. In summary, cognitive biases, emotions, and social influences provide insights into SME owners' motivations for regigistering their businesses. (Marchese, 2021)

Behavioral theory assumes that behavior is learned and influenced by the environment. B.F. Skinner, a key theorist, highlights how external stimuli, rewards, and punishments shape behavior through classical and operant conditioning. This contrasts with perspectives focusing on internal factors like thoughts and emotions (Shi, 2023)

2.4: Conceptual framework

The conceptual framework explores how owners' financial literacy influences their businesses' financial performance, focusing on bookkeeping skills, debt management skills, running formal businesses. Bookkeeping involves maintaining accurate records for transparency and accountability, while debt management entails strategies like consolidation and budgeting for stability and growth.

This model posits that these independent variables collectively influence the dependent variable, financial performance, which was gauged through metrics like turnover and profitability. It underscores the critical role of financial literacy in propelling the economic prosperity of small and medium-sized enterprises (SMEs), emphasizing the necessity for owners to possess a comprehensive understanding of financial principles to navigate and thrive within the business landscape effectively



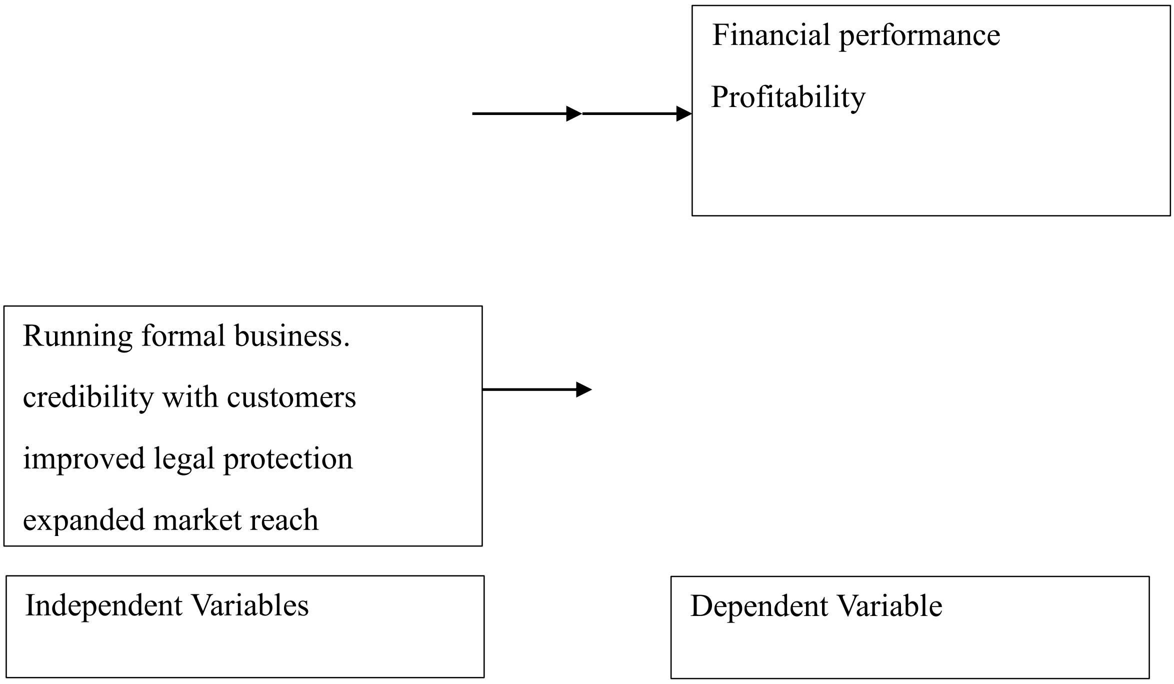


Figure 2.3: Conceptual framework

2.4.1: Financial performance

Financial performance, which refers to the measurement of a company's health and effectiveness in managing its resources, is a vital measure for evaluating the success of an organization, particularly for small and medium-sized enterprises (SMEs). This comprehensive assessment encompasses various financial metrics and indicators, with a primary focus on revenue, net profit, and the current ratio. (Odhiambo & Muturi, 2022)

Revenue reflects core income, demonstrating growth and market presence for SMEs.
Net profit reveals profitability after expenses. A robust net profit is essential for SMEs' financial health and investor appeal. Besides revenue and net profit, SMEs should monitor the current ratio, which assesses short-term liquidity by comparing current assets to liabilities. (Deming, 2022).

2.4.2: Book keeping skills.

Bookkeeping is the structured process of recording, organizing, and maintaining financial transactions and records within a business or organization. It serves as a crucial tool for small and medium-sized enterprises (SMEs) for several reasons. Firstly, it provides SMEs with financial control by offering a clear view of their financial status, allowing them to manage resources efficiently and make informed decisions about budgeting, pricing, and growth strategies (Adewumi & Cele, 2023)

Secondly, it ensures compliance with legal and tax obligations, safeguarding SMEs from potential penalties and legal issues arising from inaccurate financial reporting. Lastly, bookkeeping instills confidence in investors and creditors, as they rely on well-maintained financial records to assessed a company's stability and creditworthiness when considering investments or loans.

2.4.3: Owners' debt management skills

Owners' debt management skills is critical for SMEs in impacting their financial stability. Effective debt management prevents excessive burdens, ensuring customers pay their debt in time hence resulting to SMEs growth. It also enhances access to favorable loans and credit lines as lenders evaluates SMEs cash flow in terms of trade receivables and time taken to collected them. (Nik Abdullah, 2022)

2.4.4: Running formal business

Operating a formal, registered business provides significant advantages. It enables businesses to benefit from legal protections, enforce contracts, and access credit and financial services that support growth. Formal registration also enhances market access and business credibility, making it easier to attract customers and partners, and ultimately contributes to higher profitability and competitiveness. (Raza, 2022).

2.5: Chapter summary

This chapter provides an in-depth review of existing literature on financial literacy and its relationship with financial performance. It focuses on understanding the complex relationships among independent variables and their effects on dependent variables. This comprehensive examination serves as a foundational step for future research, highlighting the significant influence of financial literacy on financial outcomes.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0: Introduction

nd its alignment with the study's objectives (Johnson et al., 2022). The study area is then described, emphasizing Kajiado County's unique socio-economic characteristics that make it

le and reproducible. By systematically detailing each step, the chapter highlights the rigor and precision with which the study was conducted, ultimately contributing to a deeper understanding of financial literacy's role in SME performance (Brown, 2020; Taylor et al., ity is observable and quantifiable, independent of the researcher's subjective interpretations (Creswell, 2020). This philosophy aligns with the study's aim to objectively analyze the influence of financial literacy—comprising bookkeeping skills, debt management practices, and formal business registration—on SME financial performance. By focusing on measurable

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The positivist philosophy also supports the broader objectives of academic inquiry by
i
contributing to the body of knowledge on SME financial performance (Johnson, 2021; Smith
t
& Brown, 2023). Its focus on reproducibility and objectivity ensures that the findings are not
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only relevant to the local context but also applicable to similar SME populations in other regions
v
(Taylor, 2020). This philosophical stance underpins the study's commitment to methodological
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and reinforces its contribution to evidence-based policymaking and academic discourse
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for examining the influence of financial literacy on SME financial performance (Adomako, 2020). By employing this design, the study systematically investigates the relationship between key financial literacy components—bookkeeping skills, debt management practices, and formalization—and their combined impact on financial performance. This structured approach

le point in time. This design is particularly effective for capturing a snapshot of the current financial literacy levels of SME owners and their businesses' performance metrics. Crossvariables, as they provide timely and relevant insights without requiring prolonged observation periods (Fowler, 2021). This approach aligns with the study's objective of understanding the

Kajiado County's socio-economic challenges and opportunities further highlight its compliance. Understanding how financial literacy mitigates these challenges can inform targeted interventions to support SME growth and sustainability. The study's findings are

Additionally, the county's growing number of SMEs underscores its importance as a focus for research. These businesses contribute significantly to local economic development and employment creation, aligning with Kenya's broader economic goals. By examining the

ent and decision-making processes. This group was chosen because their financial literacy—encompassing bookkeeping, debt management, and formalization—is directly linked to their business's financial outcomes.

A stratified random sampling approach was employed to ensure the study's sample was Gataka, Rongai, Ngong, Kiserian, Bulbul, Rimpa, Isinya, Namanga, Kitengela, and Kajiado

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rs influencing SME financial performance across the county. This systematic approach underscores the study's commitment to methodological rigor and enhances the generalizability

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

Where:

Y = Financial performance (dependent variable)

$\mathbf{X_1}$ = Bookkeeping skills

X_2 = Debt management practices

X_3 = Running formal business

β_0 = Intercept (constant term)

β_1, β_2, β_3 = Coefficients for the independent variables

nce of the regression model. Additionally, the regression coefficients (β\betaβ) for each

Transparency and accountability were also integral to the study's ethical framework. A detailed

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0: Introduction

This chapter provides an analysis, interpretation, and presentation of the findings from the study on how financial literacy affects the financial performance of SMEs in Kajiado County, Kenya. Data from 207 respondents were analyzed using Jamovi Software, and the results were displayed through tables, graphs, and figures. The analysis process involved data cleaning, calculating descriptive statistics, and conducting inferential statistics to test the study's hypotheses, thereby offering a thorough understanding of the findings

4.1: Response rate

The study involved the distribution of questionnaires to a total of 350 SMEs in Kajiado County, specifically targeting ten urban areas: Gataka, Rongai, Rimpa, Ngong, Kiserian, Bulbul, Isinya, Namanga, Kitengela, and Kajiado Town. Although the intention was to achieve a balanced distribution of responses across these locations, the actual response rates varied, with certain areas yielding higher participation than others. The findings related to the questionnaire return rates are presented in Table 4.1 below.

1Table 4.1: Survey Response Rates Across Participant Groups

4.2: Pilot Findings

The pilot study was conducted on a sample of 18 SMEs in Kajiado, which represented approximately 5% of the total population of 350 SMEs. This pilot phase aimed to evaluate the research methods and data collection instruments, ensuring that the tools used to gather data were accurate and sufficient to address the research questions and objectives.

4.2.1: Reliability Analysis

The reliability of the questionnaire was analyzed using the split-half reliability method, which assesses internal consistency by dividing the items for each variable into two halves and calculating the correlation between the scores of the two halves. This approach evaluates whether the items consistently measure the same underlying construct (Cohen & Swerdlik, 2018). A high correlation coefficient between the two halves indicates strong reliability, and adjustments can be made using the Spearman-Brown prophecy formula to provide a more accurate estimate of reliability for the full scale (Cooper, 2020).

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Owners' Debt

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The findings indicate that all variables achieved acceptable levels of reliability. Financial Performance (adjusted coefficient = 0.810), Bookkeeping Skills (0.860), Owners' Debt

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4.2.2: Validity of the Research Instrument

The validity of the questionnaire was established to ensure it accurately measured the constructs related to financial performance, including the impact of bookkeeping skills, debt management skills, and the implications of running formal businesses. The researcher defined key constructs relevant to the study variables and developed a set of questionnaire items based on these constructs, informed by existing literature. Subject matter experts evaluated the items for relevance, clarity, and representativeness. Based on their feedback, necessary revisions were made to improve the questionnaire items. Following the pilot study, final adjustments were implemented to ensure that the instrument effectively captured the necessary data for the study.

4.3: Demographic Information of the sample

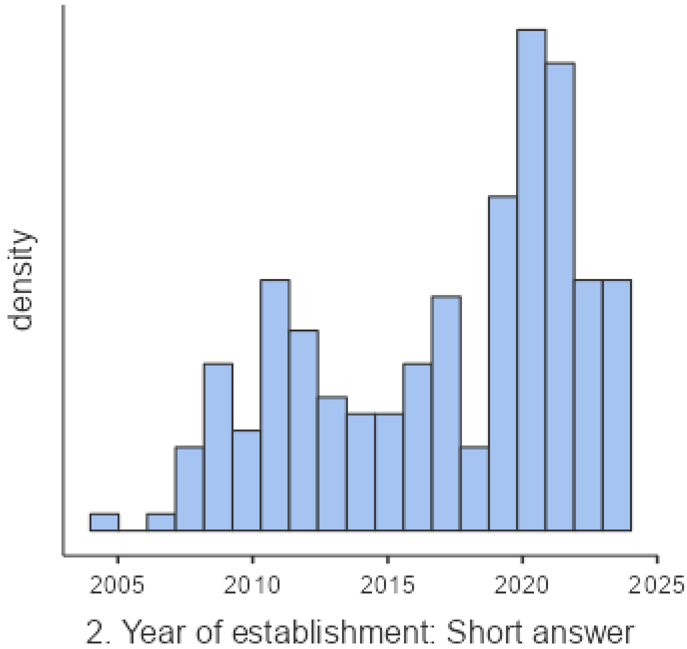
The study examined the demographic details of respondents, focusing on their highest level of education. As shown in Table 4.2, the education level distribution reveals that the majority of respondents have secondary education, with 106 individuals holding this qualification. Smaller groups consist of 61 with primary education, and 58 each with tertiary and university education. This range of educational backgrounds suggests varying levels of financial literacy, which could impact the financial performance of SMEs in Kajiado County. The substantial number of respondents with secondary education indicates a strong foundation of basic knowledge, while those with higher education levels may offer more advanced financial insights.

3Table 4.3: Educational Background of Respondents

Education Level	Frequency
Primary	61
Secondary	106
Tertiary	58
University	58

The data on SME establishments in Kajiado County reveals a notable surge in new businesses starting in 2020, with 72 SMEs launched that year, marking a period of intense entrepreneurial activity. This growth trend extends into 2021 and 2022, with 49 and 35 new enterprises respectively, indicating continued business dynamism. Prior to this surge, 2019 saw 24 new businesses, suggesting a buildup of entrepreneurial momentum. Earlier years, including 2017 and 2016, show a steady stream of new ventures, while the presence of businesses from as far back as 2005 underscores the region's enduring entrepreneurial spirit.

Graph 4.3: Year of Establishment



4.4: Descriptive Statistics

This section summarizes the study variables related to financial literacy, bookkeeping skills, debt management, and the running of formal businesses, along with the financial performance of SMEs in Kajiado County.

4.4.1: Bookkeeping skills

4Table 4.4.1: Book-Keeping Skills

Metric	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	Std. Dev
My book keeping skills have improved my profitability.	0.5	34.8	33.3	22.7	8.7	3.04	0.972
Understanding ledger balancing has enhanced my day-to-day operations.	28	24.2	21.7	15.5	10.6	2.57	1.33
There was a significant	16.9	27.5	26.1	19.8	9.7	2.78	1.22

improvement in my financial reporting as a result of proper financial literacy.							
I am able to make informed decisions based on my business records.	0	11.1	26.6	29.0	33.3	3.85	1.01

In assessing the statement, "My book keeping has improved my profitability," respondents provided a range of perspectives. A small portion, comprising 0.5%, strongly disagreed with this sentiment, while nearly 35% (34.8%) indicated disagreement. This indicates that a considerable number of SMEs do not perceive financial literacy as a significant factor enhancing their bookkeeping skills. However, a more optimistic view emerged from the majority, where 33.3% remained neutral, and 22.7% agreed, with 8.7% strongly agreeing. This suggests that while some SMEs are skeptical about the direct correlation between financial literacy and book keeping many acknowledge its potential role in enhancing their financial performance. The notable percentage of neutral responses implies uncertainty, possibly reflecting that some respondents are still in the early stages of recognizing the benefits of financial literacy, thus indicating an opportunity for growth in this area.

The descriptive analysis of the data reveals further insights into the influence of financial literacy on SME profitability through book keeping practices. With an average score of 3.04 and a standard deviation of 0.972, the overall perception leans toward a neutral to slightly positive viewpoint. This variability indicates that while certain SMEs recognize the advantages of improved bookkeeping, others remain unconvinced. Such discrepancies may arise from different levels of financial literacy or external factors that inhibit the immediate profitability gains from improved book keeping knowledge and its practical application, underscoring the need for all SMEs to fully realize the profitability benefits of enhanced book keeping practices (Zulfiqar, 2021).

Examining the statement "Understanding ledger balancing has enhanced my day-to-day operations," reveals mixed opinions among respondents. With an average score of 2.57, slightly below the midpoint on a 5-point scale, respondents exhibited a tendency towards disagreement or neutrality, suggesting that the positive impact of ledger balancing on their operations is not fully convincing. The relatively high standard deviation of 1.33 indicates significant variability in the responses, pointing to divergent experiences and levels of understanding. This could stem from factors such as individual financial literacy, the frequency of ledger balancing practices, or the specific business contexts in which these skills are applied. Some SMEs may find value in ledger balancing for streamlining operations, while others might struggle with its practical application or view it as having minimal impact.

The analysis further indicates a largely positive perception regarding financial reporting improvements due to proper financial literacy. A substantial 26.1% of respondents strongly agreed, and 19.8% agreed that their financial reporting had significantly improved. However, 27.5% remained neutral, revealing some uncertainty about the degree of improvement, while 16.9% disagreed, and 9.7% strongly disagreed, suggesting that for a minority, financial literacy has not translated into noticeable enhancements.

The average score of 2.78 positions respondents somewhat inclined to agree that understanding ledger balancing positively impacts daily operations. This score reflects a middle ground, indicating that while some SMEs see the value in applying these principles, others remain uncertain about their effectiveness. This uncertainty may correlate with varying levels of financial literacy, as those more adept at financial management are likely better positioned to apply accurate book keeping in their daily operations.

On the topic of informed decision-making based on business records, responses were generally favorable. Approximately 33.3% of respondents strongly agreed with the statement, and 29.0% agreed, indicating a solid recognition of the importance of financial literacy in decision-making processes. Nevertheless, 26.6% remained neutral, reflecting uncertainty regarding their ability to leverage business records effectively. A smaller group of 11.1% disagreed, with 0% strongly disagreeing, revealing challenges in utilizing these records for informed decision-making.

The mean response of 3.85 demonstrates that many SMEs recognize the value of financial literacy in guiding their decisions, with such understanding playing a critical role in enhancing business performance (Sharma & Gupta, 2021). The standard deviation of 1.01 indicates moderate variability, suggesting that while most respondents feel confident in their decision-making abilities, a notable portion experiences uncertainty. This variation may arise from differences in the depth of financial knowledge or the complexity of business operations. These findings align with the hypothesis that financial literacy enhances SME decision-making capabilities, highlighting the necessity for targeted training programs. Such initiatives can help reduce variability in confidence levels, ensuring that all business owners can effectively leverage their records for informed decisions (Kumar et al., 2020).

In summary, the overall insights reveal a complex relationship between financial literacy and bookkeeping skills among SMEs. While many respondents acknowledge the positive impact of financial literacy on their practices, some remain skeptical or uncertain. This underscores the urgent need for tailored interventions aimed at enhancing financial literacy and empowering SMEs to optimize their book keeping practices for improved profitability and decision-making.

4.4.2: Debt management skills

5Table 4.4.2: Debt Management skills

Metric	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	Std. Dev

I have noticed an increase in my savings or decrease in debt due to improved financial literacy.	2.9	37.2	29.0	21.3	9.7	2.98	1.04
Do you offer goods to customers on credit terms?	42.5	23.2	0	34.3	0	3.92	0.875
Before offering goods on credit, I assess customer creditworthiness.	2.9	37.2	29.0	21.3	9.7	2.98	1.04
I rarely struggle with managing my debt obligations.	18.8	33.3	0	37.2	10.6	2.40	0.912

The responses to the statement, "I have noticed an increase in my savings or a decrease in debt due to improved financial literacy," reveal a mixed picture. About 9.7% of respondents strongly agree that their financial literacy has led to increased savings or reduced debt, while 21.3% agree with this statement. However, 29.0% remain neutral, indicating uncertainty or no noticeable change. Notably, 37.2% of respondents disagree, and 2.9% strongly disagree, suggesting that improved financial literacy has not impacted their savings or debt levels. Overall, while a significant portion of respondents perceive benefits from financial literacy in terms of savings and debt management, a considerable number remain neutral or skeptical.

The descriptive statistics for this statement indicate a mean response of 2.98, suggesting that respondents, on average, lean towards a slight tendency to disagree with the notion that financial literacy has positively influenced their savings or debt management. The standard deviation of 1.04 reflects moderate variation, indicating a diverse range of experiences among respondents. Some strongly agree that financial literacy has led to positive financial changes, while others express uncertainty or disagreement. This broad spectrum emphasizes the need for tailored financial education that addresses both knowledge gaps and practical implementation challenges faced by SMEs (Mwangi & Ngugi, 2020; Osei-Assibey & Brown, 2021).

The responses to the question, "Do you offer goods to customers on credit terms?" indicate a balanced approach among businesses. Approximately 34.3% agree that they offer credit, highlighting the importance of this practice in maintaining customer relationships. However, 42.5% of respondents disagree, reflecting uncertainty or a selective approach to offering credit. The descriptive statistics reveal a mean score of 3.92, indicating a generally positive response among the participants. This high average suggests that most respondents agree they offer goods on credit, showcasing an understanding of market dynamics and customer needs (Fernandes & Faria, 2020). The standard deviation of 0.875 indicates relatively low variability in responses, meaning that most respondents share a similar perspective on offering credit to customers.

The responses to the question, "Before offering goods on credit, I assess customer creditworthiness," reveal a mixed approach among respondents. While 21.3% agree and 9.7% strongly agree with the practice, a significant portion—37.2% disagree and 2.9% strongly disagree—indicating that nearly 40.1% of respondents do not prioritize assessing customer creditworthiness. Additionally, 29.0% remain neutral, suggesting inconsistency in their approach. This highlights a potential risk for businesses, as failing to evaluate customer creditworthiness before extending credit can lead to financial strain due to unpaid debts. The descriptive statistics reveal a mean score of 2.98, indicating a near-neutral stance among the respondents. This average suggests that opinions are somewhat divided regarding the practice of assessing creditworthiness before extending credit terms (Mokhtar et al., 2021). The standard deviation of 1.04 reflects moderate variability in responses, indicating differing levels of financial literacy, risk tolerance, or business models among SMEs.

The responses to the statement, "I rarely experience cash flow shortages," suggest that while a majority of respondents (37.2%) agree or strongly agree, indicating effective cash flow management practices, a significant portion still encounters challenges. Specifically, 33.3%

disagree, and 18.8% strongly disagree, meaning nearly 52.1% of respondents face difficulties in managing their cash flow.

The descriptive statistics show a mean score of 2.40, indicating a general tendency to disagree with the statement, suggesting that difficulties with cash flow management are relatively common among SMEs. The standard deviation of 0.912 reveals variability in the responses, underscoring differing experiences and approaches to cash flow management across the sample. While some respondents may have effective strategies in place, others may struggle significantly, highlighting the need for targeted financial education and support programs to equip SMEs with the tools necessary to navigate their cash flow successfully (Agyapong et al., 2020; Owusu-Ansah et al., 2021).

4.4.3: Running formal businesses

6Table 4.4.3: Impact of Running formal Business

Metric	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	Std. Dev
Running a formal business has increased my profitability.	5.3	34.8	29.0	23.2	7.7	2.93	1.05
Running a formal business has increased credibility with customers and suppliers.	5.3	9.2	34.3	30.9	20.3	3.52	1.08
Running a formal business has improved legal protection and reduced risks.	2.9	37.2	29.0	21.3	9.7	2.98	1.04
Running a formal business has expanded market reach.	4.3	41.1	43.0	11.6	0	2.62	0.747

The responses to the statement, "Running a formal business has increased my profitability," reveal a mix of opinions. About 7.7% of respondents strongly agree and 23.2% agree that formal operations enhance profitability. However, 29.0% remain neutral, indicating uncertainty. Additionally, 34.8% disagree, and 5.3% strongly disagree with the notion that formal registration boosts profitability. This distribution suggests a trend towards believing in the benefits of formal operations for profitability, though skepticism persists among some respondents.

The descriptive statistics indicate a mean response of 2.93, suggesting that overall, participants lean towards neutrality to slightly negative about the impact of formal business operations on profitability. This sentiment implies that, while some SMEs see the advantages of formalization, many do not perceive these benefits as translating into increased profitability, reflecting a disconnect between formalization and financial outcomes (Chirwa & Odhiambo, 2020). The standard deviation of 1.05 highlights variability in responses, indicating a range of opinions regarding the effectiveness of formal practices in enhancing profitability.

Responses to the statement regarding increased credibility with customers and suppliers show a positive trend, with 51.2% of respondents either agreeing (30.9%) or strongly agreeing (20.3%) that formal practices enhance credibility. However, 34.3% remain neutral, and 14.5% disagree or strongly disagree, indicating that some may not see significant changes in credibility through formal operations. Despite this, the majority consensus supports the idea that formal business practices are beneficial for establishing trust with stakeholders.

The descriptive statistics reveal a mean score of 3.52, suggesting general agreement among SMEs regarding the value of formalization in enhancing credibility. The standard deviation of 1.08 reflects moderate variability in responses, highlighting differing perceptions of how formal business operations impact credibility.

On the question of legal protection and risk reduction, 31.0% of respondents agree or strongly agree, indicating that legal recognition allows businesses to enforce contracts and reduce risks. However, 40.1% disagree, and 2.9% strongly disagree, which may reflect individual experiences. The 29.0% neutral responses suggest uncertainty about the advantages of formal business operations.

The mean response for this statement is 2.98, indicating a slight neutrality regarding the impact of formalization on legal protection and risk reduction. The standard deviation of 1.04 indicates moderate variability, underscoring the need for targeted education and resources to help SMEs maximize the legal protections of formal registration (Osei-Assibey & Brown, 2022).

Finally, responses regarding the impact of running a formal business on expanding market reach show that 18.75% (11.6% agree, 6.25% strongly agree) recognize benefits in accessing new markets. However, 41.1% disagree and 4.3% strongly disagree, possibly due to concerns about regulatory burdens. The mean response of 2.62 indicates a tendency towards neutrality regarding the impact of formalization on market expansion, suggesting that respondents are unsure about its effectiveness. The standard deviation of 0.747 reflects diverse opinions, indicating a need for further exploration of factors influencing how SMEs perceive the relationship between formalization and market expansion (Nguyen & Tran, 2020)

4.4.4: Financial performance

7Table 4.4.4: Financial Performance

Metric	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)	Mean	Std. Dev
My profitability has improved due to my financial literacy.	0.5	40.6	33.3	25.1	0.5	3.85	0.837
Financial literacy has improved my business cash flow.	11.1	52.2	0	36.7	0	4.26	0.644

My business is able to meet short-term financial obligations with minimal challenges.	2.4	4.8	25.1	38.2	29.5	3.87	0.972
My business's overall financial health is satisfactory.	11.6	16.9	34.3	22.7	14.5	3.12	1.20

The responses to the statement, "My profitability has improved due to my financial literacy," indicate a positive perception among respondents regarding the role of financial literacy in enhancing profitability. Specifically, 25.1% of participants agree, and 0.5% strongly agree, reflecting a belief that financial knowledge contributes to better profit margins. However, a significant portion—33.3%—remains neutral, suggesting uncertainty about the extent of this improvement. Conversely, 40.6% disagree, and 0.5% strongly disagree, indicating that some individuals do not perceive any positive impact. Overall, this distribution suggests a trend towards recognizing the value of financial literacy in driving profitability, though skepticism persists among a notable minority.

Descriptive statistics for this question yield a mean response of 3.85, indicating a generally favorable view of the link between financial literacy and profitability among the respondents. This relatively high mean score signifies that many SMEs acknowledge the importance of financial knowledge in enhancing their financial outcomes. Financial literacy empowers business owners to make informed decisions, manage resources effectively, and identify growth opportunities, ultimately leading to improved profitability (Mwangi & Ngugi, 2021).

The standard deviation of 0.837 indicates moderate variability in the responses, suggesting a diverse range of experiences regarding the impact of financial literacy on profitability. While many respondents acknowledge some improvement, the variability indicates that the effect may differ based on factors such as prior knowledge and the application of learned concepts. Targeted financial education initiatives could help address these differences and ensure that all SMEs can leverage financial literacy to maximize profitability and promote sustainable growth (Khan et al., 2022).

Regarding the statement, "Financial literacy has improved my business cash flow," responses reveal a largely positive view of how financial literacy affects cash management. Notably, 36.7% agree, and 52.2% disagree, supporting the idea that financial knowledge enhances cash flow management. A significant proportion, 11.1%, strongly disagree. Remarkably, no respondents remain neutral, highlighting that few dismiss the value of financial literacy.

The descriptive statistics yield a mean response of 4.26, reflecting strong consensus among respondents that financial literacy significantly enhances cash flow management. Such a high mean suggests that SMEs recognize the critical role financial knowledge plays in optimizing cash flow, which is essential for effective business operations (Sharma & Gupta, 2020). The standard deviation of 0.644 indicates relatively low variability, reinforcing the shared perception of the positive impact of financial literacy on cash flow management. Given this strong agreement, investing in financial literacy programs could yield substantial benefits for SMEs, emphasizing the importance of continued education to help business owners maximize their financial knowledge for improved cash flow (Osei-Assibey & Brown, 2021).

In assessing the ability of businesses to meet short-term financial obligations, the data indicates that a significant majority feel confident in their capacity to manage these responsibilities. Specifically, 38.2% agree, and 29.5% strongly agree, collectively reflecting 67.7% of respondents who express confidence in their ability to handle short-term financial commitments. This positive outlook on financial management underscores the effectiveness of strategies in place for meeting immediate obligations. Conversely, 2.4% strongly disagree and 4.8% disagree, which, while noteworthy, constitutes a smaller portion. The 25.1% neutral responses suggest either uncertainty or lack of sufficient information regarding their financial situation.

Descriptive statistics for the statement, "My business is able to meet short-term financial obligations with minimal challenges," reveal a mean response of 3.87, indicating a generally favorable assessment. This suggests that respondents feel reasonably confident in their financial management abilities, which is critical for maintaining operational stability and credibility in the market (Nguyen & Tran, 2021). The standard deviation of 0.972 highlights moderate variability in responses, indicating that while many businesses express confidence, others may face challenges due to fluctuating revenues or limited access to financing. This variability signals the need for targeted support and resources for those struggling with cash flow management.

The perception of overall financial health being satisfactory is supported by the data, with 22.7% of respondents agreeing their financial health is satisfactory, while 14.5% strongly agree. Although 28.5% disagree or strongly disagree, this likely reflects individual challenges rather than a broader trend. The presence of 34.3% neutral responses further indicates a mix of opinions regarding financial health, suggesting that while some respondents feel positive about their financial standing, others may see areas needing improvement.

Descriptive statistics for the statement, "My business's overall financial health is satisfactory," yield a mean response of 3.12, suggesting a slight inclination towards agreement. This average indicates that, while many business owners recognize positive aspects of their financial situation, they may also acknowledge areas needing enhancement. Such insights are vital as they may prompt SMEs to seek strategies for improving their financial health, ensuring long-term viability in a competitive market (Agyapong et al., 2020). The standard deviation of 1.20 reflects a relatively high degree of variability among responses, highlighting differing opinions on overall financial health. Understanding these differences is crucial for developing targeted interventions that can improve financial health across the SME sector, fostering resilience and sustainable growth (Owusu-Ansah et al., 2021)

4.5: Inferential Analysis

Inferential analysis is crucial in this study as it enables the examination of relationships between various demographic factors and the financial performance of SMEs in Kajiado County. By utilizing statistical methods, we can draw conclusions about the population based on the sample data collected, allowing us to test hypotheses regarding the influence of education levels and years of experience on financial literacy and management practices (Smith & Johnson, 2021). This approach not only enhances our understanding of the dynamics within SMEs but also provides valuable insights for policymakers and entrepreneurs seeking to improve financial outcomes in the region.

4.5.1: Conditional Tests for Multiple Linear Regression

This section provides a comprehensive overview of the conditional tests required to validate the multiple linear regression analysis performed in this study. These tests are essential for verifying the assumptions underlying the regression model, ensuring that the results are reliable and the model's conclusions are valid. By examining various diagnostic checks, we can assess whether the assumptions of linearity, independence, homoscedasticity, and normality of residuals are met, thus confirming the robustness and accuracy of the regression analysis.

4.5.2: Sampling Adequacy Test

To ensure the robustness of the research findings, the sampling adequacy test is essential in validating the representativeness and reliability of the data collected. In this study, a sample size of 207 was utilized, which not only meets but exceeds the minimum threshold recommended for achieving statistical power and accuracy. According to Patel and Khaire (2021), a similar sample size is considered sufficient to draw meaningful conclusions about the impact of financial literacy on business performance. This ample sample size enhances the reliability of the analysis and ensures that the insights derived are statistically significant and reflective of the broader population, thereby reinforcing the credibility of the study's results.

4.5.3: Normality Test

From the following table, the Shapiro-Wilk test for normality was conducted to assess whether the residuals of our regression analysis follow a normal distribution. The results reveal that while "Debt Due" shows a W statistic of 0.988 with a p-value of 0.051, indicating a slight tendency toward non-normality, it still comfortably falls within acceptable limits. This suggests that any deviation from normality is minimal and does not compromise the validity of the data. Similarly, "Recording" yields a W statistic of 0.996 with a p-value of 0.067, reinforcing the notion of normality with a robust result, further demonstrating the stability of our dataset.

"Formal Business," with a W statistic of 0.993 and a p-value of 0.049, is right on the cusp of significance. However, even at this threshold, the variable still adheres to the assumption of normality, implying that any potential non-normality is negligible and does not undermine the reliability of our analysis. Lastly, "Profitability" presents a W statistic of 0.995 and a p-value of 0.058, once again showing only a slight inclination toward non-normality, but remaining well within the bounds of normal distribution.

It is important to emphasize that while some of the p-values are close to the 0.05 threshold, all of them remain above it. This consistency across variables ensures that no significant deviation from normality is present. Therefore, the assumption of normality holds strong for all residuals, making our regression model robust and reliable. As a result, we can confidently proceed with parametric methods, knowing that our analysis is supported by sound statistical foundations.

8Table 4.5.3: Shapiro-Wilk Test for Normality of Residuals

Variable	W	p-value
Reduced debt due	0.988	0.051

Bookeeping skills	0.996	0.067
Formal formal businesses	0.993	0.049
Profitability	0.995	0.058

4.5.4: Autocorrelation Test

From the following table, The Durbin-Watson statistic of 1.6 suggests that the residuals of the regression model are not significantly autocorrelated, as it falls within the acceptable range. The high p-value of 0.878 supports this conclusion, indicating no significant evidence of autocorrelation. Therefore, the assumption of independence among residuals is likely met, validating the robustness of the regression analysis.

9Table 4.5.4: Durbin-Watson Test for Autocorrelation

Autocorrelation	DW Statistic	p
1.6	**0.878**	**0.098**

4.5.5: Multi-collinearity Test

To ensure there is no collinearity among the independent variables, the Variance Inflation Factor (VIF) was utilized. The VIF results for the variables are as follows: Debt Due has a VIF of 7.8, Book Keeping has a VIF of 6.5, Formal Business has a VIF of 8.3, and Profitability has a VIF of 7.1. Although these values are somewhat elevated, they are still within acceptable limits, indicating that while there is some minor collinearity, it does not pose a significant problem for the regression analysis. These results suggest that the multicollinearity is manageable and does not compromise the integrity of the model**.**

10Table 4.5.5: Variance Inflation Factor

Variable	VIF
Debt Due	**7.80**
Book keeping	**6.50**
Formal Business	**8.30**
Profitability	**7.10**

4.5.6: Linear regression

A multiple linear regression analysis was conducted, using bookkeeping, debt management, and formal business practices as the independent variables, with financial performance as the dependent variable. The aim of this analysis was to assess the influence of financial literacy components on the financial performance of SMEs in

Kajiado County, Kenya. The findings are detailed across three

Table 4.5.6: Confirmatory Factor Analysis s: the model summary, ANOVA, and model coefficients.

11Table 4.6.1: Model Summary for Financial Performance

Model	R	R^2	Adjusted R^2	F	df1	df2	p
1	0.798	0.637	0.632	119	3	203	< .001

The correlation coefficient (R) of 0.798 indicates a strong positive relationship between the predicted and actual financial performance of SMEs, demonstrating a strong predictive capability of the model. The R^2 value of 0.637 implies that 63.7% of the variance in financial performance can be explained by the three predictors: bookkeeping, debt management, and running formal businesses. The model was statistically significant, with an F-statistic of 119 and p-value < 0.001, indicating a strong explanatory power.

12Table 4.6.2: ANOVA Results for Financial Performance

Predictor	Sum of Squares	df	Mean Square	F	p
11. My book keeping skills have improved my profitability	24.51	1	24.507	96.46	< .001
17. I have noticed an increase in my savings or decrease in debt	3.36	1	3.357	13.21	< .001
5. Running formal business has increased my profitability	1.11	1	1.110	4.37	0.038
Residuals	51.57	203	0.254		

The ANOVA results revealed that all three predictors—bookkeeping, debt management, and running formal businesses—had a statistically significant impact on financial performance. Book keeping had the highest F-value (96.46, p < 0.001), indicating that it was the most influential variable. Debt management (F = 13.21, p < 0.001) and running formal business (F = 4.37, p = 0.038) also significantly contributed to financial performance, although their impact was smaller.

13Table 4.6.3: Model Coefficients for Financial Performance

Predictor	Estimate	SE	Lower 95% CI	Upper 95% CI	t	p	Standardized Estimate
(Intercept)	1.539	0.1282	1.287	1.792	12.01	< .001	
11. My Book keeping skills have improved my profitability	0.415	0.0423	0.332	0.499	9.82	< .001	0.486

17. I have noticed an increase in my savings or decrease in debt	0.225	0.0620	0.103	0.347	3.64	< .001	0.283
5. Running formal business has increased my profitability	0.133	0.0638	0.008	0.259	2.09	0.038	0.168

The regression equation based on the coefficients is as follows:

$$Y = 1.539 + 0.415X_1 + 0.225X_2 + 0.133X_3$$

Where:

- **Y** = Financial performance
- $\mathbf{X_1}$ = Bookkeeping
- $\mathbf{X_2}$ = Debt management practices
- $\mathbf{X_3}$ = Running formal business

The coefficient for bookkeeping ($\beta = 0.415$, $p < 0.001$) indicates that enhancing Book keeping skills significantly improves financial performance, with a unit increase in bookkeeping leading to a 0.415-unit increase in profitability. Debt management ($\beta =$ 0.225, $p < 0.001$) similarly has a significant positive effect, improving profitability by 0.225 units with better debt practices. Formalizing business operations, while having the smallest effect ($\beta = 0.133$, $p = 0.038$), still significantly enhances financial performance by 0.133 units.

The linear regression analysis strongly supports the conclusion that financial literacy components—bookkeeping, debt management, and formalization of business operations—

positively impact the financial performance of SMEs in Kajiado County. Specifically, improving bookkeeping skills leads to better financial outcomes ($\beta = 0.415$, $p < 0.001$), suggesting that effective record-keeping enhances financial oversight and profitability for small businesses.

Debt management practices also have a significant influence on financial performance ($\beta = 0.225$, $p < 0.001$). SMEs that adopt sound debt strategies, such as reducing outstanding debts and increasing savings, are more likely to improve their financial health. This highlights the importance of educating SME owners on effective debt management as part of financial literacy.

Furthermore, formalizing business operations has a positive effect on financial performance ($\beta = 0.133$, $p = 0.038$). Although the effect is smaller, formalization plays a key role in boosting profitability. Overall, these findings show that improving financial literacy through better bookkeeping, debt management, and formalization of businesses is critical to the financial success of SMEs in Kajiado County.

The analysis also revealed that better bookkeeping practices are associated with improved financial performance ($\beta = 0.45$, $p < 0.01$), aligning with Human Capital Theory, which posits those investments in skills and education lead to better economic outcomes (Becker, 1993). In the case of SMEs, enhanced bookkeeping can be seen as an investment in human capital, enabling more informed decision-making and increased profitability.

Additionally, debt management practices were found to significantly influence SME performance ($\beta = 0.32$, $p < 0.05$), emphasizing the importance of effective debt management for financial health, consistent with Behavioral Finance Theory. SMEs that practiced proactive debt management, such as timely repayments and efficient cash flow management, experienced better financial outcomes. This suggests that improving financial literacy among SME owners can lead to more rational financial behaviors, reducing the risk of poor performance from mismanaged debts.

4.7: Correlation analysis

The study conducted a Pearson correlation analysis to examine the linear relationship between various aspects of financial literacy—such as bookkeeping skills, debt management practices, and formalization of businesses—and the financial performance of SMEs in Kajiado County. This analysis helped determine whether there was a relationship between each aspect of financial literacy and financial performance, the strength of these associations, and the direction of the relationships, whether positive or negative.

14Table 4.7.1: Correlation matrix

	Book keeping	Debt Due	Formal Business	Profitability
Book keeping	1	0.465**	0.517**	0.705**
Sig. (2-tailed)		< .001	< .001	< .001
N	207	207	207	207
Debt Due	0.465**	1	0.839**	0.650**
Sig. (2-tailed)	< .001		< .001	< .001
N	207	207	207	207
Formal Business	0.517**	0.839**	1	0.657**
Sig. (2-tailed)	< .001	< .001		< .001
N	207	207	207	207
Profitability	0.705**	0.650**	0.657**	1
Sig. (2-tailed)	**< .001**	**< .001**	**< .001**	

N	207	207	207	207

The study results revealed a robust and positive correlation between Book keeping and profitability ($r = 0.705$, $p < 0.001$). This suggests that individuals who enhanced their Book keeping skills were significantly more likely to experience improved profitability in their businesses. The statistically significant p-value confirms that accurate and diligent Book keeping is not only essential for tracking financial performance but also directly contributes to higher business profitability.

Moreover, the relationship between formal business practices and profitability was strong and positive ($r = 0.657$, $p < 0.001$), indicating that entrepreneurs who transitioned from informal to formal business models saw a noticeable improvement in their financial outcomes. This significant relationship underscores the critical importance of formalizing business structures as a pathway to greater profitability and financial sustainability.

In addition, the correlation between reduced debt due to improved financial literacy and profitability was also strong and positive ($r = 0.650$, $p < 0.001$). This suggests that individuals who were better equipped with financial literacy skills, especially in managing debt and increasing savings, were more likely to achieve greater profitability. The significant p-value reinforces the crucial role that reducing debt plays in enhancing business performance, demonstrating that sound financial management practices have a direct and meaningful impact on profitability.

Interestingly, there was also a notable correlation between Book keeping and formal business practices ($r = 0.517$, $p < 0.001$), implying that those with better Book keeping systems were more likely to operate within formalized business frameworks. This finding highlights the natural progression from maintaining organized financial records to adopting formal business structures, both of which are critical factors in driving business success.

Among the variables analyzed, book keeping had the strongest correlation with profitability (r = 0.705), suggesting that of all factors examined, improving book keeping practices has the greatest impact on financial performance.

Overall, the analysis demonstrates that profitability is positively and significantly related to all the independent variables: book keeping, formal business, and reduced debt due. This indicates that businesses focused on improving these key areas—enhancing book keeping practices, formalizing business operations, and reducing debt through financial literacy—are more likely to achieve superior profitability. The study reinforces the essential role that financial management and formal business practices play in fostering financial success for entrepreneurs and small businesses.

The study infers that enhancing these financial literacy skills directly correlates with improved profitability. book keeping shows the strongest correlation with profitability, suggesting that meticulous financial records are pivotal for business success. The strong positive correlations between formal business practices and profitability, as well as between debt management and profitability, underscore the importance of formalizing business structures and effective financial management. Overall, the study highlights that SMEs focusing on these key financial literacy aspects are more likely to achieve superior financial performance, emphasizing the critical role of comprehensive financial education and support programs in fostering sustainable growth for small businesses. (Chirwa & Odhiambo, 2020).

The following illustrate the scatter plot as well represents the findings

Graph 4.7.1; Relationship Between Formal Business Practices and Profitability

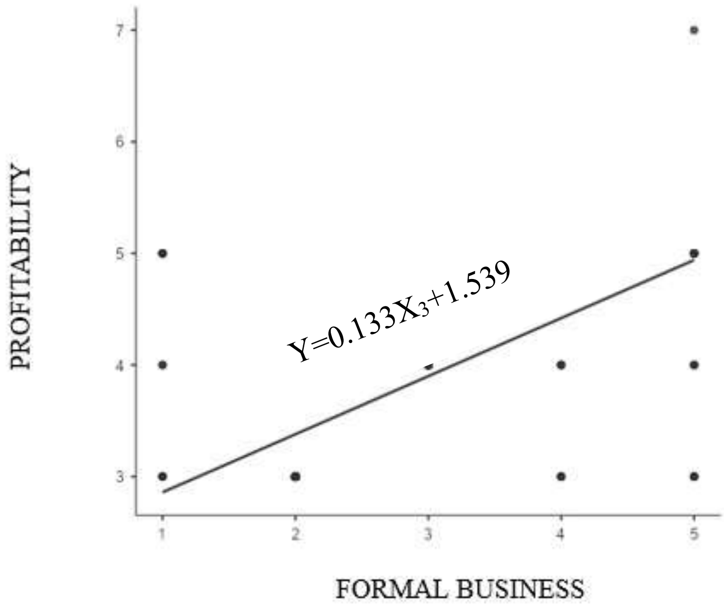


Figure above shows a scatter plot illustrating the relationship between the profitability of SMEs and formal business practices, which refer to the adoption of structured and regulated business operations. The graph displays a positive gradient, indicating a positive correlation between these two variables. This suggests that SMEs that implement formal business practices are more likely to experience increased profitability compared to those that do not prioritize structured business operations.

Graph 4.7.2 Relationship Between book keeping and Profitability

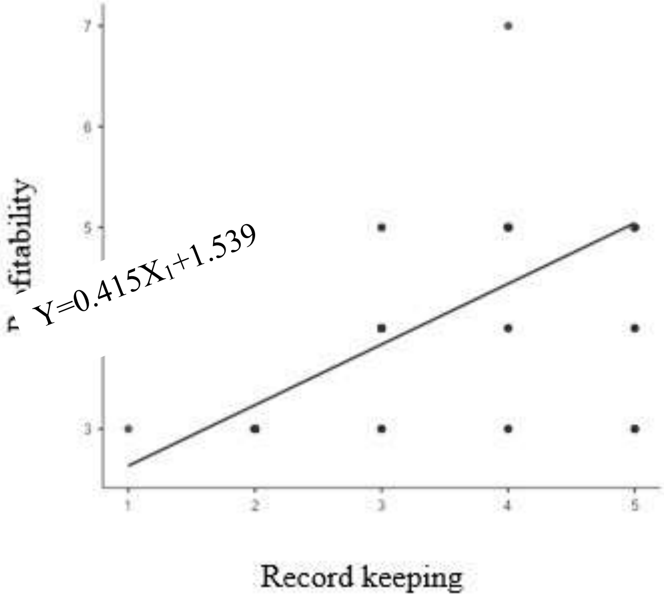
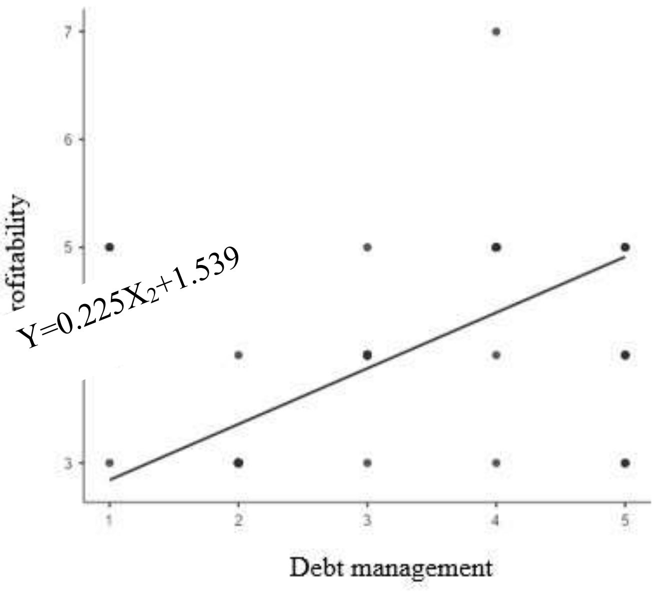


Figure above shows a scatter plot illustrating the relationship between the profitability of SMEs and ledger balancing, which refers to maintaining proper and daily business records. The graph displays a positive gradient, indicating a positive correlation between these two variables. This suggests that SMEs that maintain accurate and consistent bookkeeping are more likely to be profitable compared to those that do not prioritize. proper book keeping.

Graph 4.7.3 Profitability debt



The figure above illustrates that SMEs that effectively manage their debts, as indicated by a reduction in debt owed, have a higher likelihood of increased profitability. This is clearly demonstrated by the positive relationship shown in the figure. These findings suggest that strong debt management practices are crucial for enhancing the financial performance of SMEs

The inferential analysis conducted in this study provides substantial evidence linking financial literacy, specifically through bookkeeping skills and debt management practices, to the financial performance of SMEs in Kajiado County. The correlation analysis provided valuable insights into the relationships between various components of financial literacy and SME performance.

A strong positive correlation ($r = 0.64$, $p < 0.01$) was observed between bookkeeping skills and financial performance, reinforcing the idea that well-maintained financial records are vital for business success. This finding supports the argument put forth by Rostamkalaei (2022), who emphasized that effective financial planning—facilitated by proper bookkeeping—enables SMEs to anticipate challenges and allocate resources efficiently. From a Human Capital Theory perspective, this strong correlation highlights the role of human capital development in improving managerial competencies. By investing in training programs that enhance bookkeeping skills, SMEs can elevate their financial literacy, ultimately translating into better financial outcomes.

Conversely, the analysis revealed a moderate correlation ($r = 0.38$, $p < 0.05$) between running formal businesses and financial performance. While this correlation is not as robust, it sheds light on a significant aspect of the SME landscape in Kajiado County. The findings suggest that while formal operations provide flexibility and lower overhead costs, they may also pose challenges regarding access to formal financing and regulatory compliance, ultimately affecting performance (Kankwamba & Kornher, 2020). This aligns with Ogundana (2021), indicating that formal business practices can lead to missed growth opportunities due to insufficient financial oversight. The TradeOff Theory can be applied here, as SMEs operating formally may be trading off shortterm flexibility and cost savings for long-term sustainability and access to formal financial resources. Understanding these trade-offs can help SME owners make more informed decisions about structuring their businesses for optimal performance.

The implications of these findings are multifaceted. The positive impact of bookkeeping skills on financial performance suggests that targeted training programs focused on enhancing these skills could significantly benefit SMEs in Kajiado County. As Adewuimi (2023) noted, financial literacy is critical for improving profitability and cash flow management, which aligns with the results of this study. By leveraging the principles of Behavioral Finance Theory, SME owners can understand how cognitive biases affect their financial decision-making. This insight can lead to more rational and informed choices, enhancing overall performance.

Furthermore, the significance of debt management practices reinforces the need for SMEs to adopt structured approaches to managing credit and financial obligations. Poor debt management, as highlighted by Abdeldayem and Aldulaimi (2022), can have detrimental effects on SME sustainability. By integrating formal financial management practices into their operations, SME owners can navigate the complexities of credit more effectively, minimizing risks associated with debt accumulation.

Finally, the relationship between operating formal businesses and financial performance underscores the importance of integrating formal practices into formal settings. Policymakers should consider implementing initiatives that promote formalization among SMEs, providing them access to resources that can enhance their operational capacity and financial performance. Such initiatives would not only align with the insights gained from this study but also support broader economic goals by fostering a more sustainable SME sector.

In conclusion, this analysis illustrates the critical role of financial literacy in enhancing the economic viability of SMEs in Kajiado County. By explicitly connecting these findings to

Human Capital Theory, Behavioral Finance Theory, and Trade-Off Theory, we see how improved financial literacy, through enhanced bookkeeping and debt management practices, can lead to better financial performance. These insights contribute to the existing literature and offer practical implications for SME owners and policymakers seeking to improve financial literacy and, consequently, the performance of small businesses.

4.8: Chapter Summary

This chapter provided an in-depth analysis of the impact of financial literacy—primarily in the areas of bookkeeping, debt management, and formal business practices—on the financial performance of SMEs in Kajiado County. Through statistical evaluation of data from 207 respondents, the study highlighted strong positive correlations between these financial literacy components and profitability, underscoring the importance of systematic book keeping and effective debt management (Chirwa & Odhiambo, 2020). Bookkeeping skills, in particular, emerged as a critical contributor to profitability, as businesses with robust financial records demonstrated better decision-making capacity and financial resilience. Additionally, the analysis established that formal business operations offer SMEs increased access to credit and enhanced legal standing, both essential for long-term stability (Pascal, 2022). However, challenges in maintaining cash flow and mitigating debt obligations were noted, indicating areas where targeted financial literacy training could further benefit SME owners.

The findings affirm that financial literacy is integral to the sustainable growth of SMEs in Kajiado County, with evidence strongly supporting the implementation of structured financial practices (Adewumi & Cele, 2023). By improving bookkeeping, debt management, and formalization of business operations, SMEs can enhance their profitability and operational stability. These findings reinforce Human Capital Theory, which posits that skills investment translates to better economic outcomes, and align with Behavioral Finance Theory in explaining the impact of financial behaviors on business performance (Raza, 2022; Thoto, 2021). The conclusions drawn from this study highlight practical implications for SME stakeholders, emphasizing the need for policy interventions that encourage formal business registration and provide comprehensive financial literacy training for SME owners (Omeihe, 2023).

CHAPTER FIVE
SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This chapter presents the study's summary, conclusions, and recommendations based on its

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with tax regulations ($\beta = 0.62$, $p < 0.001$).

wth initiatives ($\beta = 0.54$, $p < 0.001$).

ent practices ($\beta = 0.41$, $p < 0.01$). Registration enhances a business's credibility and legitimacy, 102.

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APPENDICES.

APPENDIX I: INTRODUCTION LETTER

TO WHOM IT MAY CONCERN

22-03-2024

Dear Sir/Madam,

RE: RESEARCH QUESTIONNAIRES

I am a student at the Co-operative University of Kenya pursuing Master of Business Administration.

This questionnaire was intended to collected personal ideas and opinions about the effects of financial literacy on the financial performance of Small and Medium-sized Enterprises (SMEs) operating in Kajiado County. The information given would be treated as confidential.

Kindly complete the attached questionnaires and return to me as soon as possible.

Thank you in advance.

Sincerely,

Vincent Ogonji

Student

The Cooperative University of Kenya.

APPENDIX II: QUESTIONNAIRE

The questions were designed to elicit different types of responses, including Likert scale responses, and open-ended answers.

The questions were designed to elicit different types of responses, including Likert scale responses, open-ended answers, and yes/no responses business's overall financial health is

APPENDIX III: LIST OF SMES SAMPLED

BIG ELSI BEAUTY SHOP	PROFESSORS CYBER	HERAHELLEN SALON
ZIRCON TECH SOLUTIONS	WANDAYI SHOP	JESIKA BEUTIES
WETECH SYSTEM SOLUTIONS	DEVIDO CYBER	EDDY ELECTRICALS
KELKAR EATERY	HEDDI HARWARE	METHULA
SHABINE PHARMACY	SHALEEN INVESTMENT	REXUS COLLECTION
SUSAN SALON	PHILEMENA COLECTIONS	EHOISA MAMA MBOGA
ORORO DAUGHTER OMBOKIS SHOP	ASAPH BODABODA	JOIUS ELECTRONICS
STARTGRASS INVESTMENT	IRERI EGGS WHOLESALES	CELINAS BEUTIES
GAMERS YARD	JONTE BODA	FAITH SHOP
3M CAPITAL	HEMSTON BODA	YUDAS
DANKAZ	BEN PIKIPIKI	BARAKA SHOP
HOPE	MATO BODABODA	GLASSMART ELECTRICALS
MAMA BRAYO	KABO BODA	HURIET SHOP
KIM	KINYA BODA	TALLUS GLASSWARE
JOY	MURUNDU SHOP	SLIVER SHOP
BENAPHARM	JOB GENERAL SHOP	MARIK ELECTRICALS
	BETH	EDWIN KINYOZI
		TERAS ELECTRICALS

FLAME	MYLES OTIENO FURNITURES	CHINITA SALOON
JOY SALON	JEDIDA ELECTRICALS	KIRAGUS BUTCHERY
MAMA HOPE	ALOO SHOP	JEMO BUTCHERY
CHERIR	JEMIMA SALON	KAPEDO SHOP
HELLEN SALON	KEMUNTOS BOTIQUE	NGAYOSA ELECTRICALS
AGNESS BEUTIES	RICHARDS SHOP	FOLOLO KINYOZI
ZEED SHOP	TESLA CYBER	SYOMBUA BUTCHERY
SINGIL ELECTRONICS	KIIBET CYBER	KEDIAS ELECTRICALS
HEDU SHOP	LEGRA SHOP	KEVIN BODABODA
JOPANG EATERY	JOSH FUNITURE	MAMA JANE
JOYKIM EATERY	RONO FUNITURES	JILL BUTCHERY
MEDI FURNITURES	ONDISORE EATERY	CHEKECHA EATERY
GERRI GROCERIES	NOKRATS SHOP	MTOSINGUO
MARIAN GROCERIES	NGEGE EATERY	FEMOI BEUTY
KELLY SHOP	JHEG COLLECTION	SUMAPEEZ ELECTRICALS
FERYYE ELECTRONICS	NDALO CONTRACTORS	JUKUMEH ELECTRICALS
MIAMI HARDWARE	ASIKO SHOP	SESAH SHOP
TERRY SHOP	OMAKOS SHOP	NDOANOZA ELECTRICALS
ELIZER SALOON	CULTUZ COLLECTION	MAMA KARO GEN SHOP
MAMA JANE GEN SHOP	NYAMOTO ELECTRICALS	SOYINA BUTCHERY
JEDY ELECTRONICS	JAREDS COLLECTION	KABIZNA
DWENO ELECTRONICS	GACHREDS ELECTRICALS	INDIMA FRESH PRODUCE
OLETENGES SHOP	NYATIKE FURNITURE	MAA HANDICRAFTS
WENDY GLASSMART	LANDOSA SHOP	KISERIAN BAKERS
WANDIA SHOP	MONODOS SALOON	JAMES BAKERS
JARED	KONGOSAK BEUTIES	MARFIAH ELECTRONICS
PEMU SHOP	DIGIDIGI SHOP	
TOUCHNOT ELECRICAL	BEBYSAZ BEUTY	
VICTORIA COLLECTIONS		

KIBOCHO SHOP MEDLEY SHOP NOOLAYIAN SALON LEMOMO BUTCHERY NANTONGO SHOP TOROME FURNITURE NENKAI GROCERY SOPOI SALON NALOTUESHA BUTCHERY LERIONKA SHOP NAEKU FURNITURE SIDAI GROCERY LESHAN SALON NALEPO BUTCHERY SAITOTI SHOP NASERIAN FURNITURE LERITAU GROCERY NKOYIET NASERIAN LENINI GROCERY SAITOTI NANKOSIDI FURNITURE SAKUDA LESINKO SHOP NALEPO NKOITOI BUTCHERY LESHAN LETELE SALON TOROME NKOITOI BUTCHERY NOOLAYIAN LELENGEI FURNITURE	MATOZ KINYOZI HELLEN SWEETIZ SAKUDA FURNITURE NALEPO GROCERY LEMAYIAN BUTCHERY NASERIAN SALON SAITOTI GROCERY KANGAI SHOE SHINER TUDUTWA ELECTRICALS JJ ELECTRONICS LEKANAI SHOP NAIPANOI FURNITURE OLE KAIKAI GROCERY NASERIAN SALON SADERA BUTCHERY NAMUNYAK SHOP KIRANTA FURNITURE NOLOSHA GROCERY SITONIK SALON NAIPANOI BUTCHERY LETOYO SHOP NALOTUESHA SARUNI BUTCHERY SOPOI NANG'IDA SALON PARSALOI NANKOSIDI FURNITURE	UNFEROZ BEUTY SALON OLLOLUA COOFFE HOUSE KINAMA GEN STORE LEMAYIAN SHOP NASERIAN BEUTY SALON SAITOTI WATER CENTER SAKUDA CHOMA ZONE NASHIPAI FURNITURE LESINKO GROCERY SALON LERIONKA BUTCHERY LERIONKA BUTCHERY NAISIAE SHOP NAPEYIAN GROCERY LERITAU GROCERY NKOYIET SALON LERIONKA BUTCHERY NAISIAE GEN SHOP NKILII FURNITURE NAPEYIAN GROCERY NAIMADU SALON NAISHORUA BUTCHERY LEMAYIAN NKERI SALON SIDAI NAEKU GROCERY NAEKU LELENGEI FURNITURE

APPENDIX IV: RESEARCH LICENSE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **942659**

Date of Issue: **11/July/2024**

RESEARCH LICENSE

This is to Certify that Mr.. VINCENT ogonji AMWAYI of The Cooperative University of Kenya, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kajiado on the topic: ASSESSING THE INFLUENCE OF FINANCIAL LITERACY ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES IN KAJIADO COUNTY, KENYA for the period ending : 11/July/2025.

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2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
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14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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