

**ANALYSIS OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF
MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN NAIROBI COUNTY,
KENYA**

GLORIA MUTINDI MUTETI



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DECLARATION AND APPROVAL

Declaration by the student

I, the undersigned, affirm that this work is my own original creation and has not been submitted for a degree at any other university or for any other award.

Gloria Mutindi Muteti

MBA/2022/32513

Signature:



Date: 17/04/2025

Approval

I verify that the work detailed in this proposal was conducted by the candidate under my supervision.

Dr. Martin Onsiro

School of Business and Economics

Mount Kenya University

Signed:



Date: 17/04/2025

DEDICATION

The unfaltering faith and affection of my parents, Mr. and Mrs. Patrick Musyimi and Fidelia Mulavu, motivate me to complete this study endeavor.



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From the bottom of my heart, I want to thank everyone who helped me with this study. First and foremost, I want to thank my supervisor, Dr. Martin Onsiro, for all of the help and advice he has given me. His knowledge, wise counsel, and encouraging words were crucial in shaping this work and inspiring me to achieve my goals. The participants' insightful contributions were essential to the success of this study, and I am deeply grateful to them. Additionally, I want to thank my fellow academics and colleagues for their insightful comments and lively debates, which greatly enhanced my understanding of the topic.

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For all the good things that God has done, praise be to Him. Nothing would have been accomplished had He not provided the heavenly direction.

ABSTRACT

The expansion of the economy and the creation of jobs in Nairobi County, Kenya, are directly tied to the success of micro, small, and medium-sized businesses. Financial management is a challenge for many MSMEs, which impacts their ability to stay in business. If we want to know, "How is financial literacy related to the financial performance of micro, small, and medium-sized enterprises (MSMEs)?" this study looked at four things: saving, spending, managing debt, and budgeting. Filling a void in the existing empirical research, this study will investigate the financial literacy and performance of micro, small, and medium-sized firms (MSMEs) in Nairobi County. Improving MSMEs' financial performance can be explained by this research using Financial Capability Theory, Resource-Based Theory, and Human Capital Theory. To increase financial performance, these theories stress the importance of competent financial management, optimizing resources, and organizational knowledge. In order to evaluate financial literacy and its consequences on financial success, the study gathered data using a combination of methods. A standardized questionnaire was used to inquire about the participants' financial literacy and performance. Topics covered in the questions included financial planning, saving, investing, and handling debt. In order to ascertain the level of financial literacy and the insights it entails; a stratified sampling technique was employed to select MSME owners and managers from Nairobi County. The strategy relied on a thorough survey that included verified financial literacy tests and financial performance indicators. We executed a pilot test with 10 randomly chosen respondents to find any ambiguities, get a feel for how long the survey would take, and make any necessary adjustments depending on their feedback. Items with Cronbach's Alpha values lower than 0.70 are considered unreliable. In order to get an exact count, the questionnaire was sent out to those who were meant to reply after this pilot survey. To ensure a representative sample of MSME owners and managers in Nairobi County, we employed stratified sampling. Data cleaning was followed by an evaluation of sample characteristics and financial literacy using descriptive statistics. After adjusting for confounding factors, regression analysis showed how each aspect of financial literacy affected financial performance, and correlation analysis looked at the connections between these aspects. Investing, in contrast to saving, managing debt, and creating a budget, does not significantly affect financial outcomes. The beta coefficient for the effect of budgeting on financial performance was 0.160, indicating a positive and statistically significant relationship. There is a 0.160-unit improvement in financial performance for every unit change in budgeting. A one-unit change in debt management boosts financial performance by 0.205 units, indicating a strong positive correlation between the two. Investment had a small but beneficial effect on financial performance, as indicated by a weak statistically significant relationship ($\beta=0.022$, $p=0.787$). The beta coefficient for saving was 0.441, suggesting a very positive correlation with financial outcomes. A 0.441-unit improvement in financial performance is associated with one-unit savings. The results demonstrate that understanding financial matters is critical for the development and survival of MSME.

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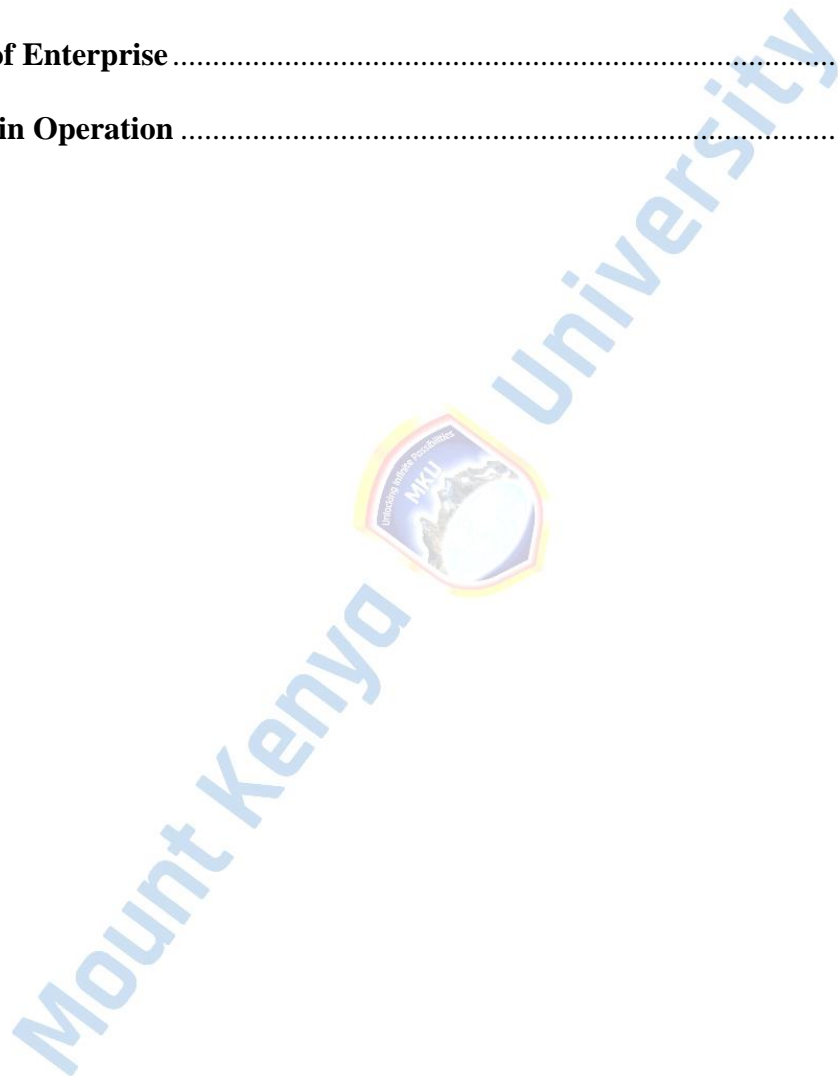


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LIST OF ABBREVIATIONS AND ACRONYMS

FLEP	- Financial Literacy and Education Program
FTC	- Financial Capability Theory
GDP	- Gross Domestic Product
IMF	- International Monetary Fund
INFE	- International Network on Financial Education
MSMEs	- Micro, Small, and Medium Enterprises
OECD	- Organization for Economic Cooperation and Development
OECD	- Organization for Economic Corporation and Development
PFM	- Personal Financial Management
RBV	- Resource-Based View
ROE	- Return on Equity
ROI	- Return On Investment
SEM	- Structural Equation Modeling
U.S	- United States
VRIN	- Valuable, Rare, Inimitable, And Non-Substitutable

CHAPTER ONE: INTRODUCTION

1.0 Introduction

When it comes to innovation, job creation, and economic growth, Nairobi County, Kenya's micro, small, and medium-sized enterprises (MSMEs) are indispensable. Despite their significance, numerous of these organizations encounter challenges with financial management, which hinders their growth and reduces their competitiveness. Aiming to explore the relationship between financial literacy and the financial success of MSMEs in Nairobi County, this study examines key financial behaviors such budgeting, saving, investing, and debt management.

This chapter establishes the framework for the remainder of the study by providing a concise overview of financial literacy and its significance for micro, small, and medium-sized companies (MSMEs). The study's setting highlights the worldwide and regional significance of financial literacy by demonstrating its effects on resource distribution, business decision-making, and overall financial security. After this, we will discuss the role of micro, small, and medium-sized enterprises (MSMEs) in the county of Nairobi's economy and the financial challenges they face.

To set the stage for the research, the issue statement provides an inadequate picture of how different parts of financial literacy impact the performance of micro, small, and medium-sized enterprises (MSME). Finding out how financial literacy affects the sustainability and stability of MSMEs' financial conditions is, hence, the main objective of the study. The objectives and research questions of the study are then outlined, with a focus on the ways in which financial management strategies including budgeting, debt management, saving, and investing influence company performance.

This study is significant because it will provide valuable information to academics, politicians, banks, and business owners in the MSME sector. The time, space, and idea boundaries are laid forth in the study's scope to ensure that all parties are aligned. Also included are the study's delimitations and limits, which address any constraints that may have affected the findings.

This chapter concludes by outlining the study's assumptions, with a focus on the prerequisites for financial literacy and decision-making. By offering operational definitions of essential words, which encourage clarity, we ensure that crucial concepts referenced throughout the research are consistently understood.

In order to answer the research question, this chapter describes the main components of a thorough study that will examine the effects of financial literacy on MSMEs in Nairobi County.

1.1 Background of the Study

When an individual or group is able to understand and make good use of basic financial concepts, tools, and processes, we say that they are financially literate. Knowing how to make a budget, eliminate debt, invest prudently, and save money are all parts of financial literacy for MSMEs. Micro, small, and medium-sized businesses (MSMEs) can boost their earnings, resource allocation, and overall financial management with a strong base of financial literacy. As a result, these companies are able to expand, which contributes to the overall growth and stability of the economy (OECD, 2020).

Financial literacy is crucial for micro, small, and medium-sized businesses (MSMBs) around the globe to remain viable and thrive in the long run. According to the World Bank (2014), micro, small, and medium-sized enterprises (MSMEs) should be Kenya's top economic priority if the

country is serious about reducing poverty, increasing employment, and growing its economy. A lot of these companies aren't able to develop and succeed since their money isn't managed well.

Competence in managing one's own money wisely is a must in today's complicated financial world. This competency is based on financial literacy, which is having the information, understanding, and mindset to make responsible choices with one's money (OECD 2020). The primary focus of this study is on the relationship between people's levels of financial literacy and their decision-making abilities, investment choices, and overall financial health in the long run. To do this, it explores the complex interplay between financial literacy and prudent money management. By looking at how financial literacy affects important financial management tasks like saving, budgeting, managing debt, and investing decisions, this study hopes to show that improving financial literacy can help MSMEs with their financial management problems. The end outcome should be an increase in profitability, liquidity, and growth.

The influence of financial literacy extends beyond national borders and shapes economies all across the world. Financial inclusion, economic development, and systemic risk mitigation are all highlighted in the 2020 IMF research as being of paramount importance. Research shows that in developed countries, there is a strong correlation between financial literacy and economic growth, demonstrating that more education leads to better financial outcomes (Lusardi & Mitchell, 2014). The OECD affirms the importance of financial literacy on a global scale by bringing attention to the ways in which it promotes responsible borrowing and increases resilience to financial shocks.

But to fully grasp the global resonance, one must be well-versed in the specific regional and local circumstances. Financial literacy is often higher in industrialized economies than in developing ones, according to study by Demirgüç-Kunt and Klapper (2013). This disparity is rather noticeable. Cultural norms, socioeconomic inequality, and availability of financial education all play a role in

shaping people's levels of financial literacy in developing nations. The necessity for context-specific financial literacy programs is demonstrated, for example, by Honohan's 2008 research in Southeast Asia, which emphasizes the impact of cultural biases and risk aversion on financial decision-making.

In Europe and America, initiatives to enhance financial literacy have been extensive and multifaceted. Countries like Germany, Switzerland, and the Netherlands have comprehensive financial education programs integrated into their education systems and supported by government and private sector collaborations (OECD/INFE, 2016; Lusardi & Mitchell, 2011; Robson, 2011). In the United States, efforts by governmental agencies, non-profits, and financial institutions have focused on improving financial literacy among individuals and small businesses alike.

Financial literacy has been given top priority in Asian nations like South Korea, Japan, and Singapore as part of their national plans for economic growth. These nations have implemented educational campaigns, workshops, and online resources to empower citizens with the necessary financial skills (Bank of Japan, 2019; Financial Services Commission, Korea, 2019; Monetary Authority of Singapore, 2018). Moreover, the rise of fintech solutions in countries like China and India has necessitated a greater emphasis on financial literacy to ensure responsible use of financial services (Fintech Magazine, 2021; Xue & Hossain, 2018).

Across the diverse landscape of Africa, from West Africa to East Africa, financial literacy initiatives have seen varying levels of implementation and success. In West Africa, countries like Nigeria and Ghana have made strides in promoting financial literacy through partnerships between governments, financial institutions, and civil society organizations (Olomola & Adeyemi, 2019; Adeola & Evans, 2016). Central African nations such as Cameroon and the Democratic Republic

of Congo face challenges in access to financial education due to infrastructure limitations but are increasingly recognizing its importance (Asongu & Nwachukwu, 2016; Tchamyou et al., 2019).

In East Africa, Kenya stands out as a hub for innovation and entrepreneurship, with a vibrant MSME sector driving economic growth. However, despite the country's progress, challenges related to financial literacy persist among MSMEs in Nairobi County and beyond. While efforts have been made by governmental and non-governmental actors to promote financial education, there remains a gap between awareness and practical application (Sitienei & Kibet, 2020; Ngure & Kibui, 2017).

Kenya presents a captivating and challenging case study. Its dynamic economy, rapidly growing mobile money penetration, and diverse population offer a rich tapestry for understanding the interplay between financial literacy and personal financial management. Yet, challenges remain. Only 34% of Kenyan people, according to the worldwide Findex Database, are financially literate, which is less than the 38% worldwide average. Further obstacles include the existence of informal financial markets, economic inequality, and restricted access to financial services in rural regions.

As the independent variable, it helps Kenyans understand and navigate the complexities of the economy. "Having the knowledge, skills, and attitudes necessary to make informed and effective financial decisions throughout one's life" is how the Organization for Economic Cooperation and Development (OECD) defines it. This map holds key concepts of budgeting, savings, investing, debt reduction and risk assessment, to help us not only understand the nature of money, but also how we can control and manage our financial state of affairs. Five core dimensions within this map include: (1) financial knowledge, (2) risk comprehension, (3) financial planning, (4) investment knowledge, and (5) pension knowledge. Each dimension empowers Kenyans to navigate complex financial situations and make informed choices, from managing mobile money transactions to

assessing potential investment opportunities in local businesses or the burgeoning agriculture sector.

As the dependent variable brings knowledge and skills to life. It refers to the process of making informed and responsible financial decisions to achieve one's financial goals. This involves budgeting and tracking expenses, managing debt, setting and achieving savings goals, making informed investment choices e.g., choosing between investing in a chama or a government bond, and planning for retirement. Studies by Van Rooij (2011) reveal a harmonious correlation between financial literacy and effective personal financial management, suggesting that better financial knowledge leads to more responsible and effective financial practices.

Higher levels of financial literacy equip Kenyans with the knowledge to: Make informed decisions about loans and debt: Understanding interest rates, loan terms, and credit scores empowers individuals to borrow responsibly and avoid becoming trapped in debt cycles. This is particularly crucial in Kenya, where access to microcredit has increased rapidly, alongside concerns about over-indebtedness. Plan effectively for the future: Financial literacy skills like budgeting and goal setting enable Kenyans to build savings for various needs, from education to healthcare to starting a business. This fosters long-term financial security and empowers individuals to pursue their economic aspirations. Navigate the complexities of investing: Understanding risk-reward ratios, diversification strategies, and different investment options allows Kenyans to make informed choices about where to invest their savings and potentially grow their wealth. This opens doors to opportunities beyond traditional savings accounts, including mobile money-based investment platforms.

1.1.1 MSMEs in Nairobi City County

Located at the core of Kenya, Nairobi City County vibrates with the vitality of a vibrant economic nucleus. Serving as the epicentre of commerce and finance in the country, it hosts a flourishing network of MSMEs, which drive innovation, employment generation, and make substantial contributions to the county's Gross Domestic Product (GDP) (World Bank, 2014; KNBS, 2021). MSMEs play a major role in Nairobi, but they usually run into a number of challenges that prevent them from growing and succeeding over the long run. Obstacles including restricted financial resources, inadequate infrastructure, and a deficiency in administrative abilities are prevalent. However, one significant problem sticks out: company owners' lack of financial knowledge. In order to properly manage the intricacies of the financial environment, both people and organizations must possess a solid understanding of financial literacy. Possessing the information, abilities, and mentality required to make wise financial choices is known as financial literacy (OECD/INFE, 2022). This includes: the ability to manage money effectively, which includes skills like budgeting, saving, managing debt, and making wise investment decisions; the ability to plan for the future, which includes retirement planning, setting financial goals; and the ability to understand basic financial concepts, which include terms like income, expenses, savings, investments, budgeting, debt, and risk. Assessing financial literacy is essential to comprehending a population's financial aptitude and knowledge. It enables us to evaluate the success of financial literacy initiatives and pinpoint areas in which further interventions are most required (European Commission, 2023).

1.1.2 Financial Literacy and Financial Performance

Financial literacy, in its simplest form, is the ability to understand and make sound decisions about one's own and one's organization's financial situation (Lusardi & Mitchell, 2014). Financial literacy for MSMEs consists of many essential elements: Budgeting is the process of making an effective spending plan. Strategic resource allocation, spending tracking, and financial goal achievement are all made possible by effective budgeting for MSMEs. The act of saving some of one's money for future use is known as saving. Similarly, savings allow MSMEs to invest in expansion prospects and provide as a financial safety net against unforeseen events. Allocating resources to projects or assets with the hope of earning returns is known as investing. Investing enables MSMEs to grow their business, diversify their revenue sources, and boost profitability. Additionally, debt Management is the strategy employed to handle borrowing and repayment of funds. Effective debt management ensures that MSMEs can access necessary capital while maintaining a healthy financial position.

Financial performance, which measures the profitability and overall financial health of a corporation, is the dependent variable in this study. Many financial measures, including liquidity ratios, profitability ratios, and total financial stability, are used to evaluate it. The capacity to sustain and expand a firm, as well as good financial management techniques, are hallmarks of a successful micro, small, or medium enterprise (MSMEs).

1.2 Statement of the Problem

To succeed in today's complex financial environment, people and companies need to be financially literate. It covers the fundamentals of personal finance, including the facts, figures, and mindset

required to make educated decisions. Another way to look at a company's health and profitability is by looking at its financial performance. Any business, especially MSMEs, can use it as a yardstick for success. According to research (Fatoki, 2014; Eniola & Entebang, 2017), entrepreneurs whose financial literacy is high tend to have more success running micro, small, and medium-sized enterprises (MSME).

The precise nature of the relationship between financial literacy and the performance of micro, small, and medium-sized enterprises (MSME) in the particular context of Nairobi City County remains an open question, despite the existence of this documented association. Nairobi City County presents a unique and bustling economic landscape for MSMEs. The county houses a diverse range of industries, including tourism, manufacturing, and trade (Kenya National Bureau of Statistics [KNBS], 2020). This diversity offers both opportunities and challenges for MSMEs. While the vibrant economy creates fertile ground for entrepreneurship, the competitive environment can be demanding (Wangari, M., Muturi, W., & Oluoch, O. 2019).

The existence of government initiatives like the Financial Literacy and Education Program (FLEP) suggests a recognized need for improvement in financial literacy among Kenyans (World Bank, 2017). Research conducted by the World Bank indicates that enhanced financial management in small firms around the globe is positively correlated with financial literacy training (World Bank, 2013). This implies that Nairobi may benefit from comparable advancements. High failure rates and restricted access to formal financial services show that many MSMEs in Nairobi continue to struggle with financial management, despite these attempts (Central Bank of Kenya, 2022).

Little is known about the impact of budgeting, saving, investing, and debt management on the financial success of micro, small, and medium enterprises (MSMEs) in Nairobi County, despite

the importance of financial literacy (Kimathi, T., Ngugi, J., & Muturi, W. 2019; Muthengi, J. 2018). This research aims to fill this gap by studying the relationships between financial literacy aspects and key performance measures in the local MSME sector.

1.3 Purpose of the Study

This study aimed to investigate how financial literacy affects influences the performance of micro, small, and medium enterprises (MSMEs) in Nairobi County, Kenya.

1.4 Objectives of the Study

The study aimed to achieve the following objectives:

- i. To evaluate the effect of budgeting on the financial performance of MSMEs.
- ii. To examine the effect of debt management on the financial performance of MSMEs.
- iii. To analyze the effect of investing on the financial performance of MSMEs.
- iv. To investigate the effect of savings on the financial performance of MSMEs.

1.5 Research Questions

This study addressed the following research questions:

- i. How does budgeting impact financial performance of Micro Small and Medium Enterprise?
- ii. What is the influence of debt management on financial performance of Micro Small and Medium Enterprise?

- iii. Is there a correlation between investing and financial performance of Micro Small and Medium Enterprise?
- iv. What effect does savings on financial performance of Micro Small and Medium Enterprise?

1.6 Significance of the Study

Several factors make this study significant:

This study will provide useful information on the relationship between financial literacy and MSME performance by presenting empirical data about the influence of certain components of financial literacy on the financial performance of MSMEs in Nairobi County. Policymakers, financial institutions, and business support organizations can learn from these results about the significance of providing MSMEs with individualized financial literacy interventions to promote sustainable economic growth.

Employment and Economic Growth: MSMEs play a major role in creating jobs and boosting the economy. Strategies that improve their financial stability and contribute to the community economy may result from an understanding of how their personal financial management (PFM) habits are influenced by their financial literacy. By improving their financial literacy, MSME owners and managers may become more capable of making well-informed financial decisions, which can result in more strategic investment decisions, improved cash flow management, and increased profitability.

Enhanced Financial Well-being: Improved financial literacy not only benefits MSME owners but also translates to greater job security and improved livelihoods for employees. Financially stable MSMEs contribute more to tax revenue and local development initiatives, further bolstering

economic development. Enhanced financial well-being of MSMEs can have a ripple effect, positively impacting the broader community.

The results can help shape the creation of financial literacy programs tailored to micro, small, and medium-sized enterprises (MSMEs), taking into account the special difficulties faced by this sector. Financial institutions, policymakers, and development organizations can use this information to create programs that empower MSMEs and foster economic growth.

Expanded comprehension in developing nations: This study advances the general knowledge of the connections between financial literacy and PFM in developing nations such as Kenya. With the use of empirical data and insights, the research may help design policies and actions that will help MSMEs all throughout the nation expand and survive.

The development of laws and regulations that encourage financial literacy and assist the expansion and sustainability of MSMEs may be aided by the useful information that policymakers can get. For these businesses, this may result in increased financial health and a more favorable business climate.

Academic Knowledge Contribution: The study will broaden our understanding of PFM and financial literacy in developing countries, which will impact our ability to conduct future studies and interventions. Through comprehension of the distinct financial literacy requirements of MSMEs, scholars and professionals may create more efficient financial offerings customized to their distinct obstacles.

1.7 Scope of the Study

This research focuses on MSMEs operating in both urban and peri-urban regions to assure that the sample reflects the different business landscape within Nairobi County, Kenya. By narrowing our geographical emphasis, we were able to get practical insights that are pertinent to the economic hub of Kenya.

This analysis covered the period beginning in 2018 and continuing until the year 2023. Using data collected over five years, the study uncovered trends in the effects of financial literacy initiatives and general economic circumstances on micro, small, and medium-sized enterprises (MSMEs).

The primary objective of this research was to determine the level of financial literacy among MSMEs in Nairobi County and the impact that this literacy has on their company's profitability. The research covered a range of topics linked to financial literacy, including budgeting, investing, managing debt, and saving. Debt management, revenue growth, and profitability were some of the financial performance indicators that were studied in relation to MSMEs. The objective is to assist micro, small, and medium-sized businesses (MSMEs) in enhancing their financial performance by identifying areas where financial literacy is lacking and subsequently offering solutions.

1.8 Study Limitations

Potential limitations of this study may include:

The research depended on the self-reported financial activities and literacy levels of the participants, which might be skewed by purposeful misreporting or recollection bias. Given the

complexity of the variables affecting people's financial results, the research may not be able to conclusively link financial literacy to personal financial management.

1.9 Delimitations

This study did not include:

For example, the study only looked at MSMEs in Nairobi County, which is a very limited sample size. In addition, the scope of the research is limited since only micro, small, and medium-sized enterprises (MSMEs) are taken into account, rather than bigger companies and individual customers.

1.10 Assumptions of the Study

It is possible to measure financial literacy.

Well-informed financial decision-making is favorably connected with financial literacy levels.

More financial literacy demonstrates more knowledgeable financial decision-making practices.

Financially literate people make better investment decisions.

Higher financial literacy results in improved retirement outcomes for individuals.

1.11 Operational Definition of Key Terms

Budgeting: is the process of creating a plan for your income and expenses. A budget helps you track your spending and make sure that you are not spending more money than you have coming in.

Debt management: is the process of controlling and reducing debt. This can involve strategies such as budgeting, making extra payments on debts, and consolidating debts.

Debt: is something you owe to someone else, typically money or goods. It's an obligation to repay what you've borrowed, usually with added interest. Think of it as a financial IOU.

Efficiency: refers to how well a company utilizes its resources to achieve its goals and objectives. It involves minimizing waste and maximizing output, thereby improving productivity and reducing costs.

Financial literacy: the capacity to successfully handle finances in order to make wise financial choices.

Financial management: the act of overseeing one's own finances, which includes creating a budget, setting aside money, investing, borrowing, and managing debt.

Financial stability: The ability to meet one's financial obligations without incurring excessive debt or experiencing financial hardship.

Growth: refers to the increase in size, scale, or market presence of a company over time. It can be measured in terms of revenue growth, market share expansion, or the development of new products or services.

Informed financial decision-making: Making financial decisions that are based on a sound understanding of financial concepts and principles.

Investment choices: Decisions about how to allocate one's investment portfolio, such as the mix of stocks, bonds, and other asset classes.

Investment: An investment is an asset or item obtained with the goal of generating income or increasing in value over time. Examples include stocks, bonds, real estate, and commodities.

Liquidity: It refers to how easily an organization can convert its assets into cash or cash equivalents to fulfill short-term financial obligations. This metric assesses the organization's ability to meet immediate liabilities without incurring substantial financial loss.

Net worth: The whole amount of a person's assets less their liabilities.

Personal financial management: this is the process of handling your finances in order to reach your financial objectives. Budgeting, saving, investing, and debt management are a few examples of this.

Profitability: refers to an organization's capacity to turn a profit in relation to its costs and expenditures. It is a crucial sign of a company's financial success and health, demonstrating how well it utilizes its resources to produce profits.

Retirement readiness: The state of preparedness for retirement, including having adequate savings and a plan for generating income in retirement.

Risk tolerance: The degree of risk a person is ready to accept in order to fulfill their financial objectives.

Sustainability: It speaks to an organization's ability to continue operating and growing for an extended period of time, meet its financial commitments, and have a beneficial influence on social, economic, and environmental variables. This necessitates striking a balance between immediate financial gain and long-term durability and stability.



CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Financial literacy and its effects on the bottom lines of MSMEs were the focus of this chapter's review of the literature. With the use of prior studies, ideas, and models on financial literacy and company success, the literature review synthesizes, compares, and evaluates relevant theories and empirical studies to identify contradictions, methodological strengths and weaknesses, and significant knowledge gaps that justify the present research.

The review examines empirical evidence across four key dimensions of financial literacy—budgeting, debt management, investing, and savings—with particular attention to methodological approaches, contextual factors, and evolving insights in post-pandemic research.

By critically engaging with existing literature through a comparative lens, this chapter establishes both the theoretical foundation and the practical necessity for investigating how financial literacy influences MSME performance in Nairobi County. The review concludes by explicitly identifying research gaps and demonstrating how the present study addresses these limitations.

2.1 Empirical literature

This study examines the relationship between financial literacy and the financial performance of MSMEs in Nairobi County, Kenya, with a focus on savings, investing, debt management, and budgeting. Finding new patterns in the area, this study compares and contrasts contradictory data, and looks at different approaches of undertaking research.

2.1.1 Budgeting in relation to Financial Management in an MSME

A key component of MSMEs' financial management that affects their overall success is budgeting. In order to evaluate the impact of budgeting on financial performance, Smith (2018) used a quantitative method in a study including a sample of MSMEs in Nairobi County, Kenya. They discovered a positive correlation between MSMEs' financial success and efficient budgeting techniques. To be more precise, MSMEs with more thorough budgeting procedures were more profitable and had more liquidity than those with less thorough budgeting procedures. While methodologically robust in its sampling approach, the study's heavy reliance on self-reported financial data without verification represents a significant limitation acknowledged by the author.

Similarly, a study by Wangari and Ondabu (2019) utilized both quantitative and qualitative methods to examine budgeting practices among MSMEs in Nairobi County. Their findings echoed those of Smith, highlighting the importance of budgeting in enhancing financial performance. Furthermore, they identified proper budget allocation and monitoring as key factors contributing to improved profitability and operational efficiency among MSMEs.

Furthermore, research by Kimani and Mureithi (2022) examined how budgeting affected the financial performance of MSMEs with an emphasis on the function of budget variance analysis. Through a mixed-method approach, they revealed that MSMEs that regularly monitored and analysed budget variances were better equipped to identify and address financial inefficiencies, leading to enhanced performance outcomes. Suggesting that the mere presence of budgeting systems without regular monitoring and adjustment yielded minimal performance benefits. Their finding that only 23% of MSMEs with formal budgets conducted regular variance analysis helps explain inconsistent results in previous research.

Notably, Omondi and Jagongo (2023) directly challenge earlier findings through a longitudinal study of MSMEs tracked over three years. Their research revealed diminishing returns from budgeting formality among micro-enterprises, with excessive budgeting systems sometimes creating administrative burdens that outweighed benefits for the smallest businesses. This contradicts the more linear relationship assumed in earlier cross-sectional studies and suggests important boundary conditions based on business size and complexity.

Methodological limitations are evident across this literature. Most studies rely on convenience sampling rather than probability sampling, raising questions about generalizability. Furthermore, few studies adequately control for industry-specific factors despite evidence from Muthomi (2024) that optimal budgeting practices vary significantly across retail, service, and manufacturing sectors. Recent pandemic-era research by Wahome (2022) introduces additional dimensions by examining how budgeting practices influenced business resilience during economic shocks. Their findings that scenario-based budgeting approaches were associated with significantly higher survival rates (73% versus 41%) compared to traditional budgeting methods suggests that qualitative aspects of budgeting practices may be more important than previously recognized.

Together, these studies indicate that while budgeting generally contributes positively to MSME performance, the relationship is moderated by implementation quality, business characteristics, and environmental conditions—factors inadequately addressed in much of the literature.

Overall, the empirical literature consistently suggests that effective budgeting practices positively influence the financial performance of MSMEs, with proper allocation, monitoring, and variance analysis playing key roles in driving profitability and operational efficiency.

By implementing effective budgeting practices, MSMEs can optimize their resource allocation, control expenses, and plan for future financial needs. This strategic approach leads to improved

cash flow management, reduced financial stress, and higher profitability, thereby enhancing overall financial performance.

2.1.2 Debt management in relation to Financial Management in an MSME

Because it has such a direct bearing on their capacity to produce sustainable returns and preserve financial stability, debt management is an essential component of financial decision-making for MSMEs. In their 2017 study, Ndung'u and Kinyanjui looked at how MSMEs in Nairobi County fared financially after using various debt management strategies. Using a mathematical method, they discovered that small and medium-sized enterprises (SMEs) might improve their profitability and liquidity ratios by controlling their loan levels and payback schedules.

Mwangi and Gathoga (2018) used debt-to-equity and debt service coverage ratios as their primary metrics to study how debt management strategies impacted the bottom lines of MSMEs. They used a mixed-method approach to show that micro, small, and medium-sized enterprises (MSMEs) could better withstand financial storms and attain sustainable growth if they had lower debt levels and more efficient payback systems.

Additionally, Kamau and Nyaga's (2019) research looked at how debt restructuring might help struggling MSMEs perform financially. By analysing case studies and financial statements, they highlighted the importance of proactive debt management strategies, such as renegotiating repayment terms and securing additional financing, in restoring viability and profitability to struggling enterprises.

Debt restructuring and optimum debt levels are two of the most important measures for boosting the financial performance of micro, small, and medium enterprises (MSMEs), according to the empirical research.

Effective debt management allows MSMEs to access necessary funds without overleveraging. By managing debt prudently, businesses can minimize borrowing costs, maintain financial health, and enhance their creditworthiness, which in turn improves financial performance.

2.1.3 Investing in relation to Financial Management in an MSME

Making prudent investments is essential to the expansion and sustainability of MSMEs since it has a direct effect on their capacity for innovation, development, and profit-making. Njoroge and Kariuki's (2018) research looked at the connection between MSMEs in Nairobi County's financial performance and investment choices. Strategic investments in infrastructure, human capital, and technology were found to positively correlate with the financial performance of MSMEs, according to a quantitative study. Specifically, enterprises that allocated resources towards modernization and skill development reported higher productivity levels and profitability margins.

Similarly, a study by Muturi and Mwangi (2019) investigated the impact of investment in marketing and branding activities on the financial performance of MSMEs. Through a mixed-method approach, they revealed that MSMEs that prioritized marketing investments and built strong brand identities enjoyed increased market share and customer loyalty, translating into improved revenue streams and profitability.

Furthermore, a study by Oloo and Kimemia (2020) explored the role of strategic partnerships and joint ventures as investment strategies for MSMEs seeking to enhance their financial performance. By analyzing case studies and financial data, they demonstrated that collaborative investments allowed MSMEs to leverage complementary resources and expertise, leading to cost efficiencies and revenue growth.

Overall, the empirical literature underscores the importance of strategic investing in driving the financial performance of MSMEs. Whether in technology adoption, marketing initiatives, or strategic partnerships, investments play a critical role in unlocking growth opportunities and positioning MSMEs for long-term success.

Strategic investment decisions drive business expansion, innovation, and revenue diversification. By investing wisely, MSMEs can increase their asset base, improve operational efficiency, and boost profitability, leading to stronger financial performance.

2.1.4 Savings in relation to Financial Management in an MSME

Savings management is fundamental for the financial health and resilience of MSMEs, as it enables enterprises to build financial buffers, fund expansion initiatives, and navigate economic uncertainties. Nyambura and Mwai (2017) looked at how small and medium-sized enterprises (SMEs) in Nairobi County saved money and how well they did financially. Employing a quantitative approach, they found that MSMEs with robust savings practices, such as setting aside profits for reinvestment and emergencies, exhibited greater financial stability and growth potential compared to those with limited savings capacity.

Similarly, a study by Kibet and Keter (2018) investigated the impact of savings mobilization initiatives, such as group savings schemes and community-based savings clubs, on the financial performance of MSMEs. Through a mixed-method approach, they demonstrated that MSMEs participating in organized savings programs were able to access affordable financing, mitigate liquidity constraints, and invest in productivity-enhancing activities, leading to improved profitability and competitiveness.

Additionally, 2019 research by Muriuki and Mburugu investigated how financial literacy may encourage MSME owners and staff to save money. They discovered via focus groups and surveys that people with more financial literacy were more likely to prioritize saving objectives, choose wisely when making investments, and eventually improve the financial performance of their businesses.

This empirical evidence suggests that effective savings management is essential for enhancing the financial performance of MSMEs, with practices such as savings mobilization, financial literacy promotion, and prudent cash flow management playing integral roles in driving resilience and growth.

Saving practices provide MSMEs with a financial cushion to absorb shocks, invest in opportunities, and ensure liquidity. This stability enables businesses to navigate economic fluctuations, avoid financial distress, and capitalize on growth prospects, thus positively impacting financial performance.

2.2 Theoretical framework

The vital connection between financial literacy and the financial performance of MSMEs in Nairobi County, Kenya is investigated in this study. To ensure a thorough study, it is necessary to have a solid theoretical framework to guide research efforts and evaluate results. By elucidating three critical theories, this framework sheds light on the connection between financial literacy and the success of MSME.

The Human Capital Theory illuminates how financial knowledge and skills function as productivity-enhancing investments at the individual level, explaining why entrepreneurs with

stronger financial literacy may make better business decisions. The Resource-Based View offers an organizational perspective, positioning financial literacy as a strategic resource that can create competitive advantage in market contexts. The Financial Capability Theory bridges knowledge and action, addressing how attitudes, behaviors, and environmental factors influence the application of financial knowledge in real-world settings.

These theories approach financial literacy from different angles—individual, organizational, and behavioral—providing complementary insights while also revealing tensions and limitations when applied to MSMEs in developing economies.

2.2.1 The Human Capital Theory (1960s, economists Gary Becker and Theodore Schultz)

In the 1960s, economists Gary Becker and Theodore Schultz established the Human Capital Theory. This theory emphasizes the importance of human capital, which includes knowledge, skills, and abilities, in driving economic development and in the production of individuals and organizations (Becker, 1964; Schultz, 1961).

According to this hypothesis, financial literacy training and other investments in human capital have a big influence on how capable and successful people and organizations are. Higher financial literacy makes people more capable of managing their money wisely, making wise financial choices, and reaching their financial objectives. This theory goes beyond traditional views of human capital focusing solely on education and experience by acknowledging the importance of specific knowledge and skills acquired through targeted training or learning.

The methodology employed was an empirical analysis using statistical data on various forms of education and training investments. Becker's findings underscored the positive correlation between

human capital investment and economic outcomes. However, his research left gaps concerning the impact of non-formal education and informal training on productivity across different sectors, suggesting areas for further investigation.

In the context of MSMEs, the Human Capital Theory suggests that investing in financial literacy training for entrepreneurs can significantly enhance their capacity to manage finances effectively. This can lead to improved decision-making in critical areas such as budgeting, managing debt, making strategic investments, and implementing sound savings practices, ultimately contributing to enhanced financial performance of the MSME.

For example, entrepreneurs with strong financial literacy skills can accurately assess the financial viability of a business idea, develop a realistic budget, negotiate with lenders for favourable credit terms, and make informed investment decisions regarding new equipment or technology. These capabilities, fostered by financial literacy training, can significantly impact the financial health and performance of the MSME.

2.2.2 The Resource-Based View (1990s, Jay Barney)

In the 1990s, Jay Barney proposed the Resource-Based View (RBV), which places strategic emphasis on a company's distinctive and valuable resources as a means to gain a competitive edge (Barney, 1991). Businesses can get an advantage over their competitors if they have VRIN resources, which stand for valuable, rare, inimitable, and non-substitutable resources, according to RBV. Physical assets and financial capital are examples of tangible resources. Knowledge, skills, and corporate culture are examples of intangible resources. Companies who make good use of these

assets, according to the RBV model, will be able to succeed in the long run and outperform their competitors.

One critical implication of the RBV for Micro, Small, and Medium Enterprises (MSMEs) is the role of financial literacy as a valuable and rare resource. In many developing economies, including Kenya, access to formal financial education is limited, and many entrepreneurs operate with minimal financial knowledge (Atkinson & Messy, 2012). This creates an environment where financial literacy can serve as a distinguishing factor in determining business success. Entrepreneurs who possess strong financial literacy skills can make more informed decisions regarding investments, cost control, revenue generation, and risk management, thereby achieving superior financial performance compared to competitors who lack these skills (Fatoki, 2014).

Case studies have demonstrated that businesses that possess rare and valuable resources, as described by Barney (2001), are more likely to gain and sustain competitive advantages. These studies highlight that firms leveraging unique financial capabilities, proprietary knowledge, or specialized skills can outperform their peers. However, despite the theoretical robustness of RBV, Barney himself acknowledged the need for empirical testing across various industries and sectors, particularly within MSMEs in developing economies. This gap underscores the necessity for further research to validate and refine RBV's applicability in different business contexts, especially in markets where financial literacy levels vary significantly among entrepreneurs.

For MSMEs, the RBV suggests that financial literacy is a crucial determinant of success. Entrepreneurs with strong financial knowledge can engage in better financial planning, optimize resource allocation, and manage risks more effectively. This can lead to enhanced business performance through improved pricing strategies, cost efficiencies, and reduced financial risks. For

instance, a financially literate entrepreneur can adopt cost-effective financial management practices, negotiate better terms with suppliers, and maintain efficient cash flow management. These advantages allow them to offer competitive prices while maintaining profitability, thus reinforcing their market position.

Furthermore, financial literacy enables entrepreneurs to access credit and funding opportunities more effectively. Many MSMEs struggle with securing financing due to a lack of understanding of financial statements, creditworthiness requirements, or investment opportunities. Entrepreneurs with financial literacy can better evaluate funding options, prepare compelling business proposals, and engage with financial institutions more confidently, increasing their chances of securing loans or investment capital.

Beyond financial management, the RBV framework suggests that firms that integrate financial literacy with other valuable resources, such as innovative capabilities and strong customer relationships, can further strengthen their market positions. A well-informed entrepreneur can leverage data-driven decision-making, track market trends, and implement strategic financial planning to sustain business growth and profitability.

Last but not least, RBV offers a fresh viewpoint on how MSMEs might benefit strategically from financial literacy. Improved company performance and sustainable competitive advantage can be the result of entrepreneurs' increased financial literacy, which allows them to make better decisions, allocate resources more efficiently, and reduce risk. To further support the importance of financial literacy as a valued resource, future studies should look at different situations to test these theoretical ideas, especially in emerging economies' micro, small, and medium-sized enterprises (MSMEs).

2.2.3 The Financial Capability Theory (2000s, Annamaria Lusardi & Olivia S. Mitchell)

The FCT, which was founded in the 2000s by Olivia S. Mitchell and Annamaria Lusardi, focuses on the attitude, knowledge, and abilities that people need to become financially independent and make good financial decisions.

The ability to handle one's own money well, set realistic goals, and make sound decisions is a key component of financial competence, which is why this concept is so significant. It places an emphasis on learning about money and being responsible with it, in addition to expanding one's knowledge and abilities in this area. This idea goes beyond the conventional paradigms of financial literacy by focusing on the psychological and behavioral components of making sound financial decisions.

Sherraden (2013) assessed the results of financial literacy programs by combining qualitative and quantitative research techniques. His research showed that financial education greatly improves financial behaviors and outcomes, but that program efficacy varies with participant demographics and delivery manner. Despite these helpful takeaways, Sherraden's study did identify several gaps in our understanding of the function of digital financial literacy and the long-term effects of financial education.

A key component of an entrepreneur's total financial competence is their degree of financial literacy, according to the Financial competence Theory (FCT), which is relevant to micro, small, and medium-sized businesses (MSMEs). Not only does it instruct students in the proper management of company funds, but it also motivates them to save, invest, and control their debt.

The financial performance of small and medium-sized businesses (SMEs) is enhanced when certain mindsets are employed.

Entrepreneurs with high levels of financial literacy exhibit positive financial behaviors like saving for future investments, keeping a close eye on how much money the company spends, and setting realistic goals. The MSME can improve their financial decision-making with the use of these measures and their financial literacy. They may be more likely to seek sustainable finance choices, avoid carrying unnecessary debt, and make educated investment decisions that support the company's long-term goals. These findings may enhance the long-term viability, profitability, and financial performance of the MSME.

By combining three theoretical frameworks, this research project seeks to illuminate the relationship between financial literacy and the success of MSME in Nairobi County, Kenya. Human Capital Based Theory emphasizes the need of investing in education and training that assists MSMEs in improving their productivity and economic outcomes. This includes developing skills like budgeting. According to Resource Based Theory, SMEs can improve their financial performance and obtain a competitive edge by making use of essential and distinctive resources. Among these assets are the capacities for effective financial planning, prudent investment, savings, and debt management. Financial Capability Theory stresses the significance of financial literacy for micro, small, and medium-sized enterprises (MSMEs), including skills in budgeting, investing, saving, and debt management.

2.3 Conceptual framework

By using a conceptual framework, researchers can gain a better understanding of the elements that influence their findings and how to account for them. Multiple studies have found that micro, small, and medium-sized businesses (MSMEs) whose owners and managers have a strong grasp of personal finance tend to do better financially. Micro, small, and medium-sized businesses (MSMEs) in Nairobi County, Kenya have not been the subject of many research that have investigated the impact of financial literacy on their development, efficiency, profitability, liquidity, and debt management.

End-Use Characteristic: A micro, small, or medium-sized business's financial health can be measured by four key metrics: growth, profitability, liquidity, and sustainability.

The variables that are not reliant on each other are the management of debt, savings, and investments.

This approach uses savings, investment, budgeting, and debt management as independent factors and MSMEs' financial success as a dependent variable. The major goal of the research is to investigate how these aspects of financial literacy could enhance the financial performance of MSMEs in Nairobi County, Kenya.

2.4 Recap of literature review.

Research on micro, small, and medium-sized enterprises (MSMEs) in Nairobi County, Kenya, has shown a correlation between financial literacy and their bottom lines. For micro, small, and medium-sized businesses (MSMEs) to effectively handle their finances, make wise decisions, and attain sustainable growth, financial literacy is essential. In order to keep their finances in order,

small and medium-sized businesses (SMEs) should practice good money management practices like careful budgeting, investing, and saving, according to research. All things considered, these strategies boost profits, resilience to economic shocks, and the profitability of the business as a whole. The importance of providing owners and managers of micro, small, and medium enterprises with tailored financial education programs is also emphasized in the literature. In order to empower micro, small, and medium-sized firms (MSMEs) to apply sustainable financial practices, these programs are vital for their financial literacy, understanding of concepts, and empowerment.

According to studies conducted in Nairobi County, Kenya, MSMEs must possess financial literacy, particularly in regard to crucial aspects of money management. Numerous studies have shown a correlation between MSME financial success and sound budgeting practices. Smith (2018), Wangari and Ondabu (2019), and Kimani and Mureithi (2020) found that SMEs can improve their operational efficiency, liquidity, and profitability by creating and sticking to detailed budgets, keeping an eye on how their funds are being spent, and regularly analyzing where their money is going. Budgeting offers many benefits, but the literature indicates that one's ability to put a plan into action and monitor its progress is influenced by one's level of financial literacy.

Debt management is a critical function for micro, small, and medium-sized businesses. Effective debt management strategies include optimum debt levels, efficient repayment structures, and proactive debt restructuring. These measures enhance profitability, liquidity, and resilience to financial challenges, as demonstrated by Ndung'u and Kinyanjui (2017), Mwangi and Gathoga (2018), and Kamau and Nyaga (2019). Micro, small, and medium-sized businesses (MSMEs) can boost their creditworthiness and lower borrowing costs by becoming more financially literate, according to studies.

Also, strategic investments are key to the long-term success of micro, small, and medium-sized enterprises. Market share, revenue, and profit can all be enhanced by investing in marketing, human capital, technology, and strategic partnerships, according to multiple studies (Njoroge and Kariuki 2018; Muturi and Mwangi 2019; Oloo and Kimemia 2020). Smart investments are more likely to be made by MSMEs with a higher level of financial literacy. Lack of knowledge and capital is a problem for many MSMEs, which affects their capacity to invest and ultimately their bottom line.

The final and most important factor in the financial stability and durability of MSME is savings. Research by Nyambura and Mwai (2017), Kibet and Keter (2018), and Muriuki and Mburugu (2019) shows that strong savings habits are linked to financial stability, growth potential, and affordable financing. Included in this category are activities such as prioritizing savings objectives, joining collective savings programs, and putting aside a portion of one's earnings. Increased savings, improved cash flow management, safety net creation, and development opportunity exploitation can all be achieved through increased financial literacy among micro, small, and medium-sized enterprises (MSMEs).

In order to back up this investigation, three main theoretical frameworks were used. First, the Financial aptitude Theory (FCT) developed by Lusardi and Mitchell in the 2000s states that an entrepreneur's financial aptitude is absolutely dependent on their level of financial literacy. The focus in financial competency theory (FCT) moves from facts and figures to mindset and actions in order to make good financial decisions. While studies have shown that financial education can improve financial habits and outcomes, the effectiveness of these programs depends on the demographics of the participants and the way they are taught. The effectiveness of financial literacy programs is determined by how and to whom the information is taught, not only by the information itself.

The second point is that a company's unique and valuable resources are crucial to its success because of Barney's Resource-Based View (RBV). Micro, small, and medium-sized businesses (MSMBs) in developing countries like Kenya are especially in need of financial literacy training. Unlike the skill-based Human Capital Theory, RBV highlights the significance of financial literacy as a resource for organizations. This resource aids MSMEs in managing risks, optimizing resource allocation, and boosting business performance. While Barney has called for more study into the topic, the literature reveals that financial literacy can provide a competitive edge, particularly for MSMEs in developing markets.

In the third place, the Human Capital Theory put out by Becker and Schultz stresses the significance of organizations' and individuals' capacities, knowledge, and skills as engines of economic growth and productivity. When compared to the Resource-Based View (RBV), Human Capital Theory places more value on an organization's people than its physical assets. Human capital investment did find a positive correlation with economic outcomes, according to Becker's study, which primarily focused on formal education and ignored the impacts of informal and non-formal training across sectors. This school of thinking maintains that MSMEs can greatly benefit from financial literacy training in terms of both cost savings and improved decision-making.

All three of these concepts work hand in hand to lay the groundwork for understanding the many ways that financial literacy affects the success of MSME. According to Human Capital Theory, making investments in financial literacy can enhance individual capacities within MSMEs. Having a firm grasp of financial concepts is a strategic asset that can give MSMEs a leg up in the competitive marketplace, says RBV. To wrap things up, FCT highlights the importance of financial literacy in promoting responsible money management and a more secure economic future.

Current literature provides a solid foundation, however there are still gaps in our knowledge. Micro, small, and medium-sized enterprises (MSMEs) are affected by the ever-changing financial climate; therefore, more up-to-date research are required to capture this impact. Extra research is needed to determine the importance of digital financial literacy, the results of informal training and non-formal education, and the long-term effects of financial literacy programs. To validate the Resource-Based View in various contexts, more empirical studies are required. It would be helpful to conduct further research to understand the various ways in which financial literacy affects financial performance. The study also found that MSMEs deal with issues including inadequate capital and information. Future research should focus on finding answers to these difficulties so that MSME can expand in a more favorable environment. Micro, small, and medium-sized businesses (MSMEs) can be better understood and their links to financial literacy can be explored in more comprehensive future research.

There is widespread agreement in the academic literature that financial literacy—the capacity to handle personal loans, invest wisely, and preserve a portion of one's income—is critical for MSMEs to enhance their financial performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the research methodology used to examine the correlation between MSMEs' financial literacy and their performance in Nairobi County, Kenya. This method's selection is crucial since it ensures the study's validity, reliability, and breadth.

Using a quantitative approach to data collection and analysis, this chapter starts by outlining the research strategy chosen for the study. The methodical measurement and statistical analysis of variables pertaining to financial literacy and the financial performance of MSME were made possible by this technique.

There was a discussion of the sample method and the criteria used to pick MSMEs for the research. With the goals of the study and the demographics of the intended respondents in mind, researchers in Nairobi County used a stratified sample technique.

The owners and managers of MSME were surveyed using a standardized questionnaire to get primary data. Financial practices, levels of financial literacy, and performance criteria such as profitability, liquidity, efficiency, growth, and sustainability were all recorded by this instrument.

The steps that were done to make sure the data is accurate and trustworthy are also detailed, including making sure the questionnaire was pilot tested and using statistics to see if the data is consistent. Thanks to these precautions, the reliability of the study's results was not compromised.

The rights and confidentiality of participants were protected in accordance with ethical standards at all times. Acquiring informed consent was done in accordance with the guidelines set out by the appropriate institutional review boards.

Lastly, the procedures for data analysis are detailed, which were employed to assess the gathered information and answer the research objectives and assumptions. With this method, we hoped to shed light on the connection between financial literacy and the success of micro, small, and medium-sized enterprises (MSME) in Nairobi County.

3.1 Research Methodology

A quantitative research methodology was adopted, employing a survey design to amass data from a representative subset of MSME owners/managers in Nairobi County. This method facilitated the acquisition of standardized data, facilitating statistical scrutiny and extrapolation of findings to the wider MSME demographic.

3.2 Research Design

An all-encompassing plan and blueprint for integrating all parts of a study in a rational and coherent way is a research design. It was the basis for all subsequent procedures involving measuring, collecting, and analyzing data. A mixed-methods study was conducted in Nairobi County, Kenya, with the purpose of determining the impact of financial literacy on the bottom lines of micro, small, and medium-sized businesses (MSMEs). The study's variables were presented in a detailed and accurate way by utilizing the descriptive component of the research design. The micro, small, and

medium-sized businesses (MSMEs) in Nairobi County were profiled, including their spending, debt management, investment, and savings practices, along with their overall financial literacy. Means, standard deviations, frequencies, and percentages are all part of descriptive statistics, which were used to describe and display the features. This laid forth the researched population's financial literacy landscape in a nutshell. We utilized correlational analysis to examine the relationships between financial literacy components like saving, investing, and budgeting and financial performance indicators like growth, sustainability, profitability, and liquidity. When using structured data gathering approaches, like questionnaires, this architecture worked especially well for capturing the current condition and identifying patterns or trends among a certain community. With this layout, we can potentially take a closer look at the financial literacy and performance of MSMBs in Nairobi County, Kenya. In order to better understand how MSME owners in Nairobi County handle their money, this study set out to measure their level of financial literacy. Budgeting, managing debt, investing, and saving were the areas of financial literacy that were the focus of the study.

3.3 Location of the study

Scientists at Nairobi City County, Kenya, conducted the study. Researching the financial performance and financial literacy of MSMEs in Nairobi, Kenya's capital and commercial center, is a fantastic idea. The county has a wide variety of MSMEs functioning in several industries, with both urban and peri-urban regions included.

3.4 Target population

An investigator's "target population" is the whole group of people they plan to analyze in depth. The target here were MSMEs, or micro, small, and medium-sized businesses, in Kenya. These enterprises had a considerable impact on the local economy due to their diversified operations, which included agricultural, food and lodging services, manufacturing, wholesale and retail trade, and small to medium operational size. The age range for this survey was 25–65 and it was open to all registered owners or managers of micro, small, or medium enterprises (MSME) in Nairobi County. Decisions and plans for the future of one's financial situation were actively pursued by people in this age group.

According to data collected in 2015 by the Nairobi County licensing office, 30,252 micro, small, and medium-sized enterprises (MSMEs) are registered in Nairobi County. The majority of Kenya's micro, small, and medium-sized enterprises (MSMEs) are located in the wholesale and retail trade, manufacturing, food service, and lodging service sectors. The majority of micro, small, and medium-sized enterprises (MSMEs) are located in the wholesale and retail trade sector (57%), with a smaller percentage in manufacturing (11%), food service (9%), and housing services (9%).

Table 1: The target population

Sector	Number MSMEs	of Percentage Population (%)
Wholesale and retail trade sector	17,243	57%
Manufacturing and Food	3,328	11%
Accommodation Services	2,723	9%
Other (Agricultural Sector)	6,958	23%

Total Population

30,252

100%

Source: Nairobi County Licensing Office (2015)

Note: This table depicts the distribution of Micro and Small Enterprises (MSMEs) across various sectors within Nairobi County, Kenya. The data represents the number of registered MSMEs and their corresponding percentages within each sector.

3.5 Sampling procedures and techniques

An appropriate sample size was calculated using a sample size calculator, taking into account the population size, confidence level, and the desired margin of error. The sums were determined by:

Use a sample size calculator formula:

$$n = z^2 \left[\frac{p(1-p)}{e^2} \right]$$

where:

n = sample size

z = confidence level z-score

p = estimated population proportion

e = desired margin of error

One kind of probability sampling is known as stratified sampling, and it entails splitting the population into different subgroups, or strata, according to commonalities. Drawing random

samples from each stratum guarantees statistical accuracy and dependability, while also ensuring that each subgroup is fairly represented in the final sample. By use stratified sampling, we were able to divide the MSMEs population into multiple groups based on size and industry (retail, manufacturing, services, etc.). As a result, the sample accurately reflects the MSME community as a whole, with adequate representation from all subgroups.

Results from the stratified sample were expected to be extrapolated to all micro, small, and medium-sized enterprises (MSMEs) in Nairobi County. Given that the study's overarching objective was to investigate the relationship between financial literacy and MSMEs' overall financial performance, this finding was crucial.

Sampling at random within each stratum reduced the likelihood of bias in the results. Your results were more credible and valid because the sample was representative of the whole MSME owner population.

It was possible to compare various strata's financial literacy and performance thanks to stratified sampling. For example, by contrasting the results of financial literacy in various industries and among small and medium-sized businesses. Gaining a deeper understanding of particular strengths and places for improvement was made possible by this.

Stratified sampling, was employed in this study to select MSMEs in Nairobi County. This was established based on factors of the size of the enterprise, and industry sector. MSMEs that met the predetermined criteria were identified through collaboration with industry experts, and business associations, as well as through secondary data sources such as financial reports.

The selected MSMEs were invited to participate in the study, and efforts made to ensure a diverse representation across different sectors and business sizes within Nairobi County.

3.6 Sample population

The portion of the target population that is really chosen to take part in a research project is known as the sample population. It stood for a more manageable, smaller subset of the broader target population, from which information was gathered and examined in order to make generalizations about the target population as a whole.

The desired sample size was determined using a sample size calculator

Use a sample size calculator formula:

$$n = z^2 \left[\frac{p(1-p)}{e^2} \right]$$

where:

n = sample size

z = confidence level z-score

p = estimated population proportion

e = desired margin of error

For a 95% confidence level, the z-score is approximately 1.96 (z-scores in statistics tables).

p = 0.5 (estimated population proportion)

e = 0.05 (desired margin of error of 5%)

$$n = 1.96^2 \left(\frac{0.5(1-0.5)}{(0.05)^2} \right)$$

$$n = 3.8416 \left[\frac{0.5-0.5}{(0.05)^2} \right]$$

$$n = 3.8416 \left[\frac{0.25}{0.0025} \right]$$

$$n = 3.8416 * 100$$

$$n \approx 384$$

Conclusion: With these parameters in mind, we can see that out of a total population of 30,252 we need about 384 samples to get a 95% confidence level and a +/- 5% margin of error.

Table 2: Distribution of Sample Population

Sector	Sample Distribution of MSMEs	Percentage Sample Population (%)
Wholesale and retail trade sector	219	57%
Manufacturing and Food	42	11%
Accommodation Services	35	9%
Other (Agricultural Sector)	88	23%
Total Population	384	100%

Source: Researcher (2024)

3.7 Construction of research instruments

Research instruments are the procedures and tools used to collect data. For this study, the primary research instrument was a structured questionnaire. Profitability, liquidity, efficiency, growth, and sustainability were some of the financial performance indicators measured, as were the financial literacy level of MSME owners and managers.

Stratified sampling allowed us to select participants in this study based on their shared characteristics, such as being micro, small, and medium-sized firms (MSMEs) from various industries in Nairobi County. This method ensures that we only include businesses in our samples whose level of financial literacy provides useful context for the issue.

The sample size calculation methods used in descriptive survey designs take into account many parameters, such as the population size and the desired confidence level, to determine the minimum number of respondents needed to ensure statistical reliability and representativeness in the results. For instance, the sample size calculation formula takes a 95% confidence level and a 5% margin of error into account.

An ecologically relevant self-administered questionnaire in Kenya that makes use of validated measures. A small pilot group pre-tested the questionnaire to ensure its clarity, validity, and reliability. Participating MSMEs contribute data on crucial subjects through a self-administered survey:

Demographic Information: This section would collect basic information about the participating MSMEs, including: Business type - Identifying the industry sector (e.g., retail, manufacturing, service). Business size - Categorizing the MSME based on size criteria (micro, small, medium). Years in operation - Understanding the business maturity level. Number of employees - Gauging the size of the workforce

Financial Literacy: This section used questions on the following to gauge the respondents' (owners' or managers') degree of financial literacy.

Financial knowledge: Assessing comprehension of fundamental financial concepts such as debt management and budgeting. Money management abilities.

Financial Performance: This section gathered data on the financial performance of the participating MSMEs, potentially including: Revenue - Total income generated during a specific period (e.g., past year). Profit - Net income after deducting expenses from revenue. Return on Investment (ROI) - Measuring the efficiency of investment decisions. Debt level - Assessing the extent of financial obligations.

Factors contributing to the choice of a Questionnaire for data collection:

Efficiency: In a comparatively short amount of time, questionnaires enable the effective gathering of data from a large number of respondents.

Standardization: By having all respondents reply to the same set of questions, they guarantee uniformity in data collecting, which minimizes the possibility of biases.

Quantitative Analysis: Questionnaire responses quantitatively analyzed, making them suitable for statistical analysis to test hypotheses and draw conclusions.

Accessibility: Questionnaires can be administered in various formats (online, in-person) and are accessible to a diverse range of respondents, facilitating a broad and representative sample from Nairobi County's MSME sector.

3.8 Testing for validity and reliability

The extent to which results from data analysis faithfully depict the examined phenomenon is what Robinson (2002) calls validity. The capacity of research tools to consistently provide consistent and reproducible outcomes across various trials is what Mugenda & Mugenda (2003) mean when they talk about reliability.

3.8.1 Validity

Cooper and Schindler (2008) assert that pretesting the questionnaire enhances the consistency of data collected during research endeavors. To this end, a pilot test was conducted by randomly selecting respondents from the designated population who were not part of the sample. The study aimed to engage 10 respondents to gauge the reliability of the questionnaires. This crucial stage accomplished several goals: identified any ambiguities or unclear questions that could hinder understanding and correct answers; assessed the amount of time needed to complete the questionnaire to make sure it isn't unduly long or prone to participant fatigue; and fine-tuned the questionnaire based on input from the pilot test participants.

This study gained useful insights into the association between financial literacy and the performance of MSMEs in Nairobi County by employing a well-structured, tested, and informative questionnaire to obtain trustworthy and accurate data. After the pilot study, the questionnaires were sent out to the intended participants. The study supervisor examined the questionnaire and made adjustments as needed to guarantee its content validity.

3.8.2 Reliability

Items with a Cronbach's Alpha value below 0.70 were deemed untrustworthy when evaluating the research instrument's reliability. To make sure that the survey measures the same notion across items, this coefficient assesses the instrument's internal consistency. Scale components reliably assessed the intended construct, as shown by a Cronbach's Alpha score above 0.70, which indicates excellent internal consistency.

3.9 Data collection methods and procedures

Surveys were distributed and data was collected using either online platforms or paper-based questionnaires, depending on the convenience and accessibility of the sample group. We ensured data anonymity and acquired informed consent from all subjects.

3.10 Proposed data analysis techniques and procedures

Using a descriptive statistical analysis, the demographic data, financial literacy scores, and financial performance measures of MSMEs were initially described. The data's distribution was further examined by computing additional statistical measures, such as range, standard deviation, median, mode, and mean.

The next thing to do was to use correlation analysis to see how financial literacy correlated with financial performance measures among MSMEs in Nairobi County. Here, we used Pearson's correlation coefficient (r) to look at the strength and direction of the relationship between the variables.

Regression analysis is a useful tool for determining how financial literacy affects financial success while accounting for any confounding factors. Determine important financial performance indicators using basic regression analysis, taking into account variables like company size, industry sector, and years in operation.

Regression analysis evaluated the association between MSMEs' financial success and financial literacy while accounting for any confounding factors. In this case, the dependent variable (Y) represented the financial performance of MSMEs, while the independent variable (X) represented financial literacy. The model was represented as:

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

Where:

Y = Financial performance of MSMEs

X₁ = Budgeting

X₂ = Investing

X₃ = Saving

X₄ = Debt Management

β₀ = Intercept

β₁, β₂, β₃, β₄ = Coefficients representing the effect of each variable on financial performance

ε = Error term (factors that could affect Y but are not in the study)

Comparative Analysis – conducted a comparative analysis to compare the financial literacy levels and financial performance outcomes across different categories of MSMEs, such as micro, small, and medium enterprises. By utilizing techniques such as t-tests, ANOVA, or non-parametric tests finding out if group differences are statistically significant.

Combining Quantitative and Qualitative Results: This approach combined both types of data to providing a thorough knowledge of how financial performance and financial literacy relate to MSMEs in Nairobi County.

Interpretation and Reporting: Evaluated the data analysis results in relation to the study's goals and theoretical framework. This successfully explained major findings, presented data using relevant tables, charts, graphs, and narrative descriptions. Discussed how the results affect theory, practice,

and policy, emphasizing takeaways and suggestions for raising financial literacy and boosting MSMEs' financial performance in Nairobi County.

3.11 Ethical considerations

Honesty and Transparency – Conducted research with honesty, integrity, and transparency, adhering to the principles of scientific integrity and ethical conduct. Clearly communicated the limitations of the study and any potential biases or conflicts of interest to maintain the credibility and trustworthiness of the research.

Conflict of Interest - Made sure that any financial connections, personal relationships, or affiliations with organizations associated with the study were identified and disclosed as possible conflicts of interest, keeping the study's credibility intact by being open and honest the whole time.

Informed Consent - Before anybody took part in the research, made sure they provided their informed permission. Outlining the study's goals, methods, risks, rewards, and participants' rights in a straightforward manner. Ensured participants knew that their participation is entirely optional and that they are free to stop at any moment without penalty.

Fair Treatment - Treated all participants with respect, dignity, and fairness, regardless of their background, status, or characteristics. Avoided any form of discrimination, bias, or prejudice in the selection of participants, data collection, analysis, or interpretation of findings.

Privacy - Kept interviews and surveys discreet by holding them in a quiet, undisturbed place where people felt confident opening up. Ensured that data collection methods do not intrude upon participants' personal space or confidentiality. Minimizing the risk of accidental disclosure of sensitive information.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

The purpose of this research was to examine the relationship between financial literacy and the profitability of MSMEs in Nairobi County, Kenya. In order to gauge the MSMEs' level of financial literacy, the study looked at how they handled money, debt, investments, and savings. Next, we ran independent analyses to find out how each of these measures affected the bottom lines of MSMEs. This chapter mostly focuses on data analysis and presentation. Response rate, respondent demographics, descriptive statistics, inferential statistics, and pilot studies are all thoroughly discussed in this chapter.

4.1 Response Rate

Of the 30,252 registered MSMEs in Nairobi County, 384 were chosen to participate in this study. This motivated the creation and distribution of 384 surveys. The study's response rate was 69.7 percent, as shown in Figure 1, with 268 correctly returned questionnaires out of a total of 468. According to Mugenda & Mugenda (2003), a response rate of 70% is deemed outstanding, while a response rate of 60% is deemed extraordinary. This research has an exceptional response rate, making it ideal for analysis and interpretation, based on this criterion.

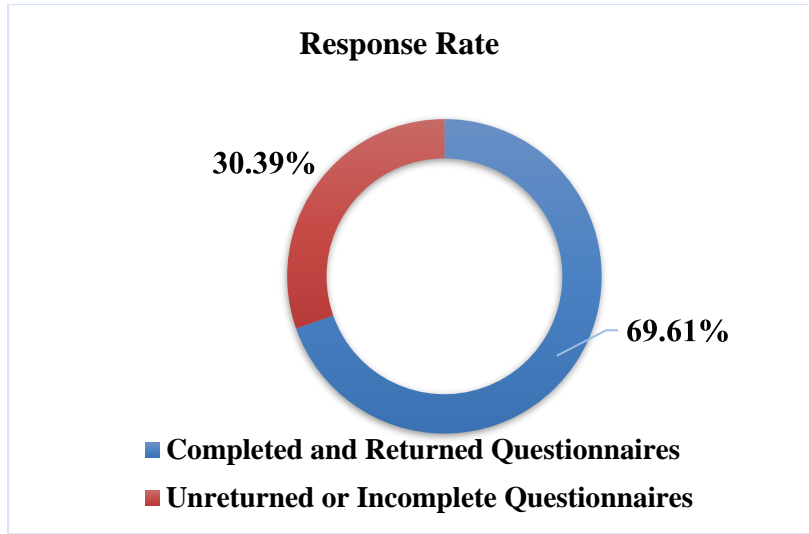


Figure 1: Response rate chart

Source: Field Data (2024)

4.2 Pilot Study

Every research effort must begin with a pilot study. A pilot research using a lower sample size of this test is usually carried out before the main investigation. A pilot research does not need to employ a statistical method for participant selection and can involve 10 to one hundred individuals (Cooper and Schindler, 2003). In an ideal scenario, researchers would conduct pilot studies to verify the validity of their intended methodologies and questions (Dźwigoł, 2020). The primary inquiry was preceded by a pilot study in which ten participants were selected from Kiambu County. The study aimed to find possible weak points in the research instruments by evaluating their validity and reliability.


4.3 Reliability Analysis

A research instrument is considered reliable if it consistently and reliably measures the variables that were supposed to be measured. The research used Cronbach's Alpha, a statistic that measures the reliability of survey questions, to draw these conclusions. This metric determines how well the survey items measure the same underlying construct across scales, providing insight into the survey's internal consistency.

All items within the scale effectively assess the same underlying construct when Cronbach's Alpha is greater than 0.7, suggesting strong internal consistency.

The reliability analysis confirms that the scales employed in this investigation were reliable, as shown in Table 3, because the resulting α value was greater than the 0.7 threshold.

Table 3: Reliability Analysis



Scale	Cronbach's Alpha	N of Items	Comment
Budgeting	0.844	7	Reliable
Debt Management	0.830	7	Reliable
Investing	0.871	7	Reliable
Saving	0.795	7	Reliable
Financial performance	0.856	5	Reliable

Source: Field Data (2024)

The financial performance ($\alpha = 0.856$), budgeting ($\alpha = 0.844$), debt management ($\alpha = 0.830$), investment ($\alpha = 0.871$), and saving ($\alpha = 0.795$) constructs' Cronbach's Alpha values were as follows. This data shows that all constructs have high levels of internal consistency, which means

that the items on each scale are related to one another and provide accurate measurements of the target ideas.

4.4 Validity Analysis

Validity, concerns the accuracy of the research instrument in measuring what it is intended to measure, was assessed through multiple approaches. Content validity was established through a comprehensive review of the literature on financial literacy and MSME financial performance. The questionnaire items were developed based on key dimensions and indicators identified in previous research. Additionally, the questionnaire was reviewed by experts in finance and entrepreneurship to ensure that it adequately covered all relevant aspects of the constructs. Construct validity was supported by grounding the questionnaire items in established theories and definitions of financial literacy dimensions. The items measuring budgeting, debt management, investing, and saving behaviors were based on widely accepted conceptualizations of these constructs in the financial literature.

4.5 Demographics of the Respondents

Finding out what the respondents were like was the main goal of the study. Gender, age, education level, business kind, and number of years in operation were some of the criteria that were taken into consideration. Because it indicates whether or whether the respondents are relevant and suitable for the study, such information is crucial to the research.

4.5.1 Gender of the Respondents

The respondents of the study were classified into three main categories, that is, male, female, and other. Particularly, the classification of other was meant for those who were not open to revealing their gender identities. The results relating to gender are as shown in figure 2 below.

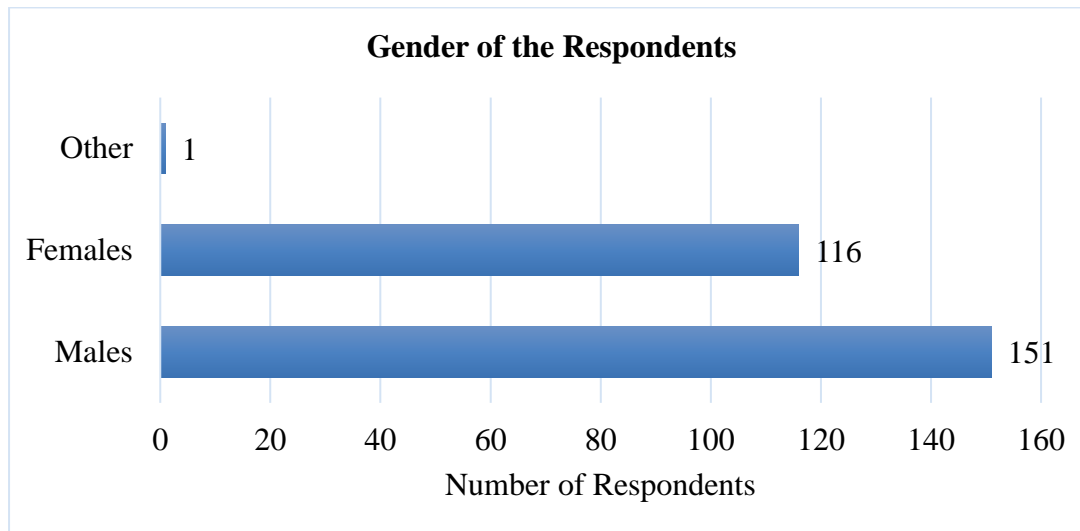


Figure 2: Gender of the Respondents

Source: Field Data (2024)

The study findings reveal that 56.34% of the respondents were males, 43.28% were females, and 0.37% belonged to the other category. Thus, the study concluded that there were more male respondents in the study than any other gender.

4.5.2 Age of the Respondents

This study sought to determine the age distribution of the respondents and the results were as indicated below in figure 3.

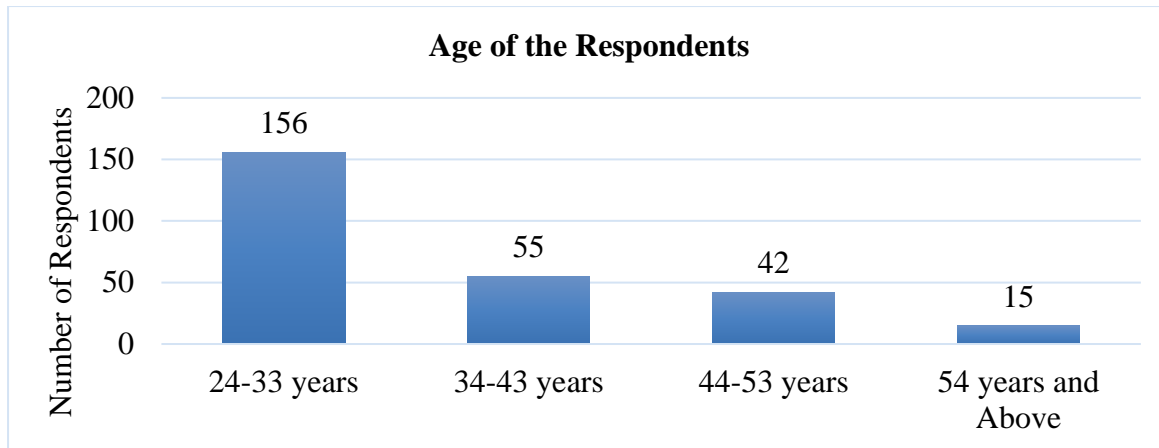


Figure 3: Age of the Respondents

Source: Field Data (2024)

The study found that adults aged 24–33 made up 58.21% of the total respondents. The age range for this group was 34.0–43.2 years. There were 15.67 percent of respondents in the 44–53 age bracket, and 5.60 percent in the 54+ age bracket. This study's result that the majority of respondents were relatively young suggests that micro, small, and medium-sized enterprises (MSMEs) are primarily made up of a younger demographic.

4.5.3 Education Level

It is essential to determine whether or not the study respondents are able to understand the study subject. This determination can be realized through assessing the education level of the respondents. Thus, the study sought to establish the highest education levels attained by its respondents. The results pertaining the respondents' education level are characterized in figure 4 below.

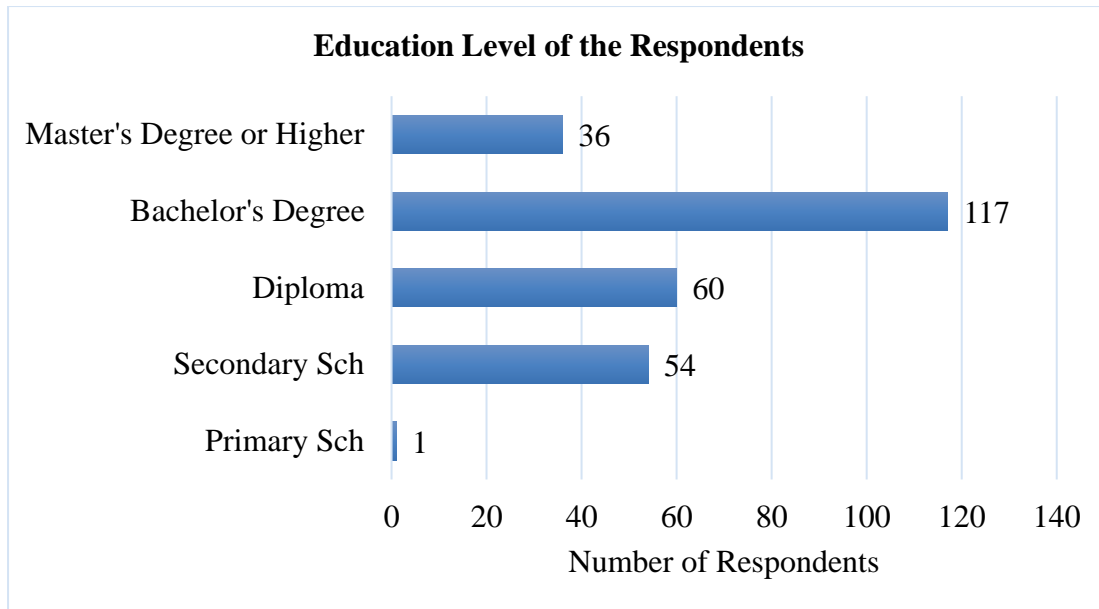


Figure 4: Education Level of the Respondents

Source: Field Data (2024)

Very few people (only 1-3.37%) reported having completed elementary school as their greatest level of education. In addition, 20.35% of the total respondents had completed secondary education, and 22.39% had earned a diploma. Nearly half of those who took the survey have a bachelor's degree or higher. Respondents with a master's degree or above made up 13.43% of the overall sample. Taken together, these results show that the majority of respondents had a college degree or above, which means that they were able to comprehend the study's topic and give reliable responses.

4.5.4 Type of Enterprise

The study aimed at differentiating the small enterprises from the micro enterprises. The results are indicated below in figure 5 below.

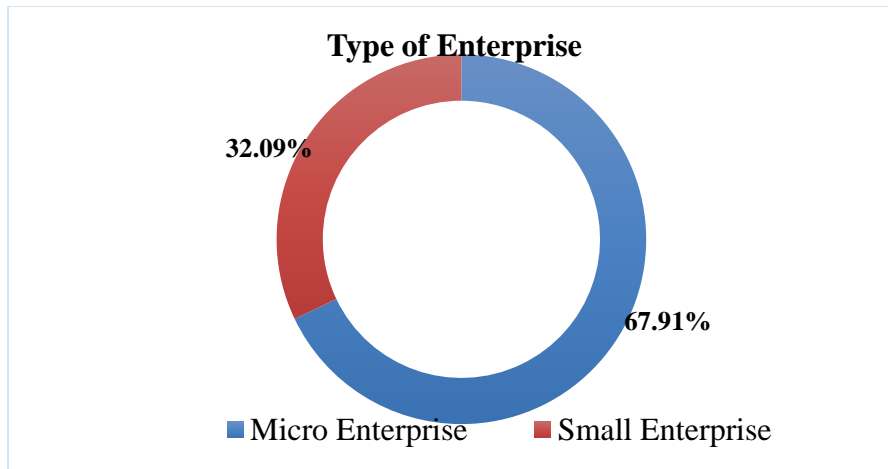


Figure 5: Type of Enterprise

Source: Field Data (2024)

182 of the enterprises- 67.91%, investigated were micro enterprises whereas 86 enterprises- 32.09%, were small enterprises. It was therefore the conclusion of this study that there were more micro enterprises than small enterprises involved in this study.

4.5.5 Sectors of Studied Enterprises

The sectors of these enterprises were also recorded and shown below in table 4.

Table 4: Sectors of Studied Enterprises

Sector	Number	Percentage
Accommodation Services	30	11.19%
Manufacturing & Food	41	15.30%
Wholesale & Retail Trade Sector	125	46.64 %

Other (Agric Sector)	72	26.87%
Total	268	100%

Source: Field Data (2024)

4.5.6 Years in Operation

This study purposed to determine the number of years the enterprises were in operation. The results were as shown in figure 6 below.

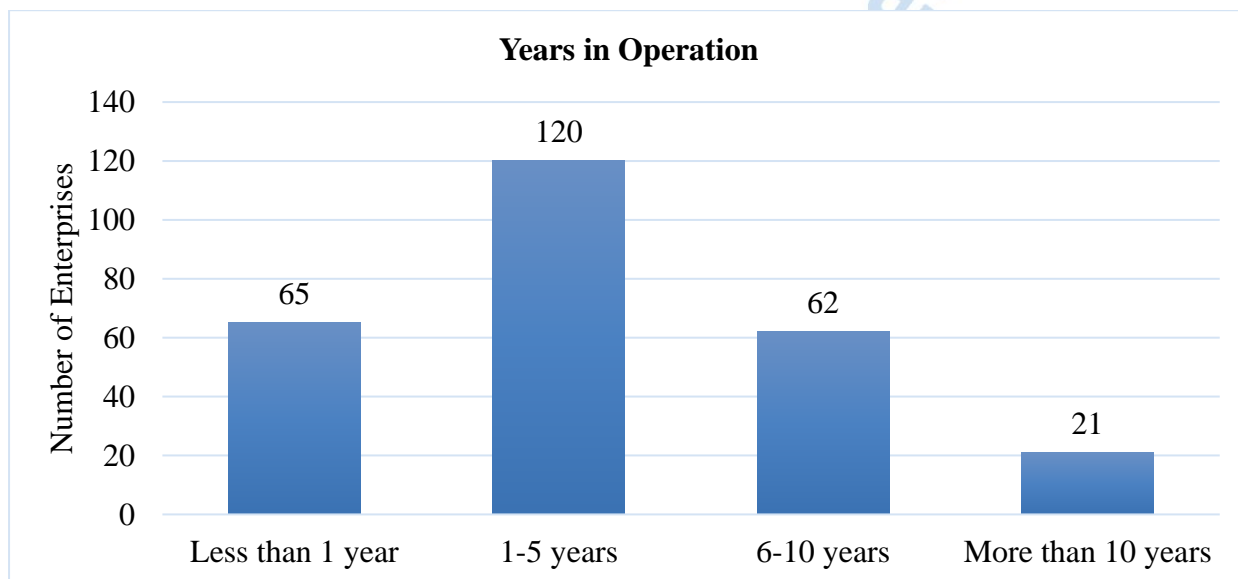


Figure 6: Years in Operation

Source: Field Data (2024)

Enterprises that had been in operation for less than a year accounted for 24.25% of all the enterprises under investigation. Majority of the enterprises, rating 44.78 %, had been in operation between 1 and 5 years. Those who had been in operation between 6 and 10 years accounted for 23.13%. The remaining 7.84% reported to have been in operation for more than 10 years. It was the conclusion of this study, that most of the enterprises had been in operation for an adequately

enough period for this investigation. Given their years in operation, the respondents had gained reasonable experience to comment about the financial matters pertaining to their firms and as needed in this investigation.

4.6 Descriptive Analysis

In order to summarize and give concise descriptions of the data collected, descriptive statistics were utilized in this study. Both the independent and dependent variables were included in the descriptive analysis. In particular, the study displayed the frequency of each result using relative frequencies. Additionally, the averages and variability were ascertained using standard deviations and means, respectively.

4.6.1 Descriptive Analysis for Budgeting

Table 5: Budgeting

Statement	SD	D	A	SA	Mean	Std. Deviation
I create a detailed budget outlining my business income and expenses at the beginning of each financial year.	7.10%	16.80%	39.60%	36.60%	3.06	0.90
I regularly track my business income and expenses against the budget to identify any variances.	6.70%	15.30%	41.80%	36.20%	3.07	0.88

I adjust my budget throughout the year to reflect changes in business activity or unexpected expenses.

8.60%	19.00%	38.80%	33.60%	2.97	0.93
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I use budgeting to prioritize business expenses and allocate resources efficiently.

8.20%	17.20%	38.40%	36.20%	3.03	0.93
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Budgeting helps me plan for future investments and growth opportunities for my business.

6.30%	13.10%	35.10%	45.50%	3.20	0.90
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I believe budgeting is essential for maintaining financial control of my business.

7.50%	14.20%	29.50%	48.90%	3.20	0.95
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My business experiences fewer financial difficulties when I follow a budget.

8.20%	16.00%	43.30%	32.50%	3.00	0.90
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Average				3.08	0.91
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Source: Field Data (2024)

Most of the respondents, who were, 39.60%, agreed with the statement that they create a detailed budget outlining their business income and expenses at the beginning of each financial year (mean=3.06, std. deviation=0.90). On regularly tracking business income and expenses against the budget to identify any variances, majority of the respondents, that is, 41.80%, agreed with the

statement (mean=3.07, std. deviation=0.88). When asked whether they adjust their budgets throughout the year to reflect changes in business activity or unexpected expenses, many- 38.80%, agreed that they do so (mean=2.97 std. deviation= 0.93). The results also show that majority of the respondents, ideally, 38.40%, use budgeting to prioritize business expenses and allocate resources efficiently (mean= 3.03 std. deviation= 0.93). 45.50% of the respondents, making up the majority strongly agreed with the statement that budgeting helps them plan for future investments and growth opportunities for my business (mean=3.20 std. deviation=0.90). Further findings reveal that most respondents, comprising 48.90% of the total respondents believe that budgeting is essential for maintaining financial control of their businesses. Lastly, many respondents- 43.30% agreed that their businesses experience fewer financial difficulties when they follow a budget (mean= 3.00 std. deviation=0.90). In terms of budgeting, the average mean was 3.08 and the standard deviation was 0.91. Many respondents seemed to agree with the budgeting statements based on the average mean, and the low variability of responses relative to the averages (as shown by the average standard deviation) lend credence to the findings.

4.6.2 Descriptive Analysis for Debt Management

Table 6: Debt Management

Statement	SD	D	A	SA	Mean	Std. Deviation
I only borrow money for my business when absolutely necessary.	6.30%	15.00%	39.90%	38.80%	3.11	0.88

I carefully consider the interest rates and repayment terms before taking on business debt.	8.20%	13.10%	35.00%	43.70%	3.14	0.94
I have a clear plan for repaying any business loan I take out.	7.50%	16.40%	36.90%	39.20%	3.08	0.92
I prioritize repaying business debt to avoid accumulating high-interest charges.	7.50%	11.10%	36.60%	44.80%	3.19	0.91
My business has difficulty managing existing debt obligations.	14.90%	44.00%	23.10%	18.00%	2.44	0.95
I believe a high level of debt can hinder the financial growth of my business.	7.10%	13.80%	30.60%	48.50%	3.21	0.93
I would rather find alternative funding sources than rely on debt financing for my business.	10.40%	16.40%	34.00%	39.20%	3.02	0.99
Average					3.03	0.93

Source: Field Data (2024)

With a mean score of 3.11 and a standard deviation of 0.88, the majority of respondents (39.90%) agreed with the assertion that they only take out business loans when absolutely required. Nearly half of those who took the survey (43.70 percent) strongly agreed that business owners should think

long and hard about interest rates and repayment terms before taking on debt. Nearly 40% of respondents (mean= 3.08, std. deviation= 0.92) were in agreement that they always have a strategy in place to pay back any company loans they take out. Additionally, with a mean score of 3.19 and a standard deviation of 0.91, the results show that most respondents (44.80% to be exact) believe that paying off corporate debt is a top priority in order to avoid paying exorbitant interest rates. Nearly half of those who took the survey disagreed with the assertion that their companies are struggling to pay off their current debt (mean=2.44, std. deviation= 0.95). The majority of respondents (48.50 percent) strongly agreed that having a lot of debt can make it hard for their organization to expand financially (mean = 3.21, std. deviation= 0.93). The majority of respondents (39.20%) strongly agreed that they would prefer not to use debt finance for their firm and would instead seek out alternative funding options (mean= 3.02, std. deviation= 0.99).

At the debt management average, the standard deviation was 0.93 and the mean was 3.03. With a low average standard deviation and a high average mean, it's clear that most respondents agreed with the claims made on debt management.

4.6.3 Descriptive Analysis for Investing

Table 7: Investing

Statement	SD	D	A	SA	Mean	Std. Deviation
I consider and research various investment options to grow my business capital.	6.70%	13.80%	44.10%	35.40%	3.08	0.87

I understand the concept of risk and return when making investment decisions for my business.

9.00% 11.60% 47.70% 31.70% 3.02 0.89

I am comfortable taking calculated risks with investments to achieve my business goals.

9.00% 11.10% 51.90% 28.00% 2.99 0.87

I believe investing is a good way to increase my business's long-term financial stability.

10.80% 9.30% 37.70% 42.20% 3.11 0.97

I don't have the information and tools I need to make smart business financial choices.

16.40% 30.60% 34.00% 19.00% 2.56 0.98

I am hesitant to invest because I fear losing my business capital.

18.30% 37.70% 26.10% 17.90% 2.44 0.99

My business is currently not in a financial position to consider investing.

12.70% 33.60% 35.40% 18.30% 2.59 0.93

Average **2.83** **0.93**

Source: Field Data (2024)

Nearly half of those who took the survey agreed with the assertion that they look into different investment opportunities to increase their company's capital (mean= 3.08, std. deviation= 0.87). Nearly half of those who took the survey (47.70%) thought that it is important for company investment decisions to take risk and return into account (mean= 3.02, std. deviation= 0.89). With a mean score of 2.99 and a standard deviation of 0.87, 51.90 percent of respondents said they are okay with taking financial risks in pursuit of their company objectives. In addition, with a mean score of 3.11 and a standard deviation of 0.97, the data reveal that 42.20 percent of respondents strongly believe that investing is a sensible method to boost the long-term financial stability of their organization. Among those who took the survey, 34.00% agreed (mean=2.56, std. deviation=0.98) that they do not have enough knowledge to make informed financial decisions for their company. The results show that 37% of people don't agree that they are afraid to invest because it will hurt their company (mean=2.44, std. deviation= 0.99). Finally, a large percentage of respondents (35.40%, mean = 2.59, std. deviation = 0.93) felt that their companies do not have enough money to think about investing right now. When it came to investing strategies, the average mean was 2.83 and the standard deviation was 0.93. Respondents' moderate agreement with the assertions regarding investment procedures is revealed by the average mean, and the lack of variety in responses is shown by the standard deviation.

4.6.4 Descriptive Analysis for Saving

Table 8: Saving

Statement	SD	D	A	SA	Mean	Std. Deviation
I set aside a portion of my business profits into a savings account on a regular basis.	6.00%	19.80%	41.40%	32.80%	3.01	0.88
I have a specific financial target for my business savings (e.g., emergency fund, expansion).	8.20%	25.40%	36.90%	29.50%	2.88	0.93
I prioritize saving over immediate spending when making financial decisions for my business.	7.80%	21.60%	46.60%	24.00%	2.87	0.87
I believe saving helps my business weather unexpected financial challenges.	6.30%	12.00%	41.40%	40.30%	3.16	0.87
I am comfortable using business savings for future growth opportunities.	9.70%	14.60%	40.70%	35.00%	3.01	0.94

I find it difficult to save consistently due to the immediate financial needs of my business.

9.00%	20.50%	43.30%	27.20%	2.89	0.91
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Saving is not a priority for my business because I can always access additional funding when needed.

27.60%	37.70%	18.30%	16.40%	2.24	1.03
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Average				2.87	0.92
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Source: Field Data (2024)

Many respondents, making up 41.40% of the total respondents, agreed with the statement that they set aside a portion of their business profits into a savings account on a regular basis (mean= 3.01, std. deviation= 0.88). On the question of having a specific financial target for business savings, such as an emergency fund or expansion, 36.90% of respondents agreed; a significant portion, 25.40%, disagreed on this matter (mean= 2.88, std. deviation= 0.93). When asked if they prioritize saving over immediate spending when making financial decisions for their business, the majority of the respondents, that is 46.60%, agreed (mean= 2.87, std. deviation= 0.87). 40.30% of respondents strongly agreed that saving helps their business from unexpected financial challenges, with an additional 41.40% agreeing (mean= 3.16, std. deviation= 0.87). On the matter of using business savings for future growth opportunities, 40.70% of respondents agreed (mean= 3.01, std. deviation= 0.94). Nonetheless, 43.30% of respondents agreed with the statement that they find it difficult to save consistently due to the immediate financial needs of their business (mean = 2.89, std. deviation = 0.91). A substantial portion of the respondents, 37.70%, disagreed with the

statement that saving is not a priority because they can always access additional funding when needed (mean = 2.24, std. deviation = 1.03). The average mean and standard deviation for savings practices were 2.87 and 0.92, respectively. The average mean reveals that respondents generally leaned toward agreeing with the statements on savings practices, while the standard deviation reflects low variability in responses.

4.6.5 Descriptive Analysis for Financial Performance

Table 9: Financial Performance

Statement	SD	D	A	SA	Mean	Std. Deviation
My business has achieved consistent profitability over the past year.	9.00%	30.60%	38.00%	22.40%	2.74	0.91
I am able to meet all my business financial obligations (e.g., taxes, loans) on time.	11.60%	28.70%	37.70%	22.00%	2.70	0.94
I have sufficient cash flow to cover my business's operating expenses.	13.40%	34.00%	36.20%	16.40%	2.56	0.92
I have faith in my ability to help my business make smart financial choices.	6.00%	10.80%	44.80%	38.40%	3.16	0.84

My business is well-positioned to

take advantage of new growth opportunities.
7.40% 19.00% 43.70% 29.90% 2.96 0.89

Average	2.82	0.90
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Source: Field Data (2024)

Most respondents, comprising 38.00%, agreed with the statement that their business had achieved consistent profitability over the past year (mean= 2.74, std. deviation= 0.91). Many respondents, 37.70%, agreed that they have the ability to meet all business financial obligations, such as taxes and loans on time (mean= 2.70, std. deviation= 0.94). When asked if they have sufficient cash flow to cover operating expenses, the majority, 36.20%, agreed, though a significant portion, that is, 34.00% disagreed with the statement (mean= 2.56, std. deviation= 0.92). A larger share of respondents, which is, 44.80%, agreed that they have faith in their ability to help their business make smart financial choices (mean= 3.16, std. deviation= 0.84). With a mean score of 2.96 and a standard deviation of 0.89, 43.70 percent of respondents felt that their companies were prepared to capitalize on emerging growth prospects. For financial performance measures, the average mean was 2.82 and the standard deviation was 0.90. The average mean suggests that respondents generally agreed with the statements related to financial performance. The standard deviation indicates low variability in responses, thus, pointing to consistency and validity.

4.7 Inferential Analysis

Using inferential statistics, this study analyzed the data to better understand the relationship between financial literacy and financial performance. In particular, the research derived regression coefficients, conducted an analysis of variance, and tested a fitness model.

4.7.1 Correlation Analysis

Table 10 presents the results of the correlation analysis.

Table 10: Correlation Analysis

Correlations										
		Financial		Debt						
		Performance	Budgeting	Management	Investing	Saving				
	Pearson									
Financial Performance	Correlation	1								
	Sig. (2-tailed)									
	N	268								
	Pearson									
Budgeting	Correlation	.654**	1							
	Sig. (2-tailed)	0.000								
	N	268	268							
	Pearson									
Debt Management	Correlation	.637**	.796**	1						
	Sig. (2-tailed)	0.000	0.000							
	N	268	268	268						
	Pearson									
Investing	Correlation	.589**	.721**	.739**	1					
	Sig. (2-tailed)	0.000	0.000	0.000						
	N	268	268	268	268	268				

Pearson						
Saving	Correlation	.692**	.785**	.731**	.756**	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	
	N	268	268	268	268	268

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

Source: Field Data (2024)

According to the correlation data, every single variable had a highly favorable linear relationship with financial performance. The saving variable had a stronger positive connection ($r = 0.692$, $p < .001$) in comparison to the other variables. With a p-value lower than 0.001, the association was determined to be statistically significant. These results are in line with those of Nyambura and Mwai (2017), who also discovered that among MSMEs in Nairobi County, there is a positive association between savings habit and financial performance. Furthermore, budgeting and financial success were positively and linearly related ($r = 0.654$, $p < .001$). With a p-value lower than 0.001, the association was determined to be statistically significant. Consistent with this budgeting finding, Smith (2018) also discovered a strong correlation between effective budgeting and the financial performance of MSMEs. Additional results showed that debt management was favorably correlated with financial performance ($r = 0.637$, $p < .001$). Given that the p-value was lower than 0.001, it was determined that the link was statistically significant. This data lent credence to the findings of Mwangi and Gathoga (2018), who discovered that SMEs fared better during financial storms and could sustainably grow their companies when their debt levels were reasonable and their repayment procedures were effective. Despite having the weakest positive correlation ($r = 0.589$, $p < .001$), investing was nevertheless significantly related to the other variables. With a p-value lower than 0.001, the association was determined to be statistically significant. These results

backed up what Njoroge and Kariuki (2018) found, which demonstrated a positive correlation between investment choices and monetary rewards.

4.7.2 Regression Analysis

The researchers in this study used regression analysis to better understand the interrelationships of the variables and to get more accurate predictions. Here is a table that shows how well the model that was used for this study's regression worked.

Table 11: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724 ^a	0.524	0.517	0.47058

Source: Field Data (2024)

Micro, small, and medium-sized companies (MSMEs) in Nairobi County had a financial performance that was 0.724 times higher than the county average, according to Table 11. The finding that financial literacy explains around 52.4% of the variations in financial performance (R squared = 0.524) is another sign that the model fits the data well.

Using analysis of variance (ANOVA), we looked at the data in table 11 to see if the model could accurately predict financial literacy to describe the financial performance of micro, small, and medium-sized enterprises (MSMEs) in Nairobi County. The findings of the ANOVA are shown in Table 12.

Table 12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.186	4	16.047	72.464	.000 ^b
	Residual	58.239	263	0.221		
	Total	122.426	267			

Source: Field Data (2024)

Based on the ANOVA results in table 12 ($F = 72.464$, $p < 0.001$), it appears that the model used in this study can account for a significant portion of the variation in the dependent variable. The incredibly low p-value (Sig. =.000) further confirms the statistical significance of the regression model. The results of the analysis of variance show that the financial literacy measures have a substantial effect on the dependent variable, which is financial performance.

The model's regression coefficients are displayed in table 13 below.

Table 13: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.384	0.151		2.538	0.012
Budgeting	0.160	0.077	0.169	2.083	0.038
Debt Management	0.205	0.081	0.194	2.517	0.012
Investing	0.022	0.081	0.019	0.271	0.787
Saving	0.441	0.085	0.403	5.213	0.000

Source: Field Data (2024)

According to Table 13, the beta coefficient for the constant was 0.384 thereby implying that financial performance would be 0.384 when all other factors are held constant. For budgeting the beta coefficient was found to be 0.160, and the corresponding p-value was 0.038 ($\beta=0.160$, $p=0.038<0.05$). Thus, it was established that there was a positive and significant relationship between budgeting and financial performance of MSMEs in Nairobi County. These findings further reveal that one unit change in budgeting would lead to an increase in financial performance by 0.160 units. This result aligned with Smith's (2018) findings, which likewise found a substantial association between effective budgeting and MSMEs' financial success.

Additionally, the beta coefficient for debt management was found to be 0.205 and its p-value was 0.012 ($\beta=0.205$, $p=0.012<0.05$). Hence, it was discovered that debt management and financial performance have a positive linkage and the relationship is significant. The p-value associated with debt management implies that one unit change in debt management yields an improvement on financial performance by 0.205 units. This discovery was in line with finding of Mwangi and Gathoga (2018), who showed that MSMEs were better equipped to perform better when they had applied prudent debt management policies.

The beta coefficient in the investment instance was 0.022 and the corresponding p-value was 0.787 ($\beta=0.022$, $p=0.787>0.05$). Investment did not appear to have a substantial impact on the financial performance of MSMEs, even though these values demonstrated a favorable link between the two. A one-unit shift in investing resulted in a 0.022-unit gain in financial performance, according to the p-value associated with investing. This finding was in line with what Njoroge and Kariuki (2018) found, who also found a favorable correlation between investing choices and financial outcomes.

Additionally, with a beta coefficient of 0.441 and a p-value of 0.000 ($H=0.441$, $p=0.000<0.05$), saving was determined to be an effective strategy. The end result was a favorable and statistically

significant correlation between saving and financial success. A 0.441-unit improvement in financial success is associated with a one-unit shift in saving, according to the p-value associated with saving. This result was in line with what Nyambura and Mwai (2017) discovered when they looked at the relationship between the financial success of MSMEs and their saving practices in Nairobi County.

Given table 4.10 above, the study inferred the regression as follows:

$$Y = 0.384 + 0.160X_1 + 0.205X_2 + 0.022X_3 + 0.441X_4 + \varepsilon$$

Where:

Y is Financial performance

X₁ is Budgeting

X₂ is Debt Management

X₃ is Investing

X₄ is Saving

ε is the error term

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

5.0 Introduction

This chapter's findings summary is based on the study objectives. A conclusion is also drawn from the data and outcomes offered here. Some remarks and suggestions for future studies are also included in this chapter.

5.1 Summary of Result Findings

Finding out how financial literacy affects the success of micro, small, and medium-sized enterprises (MSMEs) in Nairobi County, Kenya, was the driving force behind this study. The primary objective of the research was to ascertain the effect on the financial performance of MSMEs of financial literacy abilities such as saving, investing, debt management, and budgeting.

Only 384 out of 30,252 registered MSMEs in Nairobi County were actually selected to take part in the survey. There were 268 surveys that were filled out and returned accurately, making the response rate 69.7 percent. For this study, ten locals from Kiambu County were used as pilots to ensure that the data gathering instruments were valid and reliable. The reliability analysis, which used Cronbach's Alpha coefficient, confirmed the internal consistency of the scales by finding that their α values were all greater than the 0.7 threshold.

In the study, 56.34 percent were men, 43.28 percent were women, and 0.37 percent were unknown. A majority of the sample (58.11%), consisting of respondents aged 24-33, was included. A bachelor's degree was held by 43.66 percent of the participants, a diploma by 22.39 percent, and a

high school certificate by 20.15 percent. Among the companies that took part in the research, 32.09 percent were on a smaller scale, and 67.91 percent were micro-enterprises. Companies in the wholesale and retail trade (46.64%), manufacturing and food (15.30%), hotel services (11.9%), and agriculture (26.77% of the total) were among the other types of companies included in the sample. Among the companies, nearly half (44.78%) had been operational for a period of one to five years.

The majority of respondents stated that they make detailed budgets (mean = 3.06, SD = 0.90), keep close tabs on their income and expenses (mean = 3.07, SD = 0.88), borrow money only when absolutely needed (mean = 3.11, SD = 0.88), research their investment options (mean = 3.08, SD = 0.87), and consistently put some of their profits aside (mean = 3.01, SD = 0.88). Furthermore, they held the following beliefs: that budgeting is crucial for keeping finances under control (mean = 3.20, SD = 0.95), that high levels of debt can impede growth (mean = 3.21, SD = 0.93), that investing promotes stability in the long run (mean = 3.11, SD = 0.97), and that saving helps in times of financial difficulty (mean = 3.16, SD = 0.87).

A strong positive linear association between financial performance and all of the financial literacy characteristics was shown by the results of the correlation analysis. A strong positive connection ($r = 0.692$, $p < 0.001$) was observed between saving behaviors and financial achievement. The strong positive correlation between budgeting and financial performance ($r = 0.654$, $p < 0.001$) suggests that effective budgeting contributes to financial success. Effective debt management practices are linked to better financial outcomes, as indicated by the high positive association between debt management and financial success ($r = 0.637$, $p < 0.001$). Despite a weaker positive association ($r = 0.589$, $p < 0.001$), investment was still one of the variables.

With a correlation coefficient of 0.724 and an R-squared value of 0.524, the results of the regression analysis further demonstrate the favorable association between financial literacy and financial performance. With a p-value less than 0.001, the regression model showed a statistically significant improvement. There was a strong and positive correlation between budgeting, debt management, and financial success ($\beta = 0.160$, $p = 0.038$, $\beta = 0.205$, $p = 0.012$, and $\beta = 0.441$, $p < 0.000$, respectively). As a result, it seems that financial performance improves along with these areas. The impact of investment on financial performance was not statistically significant ($\beta = 0.022$, $p = 0.787$).

Financial performance was used as the dependent variable, and Analysis of Variance (ANOVA) was used to find out whether the regression model was statistically significant overall and how the independent factors affected it relative to each other. See the results of the analysis of variance (ANOVA) in Table 12; the F-statistic was 72.464; the residual had 263 degrees of freedom and the regression had 4. With a p-value of less than 0.001, we can conclude that the overall regression model is statistically significant. Because the p-value is so small, the results could not have occurred by coincidence. Financial literacy measures (budgeting, debt management, investing, and saving) collectively impact the dependent variable, financial performance; this is supported by the study's basic hypothesis, which is backed up by the results of the analysis of variance (ANOVA).

5.1.1 The effect of budgeting on the financial performance of MSMEs in Nairobi County.

Two goals were intended by this research. First, it set out to quantify the financial impact of the budget on micro, small, and medium-sized enterprises (MSMEs) in Nairobi County. The descriptive statistics show that most people agree to create detailed budgets (mean = 3.06, SD = 0.90), regularly compare their income and spending to the budget (mean = 3.07, SD = 0.88), and

make necessary adjustments to the budget (mean = 2.97, SD = 0.93) to account for changes or unexpected costs. Budgeting is also used for setting spending priorities, distributing resources, and planning for investment and expansion; the standard deviation is 0.93 and the mean is 3.03. Budgeting is essential for maintaining control over one's resources and minimizing financial troubles, according to the majority of respondents (mean = 3.20, SD = 0.95).

The correlation tests underlined the importance of good budgeting for MSME financial health by showing a strong, positive, and statistically significant relationship between budgeting and financial performance ($r = 0.654$, $p < 0.001$). Financial performance of micro, small, and medium-sized enterprises (MSMEs) is positively and strongly connected with budgeting, according to regression research. Regression study showed a positive and statistically significant relationship between budgeting and financial performance ($\beta = 0.160$, $p = 0.038$), which supports this hypothesis. Micro, small, and medium-sized businesses (MSMEs) rely on accurate budgets to stay afloat financially. Research indicates that for every one unit increase in budgeting methods, there is a 0.160-unit gain in financial performance.

Smith (2018) found a similar association between effective budgeting and the financial performance of MSMEs; therefore, our findings are consistent with theirs.

5.1.2 The effect of debt management on financial performance of MSMEs in Nairobi County.

The study's secondary aim was to look at how debt management affected the bottom lines of small and medium-sized enterprises (SMEs) in Nairobi County. In terms of managing debt, the majority of respondents stated that they only borrow money when absolutely required, that they give serious consideration to interest rates and repayment terms, and that they have clear plans for when they will repay debts. Paying off debts was their top priority to avoid paying high interest rates (mean

= 3.19, SD = 0.91), and they mostly denied having trouble keeping up with their current debt payments. Alternative funding sources were favored over debt finance by over half of the respondents (48.50%), who firmly agreed that excessive debt inhibits business growth. According to the results, most people are well-versed in the concept of debt management.

Debt management and financial success were found to have a strong positive linear association, according to correlation analysis ($r = 0.637$, $p < 0.001$). Statistical analysis confirms a favorable correlation between MSMEs' ability to control debt and their financial performance. A positive and statistically significant association between debt management and financial performance was also shown by regression analysis ($\beta = 0.205$, $p = 0.012$), which further supports this finding. It is clear from the data that MSMEs can benefit financially from better debt management strategies; a one-unit improvement in these areas is linked to a 0.205-unit improvement in financial performance.

These results corroborated those of Mwangi and Gathoga (2018), who found that small and medium-sized enterprises (SMEs) fared better in the face of financial storms and were able to sustainably expand their businesses when they had reasonable debt levels and effective repayment systems.

5.1.3 The effect of investing on financial performance of MSMEs in Nairobi County.

The majority of participants acknowledged doing their homework on potential investments (mean = 3.08, SD = 0.87), being familiar with the relationship between risk and return (mean = 3.02, SD = 0.89), and being willing to take calculated risks in pursuit of their company objectives (mean = 2.99, SD = 0.87). Despite the fact that 34 percent of people surveyed admitted to not having enough knowledge or resources to make sound investment decisions, 42 percent of those surveyed firmly believed that investing improves long-term financial stability. It is worth noting that 37.30% of

respondents generally disagreed with the view that they are hesitant to invest because they are afraid of losing funds. However, many still felt that their firms did not have the budget to invest.

A positive linear link between investing and financial performance was revealed by correlation analysis ($r = 0.589$, $p < 0.001$). This indicates that there is a statistically significant correlation between MSMEs' financial performance and their investment activities. Nevertheless, regression analysis showed that investment and financial success did not have a statistically significant link ($\beta = 0.022$, $p = 0.787$), unlike the other factors related to financial literacy. Results suggest that, for MSMEs included in this study, shifting investment strategies had no appreciable effect on their bottom lines.

These findings corroborated those of Njoroge and Kariuki (2018), who had previously shown a favorable relationship between investment decisions and financial outcomes.

5.1.4 The effect of saving on the financial performance of MSMEs in Nairobi County.

Examining how savings affect the financial performance of micro, small, and medium-sized enterprises (MSMEs) in Nairobi County was the study's fourth objective. Having specified financial goals (mean = 2.88, SD = 0.93) and prioritizing saves over immediate spending (mean = 2.87, SD = 0.87), respondents generally stated that they consistently set aside a percentage of profits for savings (mean = 3.01, SD = 0.88). The vast majority of people who took the survey think that saving helps companies deal with unforeseen problems (mean = 3.16, SD = 0.87) and take advantage of possibilities for future growth (mean = 3.01, SD = 0.94). However, a large portion of the participants (27.20%) admitted that they had trouble continuously saving money because of their urgent financial obligations. With additional funds always available, most respondents (27.60%) disagree that saving is pointless. To a large extent, the responders demonstrated a mastery of fiscal responsibility.

The most significant positive linear relationship between saving and financial performance was found by correlation analysis ($r = 0.692$, $p < 0.001$). This shows that there is a highly statistically significant correlation between MSMEs' savings priorities and their financial performance. A positive and extremely significant association between saving and financial performance was also shown by regression analysis ($\beta = 0.441$, $p = 0.000$), which persisted throughout. The study highlights the importance of saving in improving the financial well-being of MSMEs, showing that a one-unit improvement in saving practices is linked to the biggest rise in financial performance, by 0.441 units.

This finding was congruent with the finding of Nyambura and Mwai (2017) who evaluated the connection between MSMEs' financial success and their saving habits in Nairobi County and found a positive association.

5.2 Conclusions

The study concluded that budgeting has a positive and significant effect on the financial performance of MSMEs in Nairobi County. Budgeting practices such as drafting periodic budgets and regular tracking of transactions proves to shape financial performance considerably. Particularly, budgeting aids in efficient allocation of resources and better planning of business activities.

The study also concluded that debt management has an advantageous influence on the financial performance of MSMEs in Nairobi County. Borrowing money only when necessary and carefully considering interest rates and repayment terms would help businesses avoid excessive debt obligations. If need arises and a business is forced to get into debt, then having a clear and elaborate repayment plan would assist the business service its debt without compromising its finances. Debt

is linked to stunted growth in business as it places more burden on the finances of the firm; debt outweighs positive effects of other factors that build on the performance of the firm. It is prudent that firms explore alternative funding options such as equity financing options over debt financing options.

The study's third objective was to analyze the effect of investing on financial performance of MSMEs in Nairobi County. Most respondents agreed that they research investment options, understand risk and return, and take calculated risks to achieve business goals. Many of the study respondents strongly believed that investing enhances long-term financial stability, nonetheless, most acknowledged lacking adequate information and tools for making smart investment decisions. Most notably, the respondents generally disagreed with the belief that they are hesitating to invest due to fear of losing capital; that notwithstanding, many agreed that their businesses were not financially positioned to invest. Although correlation analysis showed a strong and statistically significant positive association between investing and financial performance, regression analysis revealed the relationship was not significant, indicating that investing does not have a meaningful impact on MSME financial performance.

Notably, while budgeting, debt management, and saving demonstrated strong, positive associations with financial performance, the relationship between investing and financial performance was weaker and, in the regression analysis, not statistically significant. Several factors could potentially explain this disparity.

MSMEs, particularly micro and small enterprises, often prioritize short-term operational needs over long-term investment strategies. Their focus is frequently on managing daily activities, covering immediate expenses, and ensuring business survival. Consequently, investing, which

typically generates returns over a more extended period, may not be a primary concern or a common practice among these businesses.

Resource limitations and capacity constraints also play a significant role. MSMEs frequently face challenges such as limited capital and a lack of expertise in financial matters. Investing necessitates surplus capital and a solid understanding of investment options, risk assessment, and financial markets. Many MSMEs may lack these essential resources and the necessary capacity, which hinders their ability to actively engage in investment activities.

Furthermore, MSME owners might exhibit risk aversion, especially when it comes to allocating their limited capital. The fear of potential losses can deter them from making investments, even if those investments hold the promise of substantial returns.

Economic uncertainty and volatility, which are often characteristics of the environments in which MSMEs operate, can also discourage investment. In uncertain times, MSME owners may prefer to preserve their capital rather than expose it to investment risks.

Finally, it is also possible that methodological factors contributed to the weaker findings on investing. The way in which 'investing' was measured in the study might not have fully captured the diverse range of investment activities undertaken by MSMEs. The study's focus might have been on more formal investment channels, while MSMEs could be utilizing informal or less conventional investment methods that were not fully accounted for.

Also, the study concluded that saving has a strongly positive effect on the financial performance of MSMEs in Nairobi County. Saving practices such as consistently setting aside a part of their profits creates a safety net for the business. A good savings culture is critical for a business since

savings act as an emergency cushion that can keep the business afloat during down cycles and economic downtimes. Moreover, saving encourages long term planning and allows the business to run without financial stress, thus, the firm can make better decisions and realize greater performance.

5.3 Recommendations for practice

The study recommended that MSMEs fully implement budgetary practices to enhance their financial performance. Firms should develop periodic plans, such as yearly, and review frequently, preferably monthly and at the very least quarterly. MSMEs should also consider having tools such as accounting software to help track their business transactions easily and get better insights.

The study recommended that MSMEs be cautious when taking debt. They should not take debt if it is not necessary and if they must then it is advisable that they explore alternative options such as equity financing and grants.

The study recommended that MSMEs make strategic investment decisions. MSMEs should go for investment options that require fair initial capital and have shorter pay back periods. Also, MSMEs can create joint ventures and foster partnerships amongst themselves for knowledge exchange and pooling of funds for big investments.

The study recommended that the MSMEs inculcate a savings culture in their business culture. Firms can have dedicated savings accounts that attract interest rates while ensuring that the funds are still accessible to the firm.

The study recommended that the governments, both national and county, play a leading role in optimizing the performance of the MSMEs. The government can organize forums such as workshops and conferences to educate the MSMEs on financial literacy. Moreover, the government

should provide grants to MSMEs to discourage MSMEs from seeking debt from other avenues. Also, the government can avail business loans at affordable rates for MSMEs.

5.3.1 The Authorities for Implementation

To foster improved financial literacy and performance among MSMEs, authorities should prioritize the development and implementation of targeted financial literacy programs. This should involve creating digital financial training programs that leverage online courses and mobile apps to provide accessible education on digital accounting tools, online banking, mobile money management, and cybersecurity for financial transactions. Simultaneously, government-backed financial workshops and seminars, led by financial experts, should be organized to impart practical skills in budgeting, cash flow management, debt management, and investment strategies, ensuring these are held in convenient locations and at suitable times for MSME owners. Mentorship programs should also be established, pairing experienced business owners or financial professionals with MSMEs to offer personalized guidance and support in financial management. In addition to educational initiatives, establishing easily accessible support centers that provide tailored financial advice and resources to MSMEs is crucial. This could take the form of one-stop financial advisory centers, either physical or virtual, where MSMEs can seek assistance with loan applications, financial planning, and investment options, as well as regular financial clinics where experts offer free consultations on specific financial challenges. To further support MSMEs, authorities should create policies that incentivize and facilitate saving. Tax benefits or rebates for MSMEs that maintain dedicated business savings accounts or invest in approved financial instruments, alongside matching grant programs where the government or financial institutions match a percentage of MSMEs' savings, can encourage greater saving. It is also imperative that authorities enforce regulations that promote fair lending practices and protect MSMEs from predatory lending. This includes strengthening

regulatory oversight of lending institutions to ensure transparency and prevent unfair loan terms, as well as promoting financial consumer protection through policies and initiatives that educate MSMEs about their rights as borrowers and provide avenues for redress in cases of unfair lending practices.

5.3.2 Service Users/Beneficiaries

MSME owners and managers, as key beneficiaries, must proactively engage in enhancing their financial literacy. This can be achieved through active participation in the recommended programs, workshops, seminars, and training programs designed to improve their financial skills and knowledge. Practical application of this enhanced knowledge is essential; MSMEs should commit to implementing effective budgeting practices, utilizing available digital tools and resources to regularly track income and expenses, and making informed adjustments to their budgets as needed to maintain financial control. Prudent debt management strategies should also be adopted, with careful evaluation of loan terms, interest rates, and repayment schedules before taking on debt, and prioritizing timely debt repayment to avoid accumulating high-interest charges and ensure financial stability. Furthermore, MSMEs should cultivate consistent saving habits by setting clear financial targets, automating savings contributions where possible to ensure regularity, and exploring suitable savings and investment options that align with their business goals, fostering both growth and resilience.

5.3.3 Other Stakeholders

When it comes to helping MSMEs stay afloat financially, other parties also play an important role. Banks and other financial institutions should go above and beyond to meet the unique requirements

of micro, small, and medium-sized enterprises (MSMEs). One way to do this is by making savings accounts more accessible and offering features like automated transfers and tiered interest rates to promote regular saving. Another is to create loan products with repayment terms and conditions that work with the cash flow patterns of MSMEs. In order to help micro, small, and medium-sized enterprises (MSMEs), NGOs and business development groups should include financial literacy training in their programs and projects. The training should be tailored to specific sectors so that it can effectively address the unique challenges that MSMEs encounter. It should also include practical workshops that teach MSMEs how to manage their finances, including how to forecast cash flow, do break-even analyses, and keep financial records. Schools should include lessons on personal finance into their lessons at different levels since they should know how important it is for students to start learning about money when they are young. Achieving this goal can be accomplished by incorporating financial literacy modules into entrepreneurship courses. These modules should cover important topics like business planning, financial management, and access to finance. Additionally, vocational training programs should incorporate financial literacy training to equip individuals with the skills they need to manage their finances effectively and pursue entrepreneurial ventures.

5.4 Recommendations for Further Research

According to the research, financial management tasks like budgeting, managing debt, investing, and saving accounted for 52.4% of the variance in financial success. To find out what else accounts for the 47.6% variance in financial performance, additional research is necessary.

Future research might investigate the best investment options for micro, small, and medium-sized enterprises (MSMEs), particularly those with limited funds, since the study found a positive but weak correlation between investment and financial performance.



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APPENDICES

Appendix I: Consent Form

CONSENT FORM FOR PARTICIPATION IN RESEARCH

You are invited to take part in a research study titled "Analysis of Financial Literacy on the Financial Performance of Micro, Small, and Medium Enterprises (MSMEs) in Nairobi County, Kenya." This study is being conducted as a requirement for my Master’s in Business Administration program at Mount Kenya University. The research aims to explore the impact of financial literacy on the financial performance of MSMEs in Nairobi County.

The attached questionnaire aims to collect information regarding the financial literacy of MSMEs in Nairobi County and how it relates to their financial performance.

Your voluntary participation in this study would be greatly appreciated. Participation is entirely at your discretion, and you may skip any questions that you find uncomfortable. There are no anticipated risks beyond those you encounter in daily life. All responses will be treated with strict confidentiality and anonymity, with the data being reported in aggregate form to safeguard your identity.

While there is no direct benefit to you for participating, your input will contribute valuable insights to the field, potentially benefiting future entrepreneurs.

If you make the choice to take part, please fill out the linked form as completely as you can. The whole thing should be done in about 15 minutes. Returning the filled form as soon as possible will help make sure the job is finished on time.

If you have any questions regarding the study, you can reach out to Robert Mrima at 0723321163 or Dr. Martin Onsiro at +254716939832. For any concerns regarding your rights as a participant, you may contact the Chairman, Mount Kenya University Ethical Review Committee, P.O. Box 342-01000, Thika.

Thank you very much for considering participating in this important research.

CONSENT

I understand the details of the study now that I've looked over the information given. There were times when I could ask questions, and the replies I got were good enough. I know that I don't have to take part and that I can quit at any time without any consequences. I will get a copy of this permission form to keep. I agree to take part in this study by signing below.

Participant’s signature..... Date.....

Investigator’s signature..... Date.....

Appendix II: Questionnaire
Section 1: Demographic Information

1. Please tick the appropriate gender:
 - a. Male []
 - b. Female []
 - c. Other []

2. Please tick the appropriate age:
 - a. 24-33 []
 - b. 34-43 []
 - c. 44-53 []
 - d. 54 and above []

3. Please tick the appropriate Education Level you have achieved:
 - a. Primary School []
 - b. Secondary School []
 - c. Diploma []
 - d. Bachelor's Degree []
 - e. Master's Degree or Higher []

4. Type of Enterprise?
 - a. Micro Enterprise
 - b. Small Enterprise

5. Years in Operation of the Enterprise?
 - a. Less than 1 year
 - b. 1-5 years
 - c. 6-10 years
 - d. More than 10 years



Section 2: Financial Management

Part A: Budgeting

Please respond to the statements below by ticking one of the boxes for each question, as appropriate. Scale: S.A (Strongly Agree), A (Agree), D (Disagree), SD (Strongly Disagree)

Budgeting	S.A	A	D	S.D
I create a detailed budget outlining my business income and expenses at the beginning of each financial year.				
I regularly track my business income and expenses against the budget to identify any variances.				
I adjust my budget throughout the year to reflect changes in business activity or unexpected expenses.				
I use budgeting to prioritize business expenses and allocate resources efficiently.				
Budgeting helps me plan for future investments and growth opportunities for my business.				
I believe budgeting is essential for maintaining financial control of my business.				
My business experiences fewer financial difficulties when I follow a budget.				

Part B: Saving

Please respond to the statements below by ticking one of the boxes for each question, as appropriate. Scale: S.A (Strongly Agree), A (Agree), D (Disagree), SD (Strongly Disagree)

Saving	S.A	A	D	S.D
I set aside a portion of my business profits into a savings account on a regular basis.				
I have a specific financial target for my business savings (e.g., emergency fund, expansion).				
I prioritize saving over immediate spending when making financial decisions for my business.				
I believe saving helps my business weather unexpected financial challenges.				
I am comfortable using business savings for future growth opportunities.				
I find it difficult to save consistently due to the immediate financial needs of my business.				
Saving is not a priority for my business because I can always access additional funding when needed.				

Part C: Investment

Please respond to the statements below by ticking one of the boxes for each question, as appropriate. Scale: S.A (Strongly Agree), A (Agree), D (Disagree), SD (Strongly Disagree)

INVESTMENT	S.A	A	D	S.D
I consider and research various investment options to grow my business capital.				
I understand the concept of risk and return when making investment decisions for my business.				
I am comfortable taking calculated risks with investments to achieve my business goals.				
I believe investing is a good way to increase my business's long-term financial stability.				
I don't have the information and tools I need to make smart business financial choices.				
I am hesitant to invest because I fear losing my business capital.				
My business is currently not in a financial position to consider investing.				

Part D: Debt Management

Please respond to the statements below by ticking one of the boxes for each question, as appropriate. Scale: S.A (Strongly Agree), A (Agree), D (Disagree), SD (Strongly Disagree)


Debt Management	S.A	A	D	S.D
I only borrow money for my business when absolutely necessary.				
I carefully consider the interest rates and repayment terms before taking on business debt.				
I have a clear plan for repaying any business loan I take out.				
I prioritize repaying business debt to avoid accumulating high-interest charges.				
My business has difficulty managing existing debt obligations.				
I believe a high level of debt can hinder the financial growth of my business.				
I would rather find alternative funding sources than rely on debt financing for my business.				

Part E: Financial Performance

Please respond to the statements below by ticking one of the boxes for each question, as appropriate. Scale: S.A (Strongly Agree), A (Agree), D (Disagree), SD (Strongly Disagree)

Financial Performance	S.A	A	D	S.D
My business has achieved consistent profitability over the past year.				
I am able to meet all my business financial obligations (e.g., taxes, loans) on time.				
I have sufficient cash flow to cover my business's operating expenses.				
I have faith in my ability to help my business make smart financial choices.				
My business is well-positioned to take advantage of new growth opportunities.				

Appendix III: ERC – Ethical Clearance Certificate


Mount Kenya University

REF: MKU/ISERC/4428 Date: 24 September 2024
TO: GLORIA MUTINDI MUTETI REG: MBA/2022/32513

Dear Sir/Madam,

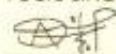
RE: ANALYSIS OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KENYA, CASE OF NAIROBI COUNTY

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3150**. The approval period is **24/09/2024 - 23/09/2025**.


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,


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


MOUNT KENYA UNIVERSITY
ETHICS REVIEW COMMITTEE
P. O. Box 342 - 01000,
THIKA

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

Appendix IV: Introduction Letter



DIRECTORATE OF GRADUATE STUDIES

MBA/2022/32513

25th September, 2024

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

Dear Sir/Madam,


RE: GLORIA MUTINDI MUTETI- REGISTRATION NO. MBA/2022/32513

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 Financial Literacy on Financial Performance of Micro, Small and Medium Enterprises (MSMEs) in Kenya. Case of Nairobi County.**" 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 **October, 2024 and December, 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.
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 V: NACOSTI Permit



REPUBLIC OF KENYA




**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: 659708

Date of Issue: 08/October/2024

RESEARCH LICENSE



This is to Certify that Miss. Gloria Mutindi Mutefi 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 Nairobi on the topic: ANALYSIS OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN KENYA, CASE OF NAIROBI COUNTY for the period ending : 08/October/2025.

License No: NACOSTI/P/24/40606

W. Mutembo
Director General

Applicant Identification Number
659708

**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 conditions

Appendix VI: Field Enty Authorization



NAIROBI CITY COUNTY
www.nairobi.go.ke

BOROUGHES, ADMINISTRATION AND PERSONNEL
PUBLIC SERVICE SUB-SECTOR- HUMAN RESOURCE DEVELOPMENT

REF: NCC/HRD/HRM/10/078/jwc/2025

6TH FEBRUARY 2025

GLORIA MUTINDI MUTETI
MOUNT KENYA UNIVERSITY
P.O BOX 342 -01000
THIKA -KENYA

RE: STUDENT RESEARCH DATA COLLECTION


Reference is made to a letter ref: NCC/CS/RPD/05/02/2025 on the above subject matter.

The Nairobi City County has approved your request subject to the following:

The period of research will commence from 6th February to 28th February 2026

1. You have been authorized to undertake the research in Business and Hustler Opportunities Sector
2. That during your research there will be no costs evolving the County.
3. The research will be used for academic purposes only.
4. That you undertake to indemnify the County against any claim that may arise from your research
5. You are not authorized to release any information without vetting and authority from this office.
6. You are expected to submit to the undersigned a copy of the final research document for the Director Research and Policy Development (within one month after research)
7. Research will be on:
"Analysis of Financial Literacy on Financial Performance of Micro,Small and Medium Enterprises(MSMEs)in Kenya, Case of Nairobi County"

Please report to the Assistant Director Administration – Business & Hustler Opportunities for necessary assistance.



CHRP (K), GEORGE GITONGA
FOR: DIRECTOR HUMAN RESOURCE DEVELOPMENT

LET'S MAKE NAIROBI WORK

TELEPHONE: +254 725 624 489; +254 738 041 292 | EMAIL: INFO@NAIROBI.GO.KE | CITY HALL, CITY HALL WAY, P.O. BOX 10075 00100, NAIROBI

Appendix VII: TURNITIN REPORT

ANALYSIS OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN NAIROBI COUNTY, KENYA

by Gloria Mutindi

Submission date: 07-Apr-2025 05:14PM (UTC+0300)

Submission ID: 2373235252

File name: GLORIA_MUTINDI_MUTETI_TURINTIN.docx (2.05M)

Word count: 23292

Character count: 136583

**ANALYSIS OF FINANCIAL LITERACY ON FINANCIAL PERFORMANCE OF
MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs) IN NAIROBI COUNTY,
KENYA**

GLORIA MUTINDI MUTETI

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION DEGREE IN FINANCE OF
MOUNT KENYA UNIVERSITY**

APRIL 2025

Appendix VIII: RESEARCH SITE MAP

