

**ANALYSIS OF THE EFFECT OF ACCOUNTING SERVICES ON THE
PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES (SMES) IN
KISII COUNTY, KENYA**

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DECLARATION AND APPROVAL

Declaration by the Student

I declare that this research proposal is my original work and has not been presented at any other university.



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Approval by the Supervisor

This research proposal has been submitted for examination with my approval as the university supervisor.



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DEDICATION

I dedicate this research work to my immediate family, my colleagues and all those who supported me while undertaking this course, God bless you abundantly.



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I wish to acknowledge my supervisor, Dr. Gilbert Njagi who has been very instrumental in my project journey. I wish to acknowledge the assistance accorded by my research assistant during this undertaking. I also extend my appreciation to my immediate colleagues for their continued support in this process. I am deeply indebted to my dear family for their unending love, encouragement and support throughout the study.



ABSTRACT

SMEs have historically driven economic growth and created jobs in Kenya, aligning with Vision 2030. Although important, SMEs face many obstacles, including limited financing due to financial institutions' poor knowledge of their operations. Bookkeeping, taxation, financial auditing, and financial training services were examined to see how they affect SMEs' profitability in Kisii County, Kenya. The research was based on financial accounting, presumptive taxation, agency, and dynamic capacity theories. With a descriptive research design, the study addressed 7,563 Kisii County SMEs. For representativeness, 380 small business CEOs were selected using the Yamane technique. Small businesses and their owners/managers were analyzed and observed. Data was collected using semi-structured questionnaires for quantitative and qualitative insights. In descriptive statistics, bookkeeping services considerably affected SME profitability, with a mean rating of 4.0859. This showed that Kisii County SMEs valued accurate and well-maintained financial records for operational efficiency and decision-making. Taxation services were also influential, scoring 4.2546. SMEs' tax compliance with Kenya's laws and regulations increased profitability, emphasizing the importance of tax compliance in financial management. Financial auditing services had a moderate impact, with normal internal and external audits scoring 3.0307. SMEs understood the necessity of audit practices for financial openness and accountability, but their implementation varied. Financial training services had varying impacts, averaging 3.6166. These services may help SMEs learn financial management, however implementation consistency may be improved. SPSS statistical analysis included descriptive (means, deviations, percentiles) and inferential (correlation, regression) statistics. Visualizing results with tables, graphs, charts, and diagrams improved comprehension. Accounting services positively correlated with SME performance. The relationships between SME success and bookkeeping, taxation, financial auditing, and financial training were all positive. This study informs Kisii County authorities, financial institutions, and SME stakeholders. By addressing gaps and using findings, stakeholders can improve financial literacy programs and support mechanisms. The study suggests educating SMEs in bookkeeping to maintain accurate financial records for informed decision-making and operational efficiency. Offering courses and resources to help SMEs understand and comply with tax regulations will also improve financial management and prevent penalties. SMEs should perform regular internal and external audits to preserve financial transparency and accountability to build trust and attract investors. Last but not least, financial training programs on financial planning, risk management, and cost-benefit analysis will equip SMEs to increase profits. SMEs may overcome problems, enhance financial management, and contribute more to Kenya's economic development by using strong accounting procedures. Longitudinal counter terrorism studies, comparative regional studies, and qualitative community perception and coping strategy studies were recommended.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Accounting holds profound significance, playing a vital role in the lives of individuals and organizations alike, serving multifaceted purposes within our society. Numerous scholars and writers offered insights into its pivotal role in our daily existence. The primary mission of accounting was to empower individuals to make well-informed decisions in their day-to-day endeavors (Kahsay & Zeleke, 2019). It extended its valuable services to a diverse spectrum of entities, ranging from modest startups to sprawling multinational conglomerates. Gelaye (2020) and Basopo (2018) eloquently described accounting as a service-oriented vocation. At its core, accounting practices were designed to furnish quantitative information, notably in the form of financial data, regarding economic entities, all aimed at facilitating the decision-making process (Warren et al., 2020). Research consistently affirmed that accountants served as custodians of information pertaining to economic entities, meticulously quantified in monetary terms. O'Donovan et al. (2010) poetically likened accounting to a language, a language that conveyed indispensable information necessary for decision-making, underscoring the universal demand for vital information before pivotal decisions could be made. Accounting, in essence, emerged as a sentinel, diligently overseeing the activities and resources of a business, delivering this vital intelligence in a format that spoke volumes.

Furthermore, the benefits wrought by accounting are conjectured to be pivotal for the prosperity of Small and Medium-sized Enterprises (SMEs). Kenya, with its impressive tally of over 7.4 million Micro, Small, and Medium-sized Enterprises (MSMEs), serves as a testament to their colossal economic significance. These enterprises collectively

employ a staggering 15 million individuals and make an impressive 30% contribution to the nation's value-added (KNBS, 2016). Despite their commanding role in propelling economic growth, many MSMEs are en-snared in low-value addition activities and face an array of challenges, with constrained access to finance looming as a primary predicament. This challenge, in large part, stems from a paucity of clear information regarding the operations of these entrepreneurial ventures (Kenya Bankers Association, 2020). A substantial fraction of these small businesses operates within the shad-owy contours of the informal economy, which may offer ephemeral solace but severely fetters their potential for growth and access to wider resources and markets, consequently constraining their socio-economic impact (KAM, 2022).

The Kenya Association of Manufacturers (KAM) ardently asserts that MSMEs contribute ap-proximately 40% of Kenya's GDP, with the majority residing within the informal sector's nebu-lous bounds. Out of the approximate 7.41 million MSMEs, a mere 1.56 million bear the impri-matur of official licensing, leaving a substantial 5.85 million adrift in uncharted waters. The prevalence of these unlicensed SMEs underscores the imperative to foster an environment con-ducive to their flourishing, both at the local and regional levels (KAM, 2022).

Furthermore, the landscape of MSME ownership reveals interesting facets. A staggering 77% of MSME proprietors are of the male ilk, and these enterprising individuals often bear the man-tle of higher education, with 54.5% proudly holding bachelor's degrees. Furthermore, approxi-mately two-thirds of these intrepid business owners have honed their skills in the crucible of employment, amassing over six years of experience before embarking on their entrepreneurial journeys. Notably, a substantial proportion of MSMEs exhibit a penchant for risk aversion, with a striking 80% actively steering clear of risks in their operational endeavors. This predilection is especially pronounced within

female-owned enterprises. Delving into the realm of record-keeping, we discover that approximately 70% of these enterprises diligently maintain financial records, with roughly two-thirds of them harnessing computer-based software for the electronic stewardship of these invaluable records (Kenya Bankers Association, 2020).

The profound significance of SMEs is deeply etched into Kenya's Vision 2030, and it finds legislative support in the form of the MSE Act of 2012. Kenya's Vision 2030 harbors the noble aspiration of nurturing a vibrant Micro and Small Enterprise sector, envisaging it as the van-guard of employment generation and wealth creation (VISION 2030, 2013-2017). Consequently, SMEs remain at the epicenter of Kenya's economic progress. However, their informal nature and the absence of formal licensing expose them to a slew of challenges, chief among them being the lack of acknowledgment and support from both the public and private sectors. It is against this backdrop that this study aligns its objectives with the nation's economic mission, embarking on a journey to explore the transformative impact of accounting services on the performance of small and medium-sized enterprises nestled in the heart of Kisii County, Kenya.

1.1.1 Accounting Services and Performance of SMEs

In the United Kingdom, an array of empirical research reveals that smaller businesses frequently turn to seasoned accountants for expert advice and essential support (Lee & Brown, 2017; Scott and Irwin, 2009). Over in Norway, Bankewitz (2018) has showcased the unwavering reliability of professional accountants as trusted companions for small enterprises. Meanwhile, in the vast landscapes of Australia, it is firmly asserted that external accountants assume a pivotal role in bestowing upon the SME sector the invaluable gifts of financial management and supportive services (Blackburn, Carey & Tanewski, 2018; Xiang & Worthington, 2017). Venturing into Malaysia, Husin and Ibrahim (2014) have astutely observed that SMEs often seek external accounting services, a strategic

move motivated by their limited managerial capacity, financial resources, and human assets, all with the singular goal of elevating their organizational performance. And far across in Nigeria, Nwobu, Faboyede, and Onwuelingo (2015) emphasize that Small Scale Entrepreneurs (SSEs) enlist accounting services as sentinels of accountability, precise profit measurement, and as the wind beneath the wings of management's aspirations. The manifold benefits of this alliance with accounting services encompass fortified accountabil-ity, curbed fraud, precision in profit assessment, and the triumphant realization of set goals.

However, it's worth noting that there's a conspicuous scarcity of studies on this subject in un-derdeveloped nations, with Africa taking center stage in this research gap. The umbrella of ac-counting services primarily encompasses five distinct offerings provided by skilled accountants to the SME sector—tax consultations, business guidance, management consultancy, financial assistance, and IT consultancy. These categories align seamlessly with the framework delineat-ed by Doran (2006). As a result, our present study will adopt the evaluation methodology pio-neered by Gooderham et al. (2004), inquiring about participants' experiences in utilizing an ex-ternal accountant as a trusted advisor. Substantial empirical evidence underscores the indispen-sability of qualified accounting services for SMEs, especially in light of the strenuous and fiercely competitive business terrains they navigate. Moreover, accountants shoulder the responsibility of meticulous bookkeeping and adept management of cash flows, while also serv-ing as the bridge that enables SMEs to secure the essential funding they require from financial institutions, a daunting task without the scaffolding of proper financial records.

Given the hurdles and uncertainties that SMEs frequently encounter, their alliance with special-ized accountants becomes a strategic maneuver, akin to preemptively addressing unforeseen environmental disruptions (Alagil, 2016; Abe, Troilo & Batsaikhan, 2015).

1.1.2 Performance of SMEs in Kenya

Micro, Small, and Medium Enterprises (MSMEs) stand as linchpins in the economy, not only creating jobs but also contributing significantly to economic well-being. Securing adequate funding for both developmental endeavors and day-to-day operations is a pivotal pillar supporting the long-term growth and sustainability of MSMEs (KAM, 2022). In Kenya's Vision 2030, a comprehensive development plan aimed at elevating Kenya to the status of an industrialized middle-income nation with a high quality of life for all by 2030, the MSME sector emerges as a focal point for achieving the blueprint's lofty objectives (CBK, 2021; KNBS, 2021).

As per a report from the Central Bank of Kenya (CBK), MSMEs account for a staggering 90 percent of all new enterprises in Kenya, contribute to over half of the nation's job opportunities, and represent a formidable 33.8 percent of the national GDP. These enterprises serve as pivotal actors in the battle against poverty and stand as pillars of income generation. According to the Micro and Small Enterprises Act of 2012, small enterprises boast an annual turnover ranging from Kshs. 500,000 to Kshs. 5 million and employ a workforce of 10 to 49 individuals. On the other hand, medium enterprises exhibit an annual turnover spanning from Kshs. 5 million to Kshs. 100 million, employing anywhere from 50 to 250 workers. Notably, MSMEs continue to wield substantial influence in the banking sector, accounting for a noteworthy 14 percent of total customer deposits in commercial banks and a commanding 57 percent in microfinance banks (CBK, 2021).

Therefore, this current study aims to investigate the performance of SMEs in Kenya with a specific focus on their utilization of accounting services. Performance, in this context, relates to the achievement of specific objectives and the maintenance of quality, extending beyond mere economic effectiveness and efficiency. It signifies the process

of fulfilling a strategic mission, being result-oriented in nature. Assessing the success of a business can be done using financial or non-financial measures (Nigri & Del Baldo, 2018; Pakiová, 2017). Various financial performance indicators are employed to gauge an organization's financial success, including metrics like Economic Value Added, Refined Economic Value Added, Return on Equity, Return on Investment, Residual Income, Earnings per Share, Value for Money, and Dividend per Share (Bacidore et al., 1997; Omneya et al., 2021). Common financial performance indicators include return on capital employed, return on equity, return on assets, and net operating profit margins (Duramany-Lakkoh, 2021).

Additionally, it has been demonstrated that the utilization of non-financial performance indicators not only contributes to improved corporate profitability but also enhances overall management performance. Evaluating these non-financial indicators is crucial because a company's performance is influenced not only by its strategy and financial ratios but also by the behaviors and actions of individuals and the organization's environmental impact. These non-financial indicators encompass various aspects such as customer and employee satisfaction, market share, product and service quality, and punctuality (Borodin et al., 2019; Dewi, 2015; Nguyen et al., 2020). Recognizing that financial-based performance indicators may not provide a comprehensive view, nonfinancial measures have been developed and used extensively (Ahmad & Zabri, 2016). These non-financial measures encompass financial health, business growth, customer satisfaction, employee relationships, organizational efficiency, and staff turnover (Mashovic, 2018). Consequently, in the current research, SME performance will be assessed using a combination of financial measures, such as revenue (returns on assets), and non-financial measures, focusing on business growth.

1.1.3 Performance of SMEs in Relation to Accounting Service

Small and medium enterprises (SMEs) have demonstrated their significance within the frame-work of a socialist-oriented market economy development strategy across various contexts. They have played a substantial role by contributing to more than 40% of the GDP and generat-ing 50% of the national employment opportunities. Nevertheless, there has been a noticeable increase in the dissolution and closure of SMEs due to capital shortages and insufficient mana-gerial expertise. In light of these circumstances, it becomes pertinent and essential to narrow down the research focus to assess the financial performance of SMEs (CBK, 2021; Mitter et al., 2020).

These aforementioned challenges have a strong and noteworthy connection with the underutili-zation of accounting services by SMEs. According to Kuttner et al. (2022), SMEs frequently struggle to build comprehensive accounting systems, owing to resource constraints (Mitter et al., 2020). SMEs, for example, usually lack knowledge and a clear grasp of the importance of accounting data, and their financial planning is more informal and intuitive rather than struc-tured and recorded. Accounting processes in SMEs differ greatly from those in bigger firms and are strongly associated with the resource-based perspective (Lavia López & Hiebl, 2015; Pelz, 2019). The production and ownership of precious, rare, difficult-to-replicate, and irreversible assets, pursuant to the resourcebased viewpoint, can impart an edge over competitors or im-prove market positioning (Barney, 1991; Kuttner et al., 2022). In the case of SMEs, however, insufficient resource availability frequently impedes the development of efficient accounting procedures (Mitter et al., 2020). The paucity of monetary assets, in particular, is commonly highlighted as a key impediment to the adoption and implementation of accounting methods in SMEs (Lavia López & Hiebl, 2015). Furthermore, there is frequently a dearth of competent workers, with SMEs failing to locate adequate employees capable of

executing financial re-sponsibilities. SMEs generally lack the ability to obtain expert accounting help, resulting in a lack of understanding and grasp of the significance of accounting data. According to Pelz (2019), there is frequently a lack of clear difference between financial and managerial account-ing in SMEs, and as a result, both are referred to generally as accounting.

In the post-COVID-19 age, technologies such as cloud-based accounting have arisen to support SMEs by providing a web-based interface that gives real-time accessibility to monetary, stock, processes, revenue, and expense information at cheap cost (Winarsih et al., 2021). Neverthe-less, owing to resource restrictions, technologies such as cloud computing, machine learning, big data analytics, and blockchain technology have proven to be financially out of reach for many SMEs (Ionescu, 2019; Wattana et al., 2019; Viriyasitavat et al., 2019; Yoon, 2020). This brings us to the study's primary question: Does accounting have a favorable influence on the success of court-supervised reorganization attempts for SMEs?

1.2 Statement of the problem

Globally, SMEs are recognized as vital contributors to economic development, innovation, and job creation. However, they often face significant challenges in sustainable growth, primarily due to inadequate accounting services. Mitter, Duller, Feldbauer-Durstmüller, and Kraus (2020) emphasize that a lack of robust accounting practices in SMEs leads to poor financial manage-ment, ultimately affecting their survival and growth. Pelz (2019) also notes that the inability to effectively manage assets, liabilities, and cash flows limits SMEs' potential for expansion and profitability.

In the African context, SMEs play a crucial role in economic development but face unique chal-lenges. Agbefah and Kankam (2021) highlight that in Ghana, the limited adoption of compre-hensive accounting services has hindered the growth of SMEs. This

scenario is mirrored across many African countries, where SMEs struggle with sustainability and scalability due to inadequate financial management practices (Aladejebi & Oladimeji, 2019; King-Aidoo, 2020).

Focusing on Kenya, the challenges become more specific. The Kenya National Bureau of Statistics (2016) reveals a startling failure rate among Kenyan SMEs, with 60% failing within their initial months and 80% not surviving past five years, largely due to sustainability issues. This high failure rate is closely associated with the insufficient utilization of accounting services (SESOK, 2018; KAM, 2022). Research by Ngunjiri (2018) suggests that findings from large manufacturing firms are not directly applicable to SMEs, indicating a need for SME-specific research in Kenya. Moreover, studies like those of Wangeci and Kaplelach (2018) and Akoto (2021) faced methodological limitations due to their focus on small sample sizes, underscoring the need for research with broader samples in the Kenyan context.

1.3 Objectives of the study

The study sought to investigate the effect of accounting services on the performance of small and medium enterprises in Kisii County, Kenya.

1.3.1 Specific Objectives

- i. To determine the influence of bookkeeping service on the performance of SMEs in Kisii County, Kenya.
- ii. To assess the influence of taxation service on the performance of SMEs in Kisii County, Kenya.
- iii. To investigate the influence of financial auditing service on the performance of SMEs in Kisii County, Kenya.

- iv. To determine the influence of financial training service on the performance of SMEs in Kisii County, Kenya.

1.4 Research Hypotheses

H₀₁: There is no significant relationship between bookkeeping services on performance of SMEs in Kisii County, Kenya.

H₀₂: There is no significant relationship between taxation services on performance of SMEs in Kisii County, Kenya.

H₀₃: There is no significant relationship between financial auditing services on performance of SMEs in Kisii County, Kenya.

H₀₄: There is no significant relationship between financial training services on performance of SMEs in Kisii County, Kenya.

1.5 Scope of the Study

This research aimed to examine the impact of accounting services on the performance of small and medium-sized enterprises (SMEs) located in Kisii County, Kenya. The study drew on various theoretical frameworks, including financial accounting theory, presumptive taxation theory, agency theory, and dynamic capability theory. It adopted a descriptive research design. Kisii County is home to 76 licensed limited liability SMEs (CBK, 2021; KNBS, 2020), and these businesses constitute the target population for this study. Given the manageable size of the population, a census survey approach will be employed, encompassing all 76 limited liability SME owners/managers in Kisii County.

The units of observation will be the owners/managers, while the limited liability SMEs will be the units of analysis. Semi-structured questionnaires will be used to obtain information. The data will be coded and processed to produce statistical information that

is descriptive (such as frequency ranges, averages, standardized variations, central trends, and percentages) as well as inference-based statistics. The qualitative data collected from the open-ended part of the survey will be analyzed and presented topically. The research will be carried out in 2023.

1.6 Significance of the Study

For SMEs, resource constraints are often a limiting factor, leaving them vulnerable to intense competition from larger enterprises benefiting from economies of scale. By applying appropriate accounting techniques and strategies, SMEs can navigate these challenges more effectively and exhibit improved performance in terms of profitability, growth, and sustainability. The study's findings aim to empower SME managers to make informed financial decisions related to sourcing, utilizing, and investing their funds/resources for better outcomes and profitability.

Moreover, the research will be valuable for county government policymakers, who play a crucial role in creating a conducive business environment for SMEs. They can use the insights to design training programs and disseminate financial literacy knowledge among SME owners. Additionally, researchers and academics can leverage the study's findings to advance their work in the field of accounting services and performance. Given the pressing need to address existing knowledge gaps and offer solutions, this research contributes to and accelerates progress in this area, thereby generating fresh insights.

1.6 Limitations of the Study

The study, focused on Kisii County, Kenya, it faced limitations in its broader applicability due to its geographical specificity. This restricted the relevance of its findings to other areas in Kenya or similar economies. Moreover, reliance on survey responses from SME owners and accounting professionals might introduce response bias, as participants'

subjective perceptions and social desirability biases could skew data accuracy. The project's limited timeframe also hindered the ability to observe long-term trends, potentially missing out on the nuances of economic and market shifts or policy changes over time. Additionally, the diverse nature of SMEs in Kisii County meant the study might not fully address industry-specific challenges and opportunities, possibly limiting the depth of analysis. Lastly, unforeseen events or circumstances during the research could impact the quality and completeness of the data, despite efforts to maintain consistency in data collection and analysis. These potential limitations should be acknowledged for a nuanced interpretation of the study's outcomes and to guide future research in this field.

1.7 Delimitation of the Study

This study confined itself to primary information concerning the influence of accounting services on the performance of SMEs in Kisii County, Kenya. The choice of primary data was motivated by the ability to capture firsthand information and provide real-time data on the study's objectives and the SMEs themselves. The study also specifically focused on SMEs within Kisii County, guided by identified research gaps that warrant investigation. This approach would facilitate the formulation of tailored recommendations for SME owners in the region.

1.8 Assumptions of the Study

The study assumed that the participants in a study would answer survey questions honestly and factually. To that effect, the study likewise, assumes that there would be 100 per cent response rate to ensure generalizability of the study findings. The study also assumed that the survey collection period would be strictly as stated and no spillovers would be encountered.



1.10 Operational Definition of Terms

Small and Medium Enterprises (SMEs): refer to businesses with a defined range of employees, turnover, and assets. These enterprises typically exhibit distinct local characteristics and are integral to the local economy. They are distinguished from larger corporations by their size, scale of operations, and localized market influence.

Bookkeeping Service: Operationally defined as the routine process of systematically recording, organizing, and managing the financial transactions and information of SMEs. This includes the maintenance of accurate and current records of income, expenses, assets, liabilities, and equity, essential for tracking the financial health, aiding in decision-making, and ensuring regulatory and tax law compliance.

Taxation: Defined as the process SMEs in Kisii County undergo to calculate, report, and remit taxes to government authorities. This encompasses adherence to local, regional, and national tax laws, including the filing of tax returns, determining tax obligations, and managing various taxes like income tax, sales tax, and VAT.

Financial Auditing: refers to the independent and systematic review and verification of an SME's financial records, statements, and accounting practices. The purpose is to confirm financial information accuracy, reliability, and transparency, thus aiding in financial integrity assessment and stakeholder confidence.

Financial Training: Defined as the educational process targeting SME owners, managers, and employees in Kisii County, focusing on financial management, budgeting, and accounting principles. The objective is to enhance financial literacy and decisionmaking skills, empowering SMEs for better financial decision-making and resource management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The study reviewed past empirical literature to provide the previous link between the dependent variables and the independent variable. This will include the review of theoretical literature, empirical review as well as the conceptual framework of the study.

2.2 Theoretical Background

This study drew from several theories including financial accounting theory (as the overarching theory), presumptive taxation theory, agency theory, and dynamic capability theory, as discussed below:

2.2.1 Financial Accounting Theory

This theory, introduced by Briston (1981), seeks to elucidate and justify prevailing accounting practices by elucidating how financial data is gathered, categorized, and conveyed. It tends to be intricate and detailed. Its significance lies in its endeavor to rationalize the often-conflicting concepts and conventions employed by accountants. This is anchored in the process of discovering, measuring, and conveying economic information in order for users of the information to make educated judgements and decisions (Schroeder et al., 2019).

The versatility of the theory of accounting is its most prominent aspect. This implies that, in the sphere of commercial financing, every financial report should provide critical details about the financial report consumers may utilize to make educated business choices. This also implies that theory of accounting is intended to be adaptable in terms of giving meaningful accounting data when the legal framework changes (Wolk et al.,

2016). Accounting theory stipulates that financial professionals should operate under the assumption that a company exists independently of its owners or creditors; that a business will endure without going bankrupt; that all financial reports are expressed in monetary values rather than other measures such as units of output; and that all accounting records must be generated (Zyznarska-Dworczak, 2018).

However, a major limitation of this theory is its inability to quantify non-monetary factors or events. If a particular factor cannot be expressed in monetary terms, it is excluded from accounting. Vital qualities such as management, loyalty, reputation, etc., do not find a place on the balance sheet or income statement (Gaffikin, 2006). Nevertheless, this study finds the theory relevant due to the presence of accounting data. Consequently, the theory is concerned with identifying, quantifying, and reporting precise and accountable financial information to enable informed judgments, which is a critical element in accounting. This theory, therefore, provides the most insightful perspective on the connection between accounting and the performance of SMEs in Kenya.

2.1.2 Presumptive Taxation Theory

Coined by Ahmad and Stern (1991), this theory employs indirect means to determine a taxpayer's tax liability. It explores various methods to deduce the desired tax base from simple indicators. According to the theory, taxation serves as a tool to address administrative inefficiencies characterized by high costs per unit of revenue. It may be indicative of the low revenue capacity of taxpayers or a high tendency to evade taxes (Ahmad & Stern, 1991). Presumptive taxation is distinguished from traditional regulations based on a taxpayer's statements by the use of indirect instruments to estimate tax due. The term "presumptive" refers to the legal presumption that a taxpayer's earnings will not be less than that calculated using the indirect approach. It is determined

using variables like as turnover, assets, location, and so on, rather than stated net in-come, which is easier to assess than the base itself (Iordachi & ırlea, 2016).

This theory is guided by the principles that presumptive systems should be primarily applied to the small business sector, as small business operators encounter challenges in maintaining prop-er books and records. Presumptive taxation, therefore, serves as an effective instrument to alle-viate the compliance burden faced by SMEs in meeting standard recordkeeping requirements (Haji, 2017; Iordachi & ırlea, 2016). Additionally, it aligns with the government's overarching goal, which should not be solely focused on generating additional budget revenues but on fa-miliarizing small businesses and individual merchants with legal accounting requirements and bringing informal businesses into the tax system in the near future. Moreover, presumptive sys-tems should not hinder business growth and should be coordinated with the standard tax regime (Getachew, 2019).

Hence, presumptive taxation is best suited for addressing the challenges posed by hardto-tax sectors of the economy, such as small businesses, agriculture, service sectors, and self-employed individuals, as well as cases where compliance gaps exceed the average (Bucci, 2020). While not every type of small business may be suitable for presumptive taxation, it can be a valuable supplementary tool for curbing tax evasion, especially when targeting specific industries (Iordachi & ırlea, 2016).

Despite its benefits, presumptive taxation is less precise than the conventional tax system based on proper bookkeeping and, as such, deviates from the principle that taxation should be based on the ability to pay (Stern, 1982). Nevertheless, given that small businesses in the country make substantial contributions to the overall GDP, their recognition by the government is para-mount. Furthermore, they should be incentivized through tax benefits to encourage investment and minimize the potential for long-term

tax evasion, which could reduce overall tax collections. Therefore, this theory aligns with the objectives of this study, which seeks to ascertain the impact of taxation on the performance of SMEs in Kenya.

2.1.3 Agency Theory

Agency theory, originally formulated by Jensen, Michael C., and William H. Meckling, contends that the agency relationship and associated challenges between principals (stakeholders/owners) and agents (typically executives) stem from the self-interest of the agents often conflicting with the interests of the owners/principles (Jensen & Meckling, 1976). This divergence is caused largely by information imbalances, which occur when principals and agents, although apparently pursuing the same goal, do not necessarily have identical interests (Mitnick, 1973; Jensen & Meckling, 1976). Selfinterest conduct is highlighted as a basic issue inside organizations by agency theory. In a perfect world, budgetary scheduling, oversight, evaluation, and performance administration systems (all based on this theory) would incorporate tools, incentive systems, and institutional structures targeted at mitigating or avoiding these issues. The purpose is to optimize the attainment of goals that are consistent with the principals' interests (Kwarteng, 2018; Sanderman, & Brault, 2016).

However, when scrutinizing this theory, Panda and Leepsa (2017) identify a limitation. They reference Perrow (1986), who argues that positivist organizational analysts have predominantly focused on the operator side of the agency issue and have neglected to consider potential problems arising from the principal's perspective. This perspective assumes that individuals are inherently ethical and work in the best interests of the firm, disregarding the possibility that principals may betray, evade, or misuse agents.

Additionally, the theory assumes that contracting can resolve agency problems, yet it faces numerous hurdles such as information asymmetry, reasonability, fraud, and

transaction costs. Investors' primary interest in the firm is to maximize returns, but their role within the firm is constrained. The roles of executives are primarily limited to monitoring managers, and their further responsibilities are ill-defined. The theory also assumes that managers are astute and overlooks the potential of directors (Kumalasari & Su-darma, 2014).

In essence, this theory underscores the role of managers in ensuring the organization's profitability is prioritized. Since a company's aim is to generate profits at minimal costs, substantial profits and value cannot coexist with agency problems. In most organizational relationships, both principals and agents incur monetary and holding costs, and disparities in decision-making often arise. To mitigate information asymmetries and agency costs between principals and agents, agency banking presents a less risky avenue to maximize utility in digital banking. In conclusion, agency theory can inform the study by establishing a link between the financial auditing of SMEs and their performance in Kenya.

2.1.4 Dynamic Capability Theory

Introduced by David Teece, Gary Pisano, and Amy Shuen in 1997, dynamic capability theory focuses on an enterprise's ability to adapt, evolve, and reconfigure both internal and external resources to meet evolving environments (Teece et al., 1997). Dynamic capability represents the dynamic skills and abilities that enable organizations to align, mobilize, and reconfigure their resources and competencies to adapt to a constantly changing competitive landscape (Bleady et al., 2018).

The theory asserts that skills are the foundation of competitiveness within any organization, with resources forming the basis of these skills. Teece et al. (1997) advocate the deliberate bundling of an organization's internal resources to achieve desired

outcomes. However, these capabilities require resources such as effective governance, financial resources, technical expertise, and human resources to be effective. Specifically, the theory suggests that firms should implement business models—high-order dynamic capabilities—involving sensing, seizing, and transforming to gain a competitive edge (Teece, 2010; Teece et al., 1997). This principle recognizes that, to sustain optimal business success, firms must ensure that their intrinsic assets (such as human resources, technical skills, cash reserves, etc.) are integrated into their business models for enhanced capability. This entails acknowledging the crucial role of creativity (dynamic capability), which organizations must harness for desired outcomes amid competitive market dynamics (Alves et al., 2017).

However, the dynamic capacity theory has come under fire due to the difficulties of experimentally assessing its notions, the complexity of operational processes, and the link between dynamic capabilities and business performance. There is no one-size-fits-all dynamic capacity that allows a company to reinvent itself while keeping the procedures and routines that led to its previous success. This implies that companies must carefully select the sort of dynamic capability they wish to create, taking into account trade-offs with other types of dynamic capabilities and lower-level skills (Collis & Anand, 2019).

Nevertheless, given these considerations, the current study finds the dynamic capability theory valuable for understanding human resource competitiveness through training and development. By effectively incorporating and applying the principles of dynamic capability, SMEs can better recruit, position, and equip their internal resources (through financial competence training) to achieve superior performance and compete effectively in the industry. Therefore, this theory is pertinent for explaining the connection between financial training and SME performance in Kenya.

2.3 Empirical Review

2.3.1 The Influence of Bookkeeping on SME Performance

In a pioneering study by Aladejebi and Oladimeji (2019), the focus was to explore how the art of bookkeeping, an essential component of the accounting world, shapes the financial prowess of small and medium-sized enterprises (SMEs) within the bustling metropolis of Lagos. Armed with inquisitive zeal, they dispatched questionnaires to 200 spirited SME proprietors, of which 197 thoughtful responses were meticulously analyzed through the discerning lens of the Likert scale. Their discoveries unveiled a paradox: SME proprietors recognized the paramount importance of maintaining meticulous records to decode their business's performance, yet they grappled with basic accounting knowledge and bemoaned the exorbitant costs of crafting financial statements. In the face of these challenges, many SMEs clung to the age-old tradition of manual recordkeeping. It's worth noting that this groundbreaking study's spotlight shone exclusively on the SMEs in Lagos, leaving an intriguing gap that our current research endeavor aspires to fill by extending its purview to the entrepreneurial landscape of Kisii County.

Similarly, in the realm of SMEs in the Cape Coast metropolis of Ghana, King-Aidoo (2020) embarked on a quest to uncover the mystique of effective accounting recordkeeping's impact on these industrious enterprises. Armed with a quantitative research arsenal and employing a descriptive explanatory research design coupled with a crosssectional survey, the study cast its net towards the managers of 3,343 spirited SMEs. Out of this vast sea of enterprises, 341 were meticulously sampled via a multi-stage sampling technique. In their pursuit of knowledge, semi-structured questionnaires became their trusty allies in collecting the coveted data. The outcome painted a poignant picture: inadequate accounting record-keeping was inextricably linked with the subdued

performance of Cape Coast's SMEs. Moreover, the study shone a spotlight on the formidable challenges that loomed large, hindering the path to impeccable recordkeeping. Yet again, it's imperative to acknowledge that this research voyage exclusively mapped the terrain of Cape Coast's SMEs, leaving an uncharted territory that our current expedition seeks to navi-gate by delving into the SME universe of Kisii County.

In yet another scholarly odyssey, Agbefah and Kankam (2021) set their sights on the realm of Ghanaian SMEs, determined to unravel the profound impact of accounting record-keeping on their performance. Employing the quantitative paradigm, they embarked on a data-gathering mission through structured questionnaires that resonated with 6,521 Ghanaian SMEs. The re-sults of their expedition unveiled a compelling narrative: a resounding, affirmative correlation was discovered between the meticulous art of accounting record-keeping and the resolute march towards excellence undertaken by SMEs. This symbiotic relationship underscored the profound interconnection perceived by SME proprietors, highlighting the pivotal role played by accounting records in amplifying the SMEs' performance. Yet, it's crucial to bear in mind that this scholarly voyage was tethered solely to the Ghanaian shores, beckoning us to explore the uncharted waters of Kisii County and bridge the gap left behind.

Furthermore, the expedition led by Ahmed and Schleich (2022) carried us to the vibrant landscape of small and medium enterprises in the Malaysian city of Johor Bahru. With a descriptive research design as their compass, they ventured forth, surveying 850 intrepid SME owners through the vessel of questionnaires. Their odyssey was richly rewarded with the revelation of a robust and affirmative relationship between accounting records and the performance of these Malaysian SMEs. The narrative that unfolded emphasized the pivotal role played by accounting records in steering the ship of decisionmaking towards prosperous shores and improving the

overall performance of these enterprising endeavors. Nevertheless, it's paramount to underscore that this expedition was confined exclusively to the realm of Malaysian SMEs, leaving a gap beckoning us to delve into the SME ecosystem of Kisii County and illuminate its contours.

2.3.2 The Impact of Taxation on SME Performance

In a study meticulously orchestrated by Tee, Boadi, and Opoku (2016), the curtain rose on a performance where 102 managers of selected SMEs within the West Municipality of Ghana took center stage. Their mission was to investigate the theatrical effect of tax payments on the grand performance of these SMEs. Armed with questionnaires and interviews as their script, the data collection process unfolded with an air of suspense. The plot thickened as the protagonists, the SME managers, revealed their perception of existing tax policies as antagonists, casting shadows on the growth of these enterprises. The crescendo of their act called for a reform of Ghana's tax policies, especially in the realm of customs and excise duties. Yet, it's pivotal to bear in mind that this dramatic production unfolded solely on the stage of the Greater Accra re-gion, specifically the Ga West Municipality, limiting its applicability to other regions in Ghana. Our current study endeavors to break free from these geographical constraints by shining a spotlight on the SMEs in Kisii County.

Ngure (2018) ventured into the realm of incentives, exploring their impact on selected firms in Kenya's manufacturing arena, with a keen focus on the art of crafting financial incentives. Through a descriptive research design, this theatrical performance examined 90 firms, carefully selected from a tapestry of 725 manufacturing firms in Kenya. As the curtains rose, the findings unveiled a riveting plot: income tax incentives, capital allowance incentives, and custom duty incentives all played their respective roles in enhancing the performance of these firms, albeit with varying degrees of influence.

However, the plot twist lay in the lack of differentiation between the lead actors, the large manufacturing firms, and the supporting cast, the SMEs, creating a conceptual gap that our current study endeavors to bridge by providing a more representative sample and a more nuanced analysis.

Additionally, Wangeci and Kaplelach (2018) explored the intricate relationship between taxation and the growth of SMEs in Voi Sub County, Kenya, unearthing the dramatic impact of tax rates on the SME performance stage. Employing a descriptive design, they collected data from 626 managers, owners, and employees of SMEs, transforming them into actors in this unfolding drama. The plot was a testament to the significance of favorable tax policies, as high tax rates emerged as the villains, casting shadows over the SMEs' prospects for growth. The script emphasized the pivotal role played by tax policies in shaping the destiny of these enterprises. Yet, a methodological limitation whispered in the background, reminding us of the small sample size upon which this production was staged. Therefore, the current study aspires to bring a larger ensemble cast onto the SME performance stage, enhancing the depth of our analysis.

Twesige and Gasheja (2019) transported us to the picturesque landscape of Rwanda, where tax incentives took center stage in a performance involving 49,000 SMEs within the Nyarugenge district. Their research production utilized a blend of qualitative and quantitative research approaches, sampling 136 SMEs as the cast. The plot unfolded dramatically, revealing a strong, positive relationship between tax incentives and SME growth in Rwanda. However, the spotlight remained confined to the boundaries of Rwanda, leaving a contextual gap yearning for exploration. Our current study aims to extend this performance by examining SMEs in Kisii County, offering a broader canvas for the theatrical narrative to evolve.

Lastly, in a study choreographed by Xiong, Peng, and Qi (2020), we embarked on a journey through the complex interplay of tax incentives and regional innovation

capability in China's 31 provinces and cities. The research offered a unique perspective on the effects of tax incentives on innovation but was limited to the Chinese provinces, presenting a conceptual gap. Moreover, the production relied solely on secondary sources and digitized archival documents, introducing potential biases into the storyline. Therefore, our current study aims to provide a more comprehensive and representative analysis, expanding the stage to accommodate the diverse landscapes of Kisii County.

Additionally, De Klerk (2020) conducted a review of South Africa's venture capital company regime, shedding light on its effect on SME performance within the South African theater. The study's focus was singularly fixed on venture capital tax relief, with no exploration of other accounting factors affecting SME performance, representing a conceptual gap that beckons further exploration.

2.3.3 The Influence of Financial Auditing on SME Performance

In the study orchestrated by Kamau (2016), the spotlight shone on the intricate dance of internal control practices and their influence on SME performance, with the financial aspect as the main stage within Nairobi County. The research design took the form of a descriptive journey, aiming to encompass all SMEs within Nairobi County. A sample of 100 SMEs, handpicked through the whims of a simple random sampling technique, became the actors in this unfolding drama. The narrative was a tale of contrasts: the control environment and risk assessment emerged as the antagonists, casting a shadow over the financial performance of SMEs. Control activities, communication and knowledge sharing, and monitoring, on the other hand, were the unsung heroes powering SMEs' financial performance to victory. It was a complicated dance of linkages that eventually revealed a negative connection between SMEs' financial results and their oversight framework and risk assessment. However, the audience should keep in mind

that this study was firmly planted in the Nairobi County stage, leaving an intriguing gap to be filled when our present study expands its grasp to the SMEs in Kisii County.

Gandía and Huguet (2021) crafted a storyline that delved into the role of an accounting information system, weaving in the combined effects of auditing and discretionary accruals, and their impact on the cost of debt incurred by Spanish SMEs. This was a quantitative drama that analyzed secondary data spanning from 2011 to 2019, featuring a vast ensemble of 44,226 SMEs with a staggering 442,260 observations. The plot twists were gripping: discretionary accruals emerged as the intriguing anti-heroes, engaging in a tug-of-war with the cost of debt. Audited SMEs, on the other hand, donned the capes of financial guardians, demonstrating lower debt costs compared to their unaudited counterparts. The interaction between auditing and discretionary accruals introduced an unexpected twist, suggesting that they might act as substitutes in the Spanish SME context. Yet, it's crucial to acknowledge that this epic tale unfolded exclusively within the boundaries of Spanish SMEs, leaving a contextual gap that our current study yearns to fill by exploring the landscape of Kisii County.

Alawaqleh (2021) immersed us in the captivating narrative of internal auditing and controls, and their effect on the employee performance of Jordanian industrial SMEs. This production, rooted in a descriptive research design, embarked on a quest for insights, collecting data through survey questionnaires from 270 SME holders. The findings painted a picture of profound interconnectedness: internal auditing and controls emerged as the guiding stars, casting a radiant light on employee performance. The control played a pivotal role in this relationship, with accounting information systems as key supporting characters. Yet, the audience must recognize that this study, despite its brilliance, was confined to a relatively small sample size, suggesting the need for a larger and more representative ensemble cast to capture the full depth of the narrative.

In a study by Akoto (2021), the spotlight turned towards the significance of auditing SMEs and its impact on their performance. This qualitative journey, set against the backdrop of four small not-for-profit organizations in Ghana, unveiled a dramatic struggle: SMEs hesitated to enlist auditors due to the ominous specter of audit fees. This vulnerability rendered them susceptible to the clutches of fraud, potentially spelling doom for their businesses. The study underscored the importance of auditing, emphasizing the scarcity of qualified accounting personnel within SMEs, thereby necessitating the presence of auditors to scrutinize organizational activities. Interestingly, the mere presence of an auditor emerged as a deterrent to potential wrongdoers. However, it's important to acknowledge that this study focused on a small cast of four small not-for-profit organizations in Ghana, leaving room for a more representative and extensive ensemble to bring this critical issue to the forefront.

2.4 Summary of Literature Review

Several studies in the literature have appreciated the contribution of accounting services on the performance of small and medium enterprises in various contexts. However, some have pre-sented research gaps. Many studies relied heavily on quantitative methods, such as surveys and statistical analyses. There is a gap in exploring qualitative research methods, like in-depth inter-views or case studies, which can offer deeper insights into the perceptions and experiences of SME owners and managers regarding bookkeeping, taxation, and financial auditing practices. Several studies had relatively small sample sizes, limiting the generalizability of their findings. A methodological gap lies in conducting research with larger and more diverse samples to en-sure a representative understanding of SMEs' experiences and challenges related to bookkeep-ing, taxation, and financial auditing. Most studies provided cross-sectional snapshots of SMEs' situations. Longitudinal studies tracking SMEs over an extended period would offer

valuable insights into how the impact of bookkeeping, taxation, and financial auditing practices evolves over time, providing a more comprehensive understanding of the trends and changes.

Some studies have focused on specific aspects (e.g., bookkeeping, taxation incentives, internal controls). There is a conceptual gap in understanding the holistic integration of these accounting practices within SMEs. Exploring how these practices interconnect and influence each other could provide a more nuanced understanding of their collective impact on SME performance. While some studies touched upon SME owners' perceptions and awareness of accounting practices, there is a conceptual gap in delving deeper into these aspects. Understanding how SME owners perceive the importance of proper bookkeeping, taxation compliance, and financial auditing could shed light on the underlying attitudes and beliefs influencing their adoption of these practices.

Most studies were geographically limited to specific regions within countries (e.g., Lagos, Cape Coast, Nairobi County), leaving a contextual gap in understanding the diverse challenges faced by SMEs in different regions. Extending the research to cover a broader range of geographical locations, including rural areas, would provide a more comprehensive understanding of regional variations in accounting practices and their impact on SME performance. There is a contextual gap in the absence of cross-cultural comparative studies. Comparing the impact of bookkeeping, taxation policies, and financial auditing practices across different countries or regions with varying cultural, economic, and regulatory contexts could offer valuable insights into the contextual factors influencing the effectiveness of these practices in different settings. Identifying these methodological, conceptual, and contextual gaps will guide this research endeavor, ensuring a more robust and comprehensive exploration of the relationship between accounting practices and SME performance.

2.5 Conceptual framework

A conceptual framework elucidates the fundamental concepts or variables and the anticipated relationships among them. It encompasses the thought process involved in identifying the re-search topic, delineating the problem under investigation, formulating research questions, de-termining the relevant literature to review, selecting applicable theories, and specifying the methodology to be employed (Van der Waladt, 2020). The conceptual framework utilized in this study outlines the expected connections between bookkeeping, taxation, financial auditing, and financial training.

The operationalization of these variables has been influenced by prior research. For instance, previous studies such as Ashaba (2019) and Nanyonjo (2018) have demonstrated that bookkeeping skills can be assessed through expertise in record keeping, encompassing the maintenance of cashbooks, ledgers, and bank reconciliation statements, as recommended by Ndung'u (2021) and Mary-Jo (2016). In the case of taxation, this study predominantly focuses on presumptive taxation, and its measurement aligns with research by Zivanai et al. (2014) and Iordachi and Tirlea (2016), who have shown that presumptive tax and PAYE negatively impact SME viability. Guevara (2008) also supports the use of presumptive tax as an effective taxation method for SMEs. Factors like Tax Reforms, Tax Rates, Presumptive Tax Policies, Income Tax Policies, and VAT Policies were considered as determinants of taxation in the context of SMEs in Voi County, as noted by Ngali (2020).

Financial training, on the other hand, is a composite of financial knowledge, skills, abilities, and financial technology required to make informed financial decisions tailored to a firm's specific circumstances (Mundy, 2011; Storchi & Johnson, 2016; Teguh et al., 2021). Grohmann (2018) revealed that enhanced financial training, measured in terms of financial knowledge and litera-cy, such as debt literacy, leads to improved financial

decision-making, as supported by Lusardi & Mitchell (2015). Kimunduu et al. (2016) established that personal savings skills play a crucial role in enhancing SME profitability. Thus, a high level of financial literacy among SME owners contributes to improved financial performance. Dewi et al. (2020) concluded that financial skills can be operationalized into various components, including subjective financial knowledge, financial behavior, financial experience, financial awareness, financial capability, financial goals, and financial decisions, as reflected in individuals' financial conduct. The above operationalization has led the researcher to select the variable subconstruct in Figure 1.1.

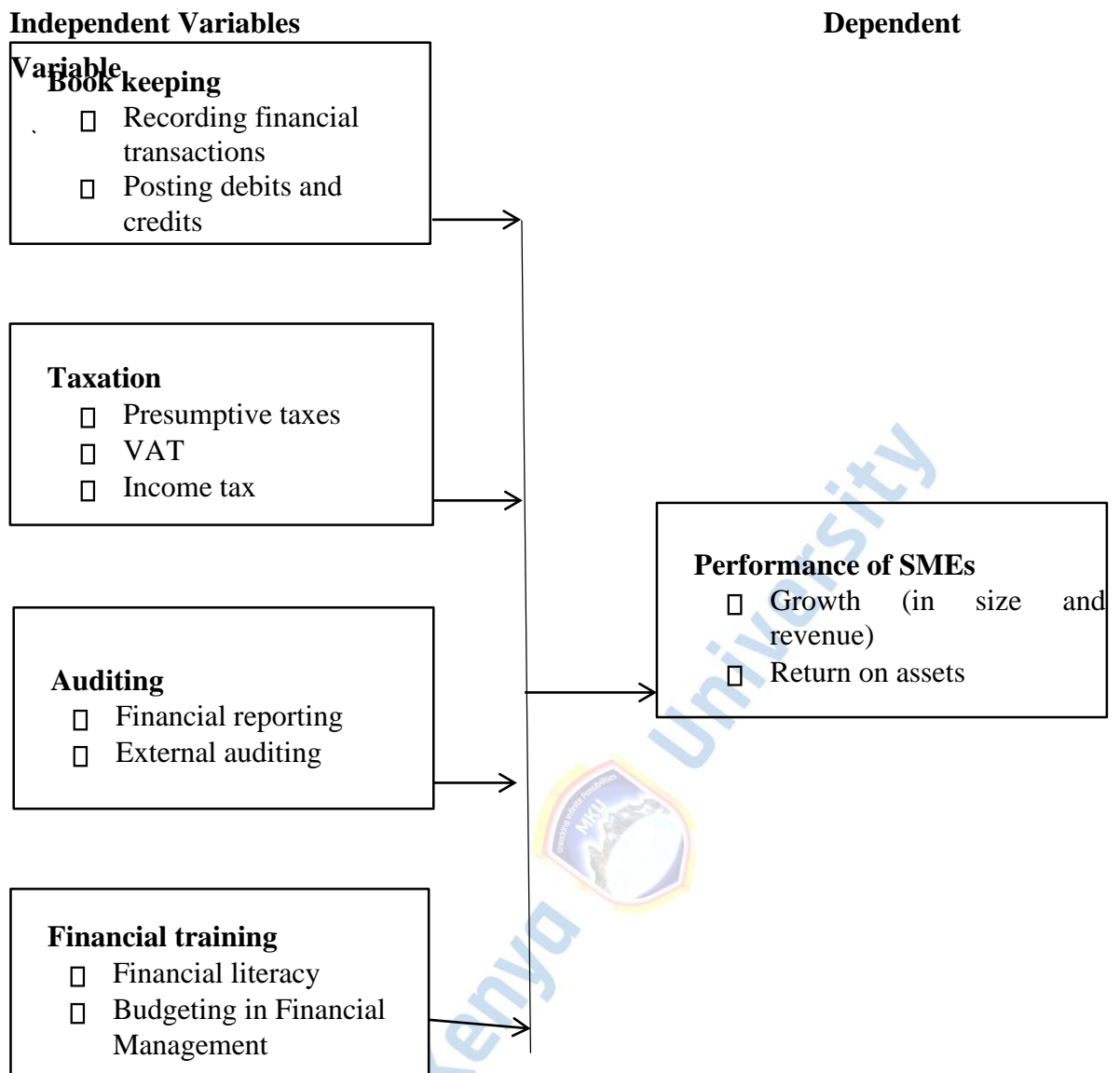


Figure 1 : Conceptual framework

Source: Researcher, (2023).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered the study's design, the population of interest, sampling procedure, instrument usage, data collecting methods, variable the process of operationalization and data analysis procedures.

3.2 Research Design

The descriptive research design was employed in this study, which was a complete research strategy focused on clarifying the many properties of variables within a certain context. This form was well-suited for portraying present conditions, connections, attitudes, continuing processes, observable impacts, and emerging trends, according to Schoonenboom and Johnson (2017). Most importantly, it allows for data collecting without interfering with or changing the factors under inquiry. This strategy provided a comprehensive grasp of the study topic by using both quantitative and qualitative research methodologies. The survey component of the approach allows for data gathering from a large sample, enabling generalizability of findings to the entire community while being cost-effective (Rahi, 2017).

3.3 Target Population

The targeted population was the 7,563 licensed SMEs situated within Kisii County. These SMEs formed the primary focus of the research. Additionally, a pre-testing phase was conducted on 9 SMEs in Kisii County, which will not be included in the final selection of SMEs for the main study. Therefore, the analysis will be based on data collected from 76 licensed limited liability SMEs located in Kisii County.

3.4 Sampling Procedure (Census Survey)

The sampling procedure would employ a stratified random sampling approach, following the recommendations of Uribe-Bohorquez et al. (2018). This method ensured a systematic and scientifically guided selection of the sample. To determine the required sample size, the Yamane (1967) simplified formula will be employed. This formula yielded the number of responses needed based on the Yamane method, ensuring the selection of an appropriate and representative sample from the target population.

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

Where:

n = sample size N = population

size e = the level of precision

(0.05)

1 = Constant

Therefore, the study will Sample: $n =$

$$\frac{7563}{1+7563(0.05)^2}$$

$$= 379.907 \approx 380 \text{ respondents}$$

The research will therefore, target 380 SME managers who will be conveniently and randomly chosen from the SMEs in Kisii County.

3.5 Data Collection Instrument

The primary data for this study was gathered using semi-structured questionnaires. These questionnaires were deemed suitable as they allow for the comprehensive coverage of a large sample population, reduce potential biases, and afford respondents ample time to consider and reflect upon the questions, thereby discouraging hasty responses.

Additionally, they were particularly well-suited for a descriptive survey involving a substantial number of respondents (Borgo-bello et al., 2019). A rating scale of 1 to 5 was used. Higher ratings corresponded to more positive responses, while lower ratings indicated more negative ones. Likert scale ratings were apt for measuring opinions as they can capture data related to psychological constructs, intensity levels, sentiment assessments, and the extremes of opinions. Furthermore, they facilitated the analysis and comparison of responses across different items, allowing for the representation and

coding of attitudes and opinions using representative values (Nemoto & Beglar, 2014; Taher-doost, 2019). The questionnaires were meticulously structured to ensure clarity, specificity, accuracy, simplicity, and conciseness, rendering them user-friendly for the respondents. They were divided into sections A-E covering demographic information, bookkeeping, taxation, financial auditing, and financial training respectively.

3.6 Pilot Study

Prior to the main data collection, a pilot study was conducted involving 9 SMEs in Kisii County, distinct from those selected for the primary study. This pilot group represented approximately 10% of the intended study sample, following the recommendation of Ikart (2019). The data collected from this pilot group was used to refine and improve the final questionnaire. Any challenges encountered during data collection, coding, or analysis will serve as valuable in-sights for questionnaire enhancement. The instrument underwent rigorous fine-tuning to ensure reliability and validity in obtaining results.

3.6.1 Validity of the Instruments

Content and face validity was assessed by Mount Kenya University supervisors, who provided expert validation regarding the questionnaire's relevance and applicability before its administration to respondents. Additionally, construct validity was evaluated using Factor analysis (KMO & Bartlett Test of Sphericity). Statements within the questionnaire were expected to exhibit a KMO value exceeding 0.5 to demonstrate their validity in producing reliable results. Items with KMO values below 0.5 will undergo revision in consultation with the supervisor to enhance their relevance and will subsequently be retested for reliability (Mohajan, 2017).

3.6.2 Reliability of Research Instruments

In this study, the descriptive research design was adopted, which is a comprehensive research technique aimed at defining the numerous aspects of variables within a specific context. According to Schoonenboom and Johnson (2017), this form was well-suited for depicting current situations, linkages, attitudes, ongoing processes, observable impacts, and developing trends. Most crucially, it enabled data collection without interacting with or influencing the variables under investigation. Using both quantitative and qualitative research approaches, this strategy gave a full understanding of the subject issue. The survey component of the technique enables for data collection from a large sample, allowing for conclusions to be generalizable to the overall group while becoming cost-effective.

3.7 Methods of Data Collection

The researcher sought approval from the school and NACOSTI in order to embark on data collection. To administer the questionnaires, a drop-and-pick method was employed, complemented by the utilization of electronic survey tools such as Google Forms and Monkey Surveys, enabling the electronic distribution of questionnaires via email to the respondents.

3.8 Diagnostic Analysis

Prior to running regression models, diagnostic analyses (assumption testing) was conducted to ensure data accuracy. These analyses include tests for normality, linearity, multicollinearity, and heteroscedasticity.

3.8.1 Normality

To improve the accuracy of regression analysis, normal distribution of data is essential. The normality assumption was tested through visual assessment, utilizing plots to

evaluate the normal distribution of both independent and dependent variables. The Kolmogorov-Smirnov test and the Shapiro-Wilk test, as well as the histogram method, was employed to assess the normality of the data.

3.8.2 Linearity

Scatter plots were employed to assess the linearity assumption, providing visual insights into the existence of linear relationships between continuous variables. A reasonably linear relationship between variables is expected prior to applying regression models.

3.8.3 Multicollinearity

Multicollinearity helped identify any high correlations among predictor variables. A high degree of correlation between independent variables may lead to multicollinearity issues, and such variables should not be highly correlated with one another. Tolerance values above 0.2 and variance inflation factors (VIF) below 10 will be used to assess multicollinearity (Salmerón et al., 2018).

3.8.4 Homoscedasticity

The Ordinary Least Squares (OLS) Model assumed homoscedasticity, where the error term exhibits constant variance. The presence of heteroscedasticity, characterized by varying error variance, can lead to biased parameter estimates. Heteroscedasticity will be assessed through graphical scatter plots, with the null hypothesis indicating constant error variance.

3.9 Data Analysis and Presentation

Upon receiving the questionnaires, a thorough examination was conducted to ensure completeness, consistency, and authenticity of the provided information. Data editing will be carried out to prepare it for coding, including checking for completeness,

consistency, and authenticity. The data will then be sorted and coded according to the study's objectives.

Both descriptive and inferential statistics was employed for data analysis with the help of SPSS software. Descriptive statistics will be used to provide an overview of the sample, including means, medians, standard deviations, variances, percentages, and frequencies, among other measures. Inferential statistics will assess causal relationships between study variables. Correlation analysis will measure the strength of relationships between variables, and regression analyses will be conducted using both bivariate and multivariate linear regression models to explore the influence of independent predictors on the dependent variable.

Qualitative data from the open-ended questionnaire section was analysed through content analysis, a technique used to identify specific words, topics, or concepts in qualitative data. The findings will be presented thematically, utilizing tables, charts, and identified themes. The Significance will be evaluated through R-squared values, F-statistics, tstatistics, and beta coefficients, with a critical p-value set at less than 0.05. Hypotheses will be tested based on the regression model outputs, comparing β coefficients against a null hypothesis of $\beta = 0$. Multiple regression model is represented as follows:

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

Where;

Y = Performance of SMEs

α = Regression constant

β_i = the coefficient for **X_i** (where $i = 1, 2, 3, 4$)

X_1 = Bookkeeping

X_2 = Taxation

X_3 = Auditing

X_4 = Financial training

e = Error term

3.10 Ethical Considerations

Ethical considerations encompassed a set of regulations governing research involving human subjects. To uphold the highest standards of research ethics, the conduct and reporting of this study will prioritize integrity and professionalism. Prior to commencing the research, proper authorization was sought from Mount Kenya University and NACOSTI. The participants involved in the study received a thorough briefing regarding the research objectives and any potential risks. Their privacy was respected, and they were asked for informed consent to participate, with the option to withdraw at any time. Maintaining the personal integrity of both the collected data and the researchers themselves is paramount. The research was conducted with objectivity and a commitment to presenting results accurately, without any misrepresentation. To safeguard the anonymity of both the institution and the respondents, confidentiality measures will be implemented. This will involve coding the names of participants to shield them from possible mental, physical, or psychological harm.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

4.1 Response Rate

The study had a sample size of 380 persons, out of which 326 replies were obtained, resulting in a response rate of 85.789%. These findings indicate that almost 86% of the persons who were asked to participate in the study supplied responses, demonstrating a high degree of involvement and cooperation within the sample population.

4.2 Demographic Information

4.2.1 Gender

The table displays the gender distribution of a sample including 326 persons. The data is classified into two categories: males and females. The whole sample consists of 146 males, accounting for 44.8% of the population. Conversely, there are a total of 180 females, accounting for 55.2% of the sample. The table shows that there are no missing or incorrect responses, as indicated by the "Valid Per-cent" column, which is the same as the "Percent" column. The "Cumulative Percent" column displays the ongoing total of the percentages. Males account for 44.8% of the total, while females contribute to the cumulative total of 100%. The cumulative percentage indicates that the combined number of males and females represents the total sample, with females slightly outnumbering males.

Table 1 : Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	146	44.8	44.8	44.8
	Female	180	55.2	55.2	100.0
	Total	326	100.0	100.0	

Source: Field Data, (2024).

4.2.2 Age

The table and accompanying bar graph offer a lucid depiction of the age distribution among a sample of 326 persons. The age categories are classified into four distinct groups: under 18 years, 19 to 30 years, 31 to 40 years, and above 40 years. Within the table, there are 42 persons in the youngest group, who are below 18 years old. This group represents 12.9% of the total sample. The age group of 19 to 30 years comprises the highest number of participants, with a total of 126, accounting for 38.7% of the sample. There are 107 persons in the age bracket of 31 to 40 years, accounting for 32.8% of the sample. The group of adults aged above 40 years comprises 51 individuals, representing 15.6% of the sample. The cumulative percentages illustrate the incremental aggregate of various groups, resulting in a total of 100%. The bar graph effectively illustrates this distribution, as the height of each bar corresponds to the frequency and percentage of individuals in each age category. The bar representing the age group of 19 to 30 years is the tallest, signifying its position as the most populous age group, followed by the bar representing the age group of 31 to 40 years. The bars representing the age categories below 18 years and above 40 years are shorter, indicating their smaller shares within the sample.

Table 2 : Age

		Age		Valid Percent	Cumulative Percent
		Frequency	Percent		
Valid	below 18 years	42	12.9	12.9	12.9
	19 - 30 years	126	38.7	38.7	51.5
	31 - 40 years	107	32.8	32.8	84.4

Above 40 years	40	51	15.6	15.6	100.0
Total		326	100.0	100.0	

Source: Field Data, (2024).

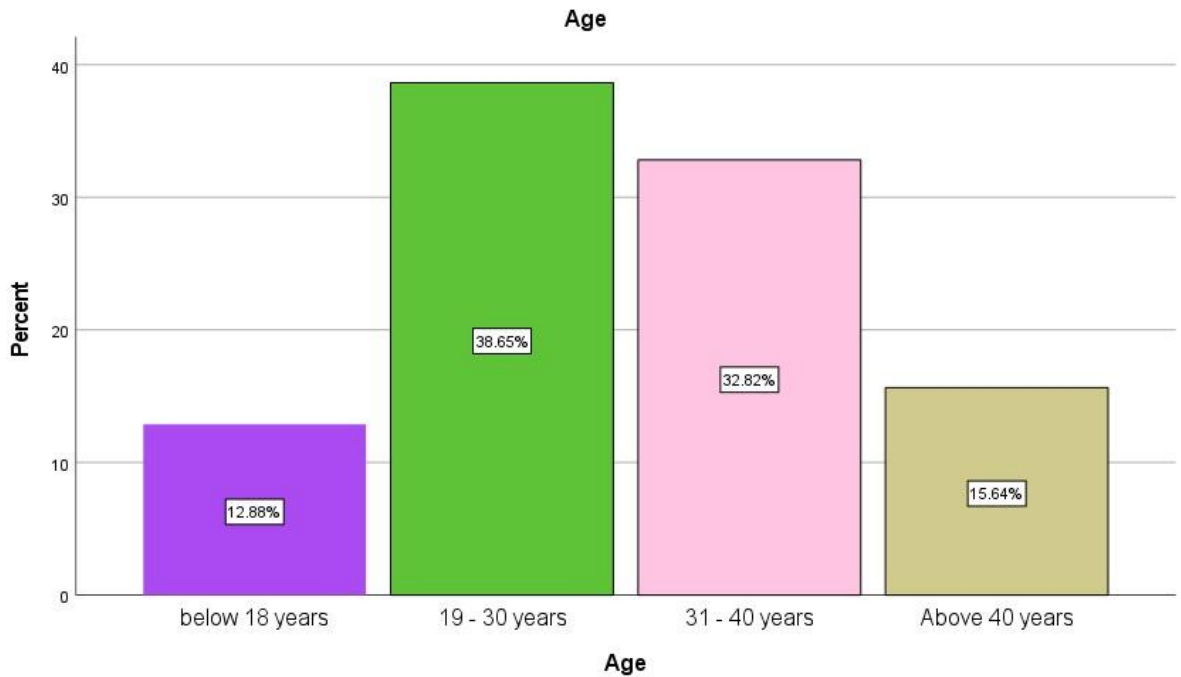


Figure 2 : Age

Source: Field Data, (2024).

4.2.3 Level of education

The table and accompanying pie chart depict the distribution of educational levels among a sample of 326 persons. The education levels are categorized into three distinct tiers: absence of schooling, secondary education, and attainment of a bachelor's degree. Based on the data presented in the table, it can be observed that 19 individuals, which accounts for 5.8% of the sample, possess no educational qualifications. There are 91 individuals in the next group, who have completed secondary education, accounting for 27.9% of the sample. The majority of the sample, comprising 216 persons or 66.3%, hold a bachelor's degree. The cumulative percentages demonstrate that when considering all categories,

the total amounts to 100%, so demonstrating the comprehensiveness of the data. The pie chart effectively reinforces the distribution in a visual manner. The bachelor's degree slice is the largest, indicating its prevalence in the sample at 66.3%. The proportion allocated to secondary education is relatively smaller, comprising 27.9%, but the proportion allocated to no education is the least, amounting to 5.8%.

Table 3 : Level of Education

		Frequency	Percent Valid	Percent	Cumulative Percent
Valid	No education	19	5.8	5.8	5.8
	Secondary	91	27.9	27.9	33.7
	Bachelors	216	66.3	66.3	100.0
Total		326	100.0	100.0	

Source: Field Data, (2024).

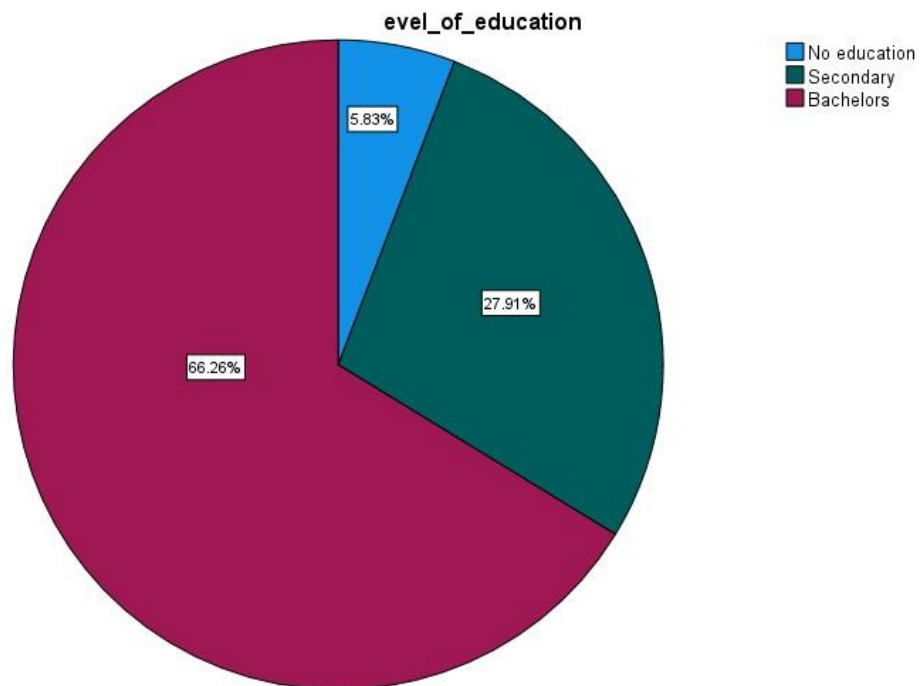


Figure 3 : Level of Education

Source: Field Data, (2024).

4.2.3 Tunure of the SME in years

The table presents a summary of the duration of Small and Medium-sized Enterprises (SMEs) in a sample of 326 enterprises, classified according to the number of years they have been operating. The predominant category comprises of small and medium-sized enterprises (SMEs) that have been in operation for a duration of 5 to 10 years. This group includes a total of 124 organizations, accounting for 38.0% of the sample. Next in line are small and medium-sized enterprises (SMEs) that have been in operation for less than 5 years. This category consists of 117 organizations, making up 35.9% of the total sample. Out of the total sample, 26.1% consists of 85 SMEs that have been operating for 10 years or longer. The cumulative percentages represent a continuous and increasing total, reaching 100% when all categories are taken into account. The data demonstrates an equitable distribution of SME tenures, with a prominent cluster in the 5 to 10 years range, indicating a substantial number of enterprises that have been operating for a moderate period of time.

Table 4 : Tunure of the SME in years

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 5 years	117	35.9	35.9	35.9
	- 10 years	124	38.0	38.0	73.9
	years and	85	26.1	26.1	100.0
	above				
	Total	326	100.0	100.0	

Source: Field Data, (2024).

4.4 The Influence of Bookkeeping on SME Performance

The descriptive statistics table provides a thorough summary of the financial recordkeeping methods of 326 Small and Medium-sized Enterprises (SMEs). Each practice is evaluated on a scale of 1 to 5, with higher ratings indicating a better level of adherence or relevance. Out of all the activities that were assessed, "Maintaining precise and wellorganized financial records" obtained the highest average rating of 4.0859, indicating that it is widely used and considered essential by the surveyed SMEs. On the other hand, the task of "Analyzing financial trends and generating customized accounting reports" earned the lowest average rating of 2.6196, suggesting that it may not be consistently performed or considered as important. The practices of "Preparing comprehensive financial statements" and "Preparing the trial balance" received high mean ratings of

3.9387 and 4.0828 respectively, indicating their widespread use in the sample.

Conversely, activities such as "Maintaining thorough records of money movement" and "Examining patterns in financial data" demonstrate greater inconsistency in evaluations, indicating differing degrees of compliance or significance among small and mediumsized enterprises (SMEs).

Table 5 : The Influence of Bookkeeping on SME Performance

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	
Keeping accurate and well-maintained financial records.	326	1.00	5.00	4.0859	1.29091	
Ensuring that all cash inflows and outflows are meticulously documented in the cash book.	326	1.00	5.00	2.8957	1.66082	
Recording all sales and purchase transactions for thorough documentation.	326	1.00	5.00	3.4908	1.45017	
Regularly reconciling the cash book with bank statements to ensure accuracy.	326	1.00	5.00	3.3712	1.64933	
Keeping an updated register of company assets.	326	1.00	5.00	3.4356	1.66608	
Posting all financial transactions and conducting general ledger maintenance.	326	1.00	5.00	3.7761	1.49322	

Preparing comprehensive financial statements, including profit and loss statements, trial balances, balance sheets, and cash flow statements.	326	1.00	5.00	3.9387	1.43449
Analyzing financial trends and generating customized accounting reports.	326	1.00	5.00	2.6196	1.72300
Establishing secure backups for financial data.	326	1.00	5.00	3.5828	1.41993
Preparing the trial balance by consolidating information from both the cash book and ledger accounts.	326	1.00	5.00	4.0828	1.28514

Keeping accurate and	326	1.00	5.00	2.5951	1.65906	well-maintained financial records.
Valid N (listwise)			326			

Source: Field Data, (2024).

4.5 The Impact of Taxation on SME Performance

The descriptive statistics table presents an analysis of tax-related practices among 326 Small and Medium-sized Enterprises (SMEs). It displays the extent to which certain tax management actions are implemented and their assessed importance. Every task, including managing tax filings and utilizing tax deductions, is evaluated using a rating scale of 1 to 5, with higher ratings indicating a greater level of compliance or acknowledgment of significance. Out of all the practices that were evaluated, conformity to Kenya's taxes laws and regulations received the highest mean grade of 4.2546. This indicates that there is broad recognition and implementation of compliance procedures among the surveyed SMEs. On the other hand, activities such as handling all necessary tax returns and implementing tax planning strategies received lower average ratings (2.3374 and 2.6718 respectively), indicating that these areas may require more consistent focus or may be seen as less important compared to other tax-related duties. Additional practices, such as employing VAT deductions for tax-exempt essential products (average rating of 4.2147) and offering information on VAT payable and claimable amounts (average rating of 3.8436), also earned relatively high scores. These techniques demonstrate the proactive approach of small and medium-sized enterprises (SMEs) in maximizing tax advantages and ensuring compliance with VAT-related issues.

Table 6 : The Impact of Taxation on SME Performance

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Handling monthly and yearly tax filings, including income tax, Value-added Tax (VAT) returns, and various payroll-related returns such as PAYE, NHIF, and NSSF.	326	1.00	5.00	2.9755	1.75043
Managing all obligatory tax returns, encompassing NSSF, NHIF, PAYE, VAT, withholding tax, and more.	326	1.00	5.00	2.3374	1.62754
Adhering to Kenya's taxation laws and regulations to ensure compliance.	326	2.00	5.00	4.2546	1.17391
Engaging in tax planning strategies aimed at ensuring revenue accountability.	326	1.00	5.00	2.6718	1.73283
Establishing financial record-keeping systems that comprehensively capture all tax obligations.	326	1.00	5.00	2.6503	1.74191

Providing information related to both VAT payable and VAT claimable amounts.	326	1.00	5.00	3.8436	1.52217
Leveraging income tax exemptions to minimize expenses and enhance profitability.	326	1.00	5.00	3.4693	1.66335
Taking advantage of reduced-rate deductions on investments like rent.	326	1.00	5.00	3.3374	1.70329
Utilizing VAT deductions to facilitate the successful trade of tax-exempted essential products within the community.	326	1.00	5.00	4.2147	1.19095
Valid N (listwise)	326				

Source: Field Data, (2024).

4.6 The Influence of Financial Auditing on SME Performance

The descriptive data table presents a complete overview of auditing practices in 326 Small and Medium-sized Enterprises (SMEs), providing insights into their compliance with financial rules and practices. The table is organized such that each row corresponds to a distinct component of auditing, while the columns provide information on the number of replies (N), the lowest and highest ratings, the average rating, and the standard deviation. One of the main findings is that conducting regular internal and external audits is moderately implemented, with an average rating of 3.0307 and a significant standard deviation of 1.74682, suggesting that there is diversity in the frequency of audits. Similarly, conducting regular and yearly tax compliance audits yields an average grade of 3.0276, indicating the efforts of small and medium-sized enterprises (SMEs) to adhere to tax requirements, although there is some variation in how they are carried out. The practice of maintaining records of annual audited financial statements had a mean rating

of 3.0215, indicating a reasonable level of adherence to this practice over the years. On the other hand, activities such as maintaining professional standards during audits (mean: 2.8834) and properly archiving accounting documents (mean: 2.6933) have lower average ratings, indicating areas where consistency and attention to detail might be improved. The utilization of external auditors to improve financial reporting and deter wrongdoing received a reasonable average rating of 3.2239, suggesting that small and medium-sized enterprises (SMEs) acknowledge the importance of external expertise in upholding financial transparency and credibility.



Table 7 : The Influence of Financial Auditing on SME Performance

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	
Conducting routine internal and external audits.	326	1.00	5.00	3.0307	1.74682	
Performing financial audits on their financial statements.	326	1.00	5.00	2.7577	1.76099	
Undertaking periodic and annual tax compliance audits.	326	1.00	5.00	3.0276	1.71577	
Ensuring adherence to professional standards throughout the auditing process.	326	1.00	5.00	2.8834	1.70391	

Carrying out professional and impartial internal audits.	326	1.00	5.00	2.9387	1.70860
Employing the expertise of a capable external auditor to prevent financial misconduct and enhance financial reporting.	326	1.00	5.00	3.2239	1.72462
Maintaining a record of annual audited financial statements over the years.	326	1.00	5.00	3.0215	1.68327
Effectively preserving all accounting documents for future use.	326	1.00	5.00	2.6933	1.66533
Valid N (listwise)	326				

Source: Field Data, (2024).

4.7 The Influence of Financial training on SME Performance

The descriptive data table provides a comprehensive overview of the financial education and training methods used in 326 Small and Medium-sized Enterprises (SMEs). Every row in the table corresponds to a distinct training program designed to improve employees' financial literacy and management abilities. The statistics comprise the count of replies (N), as well as the minimum and maximum ratings, mean rating, and standard deviation. These metrics offer valuable insights into the consistency and perceived efficacy of these educational endeavors. One of the findings is that training efforts like fundamental Accounting and Bookkeeping obtained a reasonable mean rating of 3.4847. This rating suggests that there is generally positive execution and recognition of the value

of these initiatives. Training in portfolio management (mean: 3.6166) and financial education on loan contracts (mean: 3.8988) received better scores, indicating that these areas are widely acknowledged and respected for their role in financial risk management and strategic planning in small and medium-sized enterprises (SMEs).

4.8 Inferential analysis

4.8.1 Correlations on four objectives

Table illustrates financial management affects 326 SMEs. These parameters are substantially Pearson-correlated in SMEs. SMEs prioritizing bookkeeping also prioritize tax compliance, audits, and training ($r = 0.540$, $p < 0.01$, $r = 0.329$, $p < 0.01$, $r = 0.497$, $p < 0.01$). Taxation is favorably connected with bookkeeping, auditing, and training ($r = 0.540$, $p < 0.01$). SMEs that comply with taxes prioritize financial audits, documentation, and training. A positive link exists between financial auditing, bookkeeping, taxation, and training ($r = 0.329$, $p < 0.01$). SME financial audits may reveal careful paperwork, tax compliance, and financial training. Ongoing financial training enhances SME financial management, including bookkeeping, tax compliance, and auditing ($r = 0.497$, $p < 0.01$). Financial management impacts SMEs. Understanding these relationships helps SMEs strategically use bookkeeping accuracy, tax compliance, financial auditing rigor, and staff training to increase operational efficiency, manage risks, and compete in competitive markets.

Table 8: Correlations on four objectives

		Correlations			
		bookkeepi ng	Taxati on	Financial auditing	Financial training
bookkeeping	Pearson Correlation	1	.540**	.329**	.497**

	Sig. (2-tailed)	.	.000	.000	.000
Taxation	N	326	326	326	326
	Pearson	.540**	1	.505**	.505**
	Correlation				
	Sig. (2-tailed)	.000		.000	.000
Financial auditing	N	326	326	326	326
	Pearson	.329**	.505**	1	.339**
	Correlation				
	Sig. (2-tailed)	.000	.000		.000
Financial training	N	326	326	326	326
	Pearson	.497**	.505**	.339**	1
	Correlation				
	Sig. (2-tailed)	.000	.000	.000	
	N	326	326	326	326



Mount Kenya University

Performance	Pearson	.741**	.323**	.310**	.410**
	Correlation				
	Sig. (2-tailed)	.000	.000	.000	.000
	N	326	326	326	326

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

Source: Field Data, (2024).

4.8.2 Model Summary

Financial management practices and company success regression study for 326 SMEs are summarized in the model. According to the 0.759 multiple correlation coefficient, financial management boosts company performance. SME performance depends on financial management. The R Square value of 0.577 shows that the model's independent variables explain 57.7% of the dependent variable's variance. R Square takes into account the model's predictor count and measures fit at 0.571. Estimate standard error (3.91800) accurately predicts values with modest discrepancies between observed and predicted values. The model's predictors explain the dependent variable's variance, as evidenced by the F statistic of 109.345 with 4 degrees of freedom. This model accurately portrays financial management and SME performance. Good financial management may help SMEs prosper, says model. Data insights help SMEs prioritize and optimize financial planning for sustainable growth and market competitiveness.

Table 9 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.759 ^a	.577	.571	3.91800	.577	109.345	4

Source: Field Data, (2024).

4.8.3 ANOVA^a

ANOVA tests regression models that predict 326 SMEs' finances. Tables are needed to assess model significance and efficacy in explaining SME performance discrepancies. Financial training, auditing, bookkeeping, and taxation explain significant SME performance variability with a sum of squares of 6714.120 and a mean square of 1678.530 in the "Regression" column. A significant F-statistic of 109.345 with 4 degrees of freedom suggests a well-fitted regression model ($p < 0.001$). Audits, bookkeeping, taxes, and financial training affect SME success. The table's "Residual" indicates the model's 4927.589 unexplained variance or residual error sum of squares. Sum of Squares 11641.709, including explained and residual variances, supports the hypothesis. SME success depends on financial management, says ANOVA. These statistical insights can help SMEs strategically invest in financial training, auditing, bookkeeping, and tax compliance to improve operational efficiency, manage risks, and grow sustainably in competitive markets.

Table 10 : ANOVA^a

Model		ANOVA ^a				
		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6714.120	4	1678.530	109.345	.000 ^b
	Residual	4927.589	321	15.351		
	Total	11641.709	325			

a. Dependent Variable: Performance

b. Predictors: (Constant), Financial training, Financial auditing, bookkeeping, Taxation

Source: Field Data, (2024).

4.8.4 Coefficients^a

Regression model coefficients show financial management affects SME success. When all predictor variables—bookkeeping, taxation, financial auditing, and financial training—are zero, SME performance baseline is 5.090. Bookkeeping is substantially connected with SME performance (0.528 and 0.762 Beta). Improved bookkeeping helps performance greatly. Tax compliance risks SME performance, as shown by its negative coefficient of -0.161 and Beta of -0.198. Comprehensive financial audits increase SME performance, according to its 0.126 positive coefficient and 0.129 Beta. Financial transparency and accountability improve performance less than records. Financial training increases performance by 0.078 and 0.088. Financial management education helps SMEs. The "t" statistic and significance level (Sig.) ($p < 0.05$) indicate how each predictor variable affects SME performance variation in the regression model. These findings stress good bookkeeping, taxes management, financial audits, and SME performance staff training. The strategies help SMEs make better financial decisions, address operational challenges, and grow sustainably in competitive markets.

Table 11 : Coefficients^a

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.090	1.177		4.324	.000
	bookkeeping	.528	.031	.762	16.784	.000
	Taxation	-.161	.040	-.198	-4.038	.000
	Financial auditing	.126	.041	.129	3.052	.002

Financial training	.078	.040	.088	1.976	.049
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Source: Field Data, (2024).

4.8.5 Reliability Statistics

This study's evaluation scale is consistent and reliable according to Cronbach's Alpha and standardized item variance. 0.804 Cronbach's Alpha indicates scale item internal consistency. The coefficient, 0–1, measures scale item correlation to assess a coherent entity. The targeted construct, potentially connected to SMEs' attitudes, actions, or perceptions, is consistently measured by this scale at 0.804. Standardized items' lower but closely matched Cronbach's Alpha of 0.803 accounts for item variances and covariances, ensuring scale reliability across assessment methods. This scale appears to capture and assess the construct under research using 5 dependability components. Researchers and practitioners can use the scale's validity and consistency to assess and analyze critical elements in SMEs and other fields. Researchers want Cronbach's Alpha scores above 0.7 to verify the scale reliably measures the construct being examined, boosting data legitimacy and usefulness.

Table 12 : Reliability Statistics

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.804	.803	5

Source: Field Data, (2024).

4.8.6 ANOVA with Friedman's Test

Friedman group ANOVA test table. SME and researcher Sum of Squares and Mean Square varied by 45096.150 and 138.757. Inside-group item variance is examined. Significant sample rating differences are shown by greater Friedman's Chi-Square values (705.352) and p-values (< 0.001). Topics affect data. Moderate Sum of Squares and Mean Square of 35414.252 and 27.242 show all parameter dataset variation and item-independent variability. Grand Mean = 28.5945 and Kendall $W = 0.341$ indicate consensus. Finally, Friedman's Test table ANOVA shows that factors affect dataset variability. Academics use statistics to identify trends, explain variability, and draw conclusions about SMEs and other topics.

Table 13 : ANOVA with Friedman's Test

ANOVA with Friedman's Test						
		Sum of Squares	df	Mean Square	Friedman's Chi-Square	Sig
Between People		45096.150	325	138.757		
Within Items	Between People	41726.548 ^a	4	10431.637	705.352	.000
	Residual	35414.252	1300	27.242		
	Total	77140.800	1304	59.157		
Total		122236.950	1629	75.038		

Grand Mean = 28.5945

a. Kendall's coefficient of concordance $W = .341$.

Source: Field Data, (2024).

4.8.7 Histogram

The histogram illustrates the distribution of the regression standardized residuals for the dependent variable "Performance" in your analysis. The blue bars represent the frequency of residuals within specific intervals, with the majority clustered around zero. This indicates that the model's predictions are generally accurate, as most residuals are close to zero. The black curve overlaying the histogram represents a normal distribution, and the fact that the histogram closely follows this curve suggests that the residuals are approximately normally distributed. This normality is crucial as it meets one of the key assumptions of linear regression.

The mean of the residuals is extremely close to zero, recorded at $7.15E-16$, indicating that the model does not systematically overestimate or underestimate performance. The standard deviation of the residuals, at 0.994, suggests that the residuals are tightly clustered around the mean, reflecting a good model fit. With a sample size of 326, the distribution appears symmetric around the mean, further confirming that the residuals are well-behaved and support the assumptions underlying the regression analysis.

This histogram suggests that the linear regression model applied is a good fit for the data, with residuals that do not display any significant skew or deviation from normality.

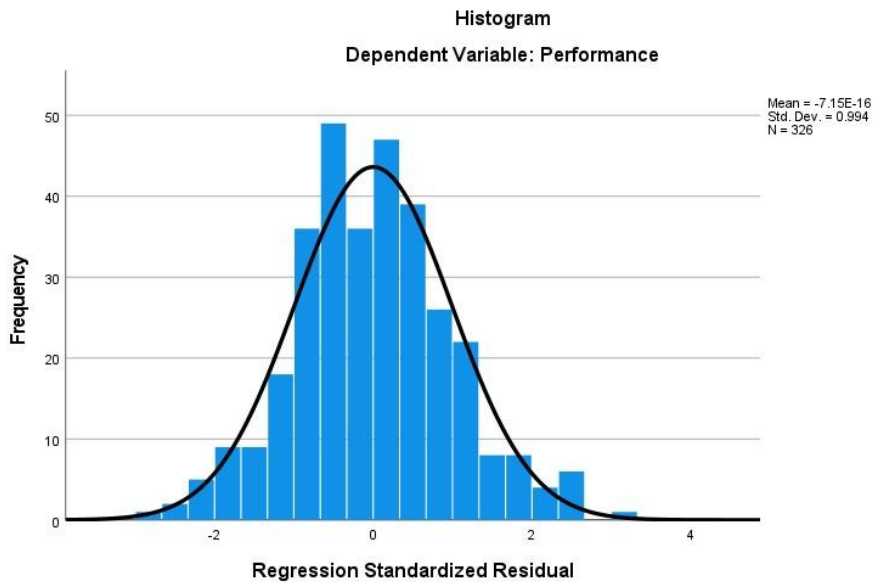


Figure 4 : Histogram

Source: Field Data, (2024).

4.8.8 Scatterplot

The scatterplot illustrates the relationship between the regression standardized residuals and the dependent variable "Performance." Each point represents an individual observation, showing how the residuals, or the differences between observed and predicted values, relate to actual performance scores. The plot reveals a positive trend, indicating that as residuals increase, performance scores also tend to rise. Most points are clustered around the center of the plot, particularly near zero on the residual scale, suggesting that the model is generally accurate in its predictions. However, there is a slight increase in the spread of residuals as performance scores increase, which may indicate some heteroscedasticity, although it is not overly pronounced. Additionally, a few points at the higher end of the plot suggest potential outliers, where the model may not be fitting the data as well. The scatterplot suggests that the regression model is performing reasonably well, though there may be minor issues with the variability of residuals and the presence of outliers.

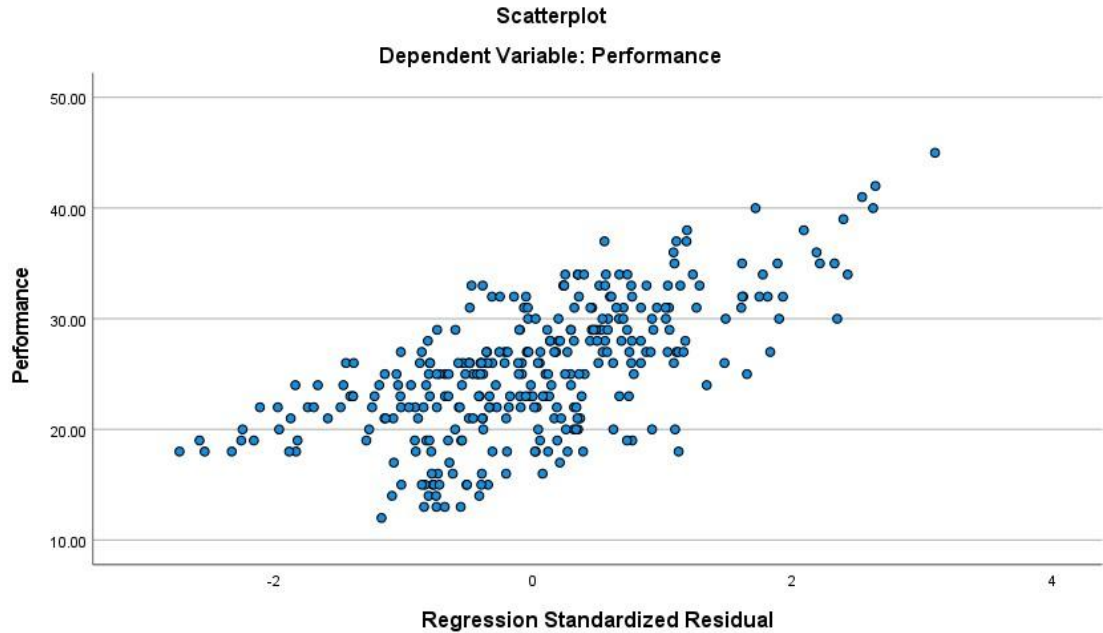


Figure 5 : Scatterplot

Source: Field Data, (2024).

4.8.9 Partial Regression

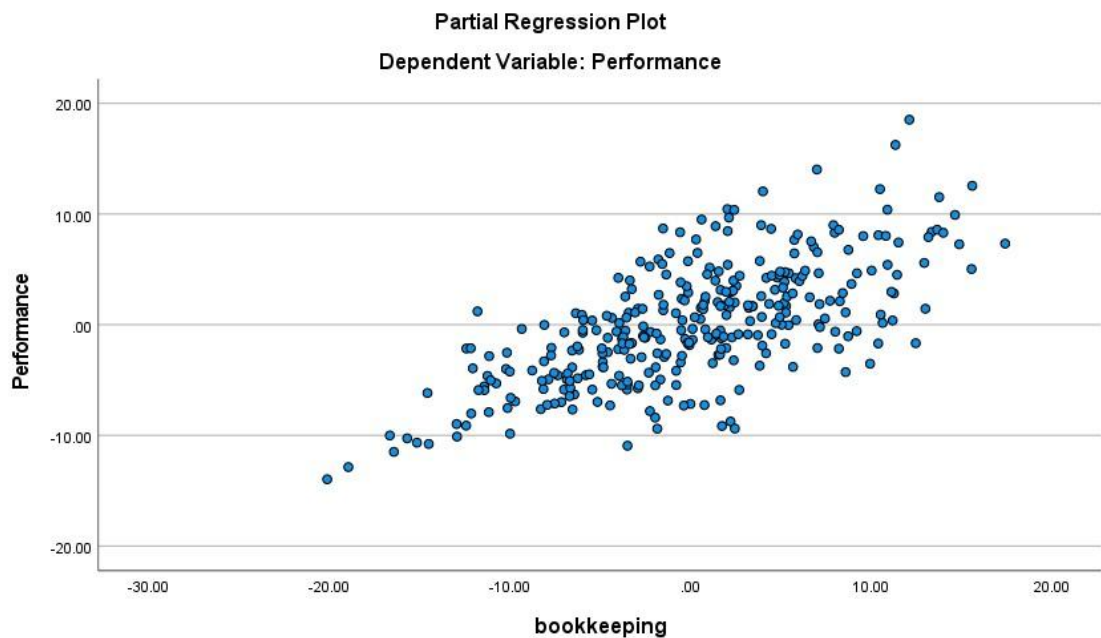
4.8.9.1 Bookkeeping

The partial regression plot you provided shows the relationship between the independent variable "bookkeeping" and the dependent variable "Performance," after accounting for the effects of other variables in the model. This type of plot is useful for understanding how a specific predictor contributes to the model while controlling for other factors.

In the plot, the x-axis represents the values of "bookkeeping," while the y-axis represents the corresponding values of "Performance," both adjusted for the influence of other variables in the regression model. The scatterplot displays a positive linear trend, indicating that higher values of bookkeeping are generally associated with higher performance scores, even after controlling for other variables.

The clustering of points around the central trend line suggests a strong linear relationship between bookkeeping and performance. However, there is some scatter around this line, indicating variability in performance that isn't fully explained by bookkeeping alone. The spread of points increases slightly at higher values of bookkeeping, which could suggest that the relationship becomes less predictable as bookkeeping values increase.

The partial regression plot indicates that bookkeeping is a significant predictor of performance, with a clear positive association. This plot helps to confirm that bookkeeping has an independent and meaningful contribution to predicting performance in your model.



4.8.9.2: Partial Regression (Taxation)

The figure is a partial regression plot showing the relationship between two variables: "Taxation" (independent variable) and "Performance" (dependent variable). The plot displays a scatter of data points, each representing an observation with specific values of

Taxation and Performance. The axes are centered around zero, suggesting that both variables are presented as deviations from their means. The spread of points appears relatively wide, indicating some variation in performance that is not solely explained by taxation. While there seems to be a slight upward trend, implying a weak positive linear relationship between Taxation and Performance, the spread of points also suggests a fair amount of dispersion around any potential trend line, indicating that factors other than taxation might also significantly affect performance. The lack of a clear linear pattern suggests the relationship is not particularly strong, and other variables could be influencing performance.

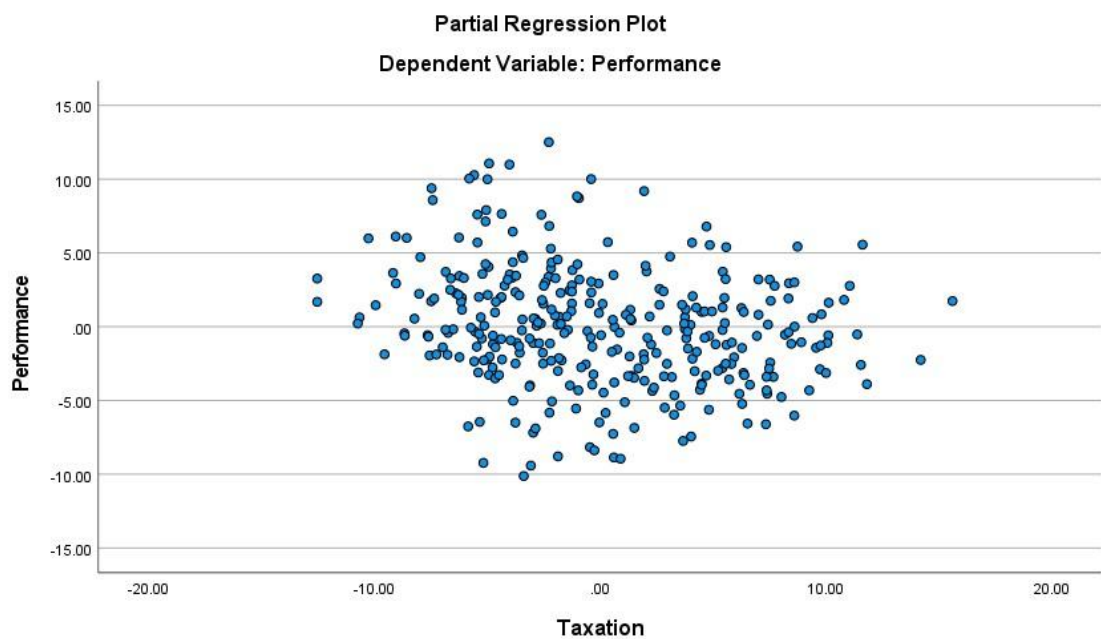


Figure 6 : Partial Regression (Taxation)

Source: Field Data, (2024).

4.8.9.3 Financial auditing

The figure is a partial regression plot, illustrating the relationship between "Financial_auditing" (independent variable) and "Performance" (dependent variable). Similar to the previous plot, each point represents an observation with specific values for Financial_auditing and Performance, shown as deviations from their means.

The scatter of data points shows a wide distribution across both axes, with a clustering around the center, indicating a lack of a strong linear relationship between Financial_auditing and Performance. The data points are spread out in a manner that suggests there is little to no clear trend, either positive or negative, between the two variables. This pattern implies that changes in financial auditing do not have a substantial or consistent impact on performance, or that other factors could be more influential in determining performance outcomes. Overall, the plot suggests that financial auditing does not explain much of the variability in performance based on this data.

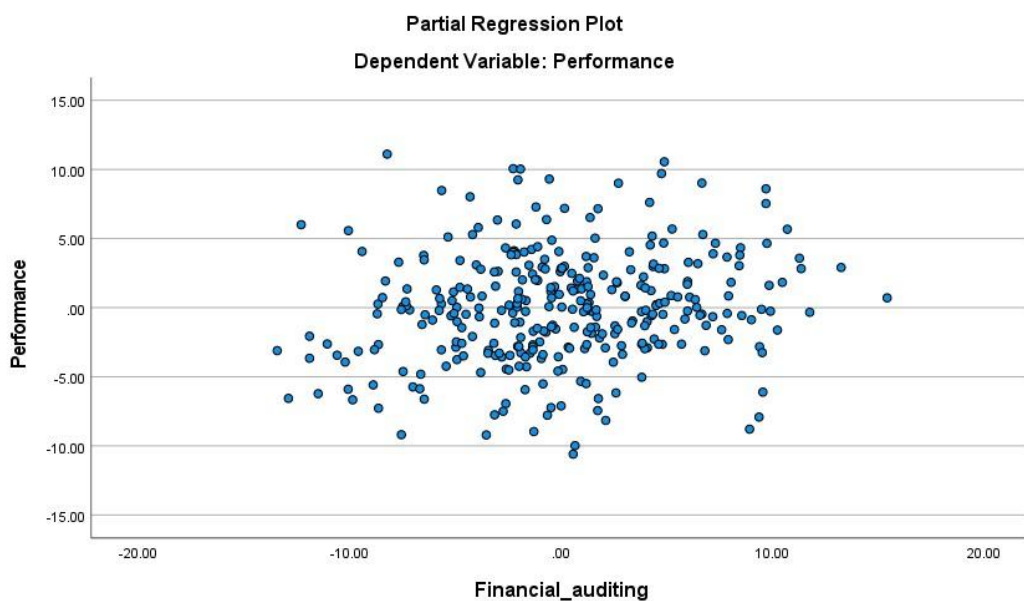


Figure 7 : Partial Regression (Financial auditing)

Source: Field Data, (2024).

4.8.9.4 Financial training

The figure is a partial regression plot showing the relationship between "Financial_training" (independent variable) and "Performance" (dependent variable). As in the previous plots, the data points are plotted based on their deviations from the means of the respective variables.

The scatter of points is relatively concentrated around the center, with no clear directional trend, suggesting a weak or non-existent linear relationship between Financial_training and Performance. The distribution appears somewhat clustered in the middle of the plot, indicating that changes in financial training do not consistently affect performance in a linear fashion. The wide dispersion of points around the central cluster suggests that other factors may be influencing performance, and that financial training alone is not a significant predictor of performance outcomes. Overall, the plot indicates that financial training does not have a strong or clear impact on performance based on this data set.

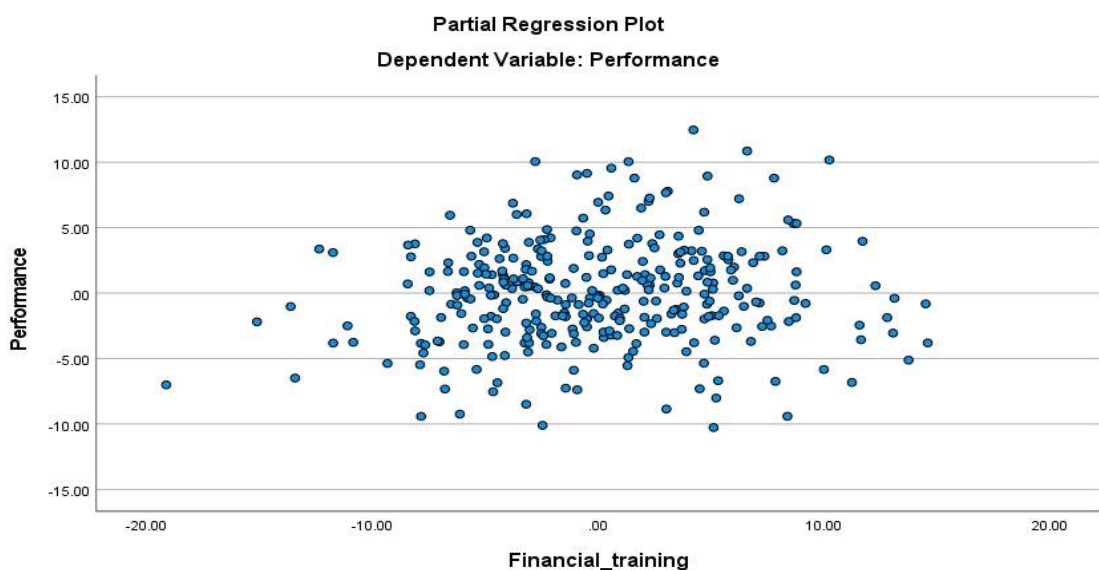


Figure 8 : Partial regression (Financial training)

Source: Field Data, (2024).

4.8 Discussion of findings

4.8.1 The Influence of Bookkeeping on SME Performance

The descriptive statistics table provides a comprehensive summary of financial recordkeeping practices in 326 Small and Medium-sized Enterprises (SMEs). It evaluates the implementation and perceived significance of each activity using ratings on a scale of 1 to 5. The phrase "Keeping accurate and well-maintained financial records" received the highest mean rating of 4.0859, suggesting that it is widely accepted and recognized as having a crucial function among the SMEs polled. On the other hand, the task of "Analyzing financial trends and generating customized accounting reports" earned the lowest average rating of 2.6196. This indicates that there may be areas of weakness or difficulties in this particular component of financial management in the small and medium-sized enterprise (SME) sector.

The study done by Aladejebi and Oladimeji (2019) aimed to investigate the influence of bookkeeping methods on the financial performance of small and medium-sized enterprises (SMEs) in Lagos. The study revealed a significant paradox by conducting extensive surveys among 200 SME owners. Out of the 197 replies received, Likert-scale assessments were used to rigorously examine the data. The findings indicated that although small and medium-sized enterprise (SME) owners recognized the crucial significance of thorough record-keeping for comprehending business performance, a significant number had difficulties due to their limited comprehension of fundamental accounting principles and expressed dissatisfaction with the substantial expenses involved in generating financial statements. This study focused only on the difficulties and methods that are particular to small and medium-sized enterprises (SMEs) in Lagos.

It shed light on important areas where enhancements in financial management procedures could improve overall business results.

Our present research aims to enhance this comprehension by specifically examining small and medium-sized enterprises (SMEs) in Kisii County. This will help fill a void in the current body of knowledge. Our objective is to explore how financial management practices differ across regions and how these differences affect business success, by expanding our research beyond Lagos. This expansion aims to offer more profound understanding of the methods and preferences of small and medium-sized enterprises (SMEs) in Kisii County when it comes to financial record-keeping, financial analysis, and the difficulties they encounter in these areas. In the end, these observations will aid in the creation of focused tactics to bolster the expansion of small and medium-sized enterprises.

The study conducted by Aladejebi and Oladimeji (2019) aimed to investigate the impact of bookkeeping, a crucial aspect of accounting, on the financial performance of small and medium-sized firms (SMEs) in the busy city of Lagos. With a strong desire to learn, they sent out surveys to 200 enthusiastic small and medium-sized enterprise owners. Out of them, 197 well-thought-out comments were carefully assessed using the discerning Likert scale. Their findings revealed a contradiction: small and medium-sized enterprise owners acknowledged the utmost significance of maintaining detailed records to interpret their business's success, yet they struggled with fundamental accounting skills and lamented the excessively high expenses of creating financial statements. Amidst these problems, numerous small and medium-sized enterprises (SMEs) resorted to the longstanding practice of manual record-keeping. It is important to mention that the focus of this innovative study was solely on small and medium-sized enterprises (SMEs) in

Lagos. However, our present research project aims to address an interesting gap by expanding its scope to include the entrepreneurial environment in Kisii County.

4.8.2 The Impact of Taxation on SME Performance

The descriptive statistics table offers a comprehensive view of tax-related practices across 326 Small and Medium-sized Enterprises (SMEs). It presents data on the extent to which different tax management actions are implemented and their assessed importance. Every task, including managing tax files and utilizing tax deductions, is evaluated using a grading system from 1 to 5, with higher ratings indicating greater compliance or acknowledgment of significance. Out of all the activities assessed, compliance with Kenya's taxes laws and regulations stands out as the highest rated, with a mean rating of 4.2546. This highlights the broad recognition and implementation of measures to ensure compliance among the SMEs questioned.

The study provides a thorough examination of tax-related procedures among 326 Small and Medium-sized Enterprises (SMEs), offering insights into both the extent to which these strategies are implemented and the perceived significance of different tax management actions. The rating scale of 1 to 5 is used to assess the level of adherence or recognition of relevance among SMEs for each activity. The mean grade of 4.2546 indicates that there is widespread recognition and implementation of actions to guarantee regulatory compliance among the surveyed SMEs in Kenya.

A study conducted by Tee, Boadi, and Opoku (2016) aimed to examine the influence of tax payments on the performance of small and medium-sized enterprises (SMEs) in the West Municipality of Ghana. The study was conducted with 102 managers of small and medium-sized enterprises (SMEs) using questionnaires and interviews. The findings of the study presented a compelling narrative. Managers of small and medium-sized

enterprises (SMEs) view current tax laws as significant obstacles that impede the expansion of their businesses, specifically in relation to customs and excise levies. This perception emphasized the need for Ghana to alter its tax laws in order to more effectively support the operational environments of small and medium-sized enterprises (SMEs). It is important to acknowledge that the study is limited to the Greater Accra region, especially the Ga West Municipality. This constraint may affect the capacity to apply the findings to other locations in Ghana.

The objective of our ongoing research is to surpass these regional limitations by specifically examining small and medium-sized enterprises (SMEs) located in Kisii County, Kenya. Our goal is to capture the specific details of tax management strategies in different regions and how they affect the operations and growth of small and medium-sized enterprises. This expanded viewpoint offers the potential to provide significant observations on how small and medium-sized enterprises (SMEs) in Kisii County handle tax compliance, address tax-related difficulties, and take advantage of chances for longterm growth. In conclusion, these discoveries will assist in customizing policies and strategies that more effectively correspond to the distinct requirements and circumstances of small and medium-sized enterprises (SMEs) in various locations. This will provide a favorable atmosphere for their sustained prosperity and economic impact.

A study conducted by Tee, Boadi, and Opoku (2016) involved 102 managers from certain small and medium-sized enterprises (SMEs) in the West Municipality of Ghana. Their objective was to examine the impact of tax payments on the overall performance of these small and medium-sized enterprises (SMEs) in a dramatic manner. Equipped with questionnaires and interviews as their guiding framework, the process of collecting data unfolded with an atmosphere of anticipation. The complexity of the situation increased as the main characters, the managers of small and medium-sized organizations (SMEs),

expressed their negative view of current tax laws, which they saw as obstacles to the development of these businesses. The culmination of their performance necessitated a revision of Ghana's tax laws, particularly in the domain of customs and excise levies. However, it is important to remember that this theatrical performance took place exclusively in the Greater Accra region, namely in the Ga West Municipality, which restricts its relevance to other regions in Ghana. The objective of our ongoing research is to overcome the limitations imposed by geography by focusing on the small and medium-sized enterprises (SMEs) in Kisii County.

4.8.3 The Influence of Financial Auditing on SME Performance

The descriptive statistics table provides a comprehensive examination of auditing practices across 326 Small and Medium-sized Enterprises (SMEs), delivering useful insights into their compliance with financial rules and practices. Each row in the table represents a distinct component of auditing and provides information on the number of replies (N), the lowest and highest ratings, the average rating, and the standard deviation. The key findings indicate that there are variable levels of implementation and perceived importance among various auditing procedures. One noteworthy discovery is that routine internal and external audits were found to be modestly implemented processes, with an average rating of 3.0307 and a substantial standard deviation of 1.74682. The variety observed indicates that small and medium-sized enterprises (SMEs) acknowledge the significance of audits, but there might be variations in terms of how often they are conducted and how comprehensive they are. Similarly, conducting regular and yearly tax compliance audits achieved an average rating of 3.0276, suggesting that SMEs make an effort to adhere to tax requirements but also revealing inconsistencies in their implementation. The questioned SMEs had a modest level of adherence to the practice of maintaining records of annual audited financial statements over the years, as indicated

by a mean rating of 3.0215. On the other hand, procedures such as maintaining compliance with professional standards during audits (mean: 2.8834) and properly storing all accounting documents (mean: 2.6933) obtained lower average scores. This indicates that SMEs may need to enhance their consistency and attention to detail in these areas. The utilization of external auditors to improve financial reporting and deter wrongdoing obtained a mean rating of 3.2239, suggesting that small and medium-sized enterprises (SMEs) acknowledge the importance of external proficiency in upholding financial transparency and credibility.

Kamau (2016) conducted a study that examined the influence of internal control methods on the performance of small and medium-sized enterprises (SMEs) in Nairobi County, Kenya. The study employed a descriptive method, selecting 100 SMEs by simple random sampling. It uncovered a complex interaction of factors that impact financial success. Control activities, communication, information exchange, and monitoring have been identified as essential factors that contribute to the financial performance of small and medium-sized enterprises (SMEs). These factors are particularly important in light of the difficulties provided by the control environment and risk assessment processes.

Nevertheless, it is important to acknowledge that Kamau's study was restricted to Nairobi County, which restricts its applicability to small and medium-sized enterprises (SMEs) in other areas like Kisii County. The objective of our ongoing research is to expand the scope of the study to include small and medium-sized enterprises (SMEs) in Kisii County, Kenya. Our objective is to investigate regional disparities in auditing methods and their influence on the financial performance of small and medium-sized enterprises (SMEs). This expansion aims to offer a more comprehensive understanding of how small and medium-sized enterprises (SMEs) in Kisii County handle audits, tackle obstacles,

and take advantage of opportunities to improve financial transparency and operational effectiveness.

Kamau (2016) conducted a study that focused on the complex relationship between internal control methods and the performance of small and medium-sized enterprises (SMEs) in Nairobi County. The study specifically emphasized the financial element as the primary factor. The research design adopted a descriptive approach, with the aim of including all small and medium-sized enterprises (SMEs) located in Nairobi County. A total of 100 small and medium-sized enterprises (SMEs) were selected using a simple random selection procedure to participate in this study. The narrative presented a story of stark differences: the control environment and risk assessment emerged as the opposing forces, negatively impacting the financial performance of small and medium-sized enterprises (SMEs). Control activities, communication and knowledge exchange, and monitoring were essential factors that contributed significantly to the financial success of SMEs. The intricate interplay of linkages ultimately unveiled an adverse correlation between the financial performance of SMEs and their system of oversight and risk evaluation. However, it is important for the audience to note that this study was specifically focused on the Nairobi County stage. This leaves an interesting gap to be addressed when our current study widens its scope to include small and medium-sized enterprises (SMEs) in Kisii County.

4.8.4 The Influence of Financial training on SME Performance

The descriptive data table provides a comprehensive overview of the financial education and training methods used in 326 Small and Medium-sized Enterprises (SMEs). Every row in the table corresponds to a distinct training program designed to improve employees' financial literacy and management abilities. The statistics comprise the count

of replies (N), as well as the minimum and maximum ratings, the average rating, and the standard deviation. These statistics offer insights into the uniformity and perceived efficacy of these educational endeavors. The data indicate that training programs such as fundamental Accounting and Bookkeeping were generally well-implemented and recognized as important, as evidenced by a modest mean rating of 3.4847. Training in portfolio management (mean: 3.6166) and financial education on loan contracts (mean: 3.8988) received better scores, indicating that these areas are widely acknowledged and respected for their role in financial risk management and strategic planning in small and medium-sized enterprises (SMEs).

The descriptive statistics table presents a comprehensive analysis of financial education and training practices in 326 Small and Medium-sized Enterprises (SMEs). It focuses on the levels of implementation and perceived effectiveness of different training initiatives that aim to improve financial literacy and management skills among employees. Every training program, which covers a range of topics from fundamental accounting and bookkeeping to more advanced subjects such as portfolio management and financial education on debt contracts, is evaluated using a scoring scale from 1 to 5. The table provides a full overview of the consistency and perceived worth of these activities by including the number of replies (N), minimum and maximum ratings, mean rating, and standard deviation.

The training initiatives for Fundamental Accounting and Bookkeeping had a mean evaluation of 3.4847, indicating a reasonable level of satisfaction. This indicates that although the surveyed SMEs view these initiatives as valuable and have implemented them well, there is still potential for enhancing their execution and effectiveness. The moderate rating signifies that a substantial proportion of SMEs have included

fundamental accounting and bookkeeping training into their activities, recognizing its importance in maintaining precise financial records and guaranteeing adherence to financial requirements.

The training on portfolio management had a mean rating of 3.6166, indicating that it is highly recognized and viewed as effective by SMEs. SMEs prioritize training in portfolio management because it enables their staff to acquire the essential skills for effective investment and risk management. The elevated ranking implies that this training is considered essential for strategic financial planning and attaining sustained business expansion.

The mean rating for financial education on loan contracts reached a higher value of 3.8988. The significance attributed to comprehending debt contracts, which are essential for handling financial leverage and reducing risks linked to borrowing, is highlighted by this elevated grade. Small and medium-sized enterprises (SMEs) clearly understand the importance of providing their staff with education on loan contracts in order to promote informed decision-making and responsible financial behavior. The elevated average rating also signifies a robust execution of this program, demonstrating its perceived efficacy in bolstering financial stability and mitigating financial risks.

In general, the results indicate that small and medium-sized enterprises (SMEs) in Kisii County are actively participating in several financial education and training programs, achieving different levels of achievement and recognition. Although there is a considerable emphasis on providing training in fundamental accounting and bookkeeping, there is a greater emphasis on the value placed on specialist training areas such as portfolio management and debt contracts. SMEs are increasingly adopting a progressive strategy to provide their employees with necessary financial abilities. The

goal is to enhance financial management and strategic decision-making within their enterprises.

These observations indicate the necessity of maintaining a strong focus on extensive financial education and training initiatives. Improving core accounting and bookkeeping methods can further boost the accuracy and adherence to financial record-keeping and compliance. In addition, the ongoing provision and expansion of training in specific fields like as portfolio management and debt contracts will further assist small and medium-sized enterprises (SMEs) in efficiently mitigating financial risks and taking advantage of chances for growth. SMEs may boost their overall financial literacy, improve their operational efficiency, and generate sustainable business growth by prioritizing five important areas.



Mount Kenya

CHAPTER FIVE

SUMMARY, CONCUSSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter consist of; summary, concussions, recommendations and recommendations for further studies guided by the three objectives of the study.

5.1 summary

5.1.1 The Influence of Bookkeeping on SME Performance

The impact of bookkeeping on Small and Medium-sized Enterprises (SMEs) is crucial for their operational efficiency and overall effectiveness. The descriptive statistics table reveals that after analyzing the bookkeeping practices of 326 SMEs, the practice of "Keeping accurate and well-maintained financial records" was ranked the highest, with a mean value of 4.0859. The discovery emphasizes the extensive adoption and recognized significance of thorough documentation among the examined SMEs.

In contrast, the task of "Analyzing financial trends and generating customized accounting reports" had the lowest average grade of 2.6196. This indicates that small and mediumsized enterprises (SMEs) may encounter difficulties in consistently performing thorough financial analyses and creating personalized accounting reports.

These observations are consistent with the wider body of literature on the topic. Aladejebi and Oladimeji (2019) conducted research that revealed comparable patterns across small and medium-sized enterprises (SMEs) in Lagos, Nigeria. Their research unveiled a robust acknowledgement of the indispensability of precise financial records in comprehending firm accomplishment. Nevertheless, small and medium-sized enterprises (SMEs) sometimes face obstacles such as a lack of financial knowledge and the perception that new accounting methods are intricate and expensive.

In order to improve the performance of small and medium-sized enterprises (SMEs) by enhancing their bookkeeping procedures, it is recommended that future efforts prioritize the resolution of these obstacles. This include the promotion of financial literacy programs specifically designed for small and medium-sized enterprise (SME) owners and managers, lobbying for the implementation of easily understandable digital accounting solutions, and offering assistance in analyzing financial data to make informed strategic decisions.

By providing SMEs with the necessary resources and expertise to maintain precise financial records and utilize them efficiently, stakeholders can help promote a stronger and more competitive SME sector. This will, in turn, improve access to financing, compliance with regulations, and sustainable growth opportunities in rapidly changing market conditions.

5.1.2 The Impact of Taxation on SME Performance

The taxation's effect on Small and Medium-sized Enterprises (SMEs) is a critical factor that influences their financial well-being and operational effectiveness. The study conducted on 326 SMEs yields informative descriptive statistics that provide light on the impact of taxation practices on SME performance.

The data indicate that conformity to Kenya's taxation laws and regulations obtained the highest mean grade of 4.2546 among the evaluated tax management techniques. The high ranking emphasizes the considerable importance that SMEs place on adhering to tax legislation, demonstrating its perceived significance in guaranteeing operational stability and legal conformity.

On the other hand, behaviors like using tax deductions to reduce expenses (mean rating: 3.3374) and taking advantage of VAT deductions for trade facilitation (mean rating:

4.2147) also earned significant ratings, suggesting that SMEs are making attempts to maximize tax benefits within the boundaries of the law.

The results align with other studies, such as the study conducted by Tee, Boadi, and Opoku (2016), which examined the perceptions of tax payment among small and medium-sized enterprises (SMEs) in Ghana. Their investigation unveiled the apprehensions of small and medium-sized enterprises (SMEs) regarding the influence of tax policies on the expansion of their businesses and their financial performance. The report emphasized the difficulties associated with customs taxes and proposed policy changes to reduce the tax burdens on small and medium-sized enterprises (SMEs).

In order to improve the performance of small and medium-sized enterprises (SMEs) through taxation, it is important to concentrate on streamlining tax compliance procedures, enhancing SMEs' comprehension of tax benefits and deductions, and pushing for legislative changes that promote the growth of SMEs. These measures can enable small and medium-sized enterprises (SMEs) to more successfully manage complicated regulations, improve tax planning techniques, and allocate resources efficiently to promote sustainable business development and competitiveness in the market.

5.1.3 The Influence of Financial Auditing on SME Performance

The impact of financial audits on Small and Medium-sized Enterprises (SMEs) is crucial in guaranteeing transparency, accountability, and overall business efficacy. The study analyzed descriptive information from 326 small and medium-sized firms (SMEs) to get insights into the extent to which these businesses adhere to and view the value of financial auditing processes.

The statistics indicate that performing regular internal and external audits had a moderate average grade of 3.0307. These findings indicate that small and medium-sized enterprises

(SMEs) understand the significance of auditing in upholding financial integrity. However, there is variation in how often and consistently audit methods are implemented among the businesses examined.

In the same way, the act of conducting regular and yearly audits to ensure tax compliance obtained an average grade of 3.0276, suggesting that small and medium-sized enterprises (SMEs) make an attempt to follow tax legislation, but there is some variation in how well they execute this.

The practice of maintaining records of annual audited financial statements had a mean grade of 3.0215, indicating a moderate level of adherence to this practice among SMEs. However, certain activities, such as maintaining strict adherence to professional standards during audits (mean: 2.8834) and effectively safeguarding all accounting documents (mean: 2.6933), earned lower ratings. This indicates areas where consistency and attention to detail should be improved.

The results of this study align with earlier research, including the study conducted by Kamau (2016), which examined the influence of internal control methods on the performance of small and medium-sized enterprises in Nairobi County. The study found that control actions are essential for improving financial performance. However, deficiencies in risk assessment and oversight frameworks can impede the overall efficacy of small and medium-sized enterprises (SMEs).

In order to improve the performance of small and medium-sized enterprises (SMEs) through efficient financial auditing practices, it is important for stakeholders to prioritize the promotion of standardized audit procedures, the improvement of professional training for auditors and SME management, and the utilization of digital technologies to simplify auditing operations. These measures can assist small and medium-sized enterprises

(SMEs) in enhancing their financial transparency, reducing risks, and strengthening their reputation with stakeholders. This, in turn, promotes sustainable growth and resilience in highly competitive markets.

5.1.4 The Influence of Financial training on SME Performance

The impact of financial training on Small and Medium-sized Enterprises (SMEs) is crucial in improving their financial management practices and overall performance. The study including 326 SMEs yields informative descriptive statistics that shed light on the influence of financial training on the operational efficiency and financial well-being of SMEs.

The findings indicate that financial training earned diverse average scores across several facets of financial management. An example of this is when the workforce received training in basic accounting and bookkeeping, resulting in an average rating of 3.4847. This indicates a moderate level of adoption and acknowledgment of the significance of fundamental financial literacy among small and medium-sized enterprises (SMEs).

The delivery of financial education on loan contracts, aimed at reducing the risks associated with leverage, received an average rating of 3.8988. This rating suggests that small and medium-sized enterprises (SMEs) are aware of the importance of making educated financial decisions to properly manage their liabilities.

On the other hand, the average rating for financial education related to conducting costbenefit analyses was 2.7025, indicating a lack of comprehension among SMEs on the strategic significance of financial data analysis.

These findings are consistent with more extensive study on the subject. Research conducted by Tee, Boadi, and Opoku (2016) highlights the significance of financial

literacy and training in enhancing the financial management abilities of small and medium-sized enterprises (SMEs). Their investigation uncovered that small and medium-sized enterprises (SMEs) frequently encounter difficulties in obtaining and executing all-encompassing financial training programs that are customized to their particular requirements and operational circumstances.

In order to maximize the effectiveness of financial training for small and medium-sized enterprises (SMEs), it is crucial for stakeholders to concentrate on creating customized training programs that specifically target the distinctive difficulties and possibilities faced by SMEs. This encompasses improving the availability of effective financial management resources, facilitating cooperation between financial professionals and small and medium-sized enterprise (SME) owners/managers, and cultivating a mindset of ongoing education and adjustment in response to evolving market dynamics.

By equipping small and medium-sized enterprises (SMEs) with the essential information and skills to effectively navigate financial problems, stakeholders may help enhance the resilience of SMEs, improve their decision-making processes, and promote sustainable growth in competitive market conditions.

5.2 Conclusions

The thorough examination of bookkeeping procedures among 326 Small and Medium-sized Enterprises (SMEs) in Kisii County demonstrates the substantial influence of precise and well-managed financial records on the performance of SMEs. The results suggest that bookkeeping is widely acknowledged and put into practice, with a significantly high average grade of 4.0859, highlighting its significance in facilitating effective decision-making, ensuring compliance with regulations, and enhancing operational efficiency. Nevertheless, the study identifies specific areas that need

enhancement, including in the analysis of financial patterns and the creation of tailored accounting reports, which obtained a lower average grade of 2.6196. By improving the financial literacy of SMEs and providing them with modern accounting tools and best practices, their financial foundations, transparency, and market competitiveness can be strengthened.

The taxation practices implemented by small and medium-sized enterprises (SMEs) in Kisii County have a substantial impact on their overall success. The survey indicates that there is a strong emphasis on following Kenya's taxation laws and regulations, as seen by a mean rating of 4.2546. Nevertheless, the execution of different tax management strategies differs, presenting certain difficulties in maintaining detailed records and handling administrative intricacies. The utilization of tax exemptions and VAT deductions was acknowledged favorably, however, concerns over the existence of numerous tax obligations such as PAYE, NHIF, and NSSF were observed. To optimize financial planning, cash flow management, and overall competitiveness, it is important to address these difficulties by implementing educational efforts, simplifying compliance procedures, and improving tax literacy.

The financial auditing practices among small and medium-sized enterprises (SMEs) show a modest level of implementation. Both routine internal and external audits have received an average rating of 3.0307. This suggests that there is heterogeneity in the frequency and depth of audit processes, indicating that there is potential for development in terms of consistency and effectiveness. Practices such as keeping records of yearly audited financial statements and regular tax compliance audits demonstrate a reasonable level of adherence. Nevertheless, the lower grades regarding adherence to professional standards and preservation of accounting documents indicate areas where improvements can be made to enhance the accuracy, reliability, and accountability of financial reporting.

Enhancing rigorous audit methods, providing training on best practices, and implementing frameworks for continuous improvement helps bolster governance and foster confidence among stakeholders.

Financial training programs have a notable effect on the performance of small and medium-sized enterprises (SMEs), particularly when it comes to training in essential accounting and bookkeeping skills. This specific training received a reasonable average rating of 3.4847. The training on portfolio management, with a mean rating of 3.6166, and the financial education on debt contracts, with a mean rating of 3.8988, earned higher ratings, indicating their significance in strategic planning and risk management. Nevertheless, it is necessary to place greater emphasis on areas such as completing costbenefit assessments, which have a mean score of 2.7025. Thorough financial training programs can improve financial literacy, accuracy in reporting, and adherence to regulations, leading to enhanced business performance. Government bodies, industry associations, and educational institutions can work together to provide specialized training programs that provide small and medium-sized enterprises (SMEs) with the necessary knowledge and skills to achieve sustained growth and competitiveness.

To summarize, the study highlights the essential significance of accounting services in enhancing the profitability and performance of small and medium-sized enterprises (SMEs) in Kisii County, Kenya. Accurate record-keeping, efficient tax planning, rigorous financial examination, and extensive financial education are crucial factors that have a substantial impact on the performance of small and medium-sized enterprises (SMEs). Targeted initiatives can improve financial practices, regulatory compliance, and strategic decision-making by addressing identified shortcomings. Stakeholders, such as government bodies, business support organizations, and financial institutions, should

work together to offer the essential resources, training, and tools required to assist small and medium-sized enterprises (SMEs) in these regions. Through this approach, small and medium-sized enterprises (SMEs) can fortify their financial underpinnings, improve clarity, and establish a strong foothold for long-term expansion and competition in the market.

5.3 Recommendations

Based on the findings regarding the influence of financial training on SME performance, several recommendations can be made to enhance the effectiveness of financial training initiatives and maximize their impact:

1. Tailored Training Programs- Develop customized financial training programs that address the specific needs and challenges of SMEs. These programs should cover fundamental accounting principles, bookkeeping practices, financial analysis, and strategic financial management relevant to SME operations.
2. Continuous Professional Development- Implement a structured approach to ongoing professional development in financial skills for SME employees. This could include regular workshops, seminars, and online courses to keep employees updated on industry trends, regulatory changes, and best practices.
3. Focus on Strategic Financial Planning- Emphasize training on portfolio management, cost-benefit analysis, and financial forecasting to enable SMEs to make informed strategic decisions. This training should empower SMEs to optimize resource allocation, manage risks, and seize growth opportunities effectively.
4. Integration of Anti-Fraud Measures- Incorporate anti-fraud training into financial education programs to enhance awareness and vigilance among employees. This

proactive approach can help prevent financial misconduct and protect SMEs from potential losses and reputational damage.

5. Access to Resources and Support- Facilitate access to financial tools, software, and resources that simplify financial reporting, analysis, and compliance. Additionally, provide SMEs with access to mentors or consultants who can offer guidance on complex financial matters.
6. Measurement of Training Effectiveness- Establish mechanisms to measure the impact of financial training initiatives on SME performance. Regularly evaluate key performance indicators (KPIs) such as financial literacy levels, accuracy of financial reporting, profitability improvements, and employee satisfaction with training programs.

By implementing these recommendations, stakeholders can contribute to building a financially competent and resilient SME sector. Empowered with robust financial skills and knowledge, SMEs can navigate challenges more effectively, capitalize on growth opportunities, and contribute positively to economic development.

5.4 Recommendations for further studies

A Longitudinal Studies should be conducted to track the long-term effects of concussions on individuals' health and well-being. By following participants over an extended period, researchers can assess the cumulative impact of concussions and identify potential risk factors for adverse outcomes, such as cognitive decline, mood disorders, and neurodegenerative diseases.

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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

REF: REQUEST FOR PERMISSION FOR DATA COLLECTION.

As a masters' student enrolled at Mount Kenyatta University, am conducting a research project for my thesis, which focuses on *the impact of accounting services on the performance of small and medium enterprises in Kisii County, Kenya*. As part of this research, your participation has been selected randomly, and you are invited to take part in the survey. Please rest assured that any information you provide will be used solely for academic purposes and will be handled with the utmost confidentiality. Your cooperation and active involvement in this academic endeavor are greatly appreciated.

Thank you in advance.

Yours Faithful,

Simon Marwa Gimase.

Appendix II: Questionnaire

Tick (✓) appropriately based on your honest opinion.

Section A: background/demographic information

1. Gender?

a). Male b). Female

2. Age (in years)?

a). < 18 b). 18-30

c). 31-40 [] d). > 40 []

3. Indicate your level of education?

a). No education [] b). Secondary []

c). University/bachelors [] d). Post Graduate []

4. Tenure of the SME (in years)?

a). < 5 []

b). 5-10 []

c). > 10 []

5. Indicate the type of business you engage in.

.....

....

Section B: Performance of SMEs

Please indicate the status of the following aspects of your business performance in the last five years?

Variable	2018	2019	2020	2021	2022
The volume of sales in Kshs ('000)					
The number of employees					
Level of profitability in Kshs. ('000')					
Number of branches					

6. Please indicate your best estimate of the performance of your business over the past two years where (5- *The best*, 4- *better*, 3 – *Moderate*, 2- *Worse*, 1- *The worst*).

Items	1	2	3	4	5
Our increase in sales					

The market share we've acquired					
The rate at which our sales are growing					
The return on assets after taxes					
Our post-tax net profits					
Our financial solvency					
Our reputation in the public eye					
Compliments from our customers					
The loyalty of our customers					

Section C: Bookkeeping

Please indicate your opinion with the following statements on a scale of (1) one

7. *strongly disagree* to (5) five - *Strongly agree*

Items	1	2	3	4	5
1. Keeping accurate and well-maintained financial records.					
2. Ensuring that all cash inflows and outflows are meticulously documented in the cash book.					
3. Recording all sales and purchase transactions for thorough documentation.					
4. Regularly reconciling the cash book with bank statements to ensure accuracy.					
5. Keeping an updated register of company assets.					
6. Posting all financial transactions and conducting general ledger maintenance.					
7. Preparing comprehensive financial statements, including profit and loss statements, trial balances, balance sheets, and cash flow statements.					
8. Analyzing financial trends and generating customized accounting reports.					
9. Establishing secure backups for financial data.					
10. Preparing the trial balance by consolidating information from both the cash book and ledger accounts.					
11. Keeping accurate and well-maintained financial records.					

8. In what other ways have you ensured bookkeeping in the business for improved performance?

.....

.....

.....

Section D: Taxation

Please indicate your opinion with the following statements on a scale of (1) one

9. *strongly disagree* to (5) five - *Strongly agree*

Items	1	2	3	4	5
<i>The business has been</i>					
1. Handling monthly and yearly tax filings, including income tax, Valueadded Tax (VAT) returns, and various payroll-related returns such as PAYE, NHIF, and NSSF.					
2. Managing all obligatory tax returns, encompassing NSSF, NHIF, PAYE, VAT, withholding tax, and more.					
3. Adhering to Kenya's taxation laws and regulations to ensure compliance.					
4. Engaging in tax planning strategies aimed at ensuring revenue accountability.					
5. Establishing financial record-keeping systems that comprehensively capture all tax obligations.					
6. Providing information related to both VAT payable and VAT claimable amounts.					
7. Leveraging income tax exemptions to minimize expenses and enhance profitability.					
8. Taking advantage of reduced-rate deductions on investments like rent.					
9. Utilizing VAT deductions to facilitate the successful trade of taxexempted essential products within the community.					

10. In what other ways have you ensured taxation in the business for improved performance?

.....

.....

...

Section E: Financial auditing

Please indicate your opinion with the following statements on a scale of (1) one

11. *strongly disagree* to (5) five - *Strongly agree*

Items	1	2	3	4	5
<i>The business has been</i>					
1. Conducting routine internal and external audits.					
2. Performing financial audits on their financial statements.					
3. Undertaking periodic and annual tax compliance audits.					
4. Ensuring adherence to professional standards throughout the auditing process.					
5. Carrying out professional and impartial internal audits.					
6. Employing the expertise of a capable external auditor to prevent financial misconduct and enhance financial reporting.					
7. Maintaining a record of annual audited financial statements over the years.					
8. Effectively preserving all accounting documents for future use.					

12. In what other ways have you ensured financial auditing in the business for improved performance?

.....

...

Section E: Financial training

Please indicate your opinion with the following statements on a scale of (1) one

13. *strongly disagree* to (5) five - *Strongly agree*

Items	1	2	3	4	5
<i>The business has been consistent with....</i>					
1. Providing fundamental Accounting and Bookkeeping training to its workforce.					
2. Delivering Anti-Fraud training to employees.					
3. Offering training to staff and the technical team on portfolio management.					
4. Providing education and training on the importance of financial borrowing and savings.					
5. Offering financial education on attitudes, habits, and behaviors related to the movement and management of money.					
6. Providing financial education on the necessity of establishing a reserve fund for emergencies.					
7. Delivering financial education on debt contracts to mitigate risks associated with leverage.					

8. Providing financial education on the significance of conducting cost-benefit analyses.					
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14. In what other ways have you ensured product leadership in the bank for competitive advantage?


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Thank you for your participation



Appendix III: ERC Letter



Mount Kenya University

REF: MKU/ISERC/4003
TO: SIMON MARWA GIMASE
REG: MBA/2019/42395

Date: 29 July 2024

Dear Sir/Madam,

RE: ANALYSIS OF THE EFFECT OF ACCOUNTING SERVICES ON THE PERFORMANCE OF SMALL AND MEDIUM ENTREPRISES (SMES) IN KISII COUNTY, KENYA

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **2939**. The approval period is **29/07/2025 - 28/07/2025**.

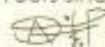
This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.


Yours sincerely,

Mount Kenya University
P.O. Box 342 - 01000, THIKA
Office of the Principal
College of Graduate Studies & Research


Dr. Alfred Owino, PhD
Chairman, Mount Kenya University ISERC

Main Campus, General Kago Road, P.O. Box 342-01000 Thika.
Cell: +254 709 153 000 | +254 709 153 200
Email: info@mku.ac.ke, Web: www.mku.ac.ke
Chartered and ISO 9001 : 2015 Certified Institution.
Unlocking Infinite Possibilities

Appendix IV: Introduction Letter



Mount Kenya University

DIRECTORATE OF GRADUATE STUDIES

MBA/2019/42395

31st July, 2024

*National Commission for Science Technology & Innovation (NACOSTI)
Off Waiyaki Way, Upper Kabete,
P.O Box 30623- 00100
NAIROBI, KENYA*

Dear Sir/Madam,

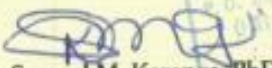
RE: SIMON MARWA GIMASE - REGISTRATION NO. MBA/2019/42395

The purpose of this letter is to introduce the above named student who is pursuing **Master of Business Administration** in the department of **Accounting and Finance** in the school of **Business and Economics**.


The title of the research is **"Analysis of the Effect of Accounting Services on the Performance of Small and Medium Enterprises (SMES) in Kisii County, Kenya."** It has been cleared by the University's Ethics Review Committee (Certificate attached) and now has to proceed to the field to collect data between **August, 2024 and October, 2024**.

Any assistance accorded to the student will be highly appreciated.

Thank you.








Dr. Samuel M. Karenga, PhD
Director, Graduate Studies
Enc.



Main Campus, General Kago Road, P.O. Box 342-01000 Thika.
Tel: +254 709 183 000 / +254 709 183 200

Appendix V: NACOSTI Authorization

 REPUBLIC OF KENYA	
Ref No: 726524	Date of Issue: 16/August/2024
RESEARCH LICENSE	
	
This is to Certify that Mr. SIMON MARWA GIMASE of Mount Kenya University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Kisii on the topic: ANALYSIS OF THE EFFECT OF ACCOUNTING SERVICES ON THE PERFOR-MANCE OF SMALL AND MEDIUM ENTREPRISES (SMES) IN KISII COUNTY, KENYA for the period ending : 16/August/2025.	
License No: NACOSTIP/2438999	
Applicant Identification Number 726524	
Director General  NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION	
Verification QR Code 	
NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.	
See overleaf for condition:	

