

# **A Study On Influence Of Financial Literacy On The Growth Of Micro And Small Enterprises In Kenya: A Case Of Food And Beverage Businesses In Thika Town, Kiambu County, Kenya.**

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## **ABSTRACT**

*Small scale businesses are recognized worldwide as the main contributor to job creation and increasing Gross Domestic Product (GDP). In Kenya, Micro and small businesses employ more than 50% of working population and chip in over 40% in country's GDP. The contribution of micro and small businesses in economic development and poverty reduction is vital as they provide employment and services to a big part of the population. Despite such importance, micro and small enterprises face many challenges that halt them from growing to the next level, it is rare to witness a small size enterprise growing to medium or large company. This is in spite of various initiatives focusing on financial education to micro and small business owners. However, empirical studies about the role of financial education on growth of MSEs have reached to contradictory and different conclusions, it is not clear whether financial education programs produce effective impact on the growth of MSEs and which key variables contribute to the growth of MSEs. The study objective was to determine the effects of financial literacy on the growth of MSEs in Thika town. The study adopted descriptive research design, and targeted food and beverage businesses under single business permit. The study targeted 360 food and beverage businesses in Thika town; 189 MSEs were selected as study sample using Yamane's formula. For data collection, structured questionnaires and interview guide was adopted, data analysis was done using SPSS software at 95% confidence level. Tables, charts, were used to present data for easy statistical inference. Findings revealed that MSEs Owners were moderately financial literate and indeed financial literacy has influence on MSEs Growth. It was recommended that MSEs Owners continue to enhance their financial knowledge through trainings and seminars to ensure sustainable growth of their businesses; concerned authority to incorporate financial education in the school curriculum for all education levels.*

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## **I. INTRODUCTION**

### **1.1 Study background**

Micro and small scale businesses are regarded as massive contributor to the job creation, GDP growth, and sustainable economic development in developed and developing countries. MSEs are key drivers of worldwide economies and backbone of business development; in USA, MSEs make over 50% of the private sector and employ over 60% of workforce (Mills &McCarthy,2014).In South Africa MSEs employ 68% of country's workforce (Rabie et al ,2016),in Kenya MSEs sector employs 42% of working population (KIPPRA,2012).

Despite their importance, micro and small enterprises fail at high rate within short time of existence (Oluoch ,2014).In British over 50% of MSEs close their doors in less than 5 years of operation (Akinboade,2015).Over 70% of micro and small businesses fail in South Africa (Asah et al,2015).In Kenya 70% of MSEs fail within the three years of existence(Jacqueline et al,2017).The high failure is a result of low financial literacy of firm managers (Agyei,2014).Financial literate managers know to interact profitably with financial institutions, suppliers, and other stakeholders. Financial literate managers make fewer mistakes than their counterpart who are illiterate (Njoroge, 2013) .This implies that the financial literacy is needed by MSEs owners for the growth of their businesses. The government of Kenya with other partners in development such as: Equity Group Foundation (EGF), KCB visa international, and USAID through NGOs, have identified gaps in financial literacy among Kenyans. Finance access survey (2019) conducted research about financial access level in Kenya and found that their financial knowledge is not on adequate level. Government and its

stakeholders made efforts to educate people to enable them to make informed financial decision pertaining borrowing, saving, and investing. Despite efforts directed to this sector, the growth is still limited. It is still a puzzle to confirm that MSEs owners in Kenya have attended financial education programs and which aspects of financial knowledge that influence the growth of businesses .The problem is aggravated by the insufficient studies about the contribution of financial related knowledge on the growth of small scale businesses. Successful MSEs are important to achieve sustainable economic development especially for developing countries where Kenya belongs. Improved financial knowledge affects to a great extent the individuals financial decisions and economic development (Batsaikhan et al, 2018). The success of business depends on the skills of entrepreneurs (Njoroge, 2013). Which means, the financial skills contribute to some extent on the growth of business, the motivation of conducting the current research.

### **1.1.1. Financial Literacy**

According to Karan, & Sunil (2018), Literacy is about knowledge of basic operations on number, reading, writing and ability to understand particular signs .According to OECD (2015) financial literacy in knowledge of financial concepts and the ability to use them in various courses of financial decision making. Financial literacy is, understanding, and behavior about financial matters required to reach financial satisfaction (Atkitson& Messy, 2014). According to Levi-Danconan (2014) many people are financially excluded because of the lack of financial related knowledge. In this study financial literacy was analyzed under; book keeping literacy, budget literacy, banking services literacy and investment literacy.

Empirical studies show that small businesses fail because of deficiency or absence of book keeping .Chepkemoi (2013) states that, without records keeping, business people would act blindly with no idea of how much they make in terms of profit. Ezejiofor et al (2014) reckon that financial records must be informative, easy to understand and available on time. Record keeping skills contribute to a great extent the performance of businesses (joseph &al, 2014).

A good budget helps businesses to achieve their objectives. Asantinay (2018) posits that a well monitored budget leads to higher profit of a business. Higher performance of a business reflects efficient use of resources. According to Siekei& al, (2013) budgeting skills improve management of expenditures hence, boost profits. Poor budgeting may lead to bankruptcy (Warue&Wanjira 2013)

Banking services have become more sophisticated and complex to understand easily. Managers must have knowledge on products and services offered by banks that would help MSEs to cut transaction costs. Hence, knowledgeable business managers contribute significantly to the success of the enterprise and revenue rise (Wise, 2013), help to cutback borrowing costs (Mills & Mc Carthy, 2014) and avoid bankruptcy (Fatoki,2014).

Investments require investor to take various types of financial decisions and quality of those decisions depend on the financial information held. Most MSEs rely on their own limited means to survive and grow. To tackle those challenges and assure growth MSEs owners must be equipped with necessary knowledge and techniques to accumulate enough capital to invest in their small ventures. The level of investment plays a dual role in business: It affects income as well as capital accumulation (Sifunjo ,2014). Well planned Investments increase wealth, fulfill personal goal, reduce future risk and boost financial independence (Deepak. & Naudeek,2015).

OECD (2005) states that, necessary skills to measure financial literacy include and not limited to record keeping, financial management, expenditure control, and budgeting. This research framed financial literacy on knowledge about, bookkeeping, budgeting, banking services and investment. In this study, to ascertain the level of financial literacy respondents were choosing on scale of 1-5 statement regarding financial literacy aspect and yes or no, to a concerned statement. Respondents who answered correctly three concerned questions considered as financial literate respondent as suggested by Clapper, Lusardi et al (2015).

### **1.1.2 Business Growth**

Researchers have identified a variety of characteristics that a small firms may possess in order to achieve high growth. According to Koech (2013) sales revenue and value of assets are growth indicators. They are different ways to measure business growth which would be taken in aggregation, Gupta(2013) suggests the use of revenue, assets, business and quality aspects like, market share, product, and goodwill of customers. In this study, growth was analyzed under, market share and sales revenue, this measurement is effective as it considers both qualitative and quantitative features.

There are five phases of the firm growth as suggested by Churchill & Lewis (1983 depicted below (figure 1).



Figure 1: enterprise growth steps (Churchill& Lewis, 1983)

**Existence** – This is the first step; the entrepreneurs struggle to recruit clients and emphasize on more sales in order to be able to cover expenses.

**Survival**- At this stage, the main objective is to clear initial expenses which are still huge. At this level, the business owners are now careful about business expenditures as they try to make some profit after meeting all expenses.

**Success**-. This is an important phase where the business is now stable in terms of size and market position. At this level, the firm makes enough revenues that cover all business expenditures and make profit for further expansion. In order to preserve growth of the business there must be qualified management that would engage in people development and team building to maximize profit.

**Takeoff stage**- This is a stage where business is seeking further growth; therefore, staff must be well trained and management must be qualified and experienced enough. The business is preparing to become a corporation. However, values and vision of entrepreneurs still count.

**Resource maturity stage**-At this level, it is now a big company where the management must be decentralized, adequately staffed and experienced, the ownership of the business must be clearly separated with the management. This theory adds value to this research in a sense that it helped the researcher in study process to identify the stage of enterprise as far as growth is concerned.

### 1.1.3 Micro and small enterprise

Enterprises are mostly classified according to their staff number, revenue and assets (Jacqueline et al, 2017). In Ghana, micro and small business are those having fewer than 50 full time employees and annual sales of at least 6, 000 dollars and assets of 30,000 dollars (Asomoah,2014).In Kenya micro enterprises are those employing fewer than ten permanent employees with annual turnover not exceeding five hundred thousand Kenya shillings, while small enterprises are those employing more than ten employees but not exceeding 50 full time employees and having an annual turnover not exceeding five million Kenya shillings (GoK,2012).

Table 1: Kenya classification of MSEs.

| Enterprise category | Number of employees            | Amount of turn-over                 |
|---------------------|--------------------------------|-------------------------------------|
| Micro               | Fewer than 10                  | Not exceeding Ksh500,000            |
| Small               | More than 10 but fewer than 50 | Between Ksh 500,000 to Ksh 5000,000 |

Source: GoK, 2012

MSEs dominate Kenya’s business and findings of different studies clarified that the financial skills of entrepreneurs contribute significantly to the success of their ventures. However, the problem of scoping persists, a case in point is the study done by Eric (2019) about effects of financial literacy on performance of SMEs, this research concluded that financial literacy contribute significantly to SMEs performance, but 40.3% of enterprises under study had annual turnover below Ksh 500, 000, only 3% had annual turnover between Ksh 4,000,000 to 5, 000, 000, this shows that the majority were Micro enterprises. This study intended to solve such problem as it focused on MSEs only.

### 1.2 Problem statement

MSEs growth is desirable in order to create wealth for the owners and the country, create employment and reduce poverty in the general population. Micro and small enterprises in Kenya employ over 40% of workforce ,KIPPRA(2012).Despite those outstanding benefits of MSEs in the world economies, majority of them are stuck at lower scale of growth while others completely fail and close their doors (Jacqueline et al ,2017).

The financial knowledge of entrepreneurs determine the success of the business (Evelyn, 2016). In this regards Njoroge (2014) and Fatoli (2014) state that business managers with sufficient financial knowledge make relevant financial decisions about their respective businesses. A study done by Bancy(2012) concerning the effects of record keeping knowledge on growth of MSEs, concluded that micro and small enterprises in Thika experienced poor performance due to the lack of bookkeeping knowledge.

The research done by Harrison & al (2015) inNgara area, Nairobi County, found that business owners who attended financial literacy training program organized by Equity group foundation successfully repaid their loans and this had positive effects on their business expansion.

In addition, related Kenyan based studies portray varying methodological and conceptual outlook and this constitutes a reason for this study. Furthermore, these studies have emanated contradicting findings, therefore, it is not conspicuous whether financial literacy bear any impact on enterprise growth. For example, research conducted by Njoroge (2013) about the influence of financial knowledge on MSEs performance in Nairobi, concluded that financial literacy play a key role in business performance. However, selected sample to be studied from firms having 3 employees and above, and ksh 5 million as turnover. This study ignored micro enterprises which form a good number businesses in Kenya. Boniface (2013) studied the influence of financial knowledge on personal investment performance among KRA staff, the study found out that, financial knowledge influence significantly personal investment performance and that KRA employees are knowledgeable in terms of personal investments. However, they were less knowledgeable on critical products like, retirement planning, estate planning and insurance cover.

### **1.3 Research objectives**

#### **1.3.1 General objective**

This research intended to determine the influence of financial literacy on growth of micro and small scale enterprises in Kenya: A case study of food and beverage businesses in Thika.

#### **1.3.2 Specific Objectives**

Throughout this study, the research was able to address the objectives below:

1. To establish the effects of book keeping literacy on the growth of food and beverage business in Thika town.
2. To determine the effects of budgeting literacy on the growth of food and beverage business in Thika town.
3. To find out the relationship between banking services literacy and growth of food and beverage business in Thika town.
4. To assess the influence of investment literacy on growth of food and beverage business in Thika town

### **1.4 Research Hypothesis**

In the process of this study, the researcher tested the hypothesis below:

**H<sub>01</sub>:** There is no statistical significant influence of bookkeeping literacy on growth of food and beverage business in Thika town.

**H<sub>02</sub>:** There is no statistical significant effects of budgeting literacy on growth of food and beverage business in Thika town.

**H<sub>03</sub>:** There is no statistical significant effects of bank services literacy on growth of food and beverage business in Thika town.

**H<sub>04</sub>:** There is no statistical significant influence of investment literacy and growth of food and beverage business in Thika town.

### **1.5 Scope of the Study**

The study general objective was to determine the influence of financial literacy on MSEs growth in Thika town, financial literacy was determined by assessing the knowledge about book keeping, budgeting, banking services, and investment, while growth was analyzed under sales revenue and market share. The study covered the area of Thika town in food and beverage business unit. The information relevant to the study was obtained from previous researchers, government working papers, books, and online journals published by scholars and relevant authorities. The study covered the period of 2018 to 2021, this is to ensure that the result reflects the current trend in operations of MSEs. Food and beverage business unit provides a favorable environment that is sufficient for the study, it possesses all characteristics of MSEs and widespread as it provides service to the rest of the economic activities.

### **1.6 Research significance**

This research is useful as the government and its stakeholders may use it to formulate better financial literacy program regarding MSEs growth as their role is remarkable in national economy. Academicians are able to gain additional knowledge to the subject of financial literacy in respect to business growth, and it provides resources to other researchers interested in financial literacy studies. It also contributes to enrich the existing literature in financial literacy and its role in business expansion. This study is of interest to MSEs owners, it helps them to evaluate themselves in terms of financial knowledge, and therefore formulate strategies to manage their business growth. It serves current and future business owners as they are be able to evaluate themselves in terms of financial literacy level. The study is also useful for business consultants and strategists in their jobs of business development.

### **1.7 Delimitations**

The study was conducted in Thika town, on food and beverage businesses which are classified as micro and small size. The researcher collected data from identified strata (micro, small) and selected respondents were business owners or managers. The study was conducted exclusively on Micro and small businesses. The research is justified since food and beverage businesses have wide operating area and formally founded as micro and small businesses.

### **1.8 Limitation of the Study**

Some respondents were unwilling to give out their financial information. However, the researcher overcame this challenge by using good public relation techniques to persuade the respondents to provide information required as they would benefit from the findings. Due to the huge number of food and beverage providers in Thika, a sample was chosen for the study not the entire population. This may impose limitation on data collection and interpretation of results, in addressing this challenge, an objective questionnaire and interview guidelines was designed for respondents in order to reduce the sampling error. Descriptive research design that focus on quantitative aspect was adopted, this may result on misleading conclusion due to the absence of qualitative aspect; however, to address this challenge the researcher interpreted figures obtained in line with the real situation on ground.

### **1.9 Assumptions**

This research was guided by assumptions below:

1. Information that collected from respondents are relevant and free from biases
2. The sample that selected is fairly representative of the population under study.
3. Respondents are willing to fill questionnaires.
4. Business owners make some form of financial decisions.
5. Answers on questionnaires correspond to the level of financial literacy and growth of the firm.

## **II. LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents theories that are relevant to the study, previous studies related to the present study, displays the framework of the current study, and presents summary of literature gaps identified.

### **2.2 Theoretical framework**

This section presents theories that support this study, those are theories about Growth of the firm, life cycle, and dual process. These theories illustrate financial literacy and growth of the firm.

#### **2.2.1 Growth of the firm**

Developed by Edith Penrose in 1959's, this theory states that skills and talents of business owners are drivers of the firm's success. The theory emphasizes that performance of the business depends on the way the entrepreneurs perceive the business environment. In support, Kor, Mahoney et al (2016) add that, business managers should not focus only on capital accumulation, but also on boosting business management skills as skills are key in business success. Competent managers play pivotal role in firms performance (Beatrice, 2014). However, this theory has been criticized by numerous researchers; Jacqueline et al (2017) suggested that many problems halt the success of firms are not internal, most of those problems originated from external environment. Simpson (2012) adds that, there is no convenient variables that contribute to performance of the firms, factors that determine success of the business are indefinite. This theory supports the current study as it portrays the success of businesses depends on how well managers are equipped with necessary skills on financial and strategic management. Competent managers are able to mentor other staff on direction of the business and take adequate financial decisions leading to the performance of the firm.

#### **2.2.2 Life cycle**

This theory was developed by F. Modigliani and R. Blumberg in early 1950's. This theory assumes that the intention of people is to smooth consumption during their lifetime, estimate incomes and expenses overtime, hence, organize investments and expenditure pattern to arrive at smoothed consumption. To support the theory, Anne, (2017) adds that households organize their savings and consumption with intention to keep the same expenditures during economic downturn. Without this theory, people would have little to say about economic matters such as the impact of demographic factor on national savings, and what determines national wealth in general (Shedrack, 2015). As critics of the theory, Angus D. (2005) affirms that there is a section of individuals who do not care about life cycle theory assumptions, they consume without taking note on the current economic conditions. Life cycle hypothesis cannot be applied when people are worried about unexpected costs; in this case additional savings are called precautionary savings (Adiwijaya et al, 2020). The life cycle theory supports this research as it assumes that knowledge in financial matters help individuals to organize their investments, expenditures, and estimate future incomes in order to arrive at smoothed consumption which is essence of

entrepreneurship. This theory emphasizes on self-control and mental accounting as individuals seek to smooth consumption throughout their lifetime.

### **2.2.3 Dual process**

This theory was proposed by R.Petty and J. Cacioppo in 1986's. It suggests that there are two processes taking place in human brains while taking decisions, intuitive and cognitive; Intuition is unconscious, guided by lived experience and bias while cognition is conscious, analytical and based on evaluation. Different researchers supported this theory, Crusius et al(2012) posit that intuitive and cognitive abilities are useful in economic behavior analysis. In line with dual process theory, financial decision making may be boosted by financial literacy training for people with high cognitive ability (Shedrack, 2015). In contrast, Kruglanski (2011) suggests that dual-process theory should not be counted during a data analysis as it is naturally biased. Distinction between intuitive and cognitive processes are not clearly defined (Sloman,2014). Dual process theory supports this research as it suggests that individuals with high cognitive ability are influenced easily by financial literacy training which would help them to make adequate financial decision to sustain their businesses, on other hand the use of intuition will be reduced because people resort to intuition where there is absence of relevant information. Business strategy is driven by dual process system.

## **2.3 Empirical studies review**

### **2.3.1 Introduction**

This is systematic critical examination of past empirical studies. In this section, a critical examination of previous studies related to financial literacy and business growth was done and related gaps were pointed out.

### **2.3.2 Bookkeeping literacy and business growth**

Josephine & Willy (2017) conducted research with the main objective to determine whether financial management skills could affect loan repayment, a case of ECLF. Target population was Ecumenical Churches loan fund customers, 300 customers were selected randomly and given questionnaires for data collection. Descriptive statistics and SPSS software were used to analyze data. The study found that bookkeeping literacy has effects on the timely repayment of loans, the same study did not reveal the effects of bookkeeping on business growth, which the current study addresses.

Joseph et al (2014) carried out a study with purpose to find out the relationship between bookkeeping knowledge and growth of businesses. The target population was businesses operating in Kabarnet town, 72 sample respondents were randomly selected for the study. Descriptive statistics and SPSS software were for data analysis. This study found that bookkeeping skills contribute to the growth of businesses in terms of profitability and business expansion. This study ignored microenterprises which make a big number of businesses, the current study bridges the gap by focusing on micro and small businesses and use different variables.

Wawira (2012) carried out a research that intended to show the impact of record keeping skills on growth of micro and small scale enterprises .The target population was owners and Managers of MSEs ( 862); the study adopted qualitative descriptive research design. Purposive and random method to sample 84 MSEs respondents was used, distribution of questionnaires and interviews were done for data collection. Frequencies, percentages were calculated for analysis, presented in tables and figures for interpretation, the study revealed that the MSEs managers lack records keeping skills. However, the researcher did not support findings statistically and failed to demonstrate at which extent bookkeeping affect growth of MSEs which the current study solves.

Wanjeri. E .W (2014) conducted research about the impact of financial education on youth self-employment. The study adopted descriptive survey design, it targeted 432 youth entrepreneurs in Thika town who received financial literacy training where 205 sample respondents were chosen for the study, questionnaires distribution and interviews were done for data collection. Data was analyzed through descriptive statistics. The study found out new ventures creation, record keeping and financial management trainings are very important among youth entering in business and those already in business. The same study failed to demonstrate at which extent those trainings contributed to performance of youth's business ventures.

Hayelon.A,M(2020) conducted research with objective of determining factors which drive the performance of micro and small enterprises in Ethiopia .The study adopted explanatory research design and used structured questionnaires for data collection. The Population was 491 enterprises and sample size amounted to 220 micro and small enterprises. Descriptive statistics and multiple regression were applied for data analysis. The research concluded that record keeping knowledge and management practice are insignificant variables in performance of micro and small enterprises, this contradict various previous research which prove empirically that record keeping literacy in a significant factor in business performance.

### **2.3.3 Budgeting literacy and business growth**

Asantinay (2018) conducted a study with objective to examine the effects of budgeting practice on financial performance of firms in Tanzania. Target population was manufacturing enterprises in Kinondoni District, 75 managerial staff we chosen randomly for the study and given questionnaires for data collection. Descriptive statistics and SPSS software were adopted to analyze collected data. The research found that, budget well prepared and monitored help to increase sales and overall profit However, the study ignored microenterprises yet it constitutes the large number of businesses which the current study focuses on.

Samuel & Henrietta (2016) carried out a research about impact of budgeting literacy on financial performance of Non-Banking financial institutions in Ghana. 63 institutions were target population among which 7 of them were selected as sample for the study, questionnaires were administered to collect necessary data for the study. Descriptive statistics and SPSS software were used to analyze data. The study found that there is a significant impact of budgeting knowledge on financial performance of non-banking financial institutions this study does not fall in micro and small enterprises category which is the target for the current study.

Musabwasoni et al (2018) carried out a research to analyze the influence of financial literacy on timely repayment of loans in Rwanda. The Specific objective was to examine how budgeting literacy, debt management literacy, and bookkeeping literacy influence loan repayment among Inozamihigo SACCO customers, 170 out of 320 were selected as sample to be studied. Questionnaires were issued to respondents for data collection and analyzed using SPSS software. The results indicated that, budgeting literacy is one of variables that significantly influence loan repayment among Umurenge Sacco Members. This study did not mention the influence of budgeting literacy on their business growth, the current study addresses this issue.

Hossain, M.M (2020) conducted research to examine whether financial resources and financial literacy of business owners affect growth of small firm in Bangladesh. Among 859,318 small firms in Bangladesh, the study selected 384 sample using non-probabilistic sampling technique, to reduce sampling error, the sample was multiplied by two therefore, 768 questionnaires were administered to collect data guided by interviews. Quantitative method was used to analyze data through correlation and regression analysis. The research concluded that, financial literacy has significant positive impact on growth of the firm and proved statistically significant relation between financial literacy and growth of small firms, however, the study did not consider the bookkeeping literacy in measuring financial literacy which the current study solves.

Study done by Robert A. King/Wara (2014) aimed to evaluate the level of financial literacy among University students in Kenya. The specific objectives were to determine the level of financial knowledge among undergraduate students of Egerton University, Nakuru. 50 students were selected as sample for the study and researcher administered questionnaires to the chosen students for data collection. Data was analyzed through SPSS and descriptive statistics for data analysis. The study revealed that, students lack necessary financial knowledge, the study found that male students are more financially literate than female students, However, the study fail to establish the influence of financial literacy of those students on success of their business ventures.

#### **2.3.4 Bank service literacy and business growth**

Artur, P.(2016) conducted a research to determine the impact of financial literacy on financial decisions in low income Countries, Armenia case; 504 respondents were randomly selected among 24 villages, special questionnaire was designed for data collection. The study applied logistic regression to test the variables and correlation between variables. The study found that financial skills and attitudes affect significantly financial decisions in Armenia. This study used saving variable as financial literacy measure, which is not enough for conclusion. The current study bridges this gap by using four variables to measure financial literacy.

SheevunDi(2015) conducted a study with purpose to determine the level of financial literacy of micro and small business owners. A total of 100 respondents were selected randomly in Iligan city and 38 multiple choice questions divided into three parts were prepared for the purpose of this study. Descriptive statistics and regression analysis were used to analyze data. The findings indicated that, the most of business owners have inadequate knowledge in financial institutions and investments, however, the study ignored the influence of financial knowledge on growth of their respective businesses which the current study focused upon.

Erick,(2016) carried a study to investigate influence of financial literacy on financial performance of small and medium business enterprises in Ruiru Town. The population entailed 334 owners of registered business enterprise and a sample of 100 respondents were selected for study purposes and questionnaire was designed for primary data collection, multiple regression model and SPSS software were used for data analysis, and data was presented in tables, figures and percentages for better interpretation. The study findings revealed that, banking services literacy is among variables that influence performance of SMEs. From findings, 40.3% respondents indicated that they had 1 to 3 employees and 49.3% had 4 to 5 employees. The study ignored microenterprises yet they make a big part in studied data as majority of business under study had fewer than 10 employees which the current study solved.

Wachira (2012) conducted a study to establish the effects of financial literacy on access to financial services. The study used national financial access survey data (2009) which was analyzed using statistical model. Findings revealed that age, income, education and gender were factors that determine the access to financial services. The study witnessed low level of financial literacy among households studied. This study focused the effects of financial literacy on access to financial services of households and fail to determine how it affects business growth, moreover, the study also was based on secondary data only, which the current study addresses.

Anne, (2017) conducted a study on effects of financial literacy on personal financial decisions among Egerton University employees, Nakuru. 1998 employees were targeted within all departments, a random sample of 320 respondents were selected, and descriptive research design was used. Questionnaire issued to respondents for primary data collection. Multiple regression model and SPSS software were used to establish the relationship

between variables. The study found that, the knowledge of financial products significantly influence financial decisions of employees of Egerton University. The study did not show the effects of financial products knowledge on their business growth, a gap the current study bridges.

**2.3.5 Investment literacy and business growth**

Mohamad ,F& Eugen, C (2019) conducted investigation financial literacy and its related outcomes in Malaysia. The study also examined the impact of financial literacy on the amount of income allocated for investments. A large –scale survey was done in Malaysia and a total of 2000 individuals participated in the study, data was collected from respondents using questionnaires. The regression analysis was used to analyze data. The findings showed that financial literacy significantly influences the amount of income allocated for investments. However, they failed show at which extent financial literacy contributed to performance of the same investments.

Martin(2019) carried out a research to find out the effects of financial literacy on profitability of business enterprises in Ruiru. The study target population was small and medium scale business enterprises in Ruiru, 125 respondents were randomly chosen consisting of managers ,supervisors ,and accountants. Descriptive research design was used to address research problem. Questionnaire was designed for primary data collection and analyzed using SPSS software. The study found that, investment literacy is among core components to success of business. However, the researcher ignored microenterprises which form a large number, the gap that the current study bridges.

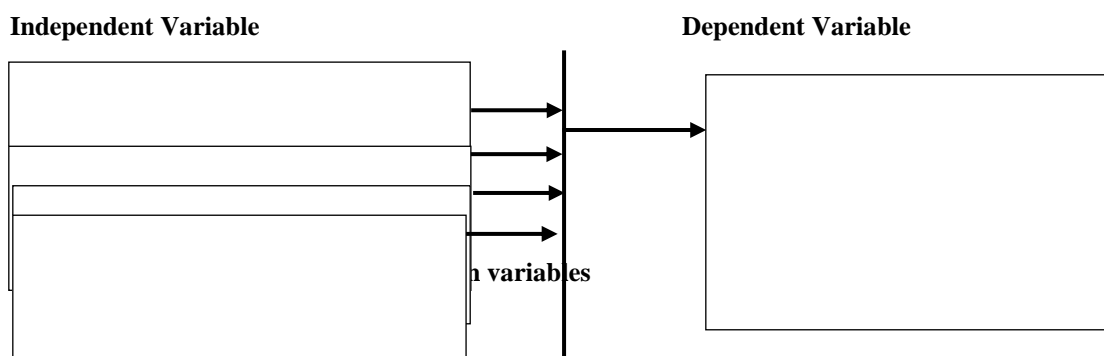
Karan &.Sunil (2018) carried out investigation to determine the impact of financial literacy on investment decisions in India. The target population was businesses in rural areas of Shimla district. 500 respondents were randomly selected from rural areas of Shimla district, and questionnaire was designed for data collection. Chi-square test was used to measure the relationship between variables. Data was presented in different tables and percentages for interpretation. The majority were engaged in agriculture others had their own businesses followed by service class. Findings revealed that, there is significant impact of financial literacy on investment decisions. Nonetheless, the study did not deduce its relationship with business growth, and the study did not precise the size of business under study which the current study addresses.

Amari, M,&Jarboui,A. (2016) conducted a research aimed to determine financial literacy, its determinants and implications on investments in Tunisia. 350 people that visited stock exchange participated in the study. The researcher used questionnaires contain 32 questions to collect data for the study. The analysis was done using statistical model to measure relationship between variables. Findings showed that, participants lack understanding of economics and finance and that was found to be a significant deterrent to stock ownership in the stock market. But, the study has not mentioned the implication of financial literacy on performance of investments.

Kamuti, J., M.(2017) carried a research on factors influencing investment decisions in Nairobi security exchange, the objective was to find out how financial conditions ,investors disposable income, market information, and educational level of investors influence investment decisions. The population of this study consists of 150 people comprising management staff and individual investors and 50% was chosen as sample for the study, self-administered questionnaires and interviews were employed for data collection, the study used also SPSS program to aid the analysis. The study found that; investor’s disposable income, market information, and financial knowledge positively influence individual investment decisions in Nairobi security exchange, but failed to support statistically at which level financial knowledge influences the performance of investments.

**2.4. Conceptual framework**

The concept of financial literacy is expressed in four dimensions: budgeting literacy, bookkeeping literacy, banking services literacy, and investment literacy. Growth of Micro and Small Enterprises comprises of two dimensions such as; sales revenue and market share.





Book keeping was measured by the way MSEs owners are able to maintain cash books in regular manner, and preparing financial statements. Budgeting literacy was assessed by observing if owners of businesses prepare budgets before engaging in operations and if the budget is monitored. Banking services literacy is measured by checking whether business owners have access to bank information, and the use of banking products. Investment literacy of the business owners was measured by assessing the awareness of risk and return relationship, and whether the investments are monitored. Market share was measured by assessing the customer's base of the business during study period, and sales revenue was measured by estimating increase of the business revenue during study period. The independent variable was evaluated on its influence on dependent variable.

### **2.5. Literature recap**

Decision making about financial matters is a compulsory exercise for business people if their ventures are to survive. Business environment changes, risk and return fluctuate thereby decision makers are required to boost financial literacy. Investors are required to assess risk and return associated with their investments portfolio in order to optimize returns (Leora , Lusardi et al,2014). Financial ignorance carries significant costs (Lusardi and Tufano ,2015).According to Finance access survey (2019), 34% of Kenyans are not able to take financial decisions on their own; they rely on friends and families for financial advice. This shows that there are likely potential wrong financial decisions that may cause financial problems. Financial literacy is made up of many variables, studies about financial literacy have used different variables (Fotoki, 2014). This make those studies to reach different results sometimes contradicting. Previous studies portrayed a variety of methodological and conceptual framework. Therefore; more studies are required to make sure the financial literacy variables are exhausted and the quality of researches are assured. The current study focuses on financial literacy (bookkeeping, budgeting, banking services, and investment) and its influence on micro and small enterprises growth (sales revenue and market share).

## **III. RESEARCH METHODS**

### **3.0 Introduction**

This chapter outlines methodology; research design, study location, target population, sampling procedure and techniques, sample size, instrument, validity and reliability of research instruments, data collection method and procedure, limitation and delimitation of the study, data analysis procedure, and ethical considerations.

### **3.1 Research method**

Research is a systematic activity carried out with ultimate purpose of gaining new knowledge (Prabhat,P et al, 2015).On other side, Sam (2012),defines methodology in research as a way of solving a research problem. Methodology helps a reader to understand and evaluate the validity and reliability of the study.

### **3.2 Research design**

The purpose of research design is to ensure that there is no bias in data collection and interpretation ( Anne 2017).Descriptive research design was adopted in the current study. This design helped to describe financial literacy level of MSEs owners in Thika town and corresponding growth of their businesses. Quantitative analysis helped researcher to show at which level financial literacy affects growth of MSEs in Thika town.

### **3.3 Study location**

The study was conducted in Thikatown,the choice of this area is due to the speed expansion of Thika town, availability of the study unit, and easy access to the information required.

### **3.4 Target population**

Population refers to individuals or objects subject to a certain study (Cooper&Schinder, 2014).In this study the population stands at 360 licensed food and beverage businesses operating in Thika town as of December 2021.The choice of this population is due to the fact that they are easily accessible for information required and fulfill all requirements of micro and small enterprises business category.

### **3.5 Sampling procedure and techniques**

A random sample was taken from the population list that was collected from concerned authority proportionally to the stratum size. The sampling technique considered the characteristics of the population. The population was stratified into strata basing on MSEs position and characteristics; then the researcher picked sample randomly from each stratum. According to Mugenda (2008), this sampling technique is adequate for heterogeneous population as it improves the representation accuracy.

### **3.6 Sample size**

Sample refers to a subset of the population to be studied. The reason for sampling is mainly time, cost, and population size constraints. The following formula was used to determine sample size as suggested by Taro Yamane (1973);

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

Where:

n=sample size

N=population size

e= estimated error (which will be 0.05 in this study)

Therefore, the sample was:  $\frac{360}{1+360(0.05)^2} = 189$

**Table 2: sample size**

| Strata       | Population | Proportion   | Sample size |
|--------------|------------|--------------|-------------|
| Small        | 198        | 0.525        | 104         |
| Micro        | 162        | 0.525        | 85          |
| <b>Total</b> | <b>360</b> | <b>0.525</b> | <b>189</b>  |

**Source: Thika Sub-county administration**

### 3.7 Construction of research instrument

The easy way of collecting thoughtful and standardized information is the use of questionnaire (Shedrack,2015).The study used questionnaires to collect data, it was divided into three parts conceived in a way to collect full information from respondents; the section one consists of demographic information, section two concerned about the level of financial literacy of respondents, section three covers questions about growth of SMEs during covered period. The questionnaire keeps respondents anonymous

### 3.8 Testing validity and reliability of questionnaire

Validity expresses the degree to which the study instruments measure what it is supposed to, more precisely and accurately (Creswell&Creswell,2018).In this study, validity shows the degree to which the instruments are consistent to measure the financial literacy and growth of food and beverage businesses in Thika town , on the other hand, reliability determines the degree to which instruments are efficient in collecting data to measure the relationship between variables.

#### 3.8 .1 Test of validity of questionnaire

In this study, content validity was achieved by thorough review of concerned literature, face validity was addressed by pilot test on five respondents before starting actual distribution of questionnaire to the whole respondents which was excluded from sample size. The construct validity was achieved through consultation of experts in the field, supervisors, and MSEs owners with huge experience.

#### 3.8.2 Testing reliability

Research instrument is reliable when it is able to produce the same results whenever it is used in the same conditions (Damaris, 2021). In this study, Cronbach Alpha Coefficient will be applied .Cronbach Alpha reliability coefficient of 0.7 and above is acceptable as having reliable results, this coefficient was computed for each variable through SPSS.

### 3.9 Data collection method and procedure

After the permission to carry out research was obtained, the researcher collected primary data using questionnaires guided by interviews to confirm and adjust information collected. Respondents were approached strategically from their respective business premises. This method was appropriate method for the study because the respondents had researcher guidance whenever confusion came up while filling the questionnaires. The questionnaire was anonymous to assure that the information and data provided would be used only for research purpose. Secondly data was collected through recent literature reviews, interaction with financial service providers and experts in field.

### 3.10 Data analysis and procedure

The field data was edited, cleaned, and validated for completeness, clarity and accuracy with consideration in preparation for coding process. The study adopted regression model in estimating the causal relationship between financial literacy and MSEs growth. SPSS software was used for correlation analysis, the significance of each variable was tested at a confidence level of 95%.

The regression model was applied as follow:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_A \dots \dots \dots (3.1)$$

Where:

Y= Growth of MSEs

$\alpha$ =constant value

$\beta_1, \beta_2, \beta_3, \beta_4$ =constant of independent variable

$X_1$ =Bookkeeping literacy

$X_2$ =Budgeting literacy

$X_3$ =Banking services literacy

$X_4$ =Investment literacy

£=The disturbance term

**3.11 Ethical considerations**

According to Bracken-Roche et al (2017), it is crucial that a scientific research gives a consideration to the ethical aspects to make study results more reliable.

This study addressed the following ethical considerations: The introductory letter from Mount Kenya University as authorization to carry out the field research was acquired. The researcher applied for research permit from National Commission for Science, Technology and Innovation-Kenya (NACOSTI), which is government body in charge of research authorization as official permission to start field research. The respondents were informed about the objective of this study and sign a consent document to make them aware about their rights in research exercise. The respondents were assured that information collected would be used purely for study purpose and would never be disclosed to any third party .Any literature used during this study was cited according to American Psychological Association(APA) referencing standards in a bid to address plagiarism issue.

**IV. DATA ANALYSIS, AND DISCUSSION OF RESULTS**

**4.1 Introduction**

This chapter contains; the questionnaire return rate, reliability of variables analysis, the respondent’s demographic characteristics, it also presents financial literacy responses and analysis (book keeping literacy, budgeting literacy, banking services literacy, and investment literacy) of food and beverage business in Thika town as well as assessing the growth of the same businesses(sales revenue and market share).Finally, the chapter presents analysis and interpretation of the correlation and regression between independent variables(financial literacy)and dependent variable(growth).

**4.2 Questionnaire Return Rate**

From sample size of 189 selected as respondents, 152 respondents were successfully responded while 37 respondents were not considered due to unwillingness to respond or providing not useful information. The respondent rate was 80.4% which was considered successful.

**Table 3: Questionnaire Return Rate**

| Sample size  | Return rate | Frequency    | Non-participants | Frequency    |
|--------------|-------------|--------------|------------------|--------------|
| 189          | 152         | 80.4%        | 37               | 19.6%        |
| <b>Total</b> | <b>152</b>  | <b>80.4%</b> | <b>37</b>        | <b>19.6%</b> |

**Source field Data (2022)**

**4.3 Reliability analysis**

The Cronbach’s Alpha was computed for all variables using SPSS. The Alpha coefficient is shown in table 4 below:

**Table 4: Reliability Analysis for the Study**

| Variables              | No of items | Cronbach’s Alpha coefficient |
|------------------------|-------------|------------------------------|
| Bookkeeping literacy   | 4           | 0.974                        |
| Budgeting literacy     | 4           | 0.885                        |
| Bank services literacy | 4           | 0.950                        |
| Investment literacy    | 4           | 0.924                        |

**Source field Data (2022)**

Table 4 shows the Cronbach’s Alpha coefficients, this result is greater than threshold of 0.7 which means that variables under study were reliable.

**4.4 Descriptive statistics**

**4.4.1 Demographic characteristics**

This characters includes include gender, age, education level, and marital status.This information is used to determine whether the sample is representative of the target population. If the sample is well representative, the results of the study would be successfully generalizable to the target population.

**4.4.1.1 Gender category**

The study sought to determine the gender category of the respondents. This is to observe fair engagement of respondents, results are shown in table 5 below.

**Table 5: Gender**

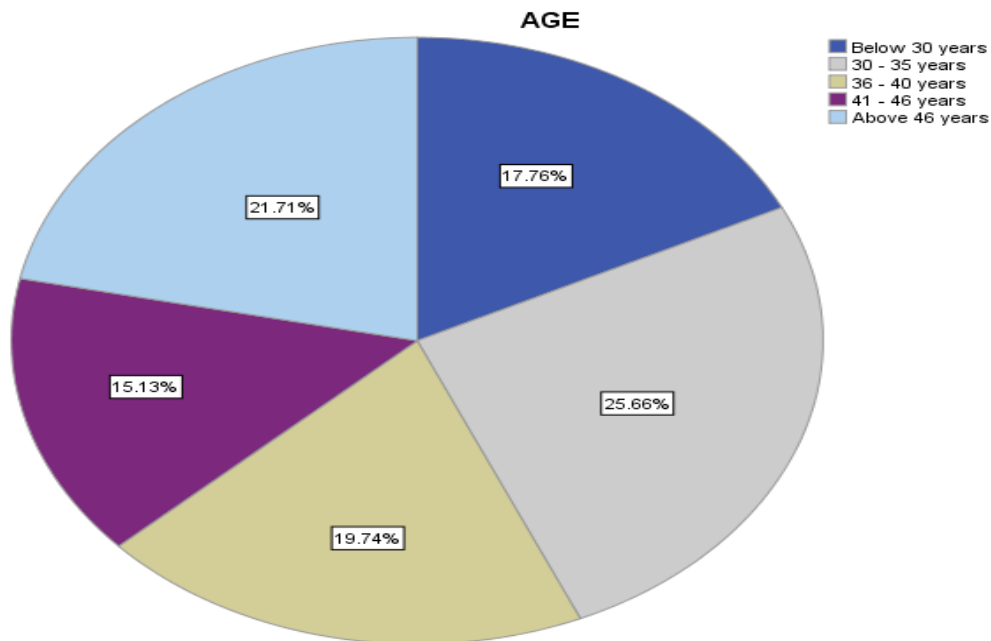
|       |        | Frequency | Percent | Valid Percent |
|-------|--------|-----------|---------|---------------|
| Valid | Male   | 75        | 49.3    | 49.3          |
|       | Female | 77        | 50.7    | 50.7          |
|       | Total  | 152       | 100.0   | 100.0         |

**Source field Data (2022)**

The study respondents were licensed food and beverage business owners operating in Thika town; female gender has a response rate of 77(50.7%) compared to their male counterparts with a response rate of 75(49.3%) respondents.

**4.4.1.2 Age category**

To ensure that the study collected wide range of opinions from different age group, respondents were requested to indicate their age frame. Results are presented in below table.



**Figure 3: Age category**

**Source field Data (2022)**

The respondents’ age rate was arranged as follows; below 30 years (17.76%), 30 – 35 years (25.66%), 36-40 years (19.74%), 41-46 years (15.13%), above 46 years (21.71%).The age distribution shows that respondents were fairly represented in terms of education.

**4.4.1.3 Education background**

The level of education expresses individual understandability of different issues .In this study respondents were requested to indicate their education background .The results are shown in table 6 below

**Table 6: Education level**

|       |               | Frequency  | Percent      | Valid Percent |
|-------|---------------|------------|--------------|---------------|
| Valid | Primary       | 22         | 14.5         | 14.5          |
|       | Secondary     | 40         | 26.3         | 26.3          |
|       | Tertiary      | 30         | 19.7         | 19.7          |
|       | Undergraduate | 42         | 27.6         | 27.6          |
|       | Postgraduate  | 18         | 11.8         | 11.8          |
|       | <b>Total</b>  | <b>152</b> | <b>100.0</b> | <b>100.0</b>  |

**Source field Data (2022)**

In terms of education the study found out that the respondents with from primary education were represented by a response rate of 14.5%, those who had up to secondary education had a response rate of 26.3%, those who had tertiary education were represented at 19.7%, undergraduate respondents were 27.6%, and postgraduate respondents were represented by a response rate of 11.8%.

**4.4.1.4 Marital status**

The study demonstrated the distribution of respondents in terms of marital status, the findings were tabulated in table 7 below

**Table 7: Marital status**

|              |          | Frequency  | Percent      | Valid Percent |              |
|--------------|----------|------------|--------------|---------------|--------------|
| Valid        | Single   | 56         | 36.8         | 36.8          | 36.8         |
|              | Married  | 86         | 56.6         | 56.6          | 56.6         |
|              | Divorced | 10         | 6.6          | 6.6           | 6.6          |
| <b>Total</b> |          | <b>152</b> | <b>100.0</b> | <b>100.0</b>  | <b>100.0</b> |

**Source field Data (2022)**

In terms of marital status, single respondents were represented at 36.8 % ( 56), Married respondents were 86 which is 56.6%, Divorced respondents were 10 which represent 6.6%.

**4.3.2 Book keeping literacy response analysis**

The respondents were asked to indicate their level of understanding concerning bookkeeping parameters from the five point Likert scale: 1= Unknowledgeable, 2=Unsatisfactory, 3=Good, 4=satisfactory, 5=Excellent. The results were interpreted as follows; those who responded ,excellent ,good, and satisfactory were considered bookkeeping literate, the rest were considered unknowledgeable the mean above 3 shows that respondents were financially literate in terms of corresponding parameter .This was presented on table 8 below;

**Table 8: Responses on book keeping literacy**

|   | N   | Minimum | Maximum | Mean   | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| Ability to prepare financial statements for your business | 152 | 1.00    | 5.00    | 3.4211 | 1.20444        |
| Ability to analyze financial statements                   | 152 | 1.00    | 5.00    | 3.2763 | 1.40103        |
| Knowledge on maintenance of cashbooks                     | 152 | 1.00    | 5.00    | 3.4145 | 1.25252        |
| How good are you to keep support documents                | 152 | 1.00    | 5.00    | 3.0066 | 1.30459        |
| N   | 152 |         |         |        |                |

**Source field Data (2022)**

.The findings demonstrate that most respondents had moderate bookkeeping literacy. However, they need improvement majority were found to use notebooks and papers instead of proper book of accounts. This is in consistence with the findings of research done by (Kalekye&Memba, 2015), that most small scale businesses owners keep records but in informal way.

**4.3.3 Budgeting literacy analysis**

The study sought to determine the effects of budgeting literacy on growth of food and beverage business owners'. Respondents were asked to indicate the extent to which they agree with statements intended to measure their budgeting literacy. A five-point scale were used where;1= Never,2= Rarely,3= Sometimes,4=Often,5=Always. Respondents who responded sometimes, often, and always were considered budgeting literate, the mean above 3 shows a moderate budgeting literacy, the rest were considered to be unknowledgeable in terms of budgeting. The table 9 below presents collected results.

**Table 9: Responses on budgeting literacy**

|   | N   | Minimum | Maximum | Mean   | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| Do you prepare annual budget                          | 152 | 1.00    | 5.00    | 3.1645 | 1.36389        |
| Do you compare your budget to your actual performance | 152 | 1.00    | 5.00    | 3.1908 | 1.37977        |
| I use budget to set targets for my employees          | 152 | 1.00    | 5.00    | 3.0921 | 1.42984        |
| I monitor my income and expenditures using budget     | 152 | 1.00    | 5.00    | 3.4342 | 1.30547        |
|   | 152 |         |         |        |                |

**Source field Data (2022)**

This findings portray a good level of budgeting literacy. However, the research done by William .T,S (2013) found that micro entrepreneurs rarely make written budgets and once made they are not regularly monitored; some micro businesses don't practices proper budgeting and bookkeeping activities (Priyangani,2017).

**4.3.4 Banking services literacy analysis**

The table 10 below indicates the descriptive analysis of banking services literacy among the respondents with the growth of food and beverage business in Thika town. Respondents were asked to answer YES or NO to the statements intended to measure their knowledge about banking services, the mean above 1.5 shows a good level of banking services literacy.

**Table 10: Banking services literacy analysis**

|  | N   | Minimum | Maximum | Mean   | Std. Deviation |
|--|-----|---------|---------|--------|----------------|
| Do you have bank account for the business          | 152 | 1.00    | 2.00    | 1.6974 | .46092         |
| Do you use your business account regularly         | 152 | 1.00    | 2.00    | 1.8158 | .38894         |
| Do you know credit products to micro businesses    | 152 | 1.00    | 2.00    | 1.7763 | .41809         |
| Do you access other bank products like credit card | 152 | 1.00    | 2.00    | 1.6974 | .46092         |
| Valid N  | 152 |         |         |        |                |

**Source field Data (2022)**

The findings demonstrate that respondents have a good level of banking services literacy; however, Evelyn(2017) argued that most MSEs are still struggling in accessing banking services, low level of financial literacy prevents MSEs owners from understanding and assessing financial products from financial institutions.

**4.3.5 Investment literacy analysis**

The table 11 below indicates descriptive analysis of investment literacy among the respondents with food and beverage business in Thika town. It was assessed using a Likert scale from ‘always’, ‘often’, ‘sometimes’, ‘rarely’ and ‘never’ to the corresponding statement .The results analysis considered those who responded ‘always’, ‘often,’ and ‘sometimes’ as investment literate, mean above 3 shows a good level of investment literacy..

**Table 11: Responses on investment literacy**

|   | N   | Minimum | Maximum | Mean   | Std. Deviation |
|---|-----|---------|---------|--------|----------------|
| I regularly monitor returns on my investments           | 152 | 1.00    | 5.00    | 3.4408 | 1.27499        |
| I diversify my investments and change them              | 152 | 1.00    | 5.00    | 3.7368 | 1.09627        |
| I consider time value of money before making investment | 152 | 1.00    | 5.00    | 3.2961 | 1.31642        |
| I plan for investments                                  | 152 | 1.00    | 5.00    | 3.5197 | 1.22863        |
| Valid N   | 152 |         |         |        |                |

**Source field Data (2022)**

The findings show that food and beverage business owners in Thika town are satisfactorily investment literate. This study supports research done by Abrar,A& al(2014),that investigated the behavior of individual investors and found that majority had full knowledge of market and showed higher level of confidence on their specific skills; however, overconfidence bias, loss aversion bias, regret aversion bias influence investment decisions of household investors(Arumugam,2017)

**4.3.6 Sales revenues analysis**

Sales revenue was analyzed by considering changes in sales during four years consecutive, changes were translated into: increase, remained constant, and decrease in sales revenue.

**Table 12: Responses on sales revenue**

|                          | Frequency  | Percent      | Valid Percent |
|--------------------------|------------|--------------|---------------|
| Valid increase above 10% | 114        | 75.0         | 75.0          |
| increase below 10%       | 25         | 16.4         | 16.4          |
| decrease                 | 13         | 8.6          | 8.6           |
| <b>Total</b>             | <b>152</b> | <b>100.0</b> | <b>100.0</b>  |

**Source field Data (2022)**

**Table 13: category of MSEs in terms of sales revenue**

| Category in ksh   | Frequency | Percentage |
|-------------------|-----------|------------|
| 1-500,000         | 66        | 43.5%      |
| 500,001-2000,000  | 70        | 46%        |
| 2000,001-5000,000 | 16        | 10.5%      |

**Source field Data (2022)**

**4.3.7 Market share analysis**

Market share was observed by calculating changes in terms of customer base of businesses under study during four years as captured in table 13 below:

**Table 14: Responses on market share**

|                    | Frequency  | Percent      | Valid Percent |
|--------------------|------------|--------------|---------------|
| increase above 10% | 122        | 80.3         | 80.3          |
| increase below 10% | 20         | 13.2         | 13.2          |
| decrease           | 10         | 6.5          | 6.5           |
| <b>Total</b>       | <b>152</b> | <b>100.0</b> | <b>100.0</b>  |

Source field Data (2022)

**Table 15: Category of MSEs in terms of market share**

| Market share(customers) | Frequency | Percentage |
|-------------------------|-----------|------------|
| 1-500                   | 58        | 38%        |
| 501-1500                | 61        | 40%        |
| 1501-2500               | 33        | 22%        |

Source field Data (2022)

The study demonstrated that most MSEs (40%) under study had between 501-1500 customer bases per year, followed by MSEs with customer base of between 1-500 (38%), the least is that with 1501-2500(22%) customers during the year.

#### 4.4: Correlation Analysis

A correlation coefficient(r) is a measure of the strength of linear relationship between independent and dependent variables. This correlation measures the extent to which two variables (independent and dependent) tend to change together. It describes strength and direction of the relationship. In this particular study, Pearson correlation coefficient measured the strength of association between financial literacy and the growth of food and beverage business in Thika town determined at a significant level of 0.01

##### 4.4.1 Correlation between book keeping literacy and MSE growth

**Table 16: Correlation between book keeping literacy and MSE growth**

|              |                     | Book Keeping | Sales Revenue | Market Share | Growth |
|--------------|---------------------|--------------|---------------|--------------|--------|
| book keeping | Pearson Correlation | 1            | .777**        | .732**       | .773   |
|              | Sig. (2-tailed)     |              | .000          | .000         | .000   |
|              | N                   | 152          | 152           | 152          | 152    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to correlation results findings, bookkeeping literacy was found to be positively and significantly related to sales revenue (r=.777), market share(r=0.732).Based on study findings, bookkeeping literacy positively and significantly influence the growth (0.773)of food and beverage businesses in Thika town. The significance values of 0.000 indicate that the relationship is significant. This study agrees with the study done by Joseph &Isaac (2012) which concluded that bookkeeping knowledge enhances the profitability and expansion of businesses. Accurate record keeping help business owners to take essential decisions, reduce operating costs and improve efficiency and productivity (Alhassan, 2017).

##### 4.4.2 Correlation between budgeting literacy and MSE growth

**Table 17: Correlation between budgeting literacy and MSE growth**

|           |                     | Budgeting | Sales Revenue | Market Share | Growth |
|-----------|---------------------|-----------|---------------|--------------|--------|
| budgeting | Pearson Correlation | 1         | .681**        | .626**       | .670   |
|           | Sig. (2-tailed)     |           | .000          | .000         | .000   |
|           | N                   | 152       | 152           | 152          | 152    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The findings of the study indicated a positive correlation between budgeting literacy and sales revenue (r =0.681) which was also statistically significant, further the study indicated a positive correlation between budgeting literacy and market share with r= 0.626; the significance value of 0.000 means that the correlation is significant. Based on findings, there is a statistically and significant relationship between budgeting literacy and growth (0.670) of food and beverage businesses in Thika town. The study confirms the research done by Schubert &Kristen (2021) which concluded that budgeting control has a significant and positive relationship with financial performance.

**4.3.3 Correlation between banking services literacy and MSE growth**

**Table 18: Correlation between banking services literacy and MSE growth**

|                  |                     | Banking Services | Market Share | Sales Revenue | Growth |
|------------------|---------------------|------------------|--------------|---------------|--------|
| Banking services | Pearson Correlation | 1                | .290**       | .336**        | .320   |
|                  | Sig. (2-tailed)     |                  | .000         | .000          | .000   |
|                  | N                   | 152              | 152          | 152           | 152    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The study indicated that there is a positive correlation between banking services literacy and the growth of MSE. A positive correlation on the sales revenue which was 0.290 which was statistically significant, on the other hand market share indicated a positive correlation of 0.336 which was also statistically significant the significance value is 0.000. Findings of this study revealed that there is a statistically and positive relationship between banking services literacy and growth (0.320) of food and beverage businesses in Thika town. Easy access to financial services and skills contribute to profitability of MSEs (Ahmed, 2017).

**4.3.4 Relationship between investment literacy and MSE growth**

**Table 19: Correlation between investment literacy and MSE growth**

|             |                     | Investments | Market Share | Sales Revenue | Growth |
|-------------|---------------------|-------------|--------------|---------------|--------|
| Investments | Pearson Correlation | 1           | .440**       | .436**        | .448   |
|             | Sig. (2-tailed)     |             | .000         | .000          | .000   |
|             | N                   | 152         | 152          | 152           | 152    |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to table 19 it is clear that there is a statistically significant relationship between investment literacy and growth of SMEs. A positive correlation on the sales revenue was 0.440 which was statistically significant, on the other hand market share indicated a positive correlation of 0.436 which was also statistically significant as the significance value is 0.000. The study revealed that there is a statistically and positive relationship between investment literacy on MSEs growth (0.448) of food and beverage businesses in Thika town. This study agrees with the research done by Schedrack (2015) which concluded that investors generally need to be financially literate to make profitable investment decisions.

**4.3.5 Correlation between financial literacy and growth of MSEs**

The study sought to determine the relationship between financial literacy and combined growth components. The results of the correlation analysis were summarized in table 20 below

**Table 20: Correlation between financial literacy and growth**

|                    |                     | Growth | Financial Literacy |
|--------------------|---------------------|--------|--------------------|
| Financial Literacy | Pearson Correlation | .769** | 1                  |
|                    | Sig. (2-tailed)     | .000   |                    |
|                    | N                   | 152    | 152                |

\*\* . Correlation is significant at the 0.01 level (2-tailed)

The study findings show that financial literacy was found to be positively and significantly related to the growth of MSEs (r=0.769). Therefore, it was concluded that the financial literacy has statistically significant positive relationship with growth of MSEs in Thika town. This is in an agreement with previous studies done by Jiyane&Zawada (2013), Senevirathne&Jayendrika (2016) and Eresia-Eke(2013) which found financial skills of small business owners and individuals improved business sustainability of the business and well-being of individuals.

**4.4 Regression analysis and Hypothesis Testing**

**4.4.1 Regression analysis**

In order to test hypothesis the study used a multiple linear regression to estimate the contribution of book keeping, budgeting, banking services and investment literacy on the growth of food and beverage businesses in Thika town. The results were presented in table 21, 22 and 23 which composed of model summary, ANOVA summary and regression coefficient respectively.

**Table 21 Regression model summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics |          |
|-------|-------------------|----------|-------------------|----------------------------|-------------------|----------|
|       |                   |          |                   |                            | R Square Change   | F Change |
| 1     | .911 <sup>a</sup> | .829     | .825              | .49182                     | .829              | 178.761  |

Source field Data (2022)



The study indicated that the overall correlation between the book keeping, budgeting, banking services and investment literacy was found to be 0.911 which indicates a strong correlation between variables under study. Further the analysis determined the value of R squared which is 0.829; this indicates that 82.9% changes in growth of food and beverage businesses are predicted by financial literacy parameters considered in this study.

**Table 22: ANOVA summary of effects of financial literacy on MSEs growth**

| Model        |            | Sum of Squares | df         | Mean Square | F       | Sig.              |
|--------------|------------|----------------|------------|-------------|---------|-------------------|
| 1            | Regression | 172.962        | 4          | 43.241      | 178.761 | .000 <sup>b</sup> |
|              | Residual   | 35.558         | 148        | .242        |         |                   |
| <b>Total</b> |            | <b>208.520</b> | <b>152</b> |             |         |                   |

a. Dependent Variable: growth

b. Predictors: (Constant), investments, book keeping, Banking services, budgeting

According to results obtained on table 22 indicated that there exists a statistical relationship between financial literacy (independent variable) and MSEs growth (dependent variables) since the p value was 0.000 which is less than 0.05 the standard p value at 95% confidence level. Further the study indicated an F value (F = 178,761) and 4, 148 degree of freedom.

**Table 22: Regression analysis on financial literacy and MSEs growth**

| Model |                  | Unstandardized Coefficients |            | Standardized Coefficients |        | Sig. |
|-------|------------------|-----------------------------|------------|---------------------------|--------|------|
|       |                  | B                           | Std. Error | Beta                      | t      |      |
| 1     | (Constant)       | 1.523                       | .387       |                           | 3.932  | .000 |
|       | bookkeeping      | 1.273                       | .102       | 1.282                     | 12.488 | .000 |
|       | budgeting        | -.017                       | .034       | -.067                     | -.498  | .619 |
|       | Banking services | -.424                       | .068       | -.583                     | -6.238 | .000 |
|       | investments      | .042                        | .014       | .158                      | 3.083  | .002 |

$$Y=1.523+1.273X_1-0.017X_2-0.424X_3+0.042X_4+0.387$$

Where:

Y=MSEs growth

X<sub>1</sub>=Bookkeeping literacy

X<sub>2</sub>=Budgeting literacy

X<sub>3</sub>=Banking services literacy

X<sub>4</sub>=Investment literacy

The coefficients table show the relationship between independent variable and dependent variable. It determines the contribution of each independent variable dimension to change dependent variable and respective statistical significance. The results demonstrated that:

Taking all factors constant, the growth will be 1.523. Taking all other independent variable dimensions to zero, a unit increase in bookkeeping literacy leads to an increase of 1.273 in MSEs growth; a unit increase in budgeting literacy leads to a decrease of 0.017 in growth (negative relationship); a unit increase in banking services literacy leads to a decrease of 0.424 in growth of MSEs, This means that there is a negative relationship. Lastly a unit increase in investment literacy leads to an increase of 0.042 in MSEs growth.

#### 4.4.2 Hypothesis testing

The general objective of the study was to study the influence of financial literacy on micro and small enterprises growth in Kenya: A case study of food and beverage businesses in Thika town. To achieve this objective, the study sought to test the following hypotheses:

**H<sub>01</sub>:** There is no statistical significant effect of bookkeeping literacy on growth of food and beverage businesses in Thika town. According to table 22 above, the results indicate the significance value (p) for bookkeeping literacy as 0.000 which is below 0.05(significance level); therefore, bookkeeping is a predictor of MSEs growth; thus, null hypothesis is rejected.

**H<sub>02</sub>:** There is no statistical significant influence of budgeting literacy on growth of food and beverage businesses in Thikatown. The results indicated the significance value of 0.619 which is above standard level of significance (0.05), this means that budgeting literacy is a predictor of MSEs growth but not statistically significant; therefore, the null hypothesis is not rejected.

**H<sub>03</sub>:** There is no statistical significant influence of bank services literacy on growth of food and beverage businesses in Thika town. The findings demonstrated the significance value for banking services literacy to be 0.000 which is below standardized significance value of 0.05; the conclusion is that banking services literacy predicts MSEs growth. The null hypothesis is rejected.

**H<sub>04</sub>:** There is no statistical significant relationship between investment literacy and growth of food and beverage businesses in Thika town. Regression coefficient shows that the significance value for investment literacy is 0.002 which is below 0.05(level of significance), this means that, investment literacy predicts MSEs growth;the null hypothesis is therefore rejected.

**Table 23: Hypothesis testing**

| Hypothesis   | Regression results   | Decision                             |
|--|--|--------------------------------------|
| <b>H<sub>01</sub>:</b> There is no statistical significant effect of bookkeeping literacy on growth of food and beverage businesses in Thika town            | <b>Significant</b> ( $\beta_{.1.273}$ )<br>P=0.000         | <b>Reject H<sub>01</sub></b>         |
| <b>H<sub>02</sub>:</b> There is no statistical significant influence of budgeting literacy on growth of food and beverage businesses in Thika town           | <b>Not significant</b><br>( $\beta_{-.0.017}$ )<br>P=0.619 | <b>Fail to reject H<sub>02</sub></b> |
| <b>H<sub>03</sub>:</b> There is no statistical significant influence of bank services literacy on growth of food and beverage businesses in Thika town.      | <b>Significant</b> ( $\beta_{-.424}$ )<br>P=0.000          | <b>Reject H<sub>03</sub></b>         |
| <b>H<sub>04</sub>:</b> There is no statistical significant relationship between investment literacy and growth of food and beverage businesses in Thika town | <b>Significant</b> ( $\beta_{.0.042}$ )<br><b>P=0.002</b>  | <b>Reject H<sub>04</sub></b>         |

## V. CONCLUSION AND RECOMMENDATION

### 5.1 Conclusion

According to the study's findings, financial literacy, which includes knowledge of bookkeeping, budgeting, banking services, and investment, has an influence on the growth of MSE. The results established that bookkeeping literacy is relevant in enhancing the growth of the business. Therefore, the entrepreneurs who are adequately equipped with records keeping skills improve better their businesses compared to those with no or little bookkeeping knowledge. Chepkemoi (2013) argued that the main cause of business failure is lack or little bookkeeping knowledge.

The findings further revealed that budgeting skills positively influence sales revenue and market share increase; in such market characterized by many sellers, entrepreneurs maintain expansion of the business if he/she has adequate budgeting literacy. This knowledge help the business to plan for revenue and expenditures, evaluate performance by comparing actual results versus budget. Budgets are necessary to prudently handle scarce financial resources as method of expense authorization and control (Schubert, 2021).

The study results concluded that banking services literacy has a remarkable influence on expansion of micro and small businesses, since it helps entrepreneurs to avoid high borrowing costs and improve the efficient use of banking services available to support business operations. It support business management by accessing crucial banking services such as: Securing loans to expand business, easy and low cost management of day to day operations like; paying bills, issue cheques, using credit/debit cards for smooth payment and revenue collection. Most successful micro and small businesses are run by those who use efficiently banking services and bookkeeping (Evelyn,2016).

The study confirmed that investments knowledge affects positively the growth of micro and small businesses in Thika town. Business owners consider investment concepts such as; return on investments, investment risks, planning for investments, and evaluation of investments as vital tools in business settings .Shadrack (2015) argued that it important for individual investors to be well equipped and knowledgeable to making investment decisions as investment opportunities have expanded beyond borders.

### 5.4 Recommendations

Based on conclusions made above, the following recommendations are made: The government of Kenya in collaboration with stakeholders should organize comprehensive financial literacy training programs and financial awareness campaigns focusing on small scale businesses in order to improve their performance; install follow up mechanism to evaluate the impact of training on business ground in order to adjust curriculum accordingly. Trainings should focus especially on youth as they are easily reachable, active and flexible to acquire new skills for their bright future. Financial education programs will not only improve the growth of the enterprises but also entire economy as MSEs contribute to a great extent to the economic growth. Institutions in charge of education and research should incorporate financial education in school curriculum from early childhood stage so as to equip young people with financial skills early in life. It is recommended to MSEs owners to enhance their existing level of financial literacy by attending training programs and seminars; they should use financial experts services and consultants in order to reach financial stability and wellbeing of their businesses.

## 5.5 Areas for further research

This study focused on bookkeeping literacy, budgeting literacy, budgeting literacy, banking services literacy, and investment literacy as parameters of financial literacy. It is recommended that further research be done testing other parameters that are not covered in this study to ensure more reliability and accuracy of data and results. This study was carried out within one business unit (food and beverage), it is recommended that such study be done in other business units in order to have more reliable and relevant results.

Further research should be done to explore the relationship between financial literacy and business growth looking beyond MSEs owners to determine whether a business that employ financial literate people show improved growth as compared to those companies employing people without such competencies.

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