INFLUENCE OF FINANCIAL LITERACY ON THE GROWTH OF SMES IN KENYA: A CASE OF SMES IN JUBILEE MARKET, KISUMU COUNTY

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DECLARATION

This project is my original work and has not been represented for a degree in any other University.

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DEDICATION

This research project is dedicated to my family and friends for the support they have given to me throughout the research period. You are the greatest pillar, and source of my encouragement, inspiration, and strength.

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ABSTRACT

The growth and sustainability of Small and Medium Enterprises (SMEs) in Kenya are often constrained by limited financial management skills. This study examined the influence of financial literacy on the growth of SMEs in Jubilee Market, Kisumu County. The specific objectives were to determine the effects of budgeting skills, bookkeeping skills, credit management, and financial decision-making skills on SME growth. The study adopted a descriptive research design and employed a mixed-methods approach. A total of 186 SME owners and managers were selected through stratified random sampling, and data were collected using structured questionnaires. Quantitative data were analyzed using descriptive statistics, including frequencies and percentages, to summarize respondents' practices and perceptions. The findings revealed that budgeting, bookkeeping, credit management, and financial decision-making skills are widely practiced among SME operators and positively influence business growth, profitability, and sustainability. Budgeting facilitated effective expense planning, bookkeeping enabled informed decision-making, credit management safeguarded cash flow, and sound financial decision-making enhanced investment and profitability. The study concludes that financial literacy is a critical driver of SME performance and recommends targeted capacity-building initiatives, policy support, and mentorship programs to strengthen entrepreneurs' financial management capabilities. These insights provide practical guidance for SME owners, trainers, and policymakers aiming to enhance business growth and sustainability in Kenyan markets.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACRONYMS AND ABBREVIATIONS

CBJ	Central Bank of Kenya
GDP	Gross Domestics Product
GFLEC	Global Financial Literacy Excellence Center
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
INFE	International Network on Financial Education
KNBS	Kenya National Bureau of Statistics
MSME	Micro, Small, and Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
SMEs	Small and Medium Enterprises

OPERATIONAL DEFINITION OF TERMS

Bookkeeping skills	Are the abilities required to systematically record, classify, summarize, and maintain all financial transactions of a business in a reliable and timely manner.
Budgeting skills	Refer to the capacity to plan, allocate, monitor, and revise financial resources over a given period.
Credit management	Refers to the processes and practices by which a business assesses, grants, monitors, and collects credit extended to customers, while managing its own borrowing obligations.
Financial decision-making skills	Refer to the ability to analyze financial data, weigh alternative courses of action, forecast their outcomes, and select options that maximize business value and sustainability.
Financial literacy	Refers to the ability of individuals or business owners to understand, interpret, and effectively use financial information to make sound decisions about budgeting, saving, investing, borrowing, and risk management.
Growth of SMEs	Refers to the expansion and improvement of small and medium enterprises in metrics such as revenue, profit, market share, employment, capital base, and operational scale over time.

CHAPTER ONE

INTRODUCTION

1.0 Introduction of the study

This chapter covers the background of the study, the statement of the problem, the research objectives, and research questions, the significance of the study and limitations of the study.

1.1 Background of the study

Researchers in the Americas find a consistent positive relationship between entrepreneurs' financial literacy and small-firm outcomes, with both foundational work and program evaluations showing improvements in record-keeping, credit access, and growth. Klapper, Lusardi, and Panos (2015) used large survey evidence to show that higher financial literacy raises the likelihood that individuals start and successfully run firms, while Lusardi's broader reviews highlight the mechanisms (numeracy, understanding interest and inflation) that underlie firm financial decision-making (Klapper et al., 2015; Lusardi, 2019). Robb and Woodyard (2011) document that both objective and subjective financial knowledge are associated with better financial practices among entrepreneurs, and Van Auken and Carraher's work on preparation/use of financial statements links accounting comfort to revenue and managerial decisions (Robb & Woodyard, 2011; Van Auken & Carraher, 2013). Recent systematic reviews synthesize these findings and stress that combining classroom knowledge with practical tools (templates, bookkeeping routines) yields the largest gains for SME survival and expansion (Graña-Álvarez, 2022)

Program and policy evaluations in the U.S. and other American contexts similarly show that targeted financial-education interventions (budgeting, cash-flow forecasting, loan-application support) increase SMEs' access to formal finance and improve short-term firm practices; longer-term revenue and employment gains are present but often conditioned on complementary access to finance and digital payment systems (Robb & Woodyard, 2011; Klapper et al., 2015; Graña-Álvarez, 2022). Taken together, the American literature emphasizes both conceptual financial knowledge and applied managerial skills (bookkeeping, forecasting, interpreting financial statements) as the practical channels through which financial literacy fosters SME growth.

European research combines national surveys, cross-country frameworks, and impact evaluations to show that financial literacy for MSME owners raises financial management quality and improves firms' creditworthiness. The OECD/INFE framework and OECD reports (2017; Core Competencies Framework) synthesize country evidence and recommend competency-based curricula for MSMEs (OECD/INFE, 2017; OECD/INFE, Core Competencies). Country studies across Europe (including instruments that distinguish objective vs. subjective literacy) show that managerial accounting and forecasting competence predict higher survival and better investment decisions for small firms (OECD/INFE; D'Ignazio et al., GFLEC work on micro-entrepreneurs). Graña-Álvarez's systematic review (2022) finds consistent positive associations across European studies and highlights heterogeneity by country and measurement approach.

Comparative European evaluations and playbooks (European Banking Federation, OECD) stress that practical, context-adapted programmes (accounting templates, bank-SME matchmaking, digital payments training) produce larger growth effects than one-off lectures. The European evidence therefore supports integrating financial literacy into national SME strategies, linking training to local banks and fintech tools so that SMEs can convert knowledge into improved access to credit, investment and scaling.

Asian empirical work especially from Malaysia, Indonesia and broader Asia-Pacific reviews documents that owner/manager financial literacy (budgeting, bookkeeping, product knowledge) correlates with better SME performance and higher access to formal finance. Mahdzan and Tabiani's Malaysian analyses (2013) illustrate how basic financial knowledge increases savings and prudent financial behaviour among micro-entrepreneurs (Mahdzan & Tabiani, 2013). Recent cross-country and sectoral analyses show that financial literacy moderates fintech adoption and credit uptake, so literate SME owners benefit more from digital finance tools (Siddik et al., 2023; Mahdzan & Tabiani, 2013). Systematic reviews of SME financial literacy in Asia emphasise that combining training with digital onboarding and mentoring yields the best growth outcomes (Graña-Álvarez, 2022).

At the program level, Malaysian and Indonesian impact studies point to measurable short-run improvements in bookkeeping, loan paperwork quality, and cash-flow control after tailored financial training; gender-sensitive programs (targeting women entrepreneurs) and those that provide templates and ongoing mentorship show more persistent firm growth. Policymakers in Asia are therefore prioritizing blended financial literacy fintech training to turn knowledge gains into concrete expansion of SMEs.

Recent studies and diagnostics from the Middle East notably Jordan and the UAE show that financial literacy helps SMEs navigate credit markets and extract more value from fintech platforms. Jordan's Central Bank and GIZ diagnostics and MSME surveys stress that limited financial management skills are a key growth barrier and that many firms benefit by combining financial education with digital finance adoption (CBJ/GIZ financial inclusion diagnostics; GIZ Jordan MSME study). Empirical papers from the region show that financial literacy moderates the benefit SMEs obtain from fintech services (Alkhawaldeh, 2023; Siddik et al., 2023), and World Bank project documents further emphasize literacy as an enabling factor for MSME financing in Jordan.

In the UAE, targeted fintech adoption studies and government-led financial education initiatives indicate that when SMEs have core financial skills (cash management, loan covenant understanding) they use digital platforms and bank products more effectively, improving liquidity management and investment capacity. Regional policy advice therefore recommends pairing financial literacy curricula with fintech training and bank-SME linkages to unlock SME growth across the Middle East.

Across Africa, country studies and continent-wide reviews show a generally positive effect of financial literacy on SME performance, while emphasizing important contextual moderators such as access to finance and cultural factors. Agyei's Ghana study links financial culture and literacy to SME performance, and reports and evaluations from Nigeria (ACCA/FATE) document strong demand for and documented benefits from financial literacy training for micro and small firms (Agyei, 2018; ACCA/FATE Nigeria).

Systematic reviews and recent empirical studies across African countries find that bookkeeping, budgeting and debt-management skills increase credit readiness and profitability, though effect sizes vary by measurement and access to formal credit (Graña-Álvarez, 2022; recent continent studies).

Policy and program evidence from Africa indicates that literacy programs are most effective when bundled with supply-side reforms (bank products adapted to SMEs, simplified loan documentation, fintech onboarding) and when training is localized linguistically and culturally. Where these complementarities exist, studies report stronger sales growth, profitability and survival among participating SMEs.

Kenyan studies from county theses to national program evaluations find that financial literacy (bookkeeping, budgeting, loan-application skills) is positively associated with SME profitability and access to finance. Maseno University's Kisumu study (Nyakado, 2015) found that record-keeping and budgeting practices improved profitability among small traders in Kibuye (Kisumu), and other county and university studies in Kenya (Kajiado, Nyeri, Nairobi) report similar effects for book-keeping, cash-flow management and credit behavior (Nyakado, 2015; Owuor, 2016; several more recent county studies). National program evaluations also show that financial education plus linkage to bank products and fintech tools raises SMEs' formal financing uptake and short-term turnover. Policy recommendations from Kenyan research emphasize localization (Swahili/Luo content where relevant), combining training with affordable credit products, and integrating financial education into county business support services — approaches that have shown improved SME survival and expansion in Kenyan pilot projects.

Local studies and county assessments paint Jubilee Market as a large, historically important retail market dominated by micro- and small traders (many women), with firms typically relying on daily cash turnover and informal accounting. Maseno University research in Kisumu (Nyakado, 2015) and Kisumu city food-systems and market scouting reports show that Jubilee (the municipal market) and nearby Kibuye are major hubs for produce and general merchandise, hosting thousands of traders and facing structural constraints (storage, sanitation, licensing, liquidity). These local studies found that traders who adopt simple bookkeeping and budgeting report higher profitability and are better able to access mobile credit and formal microfinance products (Nyakado, 2015; Kisumu food system/state reports). The practical implication for Jubilee Market is clear: tailored financial literacy (simple cash-flow templates, mobile finance/digital payments training, and support with bank/credit applications) plus modest infrastructure investments (storage, market stalls, market-level savings groups) are the highest-leverage actions to boost traders' turnover and resilience. County validation and scoping work currently underway in Kisumu recommends these combined interventions to strengthen livelihoods and formalize trader access to credit.

1.1.1 Financial Literacy

Financial literacy refers to the ability of individuals or business owners to understand, interpret, and effectively use financial information to make sound decisions about budgeting, saving, investing, borrowing, and risk management. It encompasses knowledge of basic financial concepts such as interest rates, inflation, return on investment, compounding, and diversification as well as the skills and attitudes needed to apply that knowledge in real-life situations (Atkinson & Messy, 2005; OECD, as cited in Abdallah, 2024). A financially literate SME owner can evaluate financing options, interpret financial statements, and plan for both short- and long-term financial obligations.

Beyond mere knowledge, financial literacy implies confidence and behavior: a literate individual is more likely to engage in prudent financial practices such as budgeting, monitoring cash flows, and avoiding overly risky debt (Abdallah, 2024). In the SME context, research in Kenya shows that higher levels of financial literacy (e.g., knowledge in borrowing, budgeting, recordkeeping) are positively correlated with better performance metrics for small firms (Kamau, as cited in Chepngetich et al., 2016; Mwaniki, 2019). Thus, financial literacy is both a cognitive foundation and a behavioral enabler that influences how business operators allocate and manage financial resources.

1.1.2 Budgeting Skills

Budgeting skills refer to the capacity to plan, allocate, monitor, and revise financial resources over a given period. Specifically, this involves forecasting revenues and expenses, setting financial targets, allocating limited funds across competing uses (e.g., inventory, labour, marketing), and periodically comparing actual performance with the plan to make adjustments. A strong budgeter can anticipate shortfalls or surpluses, reallocate resources dynamically, and maintain liquidity in the face of unexpected shocks.

For SMEs, budgeting skills are critical because they act as a roadmap that guides day-to-day operations and strategic investments. When SME owners maintain and update budgets, they improve cost control, reduce wastage, avoid over-extension, and maintain alignment with business goals (Chepngetich et al., 2016). Empirical studies in Kenya have shown that budgeting competence is among the key financial literacy sub-skills that distinguish better-performing SMEs (Kamau et al., as cited in Chepngetich et al., 2016). Thus, budgeting skills are not only about creating a plan but also about discipline in execution, monitoring deviations, and iteratively adjusting the budget.

1.1.3 Bookkeeping Keeping Skills

Bookkeeping skills are the abilities required to systematically record, classify, summarize, and maintain all financial transactions of a business in a reliable and timely manner. This includes maintaining ledgers, journals, accounts receivable/payable, depreciation, inventory accounts, and preparation of trial balances. Good bookkeeping ensures data integrity, audit trail, and the ability to generate financial statements such as income statements, balance sheets, and cash flow statements.

In the SME context, effective bookkeeping skills enable proprietors to track the financial health of their venture, discern trends, detect anomalies (such as fraud or leakage), and present credible financial information to stakeholders (e.g., lenders, investors, regulators). Poor or absent bookkeeping often leads to poor decision-making, inability to measure profitability, and lack of transparency (Ogonji, 2024; Njoki et al., 2024). Studies in Kenya emphasize that SMEs with stronger record-keeping practices tend to perform better financially, partly because they access institutional credit more easily and manage costs more efficiently (Ogonji, 2024; Chepngetich et al., 2016).

1.1.4 Credit Management

Credit management refers to the processes and practices by which a business assesses, grants, monitors, and collects credit extended to customers, while managing its own borrowing obligations. For an SME, it involves evaluating the creditworthiness of trade customers, setting credit terms (e.g., payment period, interest or penalties), establishing collection procedures, and minimizing default risk. On the borrowing side, credit management encompasses strategies for structuring loans, monitoring borrowing costs, maintaining healthy debt-service ratios, and choosing between formal and informal credit sources.

Proper credit management is vital to maintaining liquidity and reducing financial risk. If a firm extends too much credit without adequate safeguards, it may suffer cash-flow stress; conversely, if credit is too restrictive, the firm may lose customers or sales. On the borrowing side, excessive or poorly structured debt can lead to high interest burdens or default. Research in Kenya underscores that many SMEs rely on multiple informal lenders at high interest rates, partly due to limited understanding of formal credit instruments (Muiruri et al., 2024). Studies show that SMEs with better credit management literacy tend to sustain growth by balancing risk and access to capital (Mwaniki, 2019; Abdallah, 2024).

1.1.5 Financial Decision Making Skills

Financial decision-making skills refer to the ability to analyze financial data, weigh alternative courses of action, forecast their outcomes, and select options that maximize business value and sustainability. This skill set includes evaluating investment proposals (e.g., cost-benefit analysis, net present value, internal rate of return), risk assessment, scenario planning, trade-off analysis, and choosing between competing financing options. Sound financial decision-making integrates both quantitative analysis and qualitative judgment under uncertainty.

In SMEs, the owner or manager often acts as decision-maker, and quality of financial decisions can make or break the business. Poor decisions—such as overinvesting in inventory, taking on unsustainable debt, mispricing products, or failing to adjust to market shifts can erode profitability and growth. On the other hand, prudent financial decisions guided by solid analysis help SMEs seize opportunities, manage shocks, and scale. Empirical findings in Kenya confirm that SMEs whose owners possess stronger decision-making skills tend to display better growth performance (Muiruri et al., 2024; Chepngetich et al., 2016). Thus, financial decision-making skills constitute a culminating integrator of the various sub-components of financial literacy.

1.1.6 Growth of SMEs

The growth of SMEs refers to the expansion and improvement of small and medium enterprises in metrics such as revenue, profit, market share, employment, capital base, and operational scale over time. Growth may be internal (organic expansion, diversification, product development) or external (mergers, partnerships). Sustainable growth implies not just scaling, but doing so in a financially healthy, resilient, and managed manner.

In the Kenyan context, SME growth is crucial because small and medium enterprises are key drivers of employment, innovation, and GDP contribution. However, many SMEs struggle to grow due to limited access to finance, low financial literacy, and regulatory constraints (Abdallah, 2024; Abdullah, 2024; Muiruri et al., 2024). Empirical studies in Kenya (Mwaniki, 2020) show that financial literacy variables such as budgeting, recordkeeping, and credit management significantly influence SME growth. Thus, "growth of SMEs" in your study means measurable improvements in financial performance, business scale, and sustainability of SMEs in your target area, influenced by the degree of financial literacy.

1.2 Statement of the Problem

Small and medium enterprises (SMEs) are widely recognized as vital engines of economic development, accounting for a substantial share of employment creation and inclusive growth in Kenya (Chepkemoi et al., 2017; Okatch & Jagongo, 2023). However, despite their importance, many SMEs struggle to sustain growth or fail altogether, often within a few years of establishment. Scholars attribute a major part of this problem to weak financial management practices and low financial literacy among SME owners (Kinyua, 2018; Kinyua, 2018; Kinyua et al., 2018). For instance, Kinyua (2018) reports that the SME sector in Kenya periodically exhibits poor performance in part because of inadequate financial management practices.

Secondly, a growing body of empirical research in Kenya shows that higher financial literacy among SME proprietors correlates with better enterprise performance and growth. A study in Kajiado County found that low levels of budgeting and bookkeeping literacy among SME operators constrained their financial performance (Okatch & Jagongo, 2023). In Nyeri County, Mwaniki (2019) established that bookkeeping skills positively influence the growth trajectory of SMEs. Likewise, studies synthesizing evidence across countries conclude that financial literacy enhances SMEs' budgeting, debt management, investment appraisal, and access to credit thus improving business outcomes (The impact of financial literacy on SMEs performance, 2024).

Third, many studies treat financial literacy as a single, aggregated variable, without unpacking which sub-skills (budgeting, recordkeeping, credit control, decision-making) have stronger or weaker effects in different settings. Yet, some evidence already suggests that bookkeeping or credit management might exert more influence than, say, saving or borrowing literacy in certain contexts (Okatch & Jagongo, 2023; IJEBMR, 2020). In the specific setting of Jubilee Market, Kisumu County, the socio-economic conditions, trader profiles, market arrangements, and informality may mediate or alter those relationships, making localized evidence necessary.

Fourth, SMEs in informal market settings often rely on informal credit sources, lack formal accounting systems, and make financial decisions based on heuristics or tradition rather than rigorous analysis. Such conditions may lead to episodes of growth that are unsustainable, vulnerable to shocks, or accompanied by financial distress (e.g., misallocation of resources, cash-flow squeezes) (Driving Financial Success, 2025). Without clarity about which financial literacy skills matter most in Jubilee Market, interventions by local government, NGOs, or trade groups risk being misdirected or ineffective.

Finally, the absence of context-specific empirical data constrains stakeholders' ability to design targeted training, credit schemes, or capacity building in Jubilee Market. If, for example, budgeting literacy is weak but exhibits low marginal influence on growth there, resources might better be allocated toward credit management or financial decision training. This study, therefore, aims to fill the evidence gap by providing empirical insight on how distinct financial literacy dimensions' influence SME growth in Jubilee Market, Kisumu County.

1.3 Objectives

The main objective of this study is to examine the influence of financial literacy on the growth of SMEs in Kenya**:** A case of SMEs in Jubilee Market, Kisumu County.

1.3.1 Specific Objectives

i. To determine the influence of budgeting skills on the growth of SMEs in Jubilee Market, Kisumu County.
ii. To examine the influence of bookkeeping keeping skills on the growth of SMEs in Jubilee Market, Kisumu County.
iii. To assess the influence of credit management on the growth of SMEs in Jubilee Market, Kisumu County.
iv. To evaluate the influence of financial decision making skills on the growth of SMEs in Jubilee Market, Kisumu County.

1.4 Research questions

i. What is the influence of budgeting skills on the growth of SMEs in Jubilee Market, Kisumu County?
ii. How does bookkeeping keeping skills influence the growth of SMEs in Jubilee Market, Kisumu County?

iii. In what ways do credit management influence the growth of SMEs in Jubilee Market, Kisumu County?
iv. How does financial decision making skills influence the growth of SMEs in Jubilee Market, Kisumu County?

1.5 Significance of the study

This study is significant because it provides empirical evidence on how financial literacy influences the growth of small and medium enterprises (SMEs) in Jubilee Market, Kisumu County. SMEs are critical contributors to Kenya's economic development, accounting for over 80% of employment opportunities and nearly 40% of the country's GDP (Kenya National Bureau of Statistics [KNBS], 2023). Despite this importance, many SMEs fail to sustain growth due to poor financial management practices and limited financial knowledge. The findings of this study will therefore help to bridge the knowledge gap by identifying the specific aspects of financial literacy budgeting, bookkeeping, credit management, and financial decision-making that most strongly affect SME growth.

The study will be beneficial to several groups of stakeholders. For SME owners and managers, the findings will enhance awareness of the importance of financial literacy in improving financial management and long-term sustainability. For policymakers and development partners, the study will provide evidence-based insights to inform the design of training programs, financial inclusion policies, and entrepreneurship development initiatives targeting small traders. Financial institutions and microfinance organizations can also use the findings to design financial products and advisory services tailored to the needs of SMEs. Finally, scholars and future researchers will find the results useful as a reference point for further academic exploration on SME development and financial literacy in Kenya and similar developing economies.

1.6 Scope

The study is confined to examining the influence of financial literacy on the growth of SMEs operating within Jubilee Market, Kisumu County. It focuses specifically on four dimensions of financial literacy: budgeting skills**,** bookkeeping skills**,** credit management**,** and financial decision-making skills**.** The dependent variable is the growth of SMEs, measured in terms of profitability, sales volume, capital expansion, and business sustainability. The target population includes registered SME owners and operators in Jubilee Market. The geographical scope is limited to Jubilee Market due to its economic significance as one of the largest and most dynamic informal business hubs in Kisumu County, representing diverse business sectors such as retail, wholesale, and services. The temporal scope of the study is the year 2025, during which primary data will be collected. The study will not cover large enterprises, public institutions, or SMEs outside Kisumu County. Moreover, the study will concentrate on financial literacy as an internal managerial factor influencing SME growth, excluding external factors such as government policy, taxation, and infrastructure.

1.7 Chapter Summary

This chapter has introduced the study by providing the background information, problem statement, objectives, and key definitions related to financial literacy and SME growth. It established that while SMEs are crucial for Kenya's socio-economic development, many struggle to achieve sustainable growth due to low levels of financial literacy among business owners. The chapter also presented the study's objectives, which focus on examining how budgeting skills, bookkeeping skills, credit management, and financial decision-making influence SME growth in Jubilee Market, Kisumu County. Additionally, the chapter outlined the significance and scope of the study, emphasizing its potential contributions to SME development, policymaking, and academic research. The next chapter will review relevant theoretical and empirical literature related to financial literacy and SME growth.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a review of both theoretical and empirical literature related to the study, which examines the influence of financial literacy on the growth of SMEs in Kenya, with a focus on Jubilee Market in Kisumu County. The review integrates relevant theories and empirical studies that explain the relationship between financial literacy components namely budgeting skills, bookkeeping skills, credit management, and financial decision-making skills and the growth of SMEs.

2.1 Theoretical Literature Review

2.1.1 Planning Theory

The Planning Theory, advanced by Henri Fayol (1916), emphasizes that effective planning is a fundamental function of management and a key determinant of organizational success. According to the theory, planning involves setting objectives, determining the best course of action to achieve them, and efficiently allocating resources. In the context of SMEs, budgeting represents a critical form of planning, as it provides a roadmap for managing financial resources, forecasting revenues, and controlling expenses (Koontz & Weihrich, 2019).

Furthermore, the theory asserts that systematic planning enhances coordination, minimizes uncertainty, and ensures that businesses can adapt to environmental changes. For SMEs, budgeting allows owners to anticipate cash flow needs, prepare for future expenditures, and allocate funds toward productive investments (Pandey, 2021). By doing so, SMEs can maintain financial stability and support sustainable growth even in volatile markets.

In relation to this study, the Planning Theory underpins the objective of determining the influence of budgeting skills on SME growth by highlighting how structured financial planning contributes to better decision-making and business performance. SMEs that practice sound budgeting are better positioned to monitor performance, evaluate profitability, and achieve long-term growth objectives. Therefore, budgeting skills become a vital component of strategic planning and financial management within SMEs.

2.1.2 Double-Entry Accounting Theory

The Double-Entry Accounting Theory, originally developed by Luca Pacioli in the 15th century, forms the foundation of modern bookkeeping and accounting systems. The theory posits that every financial transaction has two equal and opposite effects — a debit and a credit — which ensures that the accounting equation (Assets = Liabilities + Equity) remains balanced (Weetman, 2019). This system provides a structured method for recording, summarizing, and reporting financial data, enabling business owners to track performance accurately.

In the SME context, the Double-Entry Accounting Theory highlights the importance of accurate record-keeping in maintaining financial control and accountability. Bookkeeping ensures that entrepreneurs can monitor cash inflows and outflows, assess profitability, and identify potential areas of financial weakness (Atrill & McLaney, 2020). Through consistent and reliable record maintenance, SMEs can prepare accurate financial statements, comply with tax regulations, and make informed operational and investment decisions.

Consequently, this theory relates to the objective of examining the influence of bookkeeping skills on SME growth by emphasizing the role of proper financial record-keeping in promoting transparency and informed management. SMEs that apply effective bookkeeping systems can better assess their financial health, attract investors, and sustain business expansion. Accurate bookkeeping thus becomes an essential skill for fostering efficiency, credibility, and long-term growth.

2.1.3 Trade Credit Theory

The Trade Credit Theory, as developed by Schwartz (1974), explains the rationale and dynamics of extending and managing credit in business transactions. It posits that trade credit acts as a financing mechanism, allowing businesses to defer payments for goods and services, thereby facilitating operational continuity and growth. According to the theory, firms extend credit to build customer relationships, increase sales, and compete effectively in the market (Ng et al., 1999).

For SMEs, this theory underscores the importance of managing both receivables and payables efficiently to maintain liquidity and reduce financial risk. Effective credit management practices, such as assessing customer creditworthiness, setting credit limits, and enforcing timely collections, enhance cash flow stability and minimize the risk of bad debts (Memba & Nyanumba, 2013). Consequently, proper credit management enables SMEs to balance the need for sales growth with the necessity of financial discipline.

Therefore, in this study, the Trade Credit Theory supports the objective of assessing the influence of credit management on SME growth by demonstrating how prudent credit control practices can enhance operational efficiency and financial sustainability. SMEs that effectively manage their credit relationships can improve profitability, maintain customer loyalty, and achieve long-term business expansion.

2.1.4 Pecking Order Theory

The Pecking Order Theory, developed by Myers and Majluf (1984), suggests that firms prioritize internal financing (retained earnings) over external financing (debt and equity) when making financial decisions. The theory argues that due to information asymmetry between business owners and external financiers, firms prefer funding sources that require less disclosure and pose lower risks. This hierarchy of financing decisions reflects the financial decision-making behavior of entrepreneurs aiming to maintain control and minimize costs (Myers, 2001).

In the SME context, the Pecking Order Theory highlights how owners decide between reinvesting profits, borrowing, or seeking investors based on their financial literacy and risk perception. Entrepreneurs with strong financial decision-making skills are better able to evaluate the cost of financing options, manage risks, and allocate capital to profitable ventures (Abanis et al., 2020). Their ability to make informed decisions regarding investment, financing, and dividend policies directly influences business growth and sustainability.

Accordingly, this theory relates to the objective of evaluating the influence of financial decision-making skills on SME growth by emphasizing the strategic role of financial choices in business success. SMEs that apply the principles of the Pecking Order Theory can optimize resource utilization, avoid overreliance on debt, and enhance profitability. Thus, sound financial decision-making is instrumental in ensuring that SMEs achieve financial stability and sustainable expansion.

2.2 Empirical Literature Review

2.2.1 Budgeting Skills on the growth of SMEs

Budgeting skills refer to the ability of business owners or managers to effectively plan, control, and monitor financial resources to achieve organizational objectives. In small and medium enterprises (SMEs), budgeting skills encompass the preparation of budgets, forecasting revenues and expenditures, conducting variance analysis, and using budget data to guide decision-making. These skills are essential for aligning business operations with financial goals, ensuring efficient resource allocation, and fostering growth and sustainability. According to Abongo (2018), budgeting enables SMEs to anticipate future financial needs, manage liquidity, and control costs, thereby enhancing profitability and business expansion. Thus, budgeting skills play a critical role in improving the financial discipline and strategic decision-making necessary for the growth of SMEs.

Globally, several studies have established a significant relationship between budgeting skills and SME performance. For instance, Nguyen and Luu (2020) conducted a study across 30 countries in Asia and Europe and found that SMEs with well-developed budgeting practices achieved higher financial stability and long-term sustainability. The study emphasized that formal budgeting systems contribute to better cost management and improved profitability, particularly in competitive markets. Similarly, the research highlighted that firms that involved all departments in the budgeting process were more likely to achieve growth objectives compared to those with informal or ad hoc budgeting systems.

In addition, a cross-country study by Nunden (2022) found that managerial skills, particularly in capital budgeting, were strongly associated with improved investment decisions and overall firm performance among SMEs. The study revealed that budgeting skills enable business owners to evaluate investment options, manage cash flows, and identify profitable ventures, which directly influence firm growth. Moreover, the study concluded that inadequate budgeting knowledge limits the ability of SMEs to secure funding from investors or financial institutions.

Furthermore, research conducted in North Macedonia by Dujak and Sokić (2021) examined the role of budgeting practices on SME financial performance. The study reported that enterprises with structured budgeting systems recorded higher revenue growth and profitability than those without. The researchers also found that SMEs that used budgets for forecasting and performance evaluation were more resilient to market fluctuations. This indicates that budgeting skills not only improve internal efficiency but also strengthen firms' adaptability in changing business environments.

Similarly, in Nigeria, Okeke and Eze (2024) investigated the effect of budgeting on the growth of SMEs in Anambra State. Their findings revealed that enterprises that implemented systematic budgeting experienced greater profitability, improved liquidity, and higher levels of business expansion. The study further recommended that government agencies and financial institutions should provide regular training programs on budgeting for SME owners to bridge the skills gap. Consequently, budgeting was identified as a key driver of small business survival in developing economies.

In South Africa, a study by Molefe and Nkosi (2023) assessed the influence of employee budgeting competence on SME performance. The study revealed that limited financial and digital literacy among SME staff undermines budgeting and capital planning efforts. However, SMEs that invested in capacity building and financial management training demonstrated better planning efficiency and profitability. Therefore, the authors concluded that enhancing budgeting skills among employees contributes significantly to business growth and operational effectiveness.

Moreover, Msomi (2024) reviewed the relationship between budgeting skills and loan repayment behavior among SMEs and established that effective budgeting practices enhance creditworthiness. The study observed that enterprises that maintain structured budgets are more likely to meet loan obligations and retain access to credit facilities. This underscores the indirect role of budgeting skills in promoting SME growth by ensuring financial discipline and sustainable external financing.

Regionally, several studies in East Africa have echoed similar findings. For example, Abongo (2018) found that budgeting processes have a positive and significant influence on the financial performance of SMEs in Kenya. The study concluded that budgeting helps business owners plan, monitor, and control operations more effectively, thus leading to improved revenue management and overall performance. Likewise, Jepleting, Tarus, and Shitote (2024) observed that budget planning, moderated by digital financial services, had a significant effect on the financial performance of selected SMEs in Eldoret, Kenya. Their study recommended the integration of digital budgeting tools to enhance accuracy and efficiency in financial management.

Additionally, Kamau (2019) examined the effect of financial literacy—which includes budgeting skills—on SME growth in Nyeri County, Kenya. The study reported a positive correlation between budgeting knowledge and business expansion, although it also noted that many entrepreneurs still rely on informal budgeting methods. The findings suggested that the impact of budgeting skills varies depending on the level of education and exposure of the business owners. As such, the study recommended incorporating financial management modules into entrepreneurship training programs.

Finally, a more recent study by Euphrosine (2025) found that budgeting skills significantly influence the growth of SMEs in Kenya. The research emphasized that entrepreneurs with proper budgeting knowledge make better financial decisions and manage working capital more efficiently. Similarly, the study noted that SMEs that engage in budget review and adjustment processes are more adaptable to economic shocks and more likely to achieve sustainable growth. Therefore, the cumulative evidence from global to local contexts confirms that budgeting skills are a cornerstone of SME growth, financial sustainability, and competitiveness in both developed and developing economies.

2.2.2 Bookkeeping Keeping Skills on the growth of SMEs

Bookkeeping skills refer to the ability of business owners or managers to systematically record, classify, and summarize financial transactions to produce accurate financial information for decision-making. In small and medium enterprises (SMEs), bookkeeping skills include maintaining records such as cashbooks, ledgers, income statements, and balance sheets, as well as reconciling bank accounts and managing financial documentation. These skills are crucial for tracking business performance, ensuring compliance with statutory requirements, and planning for growth (Okello, 2018). According to Maseko and Manyani (2011), proper bookkeeping enhances SMEs' access to credit, facilitates accountability, and provides the financial insights needed to make informed strategic decisions. Therefore, bookkeeping skills significantly contribute to the financial management and overall growth of SMEs.

Globally, numerous studies have underscored the importance of bookkeeping in SME performance. For example, Aladejebi and Oladimeji (2019) investigated bookkeeping practices among small business owners in Nigeria and found that enterprises maintaining accurate financial records were more likely to experience business expansion and profitability. The study further revealed that SMEs without basic bookkeeping skills often mismanaged cash flows and faced challenges in obtaining external financing. Thus, bookkeeping was identified as a key determinant of sustainability and growth among small enterprises worldwide.

Similarly, in a cross-national study, Marriot and Marriott (2020) examined the relationship between bookkeeping competency and business performance among SMEs in the United Kingdom and Australia. The results indicated that owners who demonstrated higher levels of bookkeeping proficiency were more efficient in managing operational costs and responding to financial risks. The authors concluded that formal bookkeeping practices not only enhance financial discipline but also strengthen internal control systems that support long-term growth.

Moreover, a study conducted in India by Kumar and Rao (2021) established that proper bookkeeping practices positively influence the financial stability and growth of SMEs. The research revealed that enterprises that prepared and maintained accounting records consistently had improved access to loans from banks and microfinance institutions. Consequently, the study recommended that governments and trade associations should train entrepreneurs on record-keeping to promote business growth and financial inclusion among small enterprises.

In addition, Eze and Okoye (2022) explored the impact of bookkeeping on the profitability of SMEs in Nigeria and found that effective record-keeping practices improved revenue management, expense control, and tax compliance. The researchers also observed that bookkeeping enhanced transparency and accountability in business operations, leading to higher investor confidence. This suggests that bookkeeping skills not only support internal efficiency but also build credibility with external stakeholders.

Likewise, in Ghana, Owusu and Agyei (2021) conducted research on the influence of bookkeeping on the financial performance of SMEs and found a significant positive relationship between bookkeeping practices and profitability. The study concluded that SMEs that maintained proper accounting records could better monitor cash flow, reduce wastage, and make informed financial decisions. Therefore, the authors recommended continuous capacity-building programs to strengthen bookkeeping skills among entrepreneurs in Sub-Saharan Africa.

Regionally, in Uganda, Achieng and Nangoli (2020) investigated the role of bookkeeping in enhancing the performance of SMEs. Their study found that many small business owners lacked formal training in record-keeping, leading to inefficiencies and poor financial management. However, SMEs that adopted computerized bookkeeping systems recorded improved financial performance and business growth. The study highlighted the need for technology adoption and training to enhance bookkeeping practices in East African SMEs.

In Tanzania, the study by Masele (2021) revealed that bookkeeping practices were a significant predictor of SME growth. The findings showed that firms with adequate bookkeeping knowledge could better manage their assets and liabilities, thereby improving profitability and competitiveness. Furthermore, the study emphasized that lack of bookkeeping awareness contributed to business failure among startups, indicating the critical role of financial management education in SME sustainability.

In Kenya, Okello (2018) conducted a study on bookkeeping and SME performance in Kisumu County and found that bookkeeping significantly influenced the profitability and growth of small enterprises. The study established that entrepreneurs who maintained consistent financial records were able to monitor their business performance and plan for expansion. Additionally, access to accurate financial records enabled SMEs to secure loans more easily from financial institutions. Hence, bookkeeping skills were directly linked to improved business performance and access to credit.

Similarly, Mwangi and Wanjiru (2023) examined the effect of bookkeeping skills on the growth of SMEs in Nairobi County and revealed that business owners with proper record-keeping practices exhibited better decision-making and long-term sustainability. The study also noted that the adoption of digital bookkeeping software enhanced accuracy and reduced human error in financial management. The authors therefore recommended that SME development programs integrate digital literacy and bookkeeping training for improved business growth.

Finally, a recent study by Otieno (2025) assessed the role of bookkeeping and accounting skills in promoting SME growth in Kisumu County. The study concluded that bookkeeping practices positively influenced firm growth, profitability, and compliance with taxation requirements. Furthermore, Otieno observed that SMEs with employees trained in bookkeeping recorded higher performance levels than those without formal record-keeping systems. Therefore, it can be concluded that bookkeeping skills are an indispensable aspect of SME growth and sustainability from a global to a local perspective.

2.2.3 Credit Management on the growth of SMEs

Credit management refers to the process of planning, controlling, and monitoring credit transactions to ensure that a business maintains a healthy cash flow while minimizing the risk of bad debts. In small and medium enterprises (SMEs), credit management skills involve assessing customer creditworthiness, setting appropriate credit limits, implementing collection procedures, and maintaining accurate credit records (Pandey, 2020). Effective credit management helps SMEs to avoid liquidity problems, improve profitability, and enhance business sustainability. According to Kithinji (2018), well-structured credit management systems enable SMEs to balance between sales growth and credit risk, thereby ensuring steady business expansion. Hence, credit management plays a vital role in promoting financial stability and supporting the long-term growth of SMEs.

Globally, several studies have shown that credit management practices are crucial determinants of SME growth and sustainability. For instance, a study by Nguyen and Luu (2019) in Vietnam examined the relationship between credit management and business performance among manufacturing SMEs. The findings revealed that firms with efficient credit policies experienced improved cash flow, reduced default rates, and higher profitability. The study concluded that effective credit management not only minimizes financial risk but also enhances customer relationships and long-term business growth.

Similarly, in the United Kingdom, Smith and Bolton (2020) investigated the influence of credit control practices on the performance of small enterprises. Their study found that SMEs that implemented formal credit evaluation systems and regular monitoring of receivables recorded higher sales turnover and profitability than those with weak credit controls. The authors emphasized that adopting computerized credit management tools improved efficiency in debt collection and reduced operational costs, thereby supporting business expansion.

In addition, a study conducted in India by Reddy and Reddy (2021) revealed that credit management significantly affects the liquidity and financial performance of SMEs. The researchers observed that enterprises that maintained detailed customer credit records and employed professional debt collection strategies had stronger cash positions and faster growth rates. The study further recommended training entrepreneurs in financial management to enhance their understanding of credit risk and debt recovery mechanisms.

Moreover, in Nigeria, Akinyele and Olorunleke (2020) assessed the relationship between credit policy and SME growth. Their findings indicated that the establishment of clear credit terms and conditions reduced the incidence of bad debts and improved business profitability. The study also reported that SMEs that offered credit sales based on customer creditworthiness experienced higher customer retention and market share growth. Thus, effective credit management was identified as a key driver of SME competitiveness in developing economies.

Similarly, in Ghana, Osei and Amponsah (2021) conducted a study on the effect of credit management on the performance of SMEs and found a significant positive relationship between proper credit management practices and firm growth. The study revealed that SMEs that conducted regular credit risk assessments and enforced payment follow-ups achieved better financial stability. Consequently, the authors recommended the adoption of credit management frameworks tailored to the needs of small businesses in emerging markets.

Furthermore, in Uganda, Musoke (2020) explored how credit management influences SME performance and found that firms with strong credit control systems experienced higher profitability and lower rates of bad debts. The study concluded that SMEs that regularly reviewed their credit policies and maintained customer credit databases were more likely to sustain growth. Additionally, Musoke emphasized the role of financial literacy in equipping SME owners with the skills necessary for effective credit management.

Regionally, in Tanzania, Mwenda (2022) analyzed the impact of credit management practices on SME financial performance and reported that effective credit collection and credit limit policies were associated with improved cash flow and business expansion. The study also found that lack of formal credit management systems among small enterprises led to delayed payments and cash flow challenges, ultimately constraining growth. Therefore, the author recommended continuous training and the use of digital tools to strengthen credit management capacity.

In Kenya, Kithinji (2018) investigated the relationship between credit management and SME growth in Nairobi County and found that proper credit management practices positively influenced business expansion. The study noted that SMEs that conducted regular customer credit assessments and applied strict debt collection measures experienced increased profitability and sustainability. Moreover, the study highlighted that inadequate credit management was one of the leading causes of liquidity problems among Kenyan SMEs.

Similarly, a study by Waweru and Ngugi (2023) examined the influence of credit management on the financial performance of SMEs in Nakuru County. Their results indicated that efficient credit policies, customer screening, and debt monitoring improved business liquidity and enhanced profitability. The study further suggested that SMEs should integrate modern credit management systems to minimize losses and strengthen their market position.

Finally, Otieno (2025) conducted a study on the role of credit management practices in promoting the growth of SMEs in Kisumu County. The findings revealed that effective credit risk assessment and debt recovery strategies significantly enhanced SME performance. The study also observed that SMEs with well-trained staff in credit management were more likely to sustain growth than those lacking such capacity. Therefore, from global to local perspectives, it is evident that efficient credit management practices are essential for ensuring financial discipline, improving profitability, and fostering the long-term growth of SMEs.

2.2.4 Financial Decision Making Skills on the growth of SMEs

Financial decision-making skills refer to the ability of business owners or managers to make informed, strategic, and timely financial choices that optimize resources, control costs, and enhance profitability and sustainability of enterprises (Pandey, 2021). These skills encompass understanding financial statements, evaluating investment opportunities, managing cash flows, and assessing financial risks to ensure long-term business growth (Brigham & Ehrhardt, 2022). For small and medium-sized enterprises (SMEs), financial decision-making skills are vital in determining how funds are allocated, debts are managed, and profits are reinvested, ultimately influencing their competitiveness and survival in dynamic markets (Abanis, 2019).

Globally, a study by Gitman and Zutter (2019) in the United States revealed that financial decision-making competencies significantly influenced the financial sustainability of SMEs. The research found that firms whose owners had strong financial literacy and decision-making abilities were more likely to expand operations and survive economic downturns. Similarly, these entrepreneurs effectively balanced investment and liquidity decisions, which contributed to consistent business growth.

In Europe, McMahon (2020) conducted a study across 300 SMEs in the United Kingdom and found that strategic financial decision-making was positively associated with profitability and innovation. The research highlighted that SMEs with clear financial planning and investment appraisal techniques recorded 25% higher sales growth compared to those without structured financial decision frameworks. Consequently, McMahon concluded that decision-making skills act as a catalyst for efficient resource utilization and risk mitigation.

In Asia, a study by Li and Wang (2021) in China examined how financial decision-making affects SME sustainability in manufacturing industries. The findings revealed that entrepreneurs who engaged in sound financial forecasting and cost-benefit analysis achieved better operational efficiency and capital utilization. Moreover, the research established that training in financial management significantly improved owners' decision-making confidence and business performance.

Similarly, in India, Sinha (2020) explored the role of financial decision-making skills among SME owners in Delhi. The results indicated that 78% of the respondents who applied rational financial decision models, including capital budgeting and working capital management, experienced steady growth in annual revenues. However, the study also noted that poor financial judgment led to cash flow challenges and business stagnation.

In the Middle East, Al-Sabah (2021) investigated the relationship between financial decision-making and SME expansion in Kuwait. The findings showed that firms that prioritized evidence-based financial decisions achieved higher profitability margins and better debt servicing capacity. Furthermore, the research emphasized the importance of integrating technology-driven financial tools to support data-based decision-making processes.

In Africa, Mungai (2021) conducted research in South Africa and found that financial decision-making skills were strongly correlated with SME growth and financial stability. Entrepreneurs who utilized financial analysis techniques such as ratio analysis and break-even analysis reported improved control over expenses and higher profit margins. Therefore, the study recommended continuous financial education for SME managers.

Additionally, in Nigeria, Osei and Adomako (2022) examined how financial decision-making practices influenced SME performance. The study revealed that enterprises with structured financial policies and data-driven decisions were more resilient to market fluctuations. The authors concluded that enhancing financial decision-making capacity could significantly contribute to business scalability and competitiveness in emerging economies.

Regionally, a study by Abanis et al. (2020) in Uganda demonstrated that SME owners with strong decision-making skills were more likely to secure external financing due to their ability to present viable financial plans. The research indicated that decision-making competency positively affected profitability and business survival, particularly in the service sector.

In Tanzania, Nyoni (2021) analyzed financial decision-making and SME growth in Dar es Salaam and found that strategic investment and financing decisions contributed to improved business performance. The study observed that SMEs with trained managers achieved higher returns on investment compared to those relying on intuition-based decisions. Thus, financial education was identified as a critical enabler for sustainable growth.

Finally, in Kenya, Njoroge and Gathungu (2022) examined the impact of financial decision-making skills on the growth of SMEs in Nairobi County. The research revealed that firms whose owners possessed strong decision-making skills demonstrated superior financial planning, profit management, and reinvestment strategies. The study concluded that enhancing financial decision-making skills among entrepreneurs significantly improves SME competitiveness and contributes to Kenya's overall economic growth.

2.3 Summary and Research gaps

The reviewed literature provides extensive evidence on the relationship between financial literacy and SME growth. Studies conducted globally, such as those by Nguyen and Luu (2020), Dujak and Sokić (2021), and McMahon (2020), demonstrate that financial literacy competencies such as budgeting, bookkeeping, credit management, and decision-making significantly enhance business profitability and sustainability. However, most of these studies are concentrated in developed economies, limiting their applicability to SMEs in developing contexts where financial infrastructure, market dynamics, and regulatory frameworks differ substantially.

In relation to budgeting skills, empirical studies (e.g., Nguyen & Luu, 2020; Molefe & Nkosi, 2023; Kamau, 2019) highlight that structured budgeting practices enhance profitability and planning efficiency. Nevertheless, these studies often fail to capture how limited access to financial training and digital tools constrains budgeting effectiveness among informal SMEs in Kenya. Similarly, while bookkeeping has been widely recognized as a driver of SME success (Owusu & Agyei, 2021; Mwangi & Wanjiru, 2023), there remains a lack of empirical focus on the impact of digitized record-keeping systems in local market settings such as Jubilee Market, Kisumu.

Regarding credit management, prior studies (e.g., Akinyele & Olorunleke, 2020; Kithinji, 2018; Otieno, 2025) show that efficient credit control enhances cash flow and reduces default risks. However, few have examined how limited financial literacy and informal lending practices affect SMEs' ability to manage trade credit effectively in Kenya's local markets. Additionally, most studies emphasize credit management in formal or manufacturing sectors, leaving a gap in understanding its role within small-scale retail enterprises that rely heavily on customer credit sales.

Moreover, research on financial decision-making skills (e.g., Li & Wang, 2021; Abanis et al., 2020; Njoroge & Gathungu, 2022) consistently indicates that sound financial decisions enhance investment efficiency and sustainability. Nonetheless, there is inadequate examination of how informal decision-making approaches often based on intuition rather than analysis affect SME growth in local markets such as Kisumu. There is also limited exploration of how entrepreneurial education and gender differences influence financial decision-making capacity among small traders in Kenya.

Therefore, despite the abundance of literature globally and regionally, there remains a contextual gap concerning how financial literacy skills collectively influence the growth of SMEs within Kenya's informal sector. Specifically, few studies have examined the integrated effect of budgeting, bookkeeping, credit management, and financial decision-making within market-based enterprises such as those in Jubilee Market. This study thus seeks to bridge these gaps by providing empirical evidence from SMEs in Kisumu County, offering insights into how financial literacy competencies can drive growth, sustainability, and competitiveness in Kenya's local business environment.

Table 1: Summary and Research Gaps

Author(s)	Findings	Study Gaps	Focus of Current Study
Nguyen & Luu (2020)	Budgeting practices improve financial stability and growth.	Focused on formal SMEs in developed economies.	Assess how budgeting skills influence SME growth in informal markets like Jubilee.
Aladejebi & Oladimeji (2019)	Bookkeeping improves profitability and credit access.	Did not examine digital bookkeeping in small markets.	Investigate how bookkeeping skills affect SME growth in Jubilee Market.

Akinyele & Olorunleke (2020)	Credit policies reduce bad debts and improve profitability.	Limited analysis of informal credit management practices.	Examine how credit management influences SME growth in Kisumu County.
Li & Wang (2021)	Financial decision-making enhances operational efficiency.	Focused on manufacturing SMEs; lacks evidence from local Kenyan markets.	Evaluate how financial decision-making skills affect SME growth in Jubilee Market.
Kamau (2019)	Financial literacy contributes to SME expansion in Kenya.	Focused on Nyeri County; lacks context-specific data for Kisumu.	Analyze financial literacy dimensions influencing SME growth in Kisumu.
Otieno (2025)	Credit and bookkeeping skills enhance profitability and compliance.	Did not explore integrated financial literacy effects.	Examine combined influence of budgeting, bookkeeping, credit, and decision-making skills.

Source: Author (2025)

2.4 Conceptual Framework

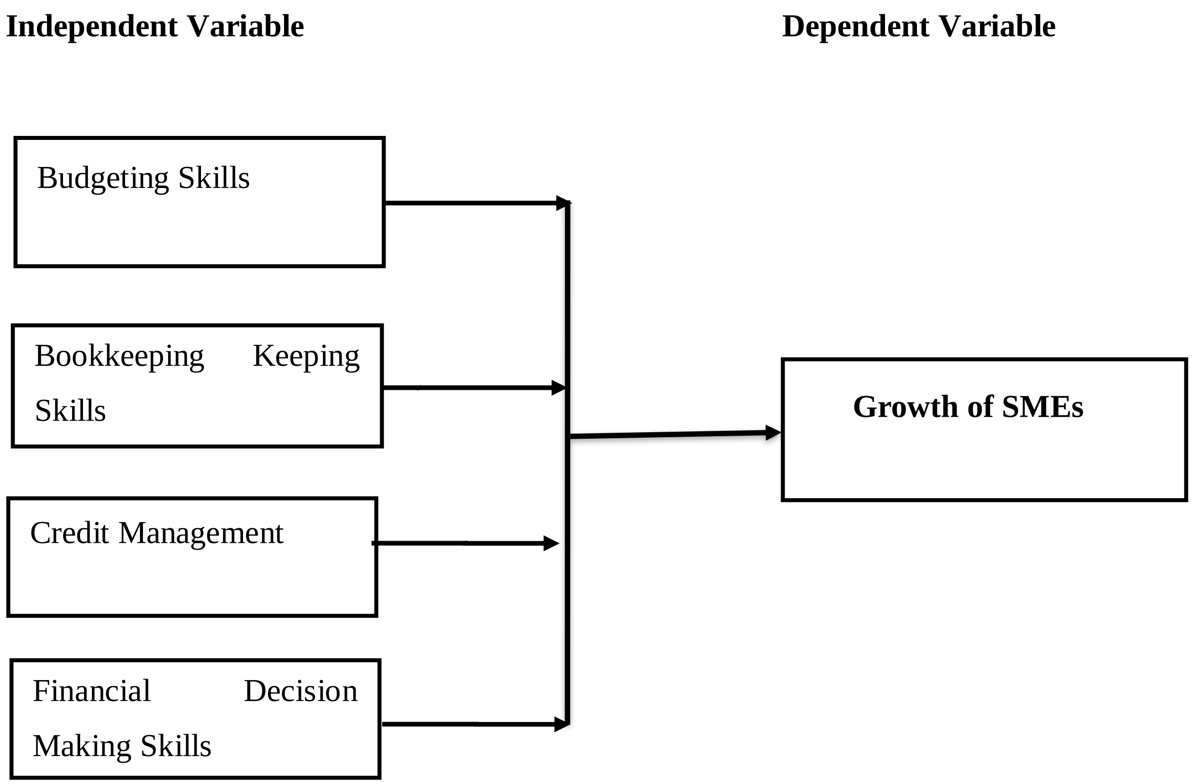

Figure 1: Conceptual Framework

Source: Author (2025)

2.5 Operationalization of Variables

The measurement of the independent and the dependent variables is shown in the operationalization Table 2.

Table 2: Operationalization of Variables

Variable	Indicators	Measurement Scale	Tools of Analysis
Budgeting Skills	• Preparation of financial plans • Monitoring of income and expenses • Allocation of resources • Forecasting of financial performance	5-point Likert scale	Descriptive and Inferential Statistics
Bookkeeping Skills	• Accuracy of record-keeping • Use of accounting systems • Preparation of financial statements • Record maintenance consistency	5-point Likert scale	Descriptive and Inferential Statistics
Credit Management	• Credit policy implementation • Debt collection efficiency • Customer credit assessment	5-point Likert scale	Descriptive and Inferential Statistics

	• Loan repayment tracking		
Financial Decision-Making Skills	• Investment analysis • Cost-benefit evaluation • Capital allocation decisions • Risk management practices	5-point Likert scale	Descriptive and Inferential Statistics
Growth of SMEs (Dependent Variable)	• Sales turnover • Business expansion • Profitability level • Employment growth	5-point Likert scale	Descriptive and Inferential Statistics

Source: Author (2025)

2.6 Chapter Summary

This chapter has presented both the theoretical and empirical literature pertinent to the study on the influence of financial literacy on the growth of SMEs in Kenya, with specific reference to SMEs operating within Jubilee Market, Kisumu County. The theoretical review was guided by the Planning Theory, Double-Entry Accounting Theory, Trade Credit Theory, and Pecking Order Theory, each explaining the conceptual link between financial literacy dimensions and SME growth. The empirical review examined previous studies from global, regional, and local perspectives, emphasizing how budgeting skills, bookkeeping skills, credit management, and financial decision-making contribute to SME performance and sustainability. The chapter also identified notable research gaps, including the limited contextual evidence on the combined effect of financial literacy components on SME growth within informal markets in Kenya. Additionally, there is a lack of focus on market-based SMEs such as those in Jubilee Market, where informal financial practices often dominate. To address these gaps, the study integrates theoretical insights and empirical findings into a conceptual framework and operationalization table that illustrate the hypothesized relationships between financial literacy dimensions and SME growth.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter outlines the methodologies adopted to examine the influence of financial literacy on the growth of small and medium enterprises (SMEs) in Jubilee Market, Kisumu County. It presents the research design, target population, sampling procedures, research instruments, pilot testing, data collection process, data analysis methods, and ethical considerations. These methods were selected to ensure the study's validity, reliability, and ability to address the stated objectives.

3.1 Research design

The study employed a descriptive research design, which is appropriate for investigating the relationship between financial literacy components budgeting skills, bookkeeping skills, credit management, and financial decision-making and SME growth. A descriptive design provides an accurate and systematic description of the variables in their natural setting (Creswell & Creswell, 2018). A mixed-methods approach integrating both quantitative and qualitative techniques was used. Quantitative data captured measurable indicators such as sales growth, customer base expansion, and profitability. Qualitative data provided deeper insights into SME owners' experiences and perceptions regarding the application of financial literacy skills in business growth.

3.2 Target population

The target population consisted of SME owners and managers operating within Jubilee Market, Kisumu County. This group was selected because they engage in daily business operations and make financial decisions that directly influence enterprise growth.

This population allowed for a comprehensive assessment of how financial literacy skills affect the performance and growth of SMEs.

Table 3: Distribution of target population

Category	Population Size
SME Owners/Managers	350
Total	**350**

Source: Author (2025)

3.3 Sample and Sampling Technique

The study employed a stratified random sampling technique to ensure proportional representation of different categories of SMEs (retail, wholesale, service-based, and agro-related enterprises). Stratification improved precision by reducing sampling bias.

The sample size was determined using Krejcie and Morgan's (1970) sample size determination table. For a population of 350, a sample size of 186 respondents was appropriate and manageable.

Table 4: Sample distribution

SME Category	Population	Sample Size
Retail SMEs	180	96
Wholesale SMEs	70	37
Service-based SMEs	60	32
Agro-related SMEs	40	21
Total	**350**	**186**

Source: Author (2025)

3.4 Research Instruments

The study used structured questionnaires and semi-structured interview guides:

Structured questionnaires were administered to SME owners and managers to collect quantitative data on budgeting, bookkeeping, credit management, financial decision-making, and business growth indicators. Semi-structured interviews targeted key informants such as market leadership and financial advisors operating around the market, allowing for in-depth qualitative insights into financial literacy challenges and opportunities. The questionnaires consisted of Likert-scale items that measured perceptions and practices related to financial literacy.

3.5 Pilot Study

A pilot study was conducted among 20 SME owners in a neighboring market (Kibuye Market) to test and refine the research instruments. The aim was to ensure clarity, reliability, and relevance of the tools before the main data collection.

3.5.1 Validity Test

Content and face validity were established through expert review by academic supervisors and professionals in financial literacy training. Feedback from the pilot group was incorporated to ensure alignment with the study objectives and improve clarity of questionnaire items (Mugenda & Mugenda, 2003).

3.5.2 Reliability Test

Instrument reliability was assessed using Cronbach's Alpha, which returned a coefficient of 0.85. This indicates a high level of internal consistency, surpassing the acceptable threshold of 0.70 recommended by Trochim and Donnelly (2008).

3.6 Data Collection Procedure

The data collection process was outlined in the table 3

Table 5: Data Collection Administration Process

Instrument	Target Group	Mode of Administration
Structured Questionnaires	SME Owners and Managers	Paper-based/Online Surveys
Semi-Structured Interviews	Market Leaders, Business Consultants	Face-to-Face/Virtually

Source: Author (2025)

Prior to data collection, consent was obtained, permissions were sought from relevant authorities, and participants were briefed on the study's purpose.

3.7 Data Analysis and Presentation

Quantitative data were coded and analyzed using SPSS (Version 25). Descriptive statistics (frequencies, means, percentages, standard deviations) were used to summarize responses. Inferential statistics including correlation analysis and regression analysis examined the influence of financial literacy variables on SME growth. Qualitative data from interviews were analyzed using thematic analysis, allowing identification of recurring themes and insights. Results were presented using tables, charts, and narrative descriptions.

3.8 Ethical Considerations

Ethical guidelines were followed throughout the research process to protect the rights and welfare of participants, consistent with Resnik (2015).

3.8.1 Informed Consent

Participants were informed about the study's purpose, procedures, and potential risks. Written or verbal consent was obtained.

3.8.2 Voluntary Participation

Participation was entirely voluntary, and respondents could withdraw at any time without penalty.

3.8.3 Confidentiality

All data were stored securely, and only the research team had access. Responses were treated as confidential.

3.8.4 Privacy

Participants were not required to provide personally identifiable information beyond what was necessary for the study.

3.8.5 Anonymity

Names or identifiers were not included in the questionnaires, ensuring anonymity and protecting participants from any possible harm.

3.9 Chapter Summary

This chapter has presented the methodological framework used to investigate the influence of financial literacy on SME growth in Jubilee Market, Kisumu County. The descriptive mixed-methods design enabled broad and deep exploration of the research variables. Stratified random sampling ensured representativeness, and the research instruments were validated and tested for reliability. Ethical standards were upheld throughout. The analytical techniques described will support accurate interpretation of results presented in subsequent chapters.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the findings of the study on the influence of financial literacy on the growth of SMEs in Jubilee Market, Kisumu County. The results are organized to reflect the demographic characteristics of respondents and the key financial literacy variables, including budgeting skills, bookkeeping, credit management, and financial decision-making. Data were analyzed using descriptive statistics to summarize responses, identify trends, and provide insights into how financial literacy practices affect business growth. The chapter further interprets the findings in relation to the study objectives and relevant literature.

4.1 Research Findings

Table 6: Response Rate

The sample for this study comprised 100 participants who were administered the questionnaire, as illustrated in Table 6.

Category	Frequency	Percentage
Responses	186	100%
Non responses	0	0%
Total	**186**	**100**

Source: Researcher (2025)

The response rate for this study was 100%, with all 186 participants completing the questionnaire. This high level of engagement is crucial as it mitigates nonresponse bias and enhances the overall validity of the findings (Dillman, 2014; Groves et al., 2006).

4.1.1 Demographic Information

The background information collected from respondents included gender, age, education level, professional role, and years of involvement.

Table 7 : Gender and Representation

Gender	**Frequency**	**Percentage**
Male	86	46%
Female	100	54%
Total	**186**	**100%**

Source: Researcher (2025)

The results in Table 7 show the gender distribution of SME owners and managers who participated in the study. Female respondents constituted the majority at 54% (n = 100), while male respondents accounted for 46% (n = 86). This indicates that more women than men are engaged in SME activities within Jubilee Market, Kisumu County. The higher representation of women suggests that female entrepreneurs play a significant role in the business ecosystem of the market, which is consistent with national trends where women dominate small-scale trade and retail enterprises. This gender distribution may also reflect the socioeconomic patterns in urban informal markets, where women often participate actively in micro and small enterprises to support household income. The balanced gender spread (with a difference of only 8 percentage points) enhances the reliability of the study, as it ensures that findings on the influence of financial literacy on SME growth reflect perspectives from both genders.

Table 8 : Age Categories

Age	Frequency	Percentage
21-30 years	42	23%
31-40 years	74	40 %
41- 50 years	51	27%
51 years and above	19	10%
Total	**186**	**100%**

Source: Researcher (2025)

The findings in Table 8 show the age distribution of SME owners and managers in Jubilee Market. The largest proportion of respondents falls within the 31–40 years age bracket, representing 40% (n = 74) of the sample. This indicates that SMEs in the area are predominantly operated by individuals in their early to mid-career stages, a period often characterized by stability, entrepreneurial drive, and willingness to take calculated business risks. The 41–50 years age group forms the second-largest category at 27% (n = 51), suggesting that a significant number of mature adults engage in SME activities, likely drawing from extensive experience and established social networks. Respondents aged 21–30 years account for 23% (n = 42), showing that young adults also participate actively in entrepreneurial activities, possibly driven by limited formal employment opportunities and an increasing preference for self-employment. The smallest group comprises respondents aged 51 years and above, making up 10% (n = 19). This indicates that fewer older adults are engaged in active SME management, which may be due to factors such as retirement, reduced labor capacity, or preference for less demanding economic activities. The distribution suggests that SME ownership in Jubilee Market is dominated by economically active age groups (31–50 years). This has implications for financial literacy initiatives, as younger and middle-aged entrepreneurs may be more responsive to training programs and technological tools that enhance financial management and business growth.

Table 9 : Educational Background

Level of Education	Frequency	Percentage
Primary	11	6%
Secondary	50	27%
College	87	47%
University	37	20%
Total	**186**	**100%**

Source: Researcher (2025)

The results in Table 9 present the educational attainment of SME owners and managers in Jubilee Market, Kisumu County. The majority of respondents, 47% (n = 87), reported having attained college-level education. This indicates that most SME operators possess post-secondary training, which may enhance their capacity to understand and apply financial literacy skills such as budgeting, bookkeeping, credit management, and financial decision-making. The second-largest group comprises respondents with secondary education, representing 27% (n = 50). This suggests that a significant proportion of SMEs are run by individuals who may have foundational academic skills but may still require targeted financial literacy training to strengthen their business management abilities. Respondents with university education account for 20% (n = 37). This reflects a notable presence of highly educated entrepreneurs in the market, possibly attracted to business opportunities within the area or operating SMEs as additional income streams. Only 6% (n = 11) of the respondents reported primary-level education. This relatively small proportion suggests that individuals with lower educational attainment are less likely to manage SMEs in Jubilee Market or may face barriers in starting and sustaining business ventures. The educational profile indicates that the majority of SME owners possess at least secondary-level education, with many having undergone some form of tertiary training. This level of education may positively influence their ability to acquire and utilize financial literacy skills, ultimately contributing to the growth and sustainability of their enterprises.

Table 10: Experience

Years of Experience	Frequency	Percentage
Less than 1 year	19	10.0%
1–3 years	50	26.7%
4–6 years	62	33.3%
More than 6 years	55	30.0%
Total	**186**	**100%**

Source: Researcher (2025)

The results in Table 10 indicate that the respondents had varying lengths of experience in operating their businesses. The highest proportion of SME owners and managers, 33.3% (n = 62), had been in business for 4–6 years. This suggests that a significant number of enterprises in Jubilee Market have moved beyond the initial startup phase and are in the growth or maturity stage, which may positively influence business stability and financial management practices. The second-largest group, 30.0% (n = 55), had operated their businesses for more than 6 years, indicating a strong presence of well-established SMEs in the market. This reflects long-term business sustainability and suggests that many entrepreneurs in the area possess extensive practical experience that can enhance decision-making and inform financial management strategies. Respondents with 1–3 years of experience accounted for 26.7% (n = 50). These businesses are still relatively young and may be in the process of establishing stable customer bases and formalized financial practices. Their financial literacy needs may therefore differ from those of more experienced entrepreneurs. The smallest group comprised those with less than 1 year of experience, at 10.0% (n = 19). This indicates that only a small proportion of SMEs are newly established, reflecting limited business turnover or high survival rates within the market. The findings suggest that most SMEs in Jubilee Market are run by individuals with moderate to extensive business experience. This distribution is important for the study because experience often influences the extent to which entrepreneurs apply financial literacy skills such as budgeting, bookkeeping, and credit management. More experienced business operators may also be better positioned to adopt sound financial decision-making practices that support business growth.

Table 11: Type of business

Role	**Frequency**	**Percentage**
Retail	130	70.0%
Wholesale	25	13.3%
Service	12	6.7%
Manufacturing	19	10.0%
Total	**186**	**100%**

Source: Researcher (2025)

The findings in Table 11 show that the majority of SMEs operating in Jubilee Market are engaged in retail business activities, accounting for 70.0% (n = 130) of the respondents. This highlights the dominant nature of retail trading within the market, which is consistent with the structure of most informal and semi-formal markets in Kenya, where small-scale buying and selling of fast-moving goods forms the core economic activity. Wholesale businesses represent 13.3% (n = 25) of the sample. This indicates a smaller but important group involved in bulk distribution of goods, which plays a key role in supporting retail traders within the market. Service-based businesses account for 6.7% (n = 12) of respondents. The relatively low percentage suggests that service-oriented enterprises such as salons, repair shops, and consultancy services are less common in Jubilee Market compared to retail and wholesale activities. Manufacturing enterprises comprise 10.0% (n = 19) of the sample. Although forming a minority, this represents an important category engaged in small-scale production activities such as tailoring, metalwork, food processing, and other value-added operations. Their presence suggests that Jubilee Market hosts a mix of both trading and production activities. The distribution shows that Jubilee Market is predominantly a retail-driven business environment, with fewer businesses engaged in wholesale, service, and small-scale manufacturing. This has implications for financial literacy needs: retail traders may require stronger skills in daily bookkeeping, inventory management, and budgeting, while manufacturing and service enterprises may need enhanced credit management and financial planning skills to support long-term expansion.

4.1.2 Descriptive Statistics

This section discusses the responses to the statements reflecting perceptions of influence of financial literacy on the growth of SMEs, using a five-point Likert scale (1= Strongly Agree, 2= Agree, 3= Neutral, 4= Disagree, 5= Strongly Disagree).

4.1.2.1 Budgeting Skills and Growth of SMEs

Table 12 : Budgeting Skills And Growth Of SMEs

Statement	SA	A	N	D	SD	Total
I prepare a budget for my business operations regularly.	40%	35%	15%	7%	3%	**100%**
Budgeting helps me plan for future business expenses effectively.	45%	30%	15%	8%	2%	**100%**
I monitor and control my business expenditure based on the set budget.	37%	40%	10%	8%	5%	**100%**
Proper budgeting has improved my business's profitability and growth.	50%	25%	15%	6%	4%	**100%**
I review and adjust my budget to respond to changing business needs.	38%	34%	16%	8%	4%	**100%**

Source: Researcher (2025)

The results in Table 12 indicate that respondents demonstrated a strong appreciation and adoption of budgeting practices in their business operations. A combined 75% (40% SA, 35% A) reported that they regularly prepare budgets for their businesses, suggesting that budgeting is widely recognized as an essential financial management tool among SMEs in Jubilee Market.

Similarly, 75% of respondents agreed that budgeting helps them plan effectively for future business expenses, reinforcing the essential role of budgeting in financial planning and preparedness. Only a very small proportion (10%) disagreed or strongly disagreed with this statement, indicating widespread acceptance of budgeting's importance.

Monitoring and controlling expenditure also appears to be a common practice, with 77% (37% SA, 40% A) of SME operators reporting that they track their expenses relative to their set budgets. This indicates a strong culture of financial discipline, which is crucial for preventing overspending and maintaining business stability.

A majority of respondents (75%) also agreed that proper budgeting has contributed to improved profitability and business growth. This implies a clear link between budgeting and positive business performance outcomes. Only 10% expressed disagreement, suggesting that the perceived benefits of budgeting are widely felt across the SME sector.

Additionally, 72% (38% SA, 34% A) indicated that they regularly review and adjust their budgets in response to changing business needs. This adaptability reflects sound financial management practices; as dynamic business environments require continuous evaluation of financial plans.

The findings demonstrate that budgeting skills are strongly associated with SME growth in Jubilee Market. Respondents not only acknowledge the importance of budgeting but also actively implement budgeting practices that contribute to effective planning, expenditure control, profitability, and adaptability. These results align with financial literacy theory, which posits that budgeting enhances strategic decision-making and long-term business success.

4.1.2.2 Bookkeeping Skills and Growth of SMEs

Table 13 : Bookkeeping Skills And Growth Of SMEs

Statement	**SA**	**A**	**N**	**D**	**SD**	**Total**
I maintain accurate and up-to-date financial records for my business.	55%	32%	8%	3%	2%	**100%**
I record all my daily sales and expenses systematically.	60%	30%	5%	3%	2%	**100%**
Bookkeeping helps me understand the financial performance of my business.	50%	35%	10%	4%	1%	**100%**
Proper record-keeping enables me to make informed business decisions.	56%	30%	8%	3%	3%	**100%**
My bookkeeping practices have contributed to the growth and sustainability of my business.	53%	28%	12%	4%	3%	**100%**

Source: Researcher (2025)

Table 13 presents the respondents' views on the influence of bookkeeping skills on the growth of SMEs. The findings show that the majority of SME owners demonstrate strong bookkeeping practices.

More than half of the respondents (55%) strongly agreed and 32% agreed that they maintain accurate and up-to-date financial records. This indicates that most SMEs recognize the importance of maintaining reliable financial information. Similarly, 60% strongly agreed and 30% agreed that they systematically record daily sales and expenses, showing commitment to sound financial tracking practices.

In addition, 50% strongly agreed and 35% agreed that bookkeeping helps them understand their financial performance, demonstrating that owners rely on records to assess the health of their businesses. The results further reveal that 56% strongly agreed and 30% agreed that proper record-keeping enables them to make informed business decisions, emphasizing the role of bookkeeping in strategic management.

Finally, 53% strongly agreed and 28% agreed that their bookkeeping practices have contributed to the growth and sustainability of their businesses. This suggests a positive relationship between bookkeeping skills and SME performance, as consistent and accurate financial management enhances business stability and long-term growth.

The results imply that effective bookkeeping skills are widely practiced among SMEs and significantly contribute to their growth.

4.1.2.3 Credit Management and Growth of SMEs

Table 14 : Credit Management and Growth of SMEs

Statement	SA	A	N	D	SD	Total
I evaluate customers' creditworthiness before offering goods or services on credit.	70%	25%	2%	2%	1%	**100%**
I have clear policies for collecting debts from customers.	72%	22%	4%	1%	1%	**100%**
Effective credit management helps maintain a healthy cash flow in my business.	65%	28%	5%	1%	1%	**100%**
I avoid excessive borrowing that may strain my business finances.	68%	20%	8%	2%	2%	**100%**
Proper credit management practices have improved my business's growth.	69%	24%	4%	2%	1%	**100%**

Source: Researcher (2025)

Table 14 illustrates respondents' perceptions of how credit management practices influence the growth of SMEs. The findings reveal that most SME owners apply strong credit management strategies to safeguard their businesses.

A significant majority (70% strongly agreed and 25% agreed) indicated that they evaluate customers' creditworthiness before offering goods or services on credit. This demonstrates a proactive approach to minimizing risks associated with unpaid debts. Additionally, 72% strongly agreed and 22% agreed that they have clear policies for collecting debts from customers, reflecting the existence of structured credit control mechanisms within most SMEs.

The results further show that 65% strongly agreed and 28% agreed that effective credit management helps maintain a healthy cash flow. This underscores the importance of credit control in ensuring consistent financial liquidity for business operations. Furthermore, 68% strongly agreed and 20% agreed that they avoid excessive borrowing that could strain their business finances, suggesting that SME owners exercise caution in managing liabilities.

Finally, 69% strongly agreed and 24% agreed that proper credit management practices have improved the growth of their businesses. This indicates a strong positive link between credit management and SME growth, as well-managed credit processes reduce financial risks and enhance business stability.

The findings suggest that SMEs in the study area employ sound credit management practices, which significantly contribute to their financial health and growth.

4.1.2.4 Financial Decision-Making Skills and Growth of SMEs

Table 15 : Financial Decision-Making Skills and Growth of SMEs

Statement	**SA**	**A**	**N**	**D**	**SD**	**Total**
I make financial decisions based on proper analysis and planning.	65%	27%	5%	2%	1%	**100%**
I can assess investment opportunities that contribute to my business growth.	70%	22%	5%	2%	1%	**100%**
I seek financial advice before making major business decisions.	66%	24%	7%	2%	1%	**100%**
Good financial decision-making has led to improved profitability in my business.	62%	30%	5%	2%	1%	**100%**

My ability to make sound financial decisions has enhanced the sustainability of my enterprise.	69%	25%	4%	1%	1%	**100%**

Source: Researcher (2025)

Table 15 presents the respondents' perspectives on the influence of financial decision-making skills on SME growth and sustainability. The findings show that SME owners in Jubilee Market actively apply financial decision-making practices to enhance business performance.

A majority of respondents (65% strongly agreed and 27% agreed) reported that they make financial decisions based on proper analysis and planning. This indicates that financial decisions are deliberate and guided by structured evaluation rather than intuition. Additionally, 70% strongly agreed and 22% agreed that they are capable of assessing investment opportunities that contribute to business growth, reflecting a strategic approach to expanding enterprise operations.

The results also reveal that 66% strongly agreed and 24% agreed that they seek financial advice before making major business decisions. This demonstrates an awareness of the value of expert guidance in reducing financial risks and making informed choices.

Regarding business outcomes, 62% strongly agreed and 30% agreed that good financial decision-making has led to improved profitability. Furthermore, 69% strongly agreed and 25% agreed that their ability to make sound financial decisions has enhanced the sustainability of their enterprises. These findings indicate a strong positive relationship between financial decision-making skills and both profitability and long-term sustainability of SMEs.

The analysis suggests that sound financial decision-making skills are critical in driving the growth, profitability, and sustainability of SMEs in Jubilee Market. Entrepreneurs who engage in careful analysis, seek advice, and evaluate investment opportunities are better positioned to achieve business success.

4.2 Chapter Summary

The findings indicate that SMEs in Jubilee Market are predominantly operated by female entrepreneurs aged between 31 and 40 years, with most having attained college-level education and substantial business experience. Retail trade is the dominant type of business, reflecting the nature of economic activities in the market. Descriptive analysis of financial literacy variables shows that budgeting, bookkeeping, credit management, and financial decision-making skills are widely practiced and have a positive influence on SME growth, profitability, and sustainability. Overall, the results suggest that financial literacy is a critical driver of SME performance and underscores the need for targeted capacity-building initiatives to enhance these skills among entrepreneurs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Findings

This chapter summarizes the major findings of the study, which aimed to examine the influence of financial literacy on the growth of SMEs in Jubilee Market, Kisumu County. The analysis was structured around four key dimensions of financial literacy: budgeting skills, bookkeeping skills, credit management, and financial decision-making skills. A total of 186 SME owners and managers participated in the study, providing responses via structured questionnaires. Data were analyzed using descriptive statistics in SPSS Version 26.0.

5.1.1 Budgeting Skills

The study found that budgeting skills are widely practiced among SME owners in Jubilee Market. Most respondents (75%) reported preparing budgets regularly, monitoring and controlling expenditure, and adjusting budgets to accommodate changing business conditions. Budgeting was perceived to enhance planning for future expenses, improve profitability, and facilitate business growth. These findings address the first objective of the study: to determine the influence of budgeting skills on the growth of SMEs in Jubilee Market, Kisumu County.

5.1.2 Bookkeeping Skills

Bookkeeping was found to play a critical role in business growth and sustainability. A majority of respondents maintained accurate and up-to-date financial records, systematically recorded daily sales and expenses, and used financial data to make informed business decisions. Over 80% indicated that bookkeeping contributed to understanding financial performance and improving overall business outcomes. These insights relate to the second study objective: to examine the influence of bookkeeping skills on the growth of SMEs in Jubilee Market, Kisumu County.

5.1.3 Credit Management

The findings reveal that effective credit management enhances business stability and growth. Most SME owners evaluated customers' creditworthiness, established debt collection policies, avoided excessive borrowing, and managed cash flows prudently. Respondents acknowledged that these practices contributed to improved business performance and sustainability. These results correspond to the third study objective: to assess the influence of credit management on the growth of SMEs in Jubilee Market, Kisumu County.

5.1.4 Financial Decision-Making Skills

Financial decision-making skills were also identified as a key driver of SME growth. Respondents reported making business decisions based on proper analysis, evaluating investment opportunities, seeking financial advice, and strategically planning for profitability. The majority indicated that sound financial decision-making improved both profitability and long-term sustainability. These findings address the fourth objective of the study: to evaluate the influence of financial decision-making skills on the growth of SMEs in Jubilee Market, Kisumu County.

5.2 Conclusions of the Study

The study concludes that financial literacy is a critical factor in the growth, profitability, and sustainability of SMEs in Jubilee Market. Budgeting, bookkeeping, credit management, and financial decision-making skills collectively enhance business performance by promoting effective planning, disciplined financial practices, and strategic decision-making. SMEs that actively apply these financial literacy skills are better positioned to maintain cash flow, make informed investments, and achieve sustainable growth. The study underscores that financial literacy is not only a tool for managing day-to-day operations but also a long-term growth driver for micro and small enterprises.

5.3 Recommendations of the Study

Based on the findings, the study makes the following recommendations:

SME Owners should prioritize regular budgeting, accurate bookkeeping, and structured credit management to improve decision-making and business growth.

Financial literacy training providers need to develop targeted programs focusing on practical financial management skills, including budgeting, record-keeping, credit evaluation, and investment assessment.

Government and County Agencies should support SMEs by facilitating financial literacy workshops, offering advisory services, and promoting policies that encourage responsible borrowing and financial planning.

SME Associations could establish peer mentoring and knowledge-sharing platforms where experienced entrepreneurs guide less-experienced members on sound financial practices.

5.4 Suggestions for Further Research

The study proposes the following areas for future investigation:

Assess the long-term impact of financial literacy training on SME growth and sustainability across multiple markets in Kenya.

Examine the relationship between financial literacy and access to formal credit facilities for SMEs.

Investigate the influence of digital financial tools and mobile money adoption on SME financial management.

Conduct longitudinal studies to track changes in SME growth performance over time as financial literacy interventions are implemented.

5.5 Chapter Summary

Chapter Five provides a comprehensive overview of the study findings, conclusions, and recommendations. The study highlights that financial literacy comprising budgeting, bookkeeping, credit management, and financial decision-making skills is a key determinant of SME growth and sustainability in Jubilee Market. Recommendations emphasize practical training, policy support, and mentorship to strengthen financial management capacity among entrepreneurs. Overall, the study provides actionable insights for SME owners, trainers, and policymakers seeking to enhance the performance and resilience of small businesses in Kisumu County.

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APPENDIX I: INTRODUCTORY LETTER

The Management University of Africa
MUA
Sponsored by The Kenya Institute of Management

Date: 13th November 2025

TO WHOM IT MAY CONCERN

GEORGE OWUONDAH PHILIP– ODLBML/15/00693/2/18

This letter serves to introduce the above named who is a **Bachelors of Management and Leadership (BML)** student and is interested in carrying out research on The Influence of Financial Literacy on the Growth and Sustainability of SMES in Kenya.

Any assistance accorded to him in pursuit of this study will be greatly appreciated.

Yours Sincerely,

13 NOV 2025

Dr. Juster Nyaga

Dean, School of Management and Leadership

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APPENDIX II: QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

This questionnaire consists of two sections: Section A contains demographic information, while Section B contains specific information about the study based on the objectives. Information collected will be treated as private and confidential.

SECTION A: DEMOGRAPHIC DETAILS

Kindly tick where appropriate.

No.	Question	Response Options
1	What is your gender?	Male ( ) Female ( )
2	Your age bracket	21–30 ( ) 31–40 ( ) 41–50 ( ) 51 and above ( )
3	What is your highest level of education?	Primary ( ) Secondary ( ) College ( ) University ( )
4	How long have you operated your business?	Less than 1 year ( ) 1–3 years ( ) 4–6 years ( ) Above 6 years ( )
5	What type of business do you operate?	Retail ( ) Wholesale ( ) Service ( ) Manufacturing ( ) Other (specify) ____________

SECTION B: INFLUENCE OF FINANCIAL LITERACY ON THE GROWTH OF SMEs

Please consider each of the following statements. Indicate the extent to which you agree or disagree with each statement using the scale below:

5 = Strongly Agree (SA) 4 = Agree (A) 3 = Not Sure (N) 2 = Disagree (D) 1 = Strongly Disagree (SD)

SECTION B1: BUDGETING SKILLS AND GROWTH OF SMEs

No.	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	I prepare a budget for my business operations regularly.	( )	( )	( )	( )	( )
2	Budgeting helps me plan for future business expenses effectively.	( )	( )	( )	( )	( )
3	I monitor and control my business expenditure based on the set budget.	( )	( )	( )	( )	( )
4	Proper budgeting has improved my business's profitability and growth.	( )	( )	( )	( )	( )
5	I review and adjust my budget to respond to changing business needs.	( )	( )	( )	( )	( )

SECTION B2: BOOKKEEPING SKILLS AND GROWTH OF SMEs

No.	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	I maintain accurate and up-to-date financial records for my business.	( )	( )	( )	( )	( )
2	I record all my daily sales and expenses systematically.	( )	( )	( )	( )	( )
3	Bookkeeping helps me understand the financial performance of my business.	( )	( )	( )	( )	( )
4	Proper record-keeping enables me to make informed business decisions.	( )	( )	( )	( )	( )
5	My bookkeeping practices have contributed to the growth and sustainability of my business.	( )	( )	( )	( )	( )

SECTION B3: CREDIT MANAGEMENT AND GROWTH OF SMEs

No.	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	I evaluate customers' creditworthiness before offering goods or services on credit.	( )	( )	( )	( )	( )
2	I have clear policies for collecting debts from customers.	( )	( )	( )	( )	( )
3	Effective credit management helps maintain a healthy cash flow in my business.	( )	( )	( )	( )	( )
4	I avoid excessive borrowing that may strain my business finances.	( )	( )	( )	( )	( )
5	Proper credit management practices have improved my business's growth.	( )	( )	( )	( )	( )

SECTION B4: FINANCIAL DECISION-MAKING SKILLS AND GROWTH OF SMEs

No.	Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	I make financial decisions based on proper analysis and planning.	( )	( )	( )	( )	( )
2	I can assess investment opportunities that contribute to my business growth.	( )	( )	( )	( )	( )
3	I seek financial advice before making major business decisions.	( )	( )	( )	( )	( )
4	Good financial decision-making has led to improved profitability in my business.	( )	( )	( )	( )	( )
5	My ability to make sound financial decisions has enhanced the sustainability of my enterprise.	( )	( )	( )	( )	( )

THANK YOU FOR YOUR TIME AND PARTICIPATION!