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

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Abstract

The study sought to establish the effect of financial literacy on growth of small and medium enterprises in Nyeri County, Kenya. The study problem was motivated by limited empirical literature linking financial literacy and growth of SMEs in the Kenyan Context. The financial literacy dimensions included: debt management literacy, book keeping, budgeting skills and banking knowledge. The study was anchored on MAR knowledge spill over theory and stages of growth theory. The research design used was descriptive. The target population of the study was 841 SMEs. Stratified random sampling was used to select a sample of 168 SMEs. 168 questionnaires were dispatched with 132 being filled and returned yielding a response rate of 78.6%. The study found that book keeping skills have a positive and significant effect on growth of SMEs studied. In addition, descriptive analysis findings indicate that proper book keeping enables SMEs to meet debt obligations in time and manage stock effectively. The study further found that book keeping knowledge was not sufficient enough to enable SMEs to file the tax returns without engaging consultant and the SMEs were rated below average on aspect of reconciling cashbook with the bank statements. Debt management literacy was found to be crucial for the SMEs growth as it helped SMEs to manage funds accessed through credit effectively. It was found that persons with more debt management literacy were able to generate more wealth through administration of the resources more optimally with less financial cost and hence the need for a more deliberate debt management literacy in SMEs. The study found that poor budgeting skills were a major cause of failure for the SMEs. Due to the difference in the business operations late budgeting led to poor planning and thus implementation, it is hence important for all SMEs to have a great input in the budgeting skills as it has positively impacted the growth of SMEs. The study also found that knowledge of banking services was key in the growth of SMEs as financial knowledge is significant on debt administration and its repayment too. Due to the emerging economies, the study found the need for increased knowledge of banking services for the growth of SMEs. This study concludes that SMEs need to be trained on book keeping and recording keeping in to enhance growth of SMEs. In addition, the study concludes that SMEs should be encouraged to maintain proper books of accounts to assist in tracking all business transactions when preparing financial statements which are used by various stakeholders to make financial decisions.

Keywords: Financial Literacy, Growth of SMEs, Debt Management Literacy, Budgeting Skills, Book Keeping Skills, Knowledge of Banking.

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Introduction and Background

The driving forces on financial growth & job formation are Small and Medium Enterprises (SMEs), they have a singular significance in both industrial and the emerging economies (Lockea, 2012). Many countries worldwide, business experts, policy makers and economists concur that MSEs are drivers of economic growth (Wanjohi, 2011). Abor and Quartey (2010) identified that in South Africa 91% of prescribed firms are the SMEs and they generate 52%-57% of the GDP and provides a substantial number of employment about 61%. The Kenya Institute of Public Policy Research and Analysis (KIPPRA) estimates that the SMEs sector employs 42 per cent of the operational population, and accounted for 75 per cent of all modern establishments as at 2011(KIPPRA, 2012). SME sector that is physically powerful contributes significantly to the economy through job creation, bulky production of goods and services, increasing exports, sharpens entrepreneurship skills and enhances creativity.

Despite, SMEs high contribution to the market growth they are faced by challenges worldwide which make them exit the market before their third anniversary. (Turyahebwa, Sunday, & Ssekajugo,2013; Fatoki, 2014; GOK, 2005; Oluoch, 2014). These studies shows the high rate of market exit of SMEs reason being they lean to vulnerability due to their economic redundancy and simple management mistakes as compared to large enterprises. This denies SME managers room for improvement due to lack of benchmark platform of the past challenges as a result of resources inadequacy and outstretched capital base which cannot accommodate any far losses. Atkinson and Messy (2005) define financial literacy as the ability of an individual to compacts facts in order to make sound financial decisions by use of financial resources available. Fiscal decisions have a long term consequences as far as the finance costs are concerned therefore, making the right decision is very important in the life of individuals and the businesses as well.

SMEs in in Nyeri County are comprised of professional services such as lawyers and doctor, farming, hospitality, hawking, and public transport services (bodaboda). Mainly, farming segment takes place in rural areas while the rest takes place in urban areas. SMEs is all round demographically in Nyeri County (Njoroge, 2012). Nearly all small scale enterprises in this area are owned by relatives and run by two or more employees. SMEs are controlled and licensed by County government. There are incentives which impel growth of SMEs in Nyeri county which include women fund, youth fund just to mention a few. (Kabue, 2016).

Research Problem

Despite the significant contribution of SMEs to the economy, it's been subjected to a number of challenges one of them being lack of financial information and business records. Wanjohi (2011) refer to lack of sufficient financial business skills as a major challenge in the enlargement and growth of SMEs. Major contributor to these challenges is inadequate financial education foundation and unkept business records. Mutegi et al., (2015) affirms that financial literacy enables the firm to meet their short-term as well as long term obligations through informed decision making processes such as settling of bills timely, proper book keeping, improved budgeting skills, which positions the business strategically in the market. This welcomes a

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vibrant economy with integrated and inclusive systems thus boosting business as well as creating employment. According to Siekei (2013) credit management skills, debt management skills, budgeting skills acquired through financial literacy programme enhance growth of the firm due to adequate administration of investment portfolios which minimizes the finance cost. Despite the enormous theoretical literature on financial literacy, there remains little empirical evidence on the extent to which financial literacy explains growth of SMEs in Kenya. This was a motivation for the study.

By being financially literate, individuals are able to provide facts and sensitize financial concepts, skills, motivation and confidence to apply such knowledge and sensitivity in the business. This makes managers to be efficient and effective across a range of financial contexts and improves the financial growth of SMEs (Hogarth, 2002). Although the review of literature revealed that attention has been given to issues affecting growth of SMEs, very little concentration has been given to the effect of financial literacy on such growth in Nyeri County. Hence, the fundamental question is to establish the connection of financial literacy and growth of SMEs in Kenya and this study seeks to address the same.

Objective of the Study

The specific objectives of the study were:

i. To establish the effect of debt management literacy on growth of SMEs in Nyeri County.
ii. To determine the effect of budgeting skills on growth of SMEs in Nyeri County.
iii. To establish the effect of book keeping skills on growth of SMEs in Nyeri County.
iv. To establish the effect of knowledge of banking services on growth of SMEs in Nyeri county, Kenya.

***Null hypotheses were formulated and tested for each specific objective at a Significance level of 0.05.**

Significance of the Study

The study will be beneficial to the following: The results of this study will help improve the management of SMEs and also the Nyeri county government to lay emphasis on how to improve on financial literacy of SMEs. The national government will access relevant information on the expectations the SMEs as regards financial literacy. This will enable the formulation of customer focused policies and regulations in the Ministry of Devolution in the aim of achieving the goals of Vision 2030 and Sustainable Development Goals. Future finance researchers, academicians and scholars will refer to the findings of this study for comparison in their future studies.

Review of Literature

Theoretical Review

The study is informed by MAR knowledge spill over theory and stages of growth theory. MAR Knowledge spill over theory as propound by Edward Glaeser and Jose Scheinkman (1992) state that the background in which resolutions to establish a business are made can influence one's

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will power to become an entrepreneur. It states that in an accumulation of a new knowledge, technological expansion opportunities arise (Adebimpe, 2008). According to Lusardi (2009), for SMEs to grow and be successful they need to acquire skills of the market dynamics and be proactive by understanding the trends of the same through training. This theory is applicable to the study in that acquiring new knowledge for SMEs helps them to remain relevant and competitive.

Stages of growth theory was built up by Larry Greiner (1972) who posits that for an enterprise to progress has to do so via five discernible stages of growth. Each stage will undergo a quiet period of evolution and is concluded by an administration revolution (Gupta *et al*., 2013; Mckaskill, 2010). These stages of growth comprise of creativity, direction, delegation, coordination, and collaboration. The birth of an enterprise occurs at the creativity stage where production of goods and services are done. The staff work for long and salaries are modest too as they work extra hard to penetrate in the market. The next stage is direction which is marked by persistent development and good administration (Audretsch, 2006). At delegation stage, the organization is decentralized; composition of the organization is established. Line managers and employees are tasked the most. The third stage is Coordination stage, formalization stage which expresses authority order and headquarters is established for better harmonization of activities. Collaboration is the fourth stage which marks the climax and it entails sturdy inter-personal rapports and teamwork. The enterprise basically empowers in capacity building through workshops, conferences and training (Fatoki, 2014). Greiner (1972) disagree that growth (evolution) advanced until a calamity (revolution) happened. Each calamity requires a different management style. Communication is affected as the business matures, and communication channels lengthen. According to Mckaskill (2010), the five phases of evolution cannot be achieved without improving the literacy level of entrepreneur This theory is applicable to the study since SMEs go through various evolution stages before they become successful.

Empirical Review

Debt Management Literacy and Growth of Small and Medium Enterprises

Lusardi and Mitchell (2011) studied the impact of literacy levels on entrepreneurs performance revealed that persons of limited financial literacy are more prone to exploitations when it comes to debt management, savings and credit, and are not able to administer their resources competitively e.g. investing in the money market, stock market and to perform better on their portfolio selection hence they end up planning poorly while individuals with high financial literacy are able to choose a feasible portfolio with lower finance cost. Furthermore, the study found out that the individuals with high financial literacy have the capacity to generate more wealth and be in a position to administer resources more optimally with less finance cost. FSD (2009) and Master card (2011) sought to resolve the impact of financial literacy on any personal economic running practice among employees of commercial banks in Kenya using a sample of 100 respondents, the study found that individuals who are highly skilled have an affirmative relationship with higher levels of domestic wealth and good financial decisions while poor numeracy were coupled with redundant expenses. Individuals with stronger numeracy and financial literacy are also more likely to partake financial markets and to invest in stocks.

Pisa (2013) study sought after to establish contributors of financial literacy levels and found that the mounting attention in finance related education is a very significant life skill because it is linked to various factors both internal and external. Such factors may include the government policies and regulations which diversify risks and further resulted to employer and individuals sharing responsibilities like the introduction of the contributory pension whereby the individuals also chip in to prepare for their future retirement and be part and parcel of their future financial security thus replacing the earlier policy where the employer contributed for the individual pension alone. Other schemes have come up like social protection in Kenya which includes the proposed reforms to health care and financing which the individuals and the business have to uphold at each level, this calls for a diversified market and its supplication thus an increase of financial products and a number of financial decisions to be made. This requires technical understanding of finance so as to be able to make informed decisions and come up with viable investments. Financial assessment and accountability have been transferred to the individuals who are required to be educated on finance matters so as to mitigate financial loss and cover themselves from fraudulent systems.

Siekei *et al*., (2013) studied the access of finances and financial literacy and found that accessing funds is a key element for MSEs to produce, create employment, compete in the market, business growth and eradicate poverty in the developing countries. The study indicate the constraints by the SMEs in the financial institutions due to formalizations structure thus the fail to meet the criteria set by the financiers as a proof of their ability to repay the loans advanced and this makes them to be denied finances and tagged as a risky venture. These formal sources of external finance challenges, makes SME’s investment contribution lesser than the already established firms. SMEs mostly rely of the informal sources of income such as unregulated money lenders, family and friends advances and this creates bottlenecks on their growth. However, although these informal sources are an alternative, self-financing is constrained by low saving capabilities of most SME’s.

Lusardi and Tufano (2009) study sought to determine debt literacy, financial occurrences, and over indebtedness among Americans. The study established that the three quarter of the target population could not understand the conception of interest compounding to their daily business operations or be in a position to embrace effectiveness of a credit card. In addition they acknowledged that women, marginalized, elderly and single parents are the most affected due to their constrained resources and poor financial supervision. Obago (2014) studied the impact of financial literacy on running of personal finances established that most employed individuals suffer from pressure as a result of monetary problem behaviors which include:, extravagance, credit mismanagement, over-indebtedness, meager cash management and scarce income. The above challenges make it hard for the staff to make ends meet which impacts negatively on their productivity at work. Problems emanating from deficiency of financial literacy have propelled

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many companies in the United States to introduce financial education at work places to empower their employees with self-administration skills.

The Financial capability Report of 2009 reveals that a significant population of Kenyans i.e 25% has credit difficulties and tends to borrow loans to repay loans and admit that they are not in control of their finances. Therefore acquisition of financial literacy skills would have a positive impact on an individual's behaviors in terms of increased savings, wealth accumulation and avoidance of unnecessary expenses. This would make MSE managers better customers for the banks, prudent managers of the limited financial resources in their businesses and better able to select the most suitable products for their businesses.

Budgeting Skills and Growth of Small and Medium Enterprises

Joshi et al., (2013) scrutinized budgeting financial literacy by an analysis of 54 both medium and large businesses in Bahrain aiming on budget processes which are inclusive of the participation, planning, controlling and its overall performance the researchers identified that the expansion of a firm is linked to its growth. For the two to be in harmony they require a more detailed budget development as well as implementation so as to benefit exemplarily performance. Extent of the firm and their commitments influence the nature of the budget to be adopted. Chidi and Shad are (2011) studied the challenges tackling human resource improvement in SMEs in Nigeria and found that budgeting was the greatest challenge among SMEs. Businesses are not being accountable, thus lack of assistance and/or participation and deficiency in budgeting plans caused by the incapability to meet timelines set thus individuals do not understand the significance of prior planning and provision of providing numbers which are not viable. As a result the studies established that budgeting skills acquired by the managers reflect on the budget procedures followed and the same will correspond with the budget implementation.

Mahmood (2008) studied the relationship between budgeting process and SMEs performance and found that, the formalization of the budget will depend on how clearly the relationship of the business and the owners is defined. Where there is a clear definition the budget is well detailed and accurate thus minimal influence on the owners at expense of the business. Studies Aimed in Africa have scrutinized the accounting systems used in the midst of businesses in the upcoming economies (Diamond & Khemani, 2006) and deduced that budget implementation and accounting procedures were done inefficiently because they lacked updated software and are maintained manually thus not keeping a detailed trail of destructions affecting the operations of the business incase of funds shortfall or late facilitation. Mannual records may fail to capture each and every data and this affects budget planning, monitoring, expenditure control and the reporting. This study also found that the quality of a system in terms of computerization reflect the budget procedures and further affects the internal control of expenditure.

Joshi et al., (2003) studied budgeting process and performance of companies found out that large companies have a susceptibility to perform an in-depth budget procedure and be in a position to present it excellently. Researcher found out that the budget process is highly influenced by the magnitude and the company complexity as far as the business operations are concerned which also affect the performance of the company. Size of the company is a variable mostly used in a quantitative study. Wijewardena and DeZoysa (2011) studied contributions to SMEs towards the budget process and identified that the proper budget is compromised by the two significant aspects of the expected budget process which are the budget planning and the budget control. They realized that there are three set up of firms which are as follows, firms who do not use any type of budget, firms with ample planning process in some areas of operations which is also referred to as the simple budgeting and the firms with an a detailed budgeting which includes all areas of operations. Administrations mainly focus on budget controls for checks and balances of the business.

Siekei *et al*., (2013) assessed the possessions of budgeting skills on performance of SMEs and found that better presentation of SMEs in terms of sales increase and profitability is linked with proficiency on budgeting skills and business growth which is attained through finance education which enables the individuals to forecast sales and set achievable targets. Nonetheless, Fatoki (2014) identified that small enterprises operates informally in terms of expected income and expenditure lacking financial planning and measures as well. This is confirmed by Abanis, Sunday, Burani and Eliabu (2013) who found that most small businesses do not engage in formal financial planning and control and budgeting. Warue and Wanjira (2013) researched on hiccups of the businesses in Kenya and established that poor budgeting skills among Kenyans as a major contributor to the business failure in Kenya. Fin Access survey (FSD, 2009) exposed the fact that most people above 50% are not financially independent and lack control of the same in spite of them having an idea about budgeting. The above studies discloses a positive correlation between finance education and the individual performance such as the business portfolio, healthy debt administration, accumulated wealth and the business going concern strategies. On the other hand, escalating data shows there is a low level of financial literacy among grown-up across countries worldwide. This illiteracy is also higher amongst women than men which negatively impacts on their businesses.

Book Keeping Literacy

Frank wood (2010) studied the benefits of book keeping on SMEs performance and found out that computation of the income statement is highly dependent on the proper book keeping which also enable the business to be able to collect their debts timely and also pay on time for their obligations. The business is able to identify the opportunities available and avoid opportunity cast as well such as stock outs etc. and be able to plan progressively. Ezejiofor, Ezenyirimba and Olise (2014) investigated the impact of accounting records on SMEs and found that, a good bookkeeping scheme is reflected on its reports quality to both internal and external users and a well-organized maintenance of records. Quality accounting information will be of help on financial administration and create room for a better funding. Wise (2013) found that increase in financial literacy leads to production of financial reports often and the individuals who have tendency of preparation of financial reports are able to repay their debts timely and this lowers the default levels.

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Ezejiofor *et al.,* (2014) sought to establish the relevance of accounting records in small business performance in Nigeria found that MSEs that kept proper books of account were able to measure accurately the performance of their businesses. They also assert that business decisions with regard to expansion, maintaining a competitive edge, prevention of business failure and filling tax returns requires documentation with reliable and relevant information, easy to understand and readily available. Researcher also cautions that the bookkeeping systems should generate the information in a simple and accurate order. Fatoki (2014); Agyei (2011); Maseko and Manyani (2011) studied the methods of accounting used by SMEs and found that most SMEs operates on manual systems which fail to capture all data relevant for accounting purposes and this results to inefficiency of accounting information. The study is in support of computerized accounting software to improve on the quality of the accounting information, although SMES lament of unavailability of a suitable system for them.

The G20 Seoul Summit (2010) also reports that low levels of financial literacy particularly book keeping skills worldwide is a major contributor of lost opportunities for a large number of SMEs. Information unevenness among SMEs due to unreliable financial reports makes it hard to determine the creditworthy of the SMEs and potential proposals are rejected due to lack of financial information which makes most lenders reluctant to fund small firms especially those with new products. Mills and McCarthy (2014) confirm this and opine that assessing creditworthiness of small businesses is difficult due to information asymmetry because their transactions are largely informal. Through business training an entrepreneur can acquire basic skills of Book keeping which increases the transparency of his business and improves his credit standing.

Knowledge of Banking Services and Growth of Small and Medium Enterprises

Ekanem (2010) studied the SME owner-managers in the printing and clothing manufacturing sectors in Ethiopia and identified the uniqueness of each sector in relation to the financial literacy and firm administration. The study also found that in clothing and manufacturing sector the average debt collection period was within 30 to 90days while it is within 14 days in the printing sector. The two sectors will have to apply different measures on their debt collection policies. Cash flow statements and balance sheet are also monitored with a keen eye by the managers (Kubickova and Soucek, 2013).

Djankov, McLiesh, and Shleifer (2012) studied the impact of debt administration on its repayment. The study engaged the managers of the financial institutions whose information was further analyzed using mean and standard deviation and it was concluded that financial education is significant on debt administration and its repayment too. Andoh and Nunoo (2011) assessed the services access and financial literacy and found that the finance education to SMEs owners plays a key role on amplifying the utilization of financial services where the financially literate managers have the ability to bargain constructively on the available bank products and pressurize the financial institutions to be facilitated financially at a low cost as compared to the managers with financial literacy deficiency they are not able to analyse and access the financial products at a lower cost.

Wachira and Kihiu (2012) studied the family units in Kenya using the 2009 National Financial Access (Fin Access) survey data using the multinomial logit model and how significant the financial literacy was in relation to finance accessibility. They identified that there are other factors which affect the access to financial access that are individual based to mention just a few, marital status, age, the level of income, Financial literacy was also rated low as a factor in household decision making which implies that majority of individuals did not value and seek out financial information in making financial decisions although financial literacy was significant in explaining exclusion from financial services market. It was concluded that financial literacy created awareness and enabled more individuals about 8.5% to be included in the financial services.

Fatoki (2014) studied causes of SMEs failure and found out that lack of finance education have adverse effects on the SMEs and especially the new start-ups. New start-ups requires a sound financial background which will create a healthy base of a successful business hence the growth of the enterprise. Duchesneau and Gartner (2010) studied factors affecting new small firms progress and established that the individuals who have emerged successful in business mostly were brought up in a business set up or were raised by successful entrepreneur parents which is a requisite for growth due to vast experience and exposure. This gives them confidence and vigour that they will make it in the ventures they start unlike the ones raised by the unsuccessful entrepreneurs who are unsuccessful. The research also identified that lead successful firms have a good communication system; individuals have the sense of belonging and have the zeal to work with less supervision. In addition these firms have clear objectives and strive to achieve their targets. Businesses which include more than one shareholder on their formation have better chances of existence and making it in the market (Westhead et al., 2015).

Methodology

This study adopted descriptive research design. Orodho (2004) illustrate that descriptive research is used when the problem has been well designed. For the purpose of this study, the target population comprised of 841 SMEs licensed by the County government of Nyeri as at June 2018. Stratified random sampling was adopted to determine the SMEs to participate in the study. According to Mugenda and Mugenda (2003) 10% - 30% of the population is a good representation. The sample size taken was 20% of the target population which resulted to 168 managers of SMEs in Nyeri County. Collection of information was done by use of a semi structured questionnaire. Questionnaires were preferred as it was relatively quick to collect data in a standardized and more objective way certainly more so than interviews (Saunders, Lewis & Thorn hill, 2012).

The data was analyzed by use of descriptive analysis and inferential analysis. Once the questionnaires are collected, they scrutinized to ensure they are duly completed and are consistent, after which they were numbered. This was followed by checking that all items are

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answered according to instructions to reduce errors and maintain the validity of the data. The data was coded, and entered into the computer for analysis using the SPSS. It was presented in form of tables and figures. The multiple regression model adopted for the study is captured below:-

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3+\beta_4X_4+ \varepsilon$

Where: Y= Growth

β_0= Constant

$\beta_{1\ to}\ \beta_4$ =Coefficient

X_1 = Debt Management Literacy

X_2 = Book Keeping skills

X_3 = Budgeting Literacy

X_4 = Knowledge of Banking Services

ε =Error term

Information was explained with assistance of P-values as the basis for hypothesis testing. If the P-value is less than 0.05 the variables were deemed significant in explaining the changes in the dependent variable. The coefficient of determination (R^2). It signified the variance fraction in the dependent variable that is expected. Data was presented by use of tables, graphs and pie charts

Results and Findings

Descriptive analysis

The general objective of the study was to establish the effect of financial literacy on growth of SMEs in Nyeri County, Kenya. The results of the study were obtained using descriptive and inferential statistics guided by the research objectives and research hypothesis. The findings were presented in form of frequency tables, pie charts, bar charts and their implications explained. Regression analysis was used to determine the extent of the relationship between the dependent and independent variable. The finding from descriptive statistics revealed that more than half of the respondents had operated SMEs for a period of more than 6 years which accounted for 56.8%. This implies that they have gained essential knowledge and experience to operate SMEs. Majority of the respondents 58.3% eluded that their level of knowledge on debt management literacy is moderate. This implies that SMEs know very little about debt management hence a deliberate effort is required to equip SMEs with adequate debt management skills to enable them to borrow and repay wisely.

The findings further revealed that slightly more than half of the respondents 53.0% eluded that their level of knowledge on budget preparation is moderate. Slightly above quarter of the respondent 27.3% indicate that their level of knowledge on budget preparation is high. The finding of the study reaffirm earlier study by Warue and Wanjira (2013) who researched on hiccups of the businesses in Kenya and established that poor budgeting skills among Kenyans as a major contributor to the business failure in Kenya. In addition, they also noted that there is a low level of financial literacy among SMEs across countries worldwide which negatively impacts on their businesses. About a third of the respondent which accounted to 34.1% rated their level of knowledge on book keeping to be low, quarter of the respondents 25.8% rated their level as moderate while 40.2% rated their level to be high. This implies that SMEs level of knowledge in book keeping is wanting and they need to be trained to enable them prepare the books of accounts to enable management make informed decision based of financial performance.

Table 1 Descriptive Statistics showing Debt Management Literacy

Debt management literacy	Minimum	Maximum	Mean	Std. Dev
I acquired all the necessary knowledge on all the loans offered by the banks	1.00	5.00	3.3788	1.1293
I have the ability to calculate the loan interest on a monthly basis	1.00	5.00	2.2348	1.3917
I know the implication of accumulating debts in my business	1.00	5.00	4.3409	.9949
I am able to adhere to the purpose of the loan once loan is disbursed	1.00	5.00	2.4394	1.4317
Multiple borrowing from formal and informal sectors affect my debt repayment	2.00	5.00	4.1818	.7599
Valid N (listwise)				

The results of the study as shown in Table 1, revealed that the majority of the respondents of the study concurred that they know the implication of accumulating debts in their business. In addition, most of the respondents eluded that multiple borrowing from formal and informal sectors affect debt repayment. A number of respondents were indifference on whether they acquired all the necessary knowledge on all the loans offered by the banks and their ability to adhere to the purpose of the loan once loan is disbursed was questionable. This implies that accumulation of debt through multiple borrowings and failure to adhere to the purpose of the loan adversely affects debt repayment which may hinder growth of SMEs. The finding of this study is in line with Obago (2014) studied the impact of financial literacy on running of personal finances and established that most employed individuals suffer from pressure as a result of monetary problem behaviors which include:, extravagance, credit mismanagement, over-indebtedness, meager cash management and scarce income. He opined that the above challenges make it hard for the staff to make ends meet which impacts negatively on their productivity at work. Lusardi and Tufano (2009) study sought to determine debt literacy, financial occurrences, and over indebtedness among Americans.

Table 2: Descriptive Statistics showing Budgeting Skills

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Budgeting Skills	Minimum	Maximum	Mean	Std. Dev
Managers have acquired the knowledge regarding the preparations of annual budgets	1.00	5.00	2.4621	1.4325
Manager/s of the SMEs has the sales forecasting experience and knowledge	1.00	5.00	2.7576	1.5089
We are very careful on our spending and we emphasize on reduction of cost	1.00	5.00	3.6439	1.0639
The set budget is effectively implemented	1.00	5.00	2.4545	1.4269
Valid N (listwise)				

Based on the finding of the study in Table 2 above, a number of the respondents indicated that they are very careful on spending as they emphasize on reduction of cost. Slightly above average of the respondents eluded that manager/s of the SMEs had the sales forecasting experience and knowledge although they could not adequately tell whether managers had acquired the knowledge regarding the preparations of annual budgets. The finding of the study supports Chidi and Shadare (2011) who studied the challenges tackling human resource improvement in SMEs in Nigeria and found that budgeting was the greatest challenge among SMEs. As a result the study established that budgeting skills acquired by the managers reflect on the budget procedures followed and the same will correspond with the budget implementation. Mahmood (2008) studied the relationship between budgeting process and SMEs performance and found that, the formalization of the budget will depend on how clearly the relationship of the business and the owners is defined. Joshi et al., (2003) studied budgeting process and performance of companies found out that large companies have a susceptibility to perform an in-depth budget procedure and be in a position to present it excellently.

Table 3: Descriptive Statistics showing Book keeping literacy

Book keeping literacy	Minimum	Maximum	Mean	Std. Dev
Book keeping knowledge has enabled management to prepare the financial statements	1.00	5.00	2.5606	1.4423
Book keeping knowledge has enables us to file the tax returns without engaging consultant	1.00	5.00	2.2121	1.3871
I acquired the necessary knowledge on accounting for the transaction in my business	1.00	5.00	3.5758	.9739

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Proper book keeping has led us to meet debt obligations in time	2.00	5.00	3.7955	.9865
Proper book keeping has led to effective stock management	2.00	5.00	3.6591	1.0176
Valid N (listwise)				

As indicated in Table 3 above, proper book keeping has enabled SMEs to meet debt obligations in time. In addition proper book keeping has led to effective stock management. A number of respondents eluded that they acquired the necessary knowledge on accounting for the transaction in their business but they were indifference on whether book keeping knowledge has enabled management to prepare the financial statements. Moreover the finding revealed that book keeping knowledge was not sufficient enough to enable SMEs to file the tax returns without engaging consultant. The finding of the study that there is low level of knowledge on book keeping literacy is in line with the G20 Seoul Summit (2010) whose report indicated that low levels of financial literacy particularly book keeping skills worldwide is a major contributor of lost opportunities for a large number of SMEs. Ezejiofor *et al.*, (2014) sought to establish the relevance of accounting records in small business performance in Nigeria and found that MSEs that kept proper books of account were able to measure accurately the performance of their businesses. They also assert that business decisions with regard to expansion, maintaining a competitive edge, prevention of business failure and filling tax returns requires documentation with reliable and relevant information, easy to understand and readily available.

Table 4: Descriptive Statistics showing Banking Services Knowledge

Banking services knowledge	Minimum	Maximum	Mean	Std. Dev
The managers conduct a survey about various banks products before opening the account or sourcing credit	1.00	5.00	3.6742	1.20112
The managers are aware of all the bank requirements when accessing credit	1.00	5.00	3.5000	1.16894
Managers are able to monitor the bank balances	1.00	5.00	3.1970	1.26273
We have increased the uptake of bank products in the recent past	1.00	5.00	3.3788	.90402
We acquired the Skills on reconciling our cashbook with the bank statements	1.00	5.00	2.0076	1.27511
Valid N (listwise)				

As shown in Table 4, it is evident that the managers conduct a survey about various banks products before opening the account or sourcing credit. The findings of the study further revealed that SMEs have increased the uptake of bank products in the recent past and managers are aware of all the bank requirements when accessing credit but the respondents were indifference on whether that managers are able to monitor the bank balances. The study also revealed that acquisition of skills on reconciling cashbook with the bank statements was rated below average. The finding of this study support earlier findings by Wachira and Kihiu (2012) who studied the family units in Kenya using the 2009 National Financial Access (FinAccess) who identified that there are other factors which affect the access to financial access that are individual based. They concluded that financial literacy created awareness and enabled more individuals to be included in the financial services. Financial literacy was also rated low as a factor in household decision making which implies that majority of individuals did not value and seek out financial information in making financial decisions. Ekanem (2010) who studied the SME owner-managers in the printing and clothing manufacturing sectors in Ethiopia identified the uniqueness of each sector in relation to the financial literacy and firm administration.

Regression Analysis

This section sought to establish the relationship between financial literacy and growth of small and medium enterprises in Nyeri County. Multiple regression analysis was applied using mean score to determine the effect of independent variables (debt management literacy, budgeting skills, book keeping skills and banking services knowledge) on dependent variable (growth of SMEs). This was performed using the field data and the results interpreted according to the R values, R2 values, the beta values and F ratio at the 0.05 level of significance. Explanation and interpretation of the findings was given. The results for model summary indicated a Pearson's Simple Correlation of 0.477 indicates that financial literacy has a fairly strong positive correlation with growth of SMEs in Nyeri County. The findings further indicated that financial literacy explains 22.8% of the changes in growth of SMEs when other factors are held constant (R squared = 0.228). Hence, Growth of the SMEs is mainly explained by other factors not part of the current study.

Analysis of variance (ANOVA) was used to evaluate whether statistical model could fitted to a data set from which the data were sampled. The results from ANOVA indicate an F statistics of 9.377 was significant at 95% level of confidence (p value = 0.000 <0.05) which signifies that the model was significant in predicting growth of SMEs. Beta coefficients were used to determine the causal effect of the independent variables on the dependent variable. The results indicated a positive relationship between debt management literacy, budgeting skills, book keeping literacy, banking knowledge literacy and growth of SMEs in Nyeri County with β_1=0.281, β_2=0.092, β_3 = 0.253 and B_4=0.114 respectively. A regression model adopted by this study was $Y=\beta o+\beta_1X_1+\beta_2X_2+\beta_3X_3 + \beta_4X_4+ \alpha$.

The regression equation extracted from Table 4.14 is as follows:

$Y= 0.802+ 0.281X_1 + 0.092X_2 + 0.253X_3 + 0.114X_4$. This implies that holding all factors constant the growth of SMEs in Nyeri County would be 0.802.

Whereby Y = the dependent variable (growth of SMEs)

X_1 = Debt Management Literacy

X_2 = Budgeting Skills

X_3 = Book Keeping Literacy

X_4 = Knowledge of Banking Services, α = error term.

Hypothesis Testing and Discussion

The first hypothesis stated that debt management literacy has no significant effect on growth of SMEs in Nyeri County. The study findings revealed that debt management literacy had positive and statistically significant effect on growth of SMEs in Nyeri County at P value 0.001 which is less than 0.05. It is on this basis the null hypothesis that debt management literacy has concurred with Lusardi and Mitchell (2011) who studied the impact of literacy levels on entrepreneurs performance revealed that persons of limited financial literacy are more prone to exploitations when it comes to debt management, savings and credit, and are not able to administer their resources competitively.

The second hypothesis stated that budgeting skills has no significant effect on growth of SMEs in Nyeri County. The study found out that there was positive and statistically insignificant effect between budgeting skills and the growth of SMEs in Nyeri County at P value 0.354 which is greater than 0.05. It is on this basis that the null hypothesis that budgeting Skills has no relationship to growth of SMEs in Nyeri County is supported. The finding of this study is in line with Siekei *et al*., (2013) who assessed the possessions of budgeting skills on performance of SMEs and found that better presentation of SMEs in terms of sales increase and profitability is linked with proficiency on budgeting skills and business growth which is attained through finance education which enables the individuals to forecast sales and set achievable targets. Wijewardena and De Zoysa (2011) studied contributions to SMEs towards the budget process and identified that the proper budget is compromised by the two significant aspects of the expected budget process which are the budget planning and the budget control.

The third hypothesis stated book keeping literacy has no significant effect on growth of SMEs in Nyeri County. The study findings revealed that book keeping literacy had positive and statistically significant effect on growth of SMEs in Nyeri County at P value 0.000 which is less than 0.05. It is on this basis that the null hypothesis that book keeping literacy has no relationship to growth of SMEs in Nyeri County is accepted. The study finding concur with Frankwood (2010) who studied the benefits of book keeping on SMEs performance and found out that computation of the income statement is highly dependent on the proper book keeping which also enable the business to be able to collect their debts timely and also pay on time for their obligations. He noted that the business is able to identify the opportunities available and avoid opportunity cast as well such as stock outs among others and be able to plan progressively.

Ezejiofor, Ezenyirimba and Olise (2014) investigated the impact of accounting records on SMEs and found that, a good bookkeeping scheme is reflected on its reports quality to both internal and external users and a well-organized maintenance of records. Quality accounting information will be of help on financial administration and create room for a better funding. Joshi et al., (2013) scrutinized budgeting financial literacy by an analysis of 54 both medium and large businesses in Bahrain aiming on budget processes which are inclusive of the participation, planning,

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controlling and its overall performance the researchers identified that the expansion of a firm is linked to its growth. For the two to be in harmony they require a more detailed budget development as well as implementation so as to benefit exemplarily performance. Wise (2013) found that increase in financial literacy leads to production of financial reports often and the individuals who have tendency of preparation of financial reports are able to repay their debts timely and this lowers the default levels.

The fourth hypothesis stated that knowledge of banking services has no significant effect on growth of SMEs in Nyeri County. The study found out that there was positive and statistically insignificant effect between knowledge literacy and the growth of SMEs in Nyeri County at P value 0.698 which is greater than 0.05. It is on this basis that the null hypothesis that banking services knowledge has no relationship to growth of SMEs in Nyeri County is accepted. Djankov, McLiesh, and Shleifer (2012) studied the impact of debt administration on its repayment. The study engaged the managers of the financial institutions whose information was further analyzed using mean and standard deviation and it was concluded that financial education is significant on debt administration and its repayment too.

The study finding that financial literacy had positive effect on the growth of SMEs in Nyeri County concur with Fatoki (2014) who studied the causes of SMEs failure and found out that lack of finance education have adverse effects on the SMEs and especially the new start-ups. He noted that new start-ups require a sound financial background which will create a healthy base of a successful business hence the growth of the enterprise. Duchesneau and Gartner (2010) studied on factors affecting new small firms progress and established that the individuals who have emerged successful in business mostly were brought up in a business set up or were raised by successful entrepreneur parents which are a requisite for growth due to vast experience and exposure. This gives them confidence and vigour that they will make it in the ventures they start unlike the ones raised by the unsuccessful entrepreneurs who are unsuccessful. The financial capability report of 2009 eluded that acquisition of financial literacy skills would have a positive impact on an individual’s behaviors in terms of increased savings, wealth accumulation and avoidance of unnecessary expenses. This would make SMEs managers better customers for the banks, prudent managers of the limited financial resources in their businesses and better able to select the most suitable products for their businesses. The ultimate goal would be to enhance financial performance and growth of SMEs.

Conclusion and Recommendation

Conclusions

Based on the findings, this study concludes that growth of SMEs is highly dependent on the debt management literacy level and book keeping literacy. Majority of SMEs normally access credit facilities before seeking information on debt management hence find themselves accumulating debts through multiple borrowings from both formal and informal sector. In addition, SMEs were found to divert the funds from the intended purpose which impede the growth of SMEs.

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Even though budgeting enhances coordination of various functions with ultimate goal of meeting the agreed performance levels, most of the SMEs do not prepare the business annual budget hence business transactions are undertaken based on the prevailing circumstances which leads to impulse expenditure. Further the study conclude that knowledge of banking services is necessary as it enable SMEs to understand how banks operate to avoid being surcharged and penalized for failure to comply with terms and conditions associated with services provided. Moreover the study conclude that managers of SMEs normally conduct a survey about various banks products but very few monitor the savings and loan balances regularly. The study also conclude that although some personnel operating SMEs has general knowledge on accounting for the business transaction such knowledge could not enable them to prepare financial statements independently.

Recommendations

The study recommends that a deliberate effort is paramount to train SMEs on budgeting skills, how to prepare budget and maintain proper book keeping to enable them manage their businesses effectively with a view to enhance growth of SMEs. SMEs should come up with strategies on how to manage debt since it is positively and significantly associated with growth of SMEs. Among the strategies would be to avoid multiple borrowings and accumulation of a lot of debt in the business since this may affect debt repayment. Moreover, there is need to improve budgeting preparation skills as this would improve growth of SMEs as money will be allocated to specific areas which are determined in advance as this would facilitate controls as actual performance is compared to budgeted performance. Management of SMEs should come up with better debt management strategies which would reduce the debt to appropriate level which the firm could service without facing financial distress.

Contribution to Knowledge

The results of the study contribute to finance theory by establishing the model to determine the growth of SMEs in Nyeri County in terms of financial literacy. In addition, the study provides basis for future reference to the academician especially those focusing on the growth of SMEs in Nyeri County.

Area for Further Research

The result of the study indicates that financial literacy explains 22.8% variations of growth of SMEs while the rest can be explained by variables not considered in this study. This study therefore recommends that further studies can be conducted on these SMEs to explain the unexplained part of the variations.

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