THE IMPACT OF FINANCIAL LITERACY ON THE PROFITABILITY OF MICRO AND SMALL ENTERPRISES OWNED BY UNIVERSITY STUDENTS IN KENYA: A CASE STUDY OF UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

BY

AHMED HAUWA IBRAHIM

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirements for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SPRING 2017
STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than United State International University- Africa in Nairobi for academic credit.

Signed: ___________________________ Date: ________________________________

Ahmed Hauwa Ibrahim (636371)

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ________________________________

Mr. Kepha Oyaro

Signed: ___________________________ Date: ________________________________

Dean, Chandaria School of Business
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ABSTRACT

The objective of the study was to investigate the impact of financial literacy on the profitability of micro and small enterprises owned by students of United States International University Africa. The study aimed at examining the effect of financial knowledge on the profitability of micro and small enterprises that are owned by the students of USIU-A, the effect of financial behavior on profitability of micro and small enterprises owned by the students of USIU-A and the effect of financial attitude on profitability of micro and small enterprises owned by the students of USIU-A.

The study adopted a descriptive research method for obtaining necessary primary data to give clear understanding of the research objectives. This research design helped in observing the effects of financial knowledge, financial behavior and financial attitude on the profitability of micro and small enterprises owned by students of USIU-A. The study involved samples drawn from students of USIU-Africa that own or manage micro or small enterprises. To achieve the objectives, a deductive approach was used, where primary data was gathered through issuing of a set of structured questionnaires to a sample population of 52 students that have their own businesses. Probability sampling was used to randomly select respondents to collect data.

A descriptive statistics and inferential statistics was employed for analyzing the impact of financial literacy on profitability of MSE’s. A Correlation analysis was used to find out the relationship between financial knowledge, financial behavior and financial attitude and profitability. Linear Regression analysis of variance, frequency distribution and cross tabulations was used to analyze the findings. These analyses were carried out using Statistical Package for the Social Sciences (IBM SPSS) statistical software and Microsoft excel and the report was presented using both frequency tables and graphs.

The study examined how financial knowledge affects the profitability of micro and small enterprises that are owned by students of USIU-A. The finding suggests that most of the respondents are financially knowledgeable as the greater percentage of them answered the financial knowledge questions drawn from the OECD questionnaire on Time value of money, diversification, risk and return and inflation correctly except for the most effective sources of finance for startup businesses. The study, however, reveals that financial knowledge is not significant in profitability of micro and small enterprises owned by the students.
The study assessed the effects of financial behavior on the profitability of micro and small enterprises owned by students of USIU-A and found that financial behavior slightly affect the profitability of such businesses. The study also found that majority of the business owners are uncertain on budgeting and planning, debt management, savings and some aspect of retirement planning like the knowledge of economic concepts needed for decisions, long term goals to expand the business and having alternative sources of income. However, they recorded low on record keeping and long-term financial decisions that influence retirement planning.

The study observed the effect of financial attitude of owners of micro and small enterprises and how it affects their profitability. It found that most the respondents have positive attitude when it comes to setting financial targets for the future. The study reveals that the business owners are neutral on aspects of time orientation being long-term and the influence of social environment on money management skills. The study also found that majority of the business owners do not believe in risk prevention as a way of ensuring security of their businesses and they do not have the attitude of attempting to acquire more financial skills through training programs. The study established that there is a meaningful relationship between profitability and financial attitude of micro and small enterprise owners.

The study concludes that financial knowledge does not necessarily translate into profits unless it is applied in decisions and other activities of the business. For example, the knowledge of time value of money does not mean ones’ profits will increase unless the business owner applies this knowledge on decisions in running the business. It also concludes that good financial behavior such as budgeting, debt management, savings, record keeping and retirement planning contributes to profitability of MSE’s. Also, positive attitude towards future, risk management, social influences and pursuit for acquisition of skills translates into profits for micro and small enterprises.

The study therefore, recommends financial education and training programs by the government along with other institutions, that will encourage application of financial knowledge on activities of business owners. These programs should also be able to motivate and encourage positive attitude toward future orientation and growth of the businesses. The study also recommends that the informal sector should be encouraged to keep records of their transactions to prevent losses and miscalculations.
ACKNOWLEDGEMENT

I thank Allah for giving me the knowledge, health, strength, and courage to undertake this research. I am particularly grateful to my supervisor, Mr. Kepha Oyaro, for his continuous support and guidance. Also, a big thanks to all my friends, and family members who gave me all the motivation I needed to complete this project. This project has also benefited greatly from numerous discussions and feedback sessions with friends and colleagues.
DEDICATION

I dedicate this research report to my loving family, my parents Dr. I. Gashash and Mrs. Zainab Tahir, my siblings, Adnan, Saliha, Aisha, Yusuf and Muhammad.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Micro and small enterprises (MSE’s) are facilitators for broad-based growth in competition, entrepreneurship and offer economy-wide benefits such as innovation and aggregate productivity growth (Tarfasa, Ferede, Kebede, & Behailu, 2016). A micro enterprise as defined by (Government of Kenya, 2012) is a firm, industry or business activity that has an annual turnover not more than five hundred thousand shillings, and employs less than ten people. The law of Kenya also defined small enterprise as a firm, industry or business activity whose annual turnover is between five hundred to five million shillings and employs ten to fifty people. Therefore, we can define Micro and small enterprises as firms, industry or businesses that has an annual turnover of less than five million shillings and employs less than fifty employees.

Micro, small and medium enterprises (MSMEs) contribute largely to output, employment in both developed and developing countries and contribute greatly to the revitalization of the global economy and of individual national economies (Paul, 2009). In the global economy today, the multinational firms are increasingly directing their efforts towards branding and marketing rather than production which results in extended supply chain reaching far into developing countries and providing new opportunities for small firms (Simeon & Lara, 2005). There are 420 to 510 million MSMEs worldwide as estimated by the International Finance corporation (IFC) and the McKinsey Global Institute (MGI) based on a 2010 study of 132 countries. They also found that only 9% are formal SMEs and 80 to 95% are emerging markets (Kushnir, Mirmulstein, & Ramalho, 2010).

Micro small and medium enterprises represent 90% of all businesses in the European union and are often referred to as the backbone of the European economy providing a potential source for jobs and economic growth. MSMEs generate two out of every three jobs and in 2013, over 21 million MSMEs provided almost 90 million jobs throughout EU (EUR_Lex, 2016). In the Caribbean, the Micro, Small and Medium Enterprises (MSME) sector is also a substantial contributor to economic and social development (Caribbean development bank, 2016).
The MSMEs account for more than 50% of regional enterprises, and over 50% of Gross Domestic Product. According to a study by the Caribbean development bank, despite the contributions of MSMEs in the Caribbean, there are a number of major constraints faced which includes inadequate access to financial resources for investment and working capital; gaps in training in business skills; high cost of infrastructure services; inadequate physical infrastructure support; low levels of technology usage to improve productivity and; and lack of competitiveness.

In many African countries, Micro and Small enterprises MSE’s employment are almost twice the level of total employment in registered large-scale enterprises confirming that micro and small enterprises are a major source of livelihood for a large proportion of the population (Tarfasa et al., 2016). MSE’s therefore are critical in kick starting broad-based growth, private sector led growth and employment creation especially for developing countries that aspire to have sustainable growth. In south Africa, the government introduced a new ministry of Small Business Development in 2014 so as to recognize the importance of MSE’s in the economy (Bureau for economic research, 2016). The ministry was introduced with the aim of facilitating the promotion and development of small businesses and in turn significantly contribute to national GDP and job creation.

As reported by (Adan and Dulacha, 2017), in 1999, a national baseline survey of MSE’s carried out by central bureau of statistics in Kenya showed there were 1.3 million MSE’s employing 2.4 million people and accounting for 18.4% of the national gross domestic product. They further noted that recent statistics by the Kenyan national bureau of statistics show that MSE’s within formal sector account for 75% and 42% of establishments and employment, respectively. However, it is worth noting that the formal sector only reflects a partial portion of the MSE’s as a large number of them operate informally. The Kenya Vision 2030 further stresses the efforts targeted at growth of MSE’s through skills development, access to financial services and development of MSE parks among others (“Kenya Vision 2030,” 2007). The government of Kenya has also enacted an MSE legislation aimed to encourage the growth of the industry through providing an enabling business environment; facilitating access to business development services by micro and small enterprises; facilitating formalization and upgrading of informal micro and small enterprises; promoting an entrepreneurial culture; and promote
representative associations (National council for law, 2012). Participants in the MSE industry may require a little bit of financial skills and knowledge to prevent making wrong decisions that harm both individuals and societies. These skills are often referred to as financial literacy.

Financial literacy is the mastery of a set of knowledge, attitudes and behaviors. It was defined by (Nkundabanyanga & Kasozi, 2014), as the ability of an individual to make informed judgement and take effective decisions regarding the use and management of money. They added that such person also possesses a facilitating attitude to the effective and responsible management of financial affairs. That is the ability to read, analyses, manage and communicate personal financial conditions that affect well-being and the ability to distinguish financial choices, discuss money and financial issues without discomfort. It has assumed the role in allowing people to make responsible decisions as they strive to attain financial wellbeing (Ani, Kelmara, & Wesley, 2016).

Financial literacy has become essential in the running of businesses and operations of organizations in the complex and dynamic environment today. Atkinson and Messy (2012), added that governments around the world are interested in finding effective approaches of improving financial literacy of their populations through developing strategies for financial education with the main aim of providing various learning opportunities. Financial education as defined by (Ani et al., 2016), is a process of developing abilities of people to facilitate making decisions that are correct and to manage finances successfully. Therefore, it is right to conclude that financial education is knowledge which is among other factors involved in financial literacy.

Many countries have developed strategies for the implementation of financial education to improve financial literacy of their population as it is perceived as a life skill necessary for intelligent financial conduct in modern life and an important basis for the economic and financial stability of society and the state (Tali, 2016). The Standard & Poor’s Ratings Services Global Financial Literacy Survey (S&P Global Fin Lit Survey) conducted a survey across a wide array of countries. They found that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts. They added that the countries with the highest financial literacy rates are Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the United Kingdom, where about 65 percent or
more of adults are financially literate (Leora, Lusardi, & Peter, 2015). It builds on the earlier initiatives by the International Network on Financial Education (INFE) of the Organization for Economic Co-operation and Development (OECD), the World Bank’s Financial Capability and Household Surveys, the Financial Literacy around the World (FLAT World) project, and other national survey initiatives that collect information on financial literacy.

Financial literacy has got an increasing interest in developed countries because of the increasing complexity of financial markets, increasing cost of life, the shift of retirement responsibility from government to individuals, which all demand personal financial management capability in individual and households (Refera, Dhaliwal, & Kaur, 2016). They added that studies revealed recent modest recognition of financial literacy in developing countries, which showed promising outcomes of financial education and other interventions that are being implemented. However, there is no much information about financial literacy level and financial education programs in least developing countries in Africa. According to (Xu & Zia, 2012) on their paper, review of financial literacy across the globe, the survey results in sub-Saharan Africa indicated that, a large proportion of population in some countries like Mozambique, Malawi, and Nigeria lack awareness of basic financial products and concepts such as saving accounts, interest on savings, insurance, and loans. These shows that the low level of financial literacy is correlated with low level of financial inclusion in Africa.

In Kenya, there is a correlation between use of financial services and exposure to financial information (Xu & Zia, 2012). The most common source of financial information is through radio, word of mouth from friends and family members, and the urban youth have greater access to television and other media. Despite successive policy interventions, micro and small enterprises in Kenya face challenges that limit their growth and diminish their contribution to sustainable development. According to Lusimbo and Muturi, (2016) the small enterprise sector in Kenya shows a distinct dual structure, at one extreme there exist a few large modern capital intensive enterprises, while at the other extreme there are small micro enterprises that are informal, use very simple and traditional technologies and serve a limited local market.
The profitability of a company shows the ability of the company to generate earnings for a certain period at a rate of sales, assets and certain of capital stock (Margaretha & Supartika, 2016). Knowing that factors that determine the profitability is key to helping managers in developing effective strategies that will lead to the profitability of their firm. Profitability is attained through various practices such as effective corporate governance; marketing strategies that create quality products, position products at the top -of- mind of consumers, and build customer loyalty; research and development; and financial management and accounting practices that build advantage. Financial management being a major area and opportunity is an art and science of managing money through planning, organizing, lending and controlling financial activities to achieve organization goals.

Many researchers have attempted to investigate the factors that bring about profitability for medium-sized and large firms, however to the best of my research, only a few researchers have investigated the profitability determinants of MSE firms. In small firms, ownership and control of capital are typically in the hands of one key decision maker who exerts powerful influence on the way the firm pursues its objectives (Glancey, 2006). The owner by their superior decision making abilities can create firms with the potential to generate high levels of profits and growth. Therefore, it is important for the owner or manager of an MSE to be financially literate to be able to make certain decisions that will lead to profitability of the firm. Other factors that determine profitability of micro and small enterprises as studied by (Margaretha & Supartika, 2016) include the firm size, growth of sales, lagged profits, productivities, asset turnover and firm’s age.

A survey by the Kenyan Bureau of statistics showed that MSE’s in Kenya within formal sector account for 75 and 42 percent of establishments and employment, respectively. However, it is imperative to note that many MSE’s operate informally and formal sector statistics therefore reflect only a partial picture. Despite successive policy interventions, MSE’s in Kenya demonstrate limited growth and competitiveness. Therefore, the researcher is motivated to investigate how financial literacy in terms of the impacts of financial knowledge, financial behavior and financial attitude on the profitability of students owned micro and small enterprises. The study focused on MSE’s that are owned and managed by students of United states international university Africa (USIU-A).
1.2 Problem Statement

The growing recognition of the importance of Micro and small enterprises (MSE’s) in developing countries is not by choice but out of necessity in order to add value to the economies by creating jobs, enhancing income, strengthening purchasing power among others. The government of Kenya has recognized the importance of MSE’s in employment generation and poverty eradication in the country. This led to the development and promotion of policies that are there to support the growth of the sector like the Kenya Vision 2030 that further rejuvenated policy efforts targeted at growth of MSE’s through skills development and access to financial services.

The government has enacted an MSE legislation that among other interventions aims to promote growth of MSE’s through enabling business environment, access to business development services, and establishment of an authority to formulate, review and monitor relevant policies (Government of Kenya, 2012). It is therefore, an avenue for incubating enterprises, catalyzing innovation, and promoting industry, creating employment, and growing the economy. Despite successive policy interventions and financial education programs, MSE’s sector in Kenya in addition to improved access to finance demonstrate limited growth and competitiveness (Micro and Small Enterprises Authority, 2013).

Studies have been conducted on the importance of financial literacy on performance in terms of profitability and growth of MSE’s and have shown that lack of financial literacy level among people around the world has cause business failures and even considered as one of the factors that contributed to the worldwide economic crisis of 2008/9 (Niwaha, Schmidt, & Tumuramye, 2016). A study on the role of financial literacy on the profitability of women owned enterprises in Kenya suggested that budgeting, cash management, savings and record keeping are significant in the profitability of women owned businesses (Kalekye & Memba, 2015). It emphasized the importance of financial training in enhancing capabilities and day to day running of businesses. Another study by (Lusimbo & Muturi, 2016) that focused on the importance of financial literacy on small enterprises growth found that although MSE managers had fair knowledge of debt management literacy, majority do not understand the effect of inflation and interest rates on loans they borrow in terms of matching assets and liability. They added that the managers exhibit low book keeping literacy and in turn recorded minimal or no growth.
Other researchers argued that the success of a small enterprise does not depend on financial literacy of the managers. For example a study by (Plakalovi, 2015) focused on financial literacy among SMEs managers and found that the interviewed managers have disappointingly low level of basic financial knowledge and only a few managers use the proper ratios and ratio analysis. He added that they are not aware of the intangible values of their companies and they manage liquidity of the firms on spontaneous way. Plakalovi concluded that financial knowledge is not a prerequisite for the success of SMEs.

Many researches conducted on financial literacy focused on personal finance and fail to relate it to business management. They tend to look at factors like book keeping literacy, banking services literacy and ratio analysis on personal and household finance. Unlike that previous researches that focused on a few components of financial behavior of managers, this study focused on various components of financial knowledge, financial behavior and financial attitude and how they affect profitability of MSE’s.

1.3 General Objective

The general objective of the study was to investigate the impact of financial literacy in terms of how financial knowledge, financial behavior and financial attitude affect the profitability of students owned Micro and Small Enterprises (MSE’s) in Kenya.

1.4 Specific Objectives

The objectives of the study were to:

1.4.1 Investigate the effect of financial knowledge on the profitability of Micro and Small enterprises owned by students in Kenya.

1.4.2 Investigate the effect of financial behavior on the profitability of Micro and Small enterprises owned by students in Kenya

1.4.3 Investigate the effect of financial attitude on profitability of micro and Small enterprises owned by students in Kenya.
1.5 Significance of the study

The findings of this research study are anticipated to be of benefit to the following entities among others;

1.5.1 Researchers and Academicians

This study will be an important addition to the existing repository of knowledge and hence will be of interest of both researchers and academicians who seek to explore or investigate the importance of financial literacy among other factors on the profitability of micro and small enterprises in Kenya or any other country.

1.5.2 The Government and Financial regulators

It is an objective of every government to promote innovations of all kinds in a country and Micro and Small enterprises being of economic benefits cannot be ignored. In addition to the perceived economic benefits, MSE development has long been viewed by policymakers to increase incomes of the poor. The results of this research will provide information on possible ways the government can tackle the issue of financial illiteracy among business owners and possible ways of promoting financial education among the entrepreneurs and small business owners which will in turn promote the profitability of the MSE’s. Also, it will help the government and financial regulators on incorporating these MSE’s in their policies on areas like having access to credits and other financial benefits which will eventually provide greater opportunities for the participants in that industry and the poor.

1.5.3 Investors and Financial Institutions

This study will be useful to investors because it will highlight the benefits that will be derived by their firms from acquisition of financial literacy. These benefits will include proper financial management skills that will lead to profitability of their firms. Also, for investors who are assisted by others, it will emphasis the importance of financial literacy so they can be able to understand financial reports of the firm, how assets are allocated, what ratio of debt to equity to be used and how to derive further profits. For financial institutions, it will help them asses the credibility of an MSE by the financial knowledge of the owners.
1.6 Scope of the Study

The study covered the Micro and Small enterprises in Nairobi that are owned or controlled by students of United states international university Africa (USIU-A). The sample size was drawn from estimates of MSE’s formal and informal. The research process was conducted over a period of three months from February 2017 to April 2017.

1.7 Definition of Terms

1.7.1 Financial literacy

The (OECD, 2011) defined financial literacy as a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. That is, it is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being.

1.7.2 Micro and Small Enterprise

A micro and small enterprise (MSE) is defined by (Government of Kenya, 2012) as firms, industries or business activities that has an annual turnover not more than five million shillings and employs less than fifty people.

1.7.3 Profitability

The word profitability is composed of two words, namely, profit and ability (Dr. Monica Tulsian, 2014). The term profit is a measure of receipts less cost and the term ability indicates the power of a business entity to earn profits. The ability of a concern also denotes its earning power or operating performance. Therefore, profitability may be defined as the ability of a given investment to earn a return from its use.

1.7.4 Financial Knowledge

Financial knowledge is wisdom acquired through learning the ability to manage income, expenditure and savings in a safe way (Annamaria Lusardi & Mitchell, 2008). Financial knowledge is associated with a number of “best practice” financial behaviors, including possessing an adequate emergency fund, monitoring credit reports, avoiding checking account
overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection (Robb, 2014).

1.7.5 Financial Behavior

Financial behavior as defined by (Zeynep, 2015), is the capability to capture of understanding overall impacts of financial decisions on one’s circumstances and to make the right decisions related to the cash management, precautions and opportunities for budget planning.

1.7.6 Financial Attitude

Financial attitude can be defined as the application of financial principles to create and maintain value through decision making and proper resource management (Latif, Razak, & Lumpur, 2011).

1.8 Chapter summary

This chapter provided an introduction of the research project giving the background as well as the statement of the problem. Thereafter, the chapter highlighted the purpose of the study, the research questions that will guide the study and the importance of the study to various institutions and bodies.

Chapter two presented a literature review where the research questions were explored. The literature review described recent studies that have been carried out in the area of research. Chapter three presented the research methodology in terms of how data was collected and analyzed in order to answer the research questions. Chapter four and five presented the results and findings of the research and discussion, conclusions and recommendations drawn from the findings respectively.
2.0 LITERATURE REVIEW

2.1 Introduction

Financial literacy gives an individual or business owner the ability to make informed and effective decisions regarding management of money through understanding and application of financial concepts. Due to the importance of financial literacy on financial stability and profitability of individuals and businesses respectively, it has attracted increasing attention by various governments and researchers. The aim of this chapter therefore is to present a review of existing literature on the importance of financial literacy on the profitability of Micro and small enterprises. It will focus on the impacts of financial knowledge, financial behavior and financial attitude on the profitability of Micro and small enterprises.

2.2 Effects of Financial Knowledge on Profitability of MSE’s

2.2.1 Financial Knowledge

Financial knowledge is defined as the understanding of key financial terms and concepts needed to function daily (Huston, 2017). It was defined by (Potrich, Kelmara, & Wesley, 2016) as a particular kind of capital acquired in life through the ability to manage income, expenditure and savings in a safe way. The Organization Of Economic Co-Operation And Development (OECD), added that financial knowledge is an important determinant of whether the individual is financially literate, involving questions related to concepts such as simple and compound interest, risk and return and inflation (OECD INFE, 2011).

It is an important constituent in the making of financial decisions for individuals and businesses. It is a generally held argument that improved financial knowledge is said to result in more responsible financial behavior and hence effective financial decisions. (Tang, Baker, & Peter, 2015). Empirical evidence has shown that a higher level of knowledge is positively related to individuals engaging in a number of “best practice” financial behaviors, such as possessing an adequate emergency fund, monitoring credit reports, avoiding checking account overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection. (Robb, 2014)
A common solution to lack of financial knowledge is the prescription of financial education with the general assumption that improved knowledge will result in more effective financial decision-making (Robb & Woodyard, 2011). Policymakers, the financial service industry and educators have promoted numerous initiatives to combat low levels of financial knowledge through promoting financial education programs (Tang & Peter, 2015). Financial education is a process of improving comprehension regarding financial products and associated concepts and risks by individuals in such a way that the individuals can develop the abilities and the confidence necessary to make secure and fundamental decisions to improve their financial wellbeing (OECD, 2013). It is a preventive measure, as it allows the individual to understand financial problems and manage personal finances in a satisfactory way, thereby avoiding indebtedness (Potrich et al., 2016). It is therefore important for MSE managers to develop these abilities that facilitates correct decisions and to manage their businesses’ finances successfully.

2.2.2 Determinants of Financial Knowledge

2.2.2.1 Sources of Finance

Raising funds to finance activities of the firm is an important aspect of every business that cannot be ignored. According to (Charan & Kishinchand, 2016), in their working paper, finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. They highlighted the main sources of finance for MSMEs which includes bank loans, loans from nonbanking institutions, venture capital, microfinance institutions, loans from family, relatives, and friends, equity finance, and own funds. Various researchers in the past have tried to investigate the importance of the sources of finance used to fund business enterprises. In the early 1970s, there was a debate as to whether distinct types of finance give rise to different rates of return for firms. An empirical study found that externally raised finance was associated with higher return as compared to internally raised finance (Keasey & Paul, 1990).

The efficiency of the process of capital formation has always been a topic for debate because different businesses have different finance requirements and sources that works best for them. This calls for financial knowledge regarding the relative importance of different sources of finance that is critically important for the decision makers (Muhammad & Ejaz, 2010).
The Pecking Order Theory by Myers (1984: 578) suggests that firms prefer to use internal sources of capital at their early stages and will use external sources only if internal sources are inadequate (Densil, 2010). The theory suggests that as firms become larger and older, they will have greater access to external sources of capital.

A challenge faced by MSE’s that stresses the importance of financial knowledge among others is the dominance of the informal sector. (Charan & Kishinchand, 2016), highlighted that the dominance of the informal sector in addressing the financial requirements of MSMEs is due to the inherent limitations of formal sources of finance which has requirement for collateral or a guarantee, inflexible policies, high rates of lending, complicated procedures, and entrepreneurs’ lack of financial knowledge of applicable schemes. The study further concluded that many enterprises in the start-up stage may not be able to provide collateral for a loan and they lack knowledge about available schemes, which may hinder them from choosing the most effective option for financial assistance (Charan & Kishinchand, 2016). It is therefore, important for managers of MSE’s to have adequate knowledge on what source of finance will be more effective for their business and when to go for external sources.

2.2.2.2 Time Value of Money

The knowledge and acknowledgement of the time value of money is extremely important in financial decision making (Eugene & Michael, 2011). They highlighted that most financial decisions such as the purchase of assets or procurement of funds, affect the firm’s cash flows in different time periods. For example, purchase of a fixed asset requires immediate cash outlay and in-turn will generate cash flows at future periods. Similarly, if a firm borrows funds from a bank or other sources, it receives cash and commits an obligation to pay interest and repay principal at future periods. Time value of money is therefore, a central concept of finance as it represents the foundation for many fundamental topics such as capital budgeting, bond and stock valuations among others. It recognizes that the value of money is different at different points in time (Martinez, 2013). Martinez, who proposed an integrated method to help identify the time value of money, added that if the timing and risk of cashflows are not monitored, the decisions of the firm may contradict the objective of maximizing owner’s welfare. His research emphasis the importance of managers having the ability to determine the time value of money among other variables that affect their cash inflows and cash outflows.
The reasons for the change in the value of money over time is due to factors such as, risk and uncertainties of the future; the purchasing power of money in the future also known as inflation; the preference for current consumption to future consumption by individuals; and investment opportunities where an investor can profitably employ money received today, to give him a higher value in the future (Eugene & Michael, 2011a). The knowledge of time value of money is therefore important for MSE managers to be able to account for transactions such as the matching of assets (receivables) and liabilities (payables) and estimating future returns.

2.2.2.3 Diversification

The profitability within and across an enterprise largely depends on the degree of products diversification according to a research by (Nils & Joachim, 2011). They found that the profitability of manufacturing firms with diversified products are more than four times the single-product manufacturing firms. Several other authors have related financial literacy with portfolio diversification and how it affects profitability of an enterprise in terms of asset allocation. According to (Amari & Anis, 2015), financially literate investors should have diversified portfolio irrespective of their risk aversion. This further stress the common finance saying “Do not put all your eggs in one basket”. While diversification comes with many extra costs and requires extra skills, profits of a firm are maximized through diversification as it reduces the firms’ vulnerability to market fluctuations (Ejaz, Tariq, & Musleh, 2012). MSE managers should have the required knowledge on diversification strategies such as market diversification, product diversification and even having multiple stream of income through other investment activities to maximize their profits.

2.2.2.4 Risk and Return

The risk and return relationship is important in every financial or non-financial decisions that are made in an organization as it gives an investor or business manager ideas on how much an investment is going to make (returns) and the possibility of losing cash. Return was defined by (Tarasi, Bolton, Hutt, & Walker, 2011) as the change in worth of an investment which includes capital appreciation plus the cash yield. They defined risk which is also known as uncertainty as the difference between actual the expected returns and actual returns of an investment.
Eugene and Michael, (2011b) defined return as the total gain or loss experienced on an investment over a given period and risk as the variability of returns associated with a given asset.

The knowledge of uncertainties or risks associated with an investment is important because it helps to investor or business owner to make certain changes in behavior or activities of the business to prevent uncertainties (Maranjian, 2013). However, it is commonly stated in finance that the more risk you take, the greater your possible returns (Sullivan, 2012). The more financially informed managers of MSE’s are, the more rationally they will be able to assess risk and returns in their decision-making processes such that they are able to understand the effects of riskier projects on the firms net income and being able to evaluate and translate data from finance personnel into decisions that are profitable to their business.

2.2.2.5 Inflation

The knowledge of inflation is important to MSE managers because it affects financial decisions of the business such as taking debts, opening savings account and bargaining over wage (Burke & Manz, 2014). According to (Dutta, 2008), inflation arises when money supply is greater than available goods and services. Dutta argued that some businesses are affected by inflation positively considering businessmen raise prices of products when there is a certain level of inflation and in turn it leads to greater profits.

An empirical evidence by (Burke & Manz, 2014) showed the relationship between financial literacy and inflation. They found that a measure of financial literacy is associated with heterogeneity in inflation expectations. Small businesses exercise less control over the markets and a rise in inflation and a small increase could affect their capital expenditure and increase their cost of production such that some MSE’s may not even survive. It affects their demand and input costs and rates at which credits are made available to them to mention a few. The knowledge of the effects of the risks of unanticipated changes in purchasing power of cashflows cannot be ignored by MSE managers (Andonov, Bardong, & Lehnert, 2010).
2.2.3 Financial Knowledge and Profitability of MSE’s

Financial knowledge is a very critical aspect of any decision making regardless of the subject matter, as it is argued to result in a more effective decision (Robb, 2014). It impacts key outcomes including borrowing, savings, investment and even future plans in terms of retirement income (Lusardi & Mitchell, 2014). In 2006, Lusardi and Michell proposed that financial literacy is needed to create a measure of financial competence in terms of participation in financial market and ability to manage financial matters. A few researchers have attempted to show the relationship between financial knowledge and growth in terms of profitability and size of businesses.

Lusardi and Mitchell have conducted various surveys on financial literacy and have come up with set of questions that are commonly used to measure financial knowledge. They performed an examination on the impacts of financial literacy on economic decision making in the United states and elsewhere. From their study, we can conclude that less financial savvy businesses incur high transaction costs and pay higher fee and financial knowledge is an investment in human capital that promotes wealth accumulation (Lusardi & Mitchell, 2014). Another research by (Clark, Lusardi, & Mitchell, 2014) on investment performance and financial knowledge using a unique and new set of data found that financially knowledgeable employees have more volatile and diversified portfolios. They recommended that efforts to enhance financial knowledge should be exerted as it help people invest more profitably. Guliman, (2015) evaluated financial literacy of MSE owners with focus on financial knowledge and skills and found that most owners of these enterprises have low financial knowledge on taxation, time value of money and investing in securities. In their paper on financial literacy and high cost borrowing, (Lusardi & Bassa, 2013) found that lack of financial concepts affects performance level in a business.

Financial knowledge, despite being important in the financial performance of both individuals and businesses is argued by various researchers to be insufficient in contributing to performance. Tang et al., (2015) researched other variables that could contribute to responsible financial behavior and they concluded that responsible financial behavior is not just attained from financial knowledge but also parental influence and self-discipline otherwise known as psychological characteristics. The result on the study by (Monticone, 2010) on how much wealth
matters on acquisition of financial knowledge showed that there is a positive but small relationship between wealth and financial knowledge.

2.3 Effects of financial behaviour on profitability of MSE’s

2.3.1 Financial Behaviour

Research has shown that financial literacy consistently predicts measures of financial behavior of individuals (Hung, Parker, & Yoong, 2009). Some findings like that of (Potrich et al., 2016) who came up with various models that could be used to measure financial literacy indicated that financial knowledge and financial attitude have positive impacts on financial behavior. Sucuahi (2013), highlighted that a good financial behavior involves the ability to make financial decisions that increase wealth and prevent uncertainties of businesses and individuals. These activities generate more financial assets, prevent over-indebtedness, finance retirement, and insure against major life contingencies. Good financial behavior is argued by (Grohmann, Menkhoff, & Storck, 2015) to be the ability to diversify assets across multiple types of investment as different investment types are affected by its own specific risk profile.

2.3.2 Determinants of financial Behaviour

2.3.2.1 Budgeting and planning

A budget is an important aspect of business planning. It is defined as a master financial document that states the expected contribution from the activities of an organization in terms of expected cash or revenues and expenditures over a certain period of time (Heinle, Ross, & Saouma, 2014). Organizations prepare budgets for the process of planning to allocate resources that are limited human, physical, and financial resources. Budgets often use historical data to be formulated and as the firm grows, the accuracy of its budget becomes almost perfect because of the many historical data to draw from (Jim, 2014). Although a budget may not be 100 percent accurate, budgeting aid to better management of an enterprise and helps to achieve higher profits and minimize losses.

Budgeting is a contributing factor to the success of a business’s operations, however, most small business owners focus more on cashflows instead (Sucuahi, 2013). Sucuahi found that managers of Micro enterprises used budgeting for monitoring performance but they were not able to
prepare these budgets on a regular basis. Most scholars argue that financial planning should not be integrated into the equation of financial literacy. Like (David, 2010), who pointed that financial literacy only involves understanding about investing and financial planning rather than the actual planning process. He added that an alternative view of incorporating planning in the financial literacy equation is by looking at it as a long-term financial management decision making process. Kalekye & Memba, (2015) in their research on the role of financial literacy on profitability of women owned business found that although budgeting is very important in increasing profits and minimizing losses of business enterprises, women were not consistent in financial planning.

2.3.2.2 Debt management

Debt management is the ability to perform activities of a business within a budget. A plan is usually created to help people manage their debts especially those with too much debt, often referred to as debt management plan (Bankrate.com, 2010). Suchuahi, (2013) emphasized that debt management skill is a necessary financial literacy measure that gives the ability to obtain capital at a minimum cost. Researches have shown that most Micro and Small entrepreneurs are not financially literate when it comes to the aspect of obtaining finance for their business (Assibey, 2010). However, the findings of Suchuahi suggested that micro entrepreneurs are very much aware of the consequences and penalties that comes with poor debt management. One of the challenges of micro and small entrepreneurs encounter in debt management is the inability to perform accurate calculations and lack the level of numeracy skills especially for the elderly, female and less educated population (Plakalovi, 2015). He highlighted in his 2011 publication that the less financially literate are not able to properly estimate their debt burden and they borrow at inflated costs, therefore, they end up with excessive borrowing and many non-performing loans. Acquiring debt management skills is henceforth very important for MSE managers for greater performance.

2.3.2.3 Saving

Saving behavior is said to be a very significant component of financial literacy, security and reduction of credit reliance (Adele Atkinson & Messy, 2012). It pays attention to the saving habit of people. Saving was defined by (Suchuahi, 2013) as an economic security and accumulation of wealth for enhanced living standard. It involves putting aside some part of
income for use in the future. It was found by (Kalekye & Memba, 2015), that most women involve in informal type of saving that accumulated no interest. Also, they highlighted low income earners like to save their surplus money rather than use it for investments purpose. A study on the financial behavior of rural residents in Latin America’s findings show that most people use their surpluses for investment rather than in financial form (Jacqueline, 2012). The argument behind their strategy was that having “nonworking” funds is a poor money management strategy and those rural residents with static savings only keep it for emergencies. Saving is a necessary skill for micro entrepreneurs that want to advance their business skills. (Behrman, Mitchell, Soo, & Bravo, 2012), cited that individuals are said to be financially illiterate if they are unable to save. However, it was argued by (Mandell & Klein, 2009) that financial literacy does not necessarily mean one is savings-oriented and does not give better financial behavior.

2.2.2.4 Record keeping

Record keeping also known as book keeping is an important accounting process that involves recording of all business transactions for sustaining and expanding a business. These includes the process of collecting, organizing, storing and analyzing the financial information of an entity to facilitate its day to day operations and preparations of statements, tax returns and internal reports. Enterprises require records to be used by managers as guides for routine action, decision making, formulation of policies and maintaining relationships with stakeholders (Lusimbo & Muturi, 2016). According to (Sucuahi, 2013), it is an important skill for business owners because it provides vital information for decision-making. He added that it is a measure of financial literacy because not all summaries of daily transactions cannot be recorded in the human memory. Sucuahi’s research showed that most small business owners use notebooks to record transactions rather than journals and ledgers. (Kalekye & Memba, 2015) found that most small business owners did not summarize records and they keep records in an informal manner. The findings of (Lusimbo & Muturi, 2016) revealed that most MSE managers are not practicing bookkeeping in their business because of lack of appropriate skills and knowledge of how it is done. Research has shown that most MSE owners recruit unskilled personner for clerical and accounting management and in turn they are not able to keep reliable accounting records, hence inability to determine profits or loss of the firm (Everlyn, 2016).
2.3.2.5 Retirement plan

In financial literacy and rule of thumb, (Drexler, Fischer, & Schoar, 2014) highlighted that lack of financial literacy leads to poor financial decision making especially in regards to retirement savings. Financially literate people do better job planning and saving for retirement through diversifying risk across several ventures (Leora et al., 2015). The findings of (Drexler et al., 2014) revealed that financial literacy in the US population’s micro-entrepreneurs is less and inability to understand basic financial concept has led to in ability to make good judgement with regards to retirement saving. There is still the question of consequences of financial illiteracy on retirement planning and how most households arrive close to retirement with little or no wealth. The findings of (Lusardi & Mitchell, 2007) revealed that financial illiteracy has stunt peoples’ ability to save and invest for retirement, undermining their well-being in old age. Retirement planning literacy has a positive effect on wealth (Grohmann et al., 2015). It is therefore important for micro and small entrepreneurs to have their future retirement plan at heart as they conduct their business activities.

2.3.3 Financial behaviour and profitability of MSE’s

The profitability of micro and small enterprises highly depends on the financial decisions that are made by the owners ranging from financing to working capital management and saving decisions. Given that Micro and small enterprises have significant impact on economic activity of most countries, a low financial skill or poor financial behavior might have an adverse effect in the future of the business (Sucuahi, 2013). Good financial behavior leads to competitiveness in a globalized economy and financial illiteracy would lead to shut down of the business. It has been argued that a good financial foundation of the business owners is a significant barometer of the success and growth of the enterprises in the competitive environment (Lusardi & Mitchell, 2007). Financial behavior having to involve adequate use of financial resources determines whether the firm will survive or not because it involves decisions that lead to profit maximization, sales maximization, capturing a greater market share and wealth maximization (Abiodun, 2016). Studies have shown that financial literacy is positively related to financial behaviors such as cashflow management, debt management, savings and investment practices that maximizes benefits for micro and small enterprises (Grohmann et al., 2015).
2.4 Effects of Financial Attitude on Profitability of MSE’s

2.4.1 Financial attitude

Financial attitude is one of the factors that have significant impact on financial management practice. It was defined by (Eagly & Chaiken, 1993) as “psychological tendency that is expressed by valuating a particular entity with some degree of favor or disfavor”. That is, it a psychological predisposition when it comes to agreeing or disagreeing with certain financial management practices. (Latif et al., 2011) defined financial attitude as the creation of value in decision making and resource management through application of financial principles. Financial attitude is improved through procurement of adequate information (Abiodun, 2016). Research has shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation to mention a few. Aboidun observed that financial attitude of SMEs managers influence their access to finance and expansion of capital among other business activities. He added that successful people are financially literate such that they had long-term savings and investments that are future oriented.

2.4.2 Determinants of Financial Attitude

2.4.2.1 Risk taking

Risk and uncertainty play a role in almost every important economic decision in a business (Dohmen et al., 2011). Understanding individual attitudes towards risk is therefore, intimately linked to the goal of understanding and predicting economic behavior. The financial attitude of business people is related to how they commit resources to projects that are of elevated risk with the expectations of bigger returns. It has been argued that most successful entrepreneurs are risk-takers (Abiodun, 2016). (Thompson & David, 2010), classified risk attitudes into four; pragmatists with a belief that the world is uncertain; conservators who take high risks; maximizers who see the world as self-correcting and managers who are moderately risky.

Jing, Alhabeeb, Gong-Soog, & George (2001), did a study that examined the risk-taking behavior among family business owners. They found that risky decisions made by these businesses have significant impact on consumption of the families and other stakeholders of the business. Also, their findings suggested that family business owners are risk tolerant and age, race, net worth and number of employees affect risk-taking attitudes of managers.
Many researchers have tried to find the factors that determine the willingness or ability of individuals to make risky decisions. Like (Dohmen et al., 2011), whose finding suggest that the gender, height and parental background have an economic impact of the willingness to take risk.

2.4.2.2 Long term versus short term

Business owners develop plans to reach their objectives usually by separating them into different timeframes such as; short term planning which looks at the present situation of the company and develop strategies for improving them; and long term planning usually to solve problems permanently (Markgraf, n.d.). Many business casualties are caused by companies being short term oriented, offering excellent short-term earnings growth with little or no growth in the long-term value (Shah, 2010).

Financial illiteracy has been a motivation for the creation of financial education programs that aim at increasing financial literacy. This has motivated researchers to estimate the effectiveness of such programs on the financial attitude or behavior of individuals. It is arguable that financial education program has greater effect on long-term financial attitude of individuals rather than short-term. Findings suggest that orientation towards the future promotes financial decision making and performance of individuals and businesses (Elizabeth, Jermy, & Kemp, 2008). If people prefer to priorities short-term wants over long-term security, they are unlikely to make emergency savings that will serve for their long-term financial plans and growth (Atkinson & Messy, 2012). MSE managers should therefore, have positive attitude towards future security as well as present wants rather than focusing just on the short-term.

2.4.2.3 Social factors

The social environment of individuals and business owners have a profound influence on their level of financial literacy. A study by (Lachance, 2014) that examined effects of neighborhood characteristics on financial literacy found that social learning is a mechanism of acquisition of financial knowledge. Researchers argued that the social environment has a profound influence on the financial attitude of a person. For example, reports by (Calamato, 2010) showed that the family influences individuals financial decisions including the ability to make financial choices, money management, understanding of financial issues, and planning for the future.
The social environment of a business owner or manager may involve parents and peers. A research was conducted by (Tali, 2016), on financial literacy on children with the aim of examining the role of involvement in saving money (ISM) to better understand children’s saving behavior and allow a deeper understanding of financial literacy processes among children. The findings suggested that children with a high level of ISM expressed more positive attitudes toward saving, as well as more positive behavior with regard to savings. These attitudes were influenced by parental and peer attitudes toward saving money and the child’s access to money. The research showed that the attitude of one’s parents and peers and access to finance will influence the financial attitude of that individual.

Lachance (2014), conducted a research on financial literacy and neighborhood effects. The results of the research showed that a zip code’s education level has a significant impact on financial literacy. Lachance added that social learning is a mechanism of financial knowledge acquisition, with neighborhood education serving as a proxy for the level of financial knowledge of one’s social network. The researcher also found other social factors like getting advice from financial professionals, receiving financial education and living in a zip code with greater employment in the financial industry as major influencers of financial attitude of individuals. Therefore, we can say that the financial attitude of MSE owners may differ because of the environment in which they live and the financial background of people around them may influence their decisions. Bucher-Koenen and Lusardi (2011) propose that “those exposed to financially knowledgeable people become more financially knowledgeable themselves.”

### 2.4.2.4 Training

Preparation staff through training programs for financial literacy is an essential element of any promotional effort (National financial educators council). Studies have shown the significance of money management skills in promoting their ability to save, invest, stay out of debt and have more money saved for retirement. Like the research by (Carlin & Robinson, 2010) that explored how financial education changes savings, investment, and consumer behavior and found that people that went through training were somewhat better at making current-cost and current-benefit tradeoff decisions as compared to those that did not. The consequences of not having financial literacy training for MSE managers might affect their performance and even profits. Everlyn, (2016) who conducted a study on micro and small enterprises in Kakamega county of
Kenya found that a small percentage of MSE owners in that area attended training on financial literacy due to lack of awareness on training programs.

2.4.3 Financial attitude and profitability of MSE’s

Financial attitude such as the risk averseness, time orientation, social environmental factors and training may add value to the profitability of a business. In the case of risk taking, there is a common finance saying that “the higher the risk, the higher the returns”, this means a business owner that can take more risk will reap greater returns or profits. Time orientation has been a very important determinant of investment decisions. An investor with long-term orientation tend to invest more on assets that will yield benefits in the long run rather than just profits for the brief period. The social environment of a business owner also plays a role in the profitability of the business based on how favorable the environment is, and what influence the environment has on the attitude of the business owner or manager. The willingness to learn more on how to manage finances is also of benefit to business owners because it will allow for the application of learnt financial concepts into practice.

Financial attitude of business owners is improved through procurement of adequate information (Abiodun, 2016). Research has shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation to mention a few. Aboidun observed that financial attitude of SMEs managers influences their access to finance and expansion of capital among other business activities. He added that successful people are financially literate such that they had long-term savings and investments that are future oriented.

Economists have become interested in studying financial literacy and the effects of financial attitudes. (Wagner, 2015) highlighted that better financial decisions are made when the decision maker is informed and hence a positive long-term effect in consumption and in profitability for consumers and managers respectively. Financial attitude of business managers plays significant role in determining performance of the business. It is a combination of concepts, information and emotions about learning, which in turn results in readiness to react favorably and leads to more effective decisions that generate profits for business owners (Potrich et al., 2016).
Research has shown that financial attitude is linked to ability of business to obtain resources and capabilities, competitive strategic decisions, competitive advantage and performance outcomes (Abiodun, 2016). He added that firms with better financial attitude have more competitive advantage in accessing external funding.

2.5 Chapter summary

Financial literacy called the new business reality by (Abiodun, 2016) is simply the ability to manage financial matters of a business or individual finance. The concept has been defined in many different dimensions by different researchers but this paper focused on three dimensions of Financial knowledge, financial behavior and financial attitude of MSE managers. The chapter covered the determinants of each variable and how profitability of MSE is affected by the variable. The next chapter discusses the research methodology that was adopted for the study. It provides details on the procedure for the research, data collection method, data analysis and presentation method used.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the detailed research methodology that was adopted in the study. It addresses the research design, population and sampling design used in the study. The chapter further discusses the data collection methods, research procedures and data analysis methods that were implemented. At the end, a summary of the chapter was provided.

3.2 Research Design

A research design as described by (Kothari, 2004), is the arrangement of conditions for collection and analysis of data in a manner that aims to give bearing and relevance to the research purpose with economy in procedure. It is a plan that provides the overall framework for the collection of data for a study. That is, it is a plan for selecting subjects, research sites, and data collection procedures to answer the research question to provide credible results. (Mafuwane, 2012) defined research design as a strategic framework for action that serves as a bridge between research questions and the execution, or implementation of the research strategy. It is a time-based plan that guides selection of sources and types of information all based on the research questions (Cooper & Schindler, 2014).

The suitable research design for a study is one that minimizes bias, maximizes the reliability of data to be collected and in line with the purpose of the study. Different research designs can be conveniently categorized as either research design in case of exploratory research studies with major emphasis on the discovery of ideas and insights; research design in case of descriptive and or diagnostic research studies with main aim of explaining characteristics associated with population or determining the frequency with which something occurs or its association with something else; and research design in case of hypothesis-testing research studies also known as experimental studies and focuses on causal relationships between variables.

The research design that was employed in this study was descriptive survey that is unrestricted which as defined by (Devin, 2015) is an attempt to explore and explain a topic in the dark while creating a fuller picture of the topic.
That is, it seeks to answer questions such as who, what, where and how to any provided topic. This design is selected for the study because it allows for obtaining numerical and structured description of the population and will give clear understanding of financial literacy and how it affects the profitability of students owned micro and small enterprises in Kenya.

3.3 Population and Sampling Design

3.3.1 Population

Cooper and Schindler, (2014) defined population as the element which we wish to make inference on. They further mentioned that it is the total collection of elements about which one would intend to make inferences. Population can also be seen as all units or elements constituting a set or universe (Abbott & McKinney, 2013). That is population is the entire group of people, places or things under study.

The study focused on formal and informal Micro and small enterprises that are owned by students in Nairobi, Kenya. The study comprised of both formal and informal businesses because the majority of the MSE’s in the country operate informally (Winnie, 2015). The sample size from the population of the study was drawn from an estimated population of 60 MSE’s owned by students of United states international university Africa (USIU-A). 60 MSE’s were taken to represent the population of the study because to the best of my research, there are no records with the exact number of students that are owners or managers of MSE’s and therefore, only an estimated number was taken.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Sampling frame as defined by (Cooper & Schindler, 2014) refers to the list of elements in the population from which the sample is actually drawn. The sample frame draws out similar characteristics representative of the entire population making its selection extremely fundamental. The sampling frame for this study was micro and small enterprises that are owned by students of united states international university Africa (USIU-A). The study also included respondents with and without financial background. The rationale behind the choice of
respondents is to allow for comparison of various managers with financial and non-financial backgrounds.

3.3.2.2 Sampling Technique

Sampling technique is a statistical method of selecting the sampling unit that would be representative of the population in study. It can be classified into probability and non-probability sampling (Krishnaswami & Satyaprasad, 2011). Probability sampling is further described as a sampling process that utilizes some form of random selection where each unit has an equal chance of being selected in the sample. Non-probability sampling on the other hand is a process where probabilities cannot be assigned to the units objectively (Barreiro & Albandoz, 2001).

In this research, a simple random sampling was used to select sample from the entrepreneurial population of USIU. Simple random sampling was used in this study because to the best of my research, there is no estimated criteria for grouping or segregating the MSE’s that are owned by the students.

3.3.2.3 Sample Size

Sample size is the actual number of respondents that would be representative of the population under research, and should bear some proportional relationship to the size of the population from which it is drawn (Cooper & Schindler, 2014). The sample size for the study was determined using the formula below.

\[
N = \frac{N}{1+N(e)^2} = \frac{60}{1+60(0.05)^2} = 52.174
\]

In this study, 52 Micro and small entrepreneurs enrolled in the university were selected at random. This is because most of the businesses are informal, there is no exact population that could be used to determine sample size through variability and level of confidence. The sample size was selected taking into consideration the time frame that was available and cost of data collection.
3.4 Data Collection Methods

There are a variety of data collection tools available to researchers depending on the type of data to be collected. The two types of data are primary data which are collected afresh and for the first time, and thus happen to be original in character and the secondary data, on the other hand which are those that have already been collected by someone else and which have already been passed through the statistical process (Kothari, 2004).

This research used primary data to answer the research questions through distribution of questionnaires to respondents. The questionnaires were structured with questions that required respondents to tick the right answer and true or false questions. The rationale behind the structure of the questionnaire is to limit the answers to those relevant to the area of study.

The questionnaire comprised of 5 sections with section. The first section being general information on respondents, and the subsequent sections was based on the research questions and consequently the literature reviewed. The second section included predetermined questions that assess basic knowledge of fundamental concepts in financial knowledge from the OECD questionnaire that were used in measuring financial knowledge. The questionnaire was distributed physically or electronically depending on the convenience of the respondents.

3.5 Research Procedures

Pilot testing also known as pretesting is the preliminary application of data collection tools to determine how adequate and relevant it is in providing evidence of a research study (center for evaluation and research, 2011). It is also important as it evaluates the interest of respondents. In this study, pre-testing of the questionnaire was conducted to ensure the validity of the research instrument. The pre-testing ensured that necessary revisions were made and modification prior to the actual study. Questionnaires was issued to an instructor in the finance field of specialization and a few students. The final questionnaire for the study was physically distributed among the selected target population to gather data on the research. To ensure high response rate, the researcher used a research assistant who helped in the physical distribution of the questionnaires and collected them on the days they were issued. The time for this distribution was within a time frame of two weeks.
3.6 Data Analysis Methods

Cooper and Schindler (2014), defined data preparation or analysis as the processes that ensure the accuracy of data and their conversion from raw form into classified forms appropriate for analysis. After data collection, data analysis is carried out by completing the steps of questionnaire checking, editing, coding, transcribing, data cleaning, adjusting the data and selecting a data analysis strategy to gather sense or meaning from the data collected and the final information can be tabulated in the form of graphs and pie charts.

The data that was collected in this study was analyzed using quantitative methods of analysis because of the nature of the data. The quantitative data was analyzed using both descriptive and inferential statistics and was presented in both tabular and graphical form. The Statistical product and service solutions (SPSS) software was used to make these analyses.

3.7 Chapter Summary

The chapter discussed the different techniques and methodology that were adopted to answer the research objectives of this study. It described the research design that was employed as a descriptive design. The population from which the sample size was drawn in the study was introduced. The chapter also indicated the data collection method that was used in the study and how data was analyzed. The information for the study was collected using primary data collection which involved issuing structured questionnaires. Data analysis was done using both Microsoft Excel and SPSS software to generate statistics, frequency tables and percentages. The findings and analysis of the results of the study was presented in the next chapter.
CHAPTER FOUR

4.0 RESULT AND FINDINGS

4.1 Introduction

This chapter presents the findings obtained from the data analysis done. The chapter further gives findings based on the research objectives. The first part of the chapter covers the response rate of the study. The second part covers demographic and general information on the respondents. The third part presented results on financial knowledge questions. The fourth and fifth part presents findings on the financial behavior and financial attitude of respondents respectively. A descriptive of the dependent variable was provided in the chapter. Also, the results of the regression analysis were presented and the final section provides summary of the whole chapter.

4.2 Response Rate

A response rate is the number of individuals or participants in the study which is presented in percentages. It determines the statistical power of a research. In this study, the researcher issued 52 questionnaires which were filled and returned giving 96% response rate.

![Response rate](image)

Figure 4.1: Response rate
4.3 Demography

This section shows the results obtained from the analysis done on the demographic factors of participants in this research study.

4.3.1 Form of Business Organization

The study was set to establish the types of business run by the respondents and the findings revealed that most of the businesses were sole proprietors accounting for 55.8% of the total response rate. Partnership accounted for 23.1%, while private limited company were 19.2%, sole proprietorship was 3.8% while joint venture was 1.9% as indicated in figure 4.1. The study implies that majority of the MSE’s are owned by just one person.

![Figure 4.1: Business Organization](image)

4.3.2 Age of Business

The study was also set to establish the ages of business run by the respondents and the findings revealed that most of the businesses were below 2 years old and accounted for 67.3% of the total response rate. Those of 2-5 accounted for 25%, while those of 6-10 years, and those above 10 were both 3.8% as shown in figure 4.2. This implies that most of the respondents’ businesses are start-ups with less than two years of existence.

32
Figure 4.2: Age of business

4.3.3 Position in Business

Regarding positions held, owners were the majority accounting for 80.8% of the total followed by those who filled in for others accounting for 9.6%, managers were 5.8% as shown in figure 4.3.

Figure 4.3: Position in Business

4.3.4 Educational Qualification

The study was also set to establish the educational level of the respondents and the findings revealed that most of the respondents were bachelor degree holders and accounted for 61.5% of the total response rate. Those with masters accounted for 26.9%, while those of higher degree holders were the least at 1.9% as shown in figure 4.4.
As for gender, it was established that female dominated with 51.9% of the total response while male accounted for 44.2% if the total as indicated in table 4.1.

Table 4.1: Gender:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Male</td>
<td>23</td>
</tr>
<tr>
<td>Female</td>
<td>27</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.3.6 Age Group

The study was also set to establish the age of the respondents and the findings revealed that most of the respondents were between 18-30 were the majority and accounted for 80.8% of the total response rate. This implies that all the respondents were adults and therefore accountable for their response.
4.4 Effects of financial knowledge on profitability of MSE’s

The first objective of this study sought to establish the effects of financial knowledge on profitability of MSE’s. The respondents were asked questions with regard to finance and given an array of options to answer.

4.4.1 Sources of capital for starting a business

Respondents were asked to identify the possible sources of capital for starting a business and the researcher expected the answer to be *Loans from the bank, Micro finance institutions and Loans from family and friends*. However, the results show that a majority 57.7% believe that it should be retained earnings, 23.1% would seek loan from family and friends. Very few accounting for 5.8% would seek micro finance as shown in table 4.3. This implies that majority of the respondents are not fully aware of the most effective sources of finance for their businesses and, the inability to access formal sources of funds.

Table 4.3: Sources of capital for starting a business

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>percentage</td>
<td></td>
</tr>
<tr>
<td>Retain Earning</td>
<td>30</td>
<td>57.7</td>
<td></td>
</tr>
<tr>
<td>Bank Loan</td>
<td>5</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td>Micro Finance</td>
<td>3</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>Family Loan</td>
<td>12</td>
<td>23.1</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
<td>3.8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>
4.4.2 Rate of Return for sources of finance

Respondents were asked to identify the financial options with the highest returns the researcher expected respondents to pick *stocks, bonds and savings*. Indeed, the findings show that 34.6% believe that it should be stocks, 19.2% believed it was bank savings while 15.4% thought it was Treasury bill. It was also revealed that 13.5% did not know the options to pick as shown in table 4.4.

**Table 4.4: Rate of Return for sources of finance**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Account Bond</td>
<td>6</td>
</tr>
<tr>
<td>Stock</td>
<td>18</td>
</tr>
<tr>
<td>Treasury Bill</td>
<td>8</td>
</tr>
<tr>
<td>Bank Saving</td>
<td>10</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>7</td>
</tr>
<tr>
<td>Don’t Know</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

4.4.3 Time value of money

The researcher tested the respondent’s knowledge of time value of money where they were given a scenario where Joseph inherits Ksh 10000.00 today and Peter inherits Ksh 10000.00 in three years. According to the time value of money, who is going to be wealthier? The researcher expected a majority to give *joseph* as the answer and indeed 65.4% got the answer right as shown in table 4.5.

**Table 4.5: Time value of money**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Joseph</td>
<td>34</td>
</tr>
<tr>
<td>Peter</td>
<td>6</td>
</tr>
<tr>
<td>Both</td>
<td>4</td>
</tr>
<tr>
<td>None</td>
<td>2</td>
</tr>
<tr>
<td>Do Not Know</td>
<td>3</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>
The respondents were also given a test question where they were asked “If you must wait for one year to get your share of X, in one year’s time, you will be able to buy?” The researcher expected the answer to be (Less). However, the findings revealed that 46.2% believed that it depends on certain factors, 17.3% believed that it was more, 17.3% believed that it was less, while 7.7 believed it was the same as indicated in Table 4.6.

Table 4.6: Application of Time Value of Money

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>More</td>
<td>9</td>
</tr>
<tr>
<td>Same</td>
<td>4</td>
</tr>
<tr>
<td>Less</td>
<td>9</td>
</tr>
<tr>
<td>Depends on Certain Factors</td>
<td>24</td>
</tr>
<tr>
<td>Do Not Know</td>
<td>2</td>
</tr>
<tr>
<td>System</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.4.4 Diversification
The respondents were also tested for diversification where they were asked “Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments?” The researcher expected them to select (Multiple business or investment). The findings show that a majority accounting for 55.8% chose multiple businesses, while 17.3% believed both ways were safe and 11.5% chose one business or investment as shown in Table 4.7

Table 4.7: Diversification

<table>
<thead>
<tr>
<th>Variable</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>One business or investment</td>
<td>6</td>
</tr>
<tr>
<td>Multiple businesses</td>
<td>29</td>
</tr>
<tr>
<td>Both ways are safe</td>
<td>9</td>
</tr>
<tr>
<td>Expand current business</td>
<td>5</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>
4.4.5 Risk Reduction and diversification
The respondents were also asked whether risk could be reduced through investing in wide range of assets. Majority accounting for 71.2% got the answer right said it was true while 19.2 did not agree as shown in figure 4.5.

![Figure 4.5: Risk Reduction and diversification](image)

4.4.6 Risk and Return
The study also sought to establish if an investment with a high return is likely to be of elevated risk. The response revealed that 61.5% of the respondents got it right by selecting true as an option as shown in figure 4.6.

![Figure 4.6: Risk and Return](image)
The researcher also sought to establish if the respondents were aware if the fact that there is a diminishing return as level of risk exceed a certain level as shown in figure 4.7

![Figure 4.7: Diminishing Return as Level of Risk Exceed a Certain Level](image)

**Figure 4.7: Diminishing Return as Level of Risk Exceed a Certain Level**

The findings revealed that 61.5% were aware of the diminishing return as level of risk exceed a certain level

### 4.4.7 Inflation

The researcher also sought to establish if the respondents were aware that high inflation means that the cost of living is increasing rapidly. The findings revealed that 78.8% were aware while 15.4% got the answer wrong as shown in figure 4.8

![Figure 4.8: Inflation](image)

**Figure 4.8: Inflation:**
The respondents were asked to answer the question “Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy” The researcher expected the answer (less than, the same and depends on kind of business). Majority accounting for 53.8% answered the same as you can buy, while those who answered less than you can buy today, and depend on the kind were both 11.5% as shown.

![Figure 4.9: Effects of inflation](image)

### 4.5 Effects of financial behavior on profitability of MSE’s

The second objective of this study sought to establish the effects of financial behavior on profitability of MSE’s. The respondents were asked questions which they were to respond to base on a five point Likert scale where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree. The questions were structured based on behavior regarding budgeting and planning, debt management, savings, record keeping and retirement planning.

#### 4.5.1 Descriptive of variables of Budgeting and Planning

The findings revealed that most of the respondents were uncertain in preparing written financial objectives to be achieved in the business, long-term financial influencing the management of expenses, following a weekly or monthly plan for expenses and preparation of budgets to help in monitor performance as shown in table 4.8. This implies that most MSE’s do not have an effective budgeting and planning mechanism and therefore there is a need to educate them on the benefits they can accrue from budgeting and planning.
Table 4.8: Descriptive of variables of Budgeting and Planning

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prepare written financial objectives of what I want to achieve in a</td>
<td>3.02</td>
<td>1.362</td>
</tr>
<tr>
<td>term for my business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My long-term financial targets influence the managing of my expenses</td>
<td>3.45</td>
<td>1.276</td>
</tr>
<tr>
<td>I follow a weekly or monthly plan for expenses</td>
<td>3.96</td>
<td>5.820</td>
</tr>
<tr>
<td>I prepare budgets to help me monitor my performance</td>
<td>3.29</td>
<td>1.414</td>
</tr>
</tbody>
</table>

4.5.2 Descriptive of Variables of Debt Management

The findings revealed that most of the respondents were uncertain about debt management skills enabled them access various sources of finance for their business, knowing the effect of inflation and interest rates on the loans borrowed, determine accurately the total debt position and accessing finance at a minimum cost as shown in table 4.9. The implication is that there is a need to educate the MSE’s on the debt management and its benefits.

Table 4.9: Descriptive of Variables of Debt Management

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>My debt management skills have enabled me to access various sources of</td>
<td>3.18</td>
<td>1.364</td>
</tr>
<tr>
<td>finance for my business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I know the effect of inflation and interest rates on the loans I borrow</td>
<td>3.02</td>
<td>1.525</td>
</tr>
<tr>
<td>my business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>I can determine accurately the total debt position of my business</td>
<td>3.20</td>
<td>1.457</td>
</tr>
<tr>
<td>I can access finance at a minimum cost</td>
<td>3.17</td>
<td>1.277</td>
</tr>
</tbody>
</table>

4.5.3 Descriptive of Variables of Savings

The findings revealed that most of the respondents were uncertain about saving a portion of business monthly income, keeping financial reserves in case of emergency, planning to use savings for future growth of the business and savings reducing reliance on credits as shown in table 4.10
Table 4.10: Descriptive of Variables of Savings

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I save a portion of my business monthly income</td>
<td>3.53</td>
<td>1.371</td>
</tr>
<tr>
<td>I keep financial reserves in case of emergency</td>
<td>3.50</td>
<td>1.238</td>
</tr>
<tr>
<td>I plan to use my savings for future growth of my business</td>
<td>3.61</td>
<td>1.336</td>
</tr>
<tr>
<td>My savings reduce my reliance on credits</td>
<td>3.75</td>
<td>1.345</td>
</tr>
</tbody>
</table>

4.5.4 Descriptive of Variables of Record keeping

The findings revealed that most of the respondents do not prepare financial statements the business (income statement, balance sheet) (2.90), neither do they perform financial Analysis on the business financial statements (2.96). There was also uncertainty on respondents having adequate knowledge on how to maintain and balance ledger accounts (3.13) and decisions being guided by information from my financial statements (3.22)

Table 4.11: Descriptive of Variables of Record keeping

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>I prepare financial statements for your business (income statement, balance sheet)</td>
<td>2.90</td>
<td>1.489</td>
</tr>
<tr>
<td>I can perform financial Analysis on your business financial statements (gross profit margin, net profit margin, current ratio)</td>
<td>2.96</td>
<td>1.369</td>
</tr>
<tr>
<td>I have adequate knowledge on how to maintain and balance ledger accounts</td>
<td>3.13</td>
<td>1.248</td>
</tr>
<tr>
<td>My decisions are guided by information from my financial statements</td>
<td>3.22</td>
<td>1.418</td>
</tr>
</tbody>
</table>

4.5.5 Descriptive of Variables of Retirement planning

The findings revealed that most of the respondents disagree that long-term financial decisions are influenced by my retirement plans (2.88), however there was uncertainty on respondents being familiar with basic economic concepts that are needed to make sensible saving and
investment decisions (3.29), having another source of income apart from the business (3.73), planning to continue this business even in the later future (3.73).

**Table 4.12: Descriptive of Variables of Retirement planning**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>My long-term financial decisions are influenced by my retirement plans</td>
<td>2.88</td>
<td>1.333</td>
</tr>
<tr>
<td>I am familiar with basic economic concepts that are needed to make sensible saving and investment decisions.</td>
<td>3.29</td>
<td>1.369</td>
</tr>
<tr>
<td>I have another source of income apart from my business</td>
<td>3.73</td>
<td>1.255</td>
</tr>
<tr>
<td>I plan to continue this business even in the later future</td>
<td>3.73</td>
<td>1.484</td>
</tr>
</tbody>
</table>

**4.6 Effects of Financial Attitude on Profitability of MSE’s**

The third objective of this study sought to establish the effects of financial attitude on profitability of MSE’s. The respondents were asked questions which they were to respond to based on a five point Likert scale where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree. The questions were structured based on financial attitude.

**4.6.1 Descriptive of Variables of Financial Attitude**

The findings established that it is important to establish financial targets for the future (4.04). However, there was uncertainty on whether it was important to control monthly expenses (3.96), the way managing money today affect my future (3.87), parents having influenced money management skills (3.57), social environment has contributing to financial skills (3.41), all short-term decisions being influenced long-term financial goals (3.39), and risky decisions adding value returns (3.06). Many of the respondents also disagreed that they have learnt cost/benefits trade off from training programs (2.81), preventing risk ensures security the business (2.80) and having participated in training programs for financial skills (2.71) as shown in table 4.13
Table 4.13 Descriptive of Variables of Financial Attitude

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is important to control monthly expenses</td>
<td>3.96</td>
<td>1.458</td>
</tr>
<tr>
<td>It is important to establish financial targets for the future</td>
<td>4.04</td>
<td>1.322</td>
</tr>
<tr>
<td>The way I manage my money today will affect my future</td>
<td>3.87</td>
<td>1.409</td>
</tr>
<tr>
<td>Making risky decisions will add value to my returns</td>
<td>3.06</td>
<td>1.088</td>
</tr>
<tr>
<td>Preventing risk ensures security of my business</td>
<td>2.80</td>
<td>1.172</td>
</tr>
<tr>
<td>All my short-term decisions are influenced by my long-term financial goals</td>
<td>3.39</td>
<td>1.320</td>
</tr>
<tr>
<td>My social environment has contributed so much to my financial skills</td>
<td>3.41</td>
<td>1.273</td>
</tr>
<tr>
<td>My parents have influenced my Money management skills</td>
<td>3.57</td>
<td>1.339</td>
</tr>
<tr>
<td>I have participated in training programs for financial skills</td>
<td>2.71</td>
<td>1.307</td>
</tr>
<tr>
<td>I have learnt cost/benefits trade off from training programs</td>
<td>2.81</td>
<td>1.347</td>
</tr>
</tbody>
</table>

4.6.2 Descriptive on variables of Profitability

To analyze the ranges that was the best indication of the business total assets most of the SMEs were between Ksh 100,000 – Ksh 500,000 (2.39). For the range that best indication annual sales most of the respondents ranged between Ksh 100,000 and Ksh 500,000 (2.31). Similarly, annual net profits ranged between Ksh 100,000 and Ksh 500,000 (2.12). Most of the firms also did make predictions for your profits (1.22). The findings also revealed that actual profits vary were greater than expected/estimated profits.
Table 4.14: Descriptive on variables of Profitability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ranges that was the best indication of the business total assets</td>
<td>2.39</td>
<td>1.455</td>
</tr>
<tr>
<td>Range that best indication annual sales</td>
<td>2.31</td>
<td>1.140</td>
</tr>
<tr>
<td>Annual net profits range</td>
<td>2.12</td>
<td>1.148</td>
</tr>
<tr>
<td>Predictions profits</td>
<td>1.22</td>
<td>.422</td>
</tr>
<tr>
<td>Profits estimate</td>
<td>2.04</td>
<td>.999</td>
</tr>
</tbody>
</table>

4.7 Regression Analysis

The researcher conducted a regression analysis to determine the relationship between dependent variable (Profitability) against Financial Knowledge, Financial Behavior, Financial Attitude and the Adjusted R Squared was 0.097 therefore 9.7% of the variations in Profitability is caused by the variations in Financial Knowledge, Financial Behavior, Financial Attitude as shown in table 4.15.

Table 4.15: Model Summary of Profitability, Financial Knowledge, Behavior & Financial Attitude

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjust R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>df2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sig. F Change</td>
</tr>
<tr>
<td>1</td>
<td>.391</td>
<td>.153</td>
<td>.097</td>
<td>.71637</td>
<td>.153</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.711</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3a</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>45</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.056</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Financial Knowledge, Financial Behavior, Financial Attitude

An ANOVA analysis was done between Profitability, Financial Knowledge, Financial Behavior, Financial Attitude at 95% confidence level, the F critical was 2.711 and the P value was (0.056) therefore not significant the results are illustrated in table 4.16.
Table 4.16: ANOVA of Profitability and Co Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>4.174</td>
<td>3</td>
<td>1.391</td>
<td>2.711</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23.093</td>
<td>45</td>
<td>.513</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>27.267</td>
<td>48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: profitability  
b. Predictors: (Constant), Financial Knowledge, Financial Behavior, Financial Attitude

As per Table 4.17, the equation (\(Y= \beta_0+ \beta_1X_1 + \beta_2X_2 + \beta_3X_3\)) becomes:

\[Y= 3.319- 0.549X_1 + 0.416X_2 +0.346X_3\]

Where Y is the dependent variable Profitability

X1 – Financial attitude

X2 – Financial Behaviour

X3 – Financial Knowledge

Table 4.17: Coefficients of Profitability and Co Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.139</td>
<td>.853</td>
<td>3.678</td>
</tr>
<tr>
<td></td>
<td>Financial Attitude</td>
<td>-.549</td>
<td>.199</td>
<td>-.612</td>
</tr>
<tr>
<td></td>
<td>Financial Behavior</td>
<td>.416</td>
<td>.162</td>
<td>.541</td>
</tr>
<tr>
<td></td>
<td>Financial Knowledge</td>
<td>-.346</td>
<td>.318</td>
<td>-.163</td>
</tr>
</tbody>
</table>

The regression equation illustrated in Table 4.20 above has established that taking all factors into account (Financial Knowledge, Financial Behavior, Financial Attitude) all other factors held constant profitability changes by 3.139. The findings presented also showed that with all other variables held at zero, a unit change in Financial Attitude would lead to a 0.549 reduction in profitability and a unit change in Financial Behavior would lead to 0.416 change in profitability. Moreover, the study also showed that a unit decreases in Financial Knowledge would result in 0.346 reduction in profitability. Only the variables Financial Attitude and Financial Behavior was significant (p<0.05) therefore generally the equation was not significant.
4.8 Chapter Summary
This chapter has presented the data from the analysis done using SPSS. The first section presented the data on the response rate and demography of the respondents followed by data on Financial Knowledge, Financial Behavior, and Financial Attitude. Chapter five provides the summary, discussion of this findings in comparison previous studies done, conclusions and recommendations.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The aim of this chapter is to present a discussion based on findings in comparison to study findings from the literature review in chapter two. The first part of the chapter presents summary of the study, followed by the second part which provides discussion based on the research objectives. Conclusions and recommendations based on the finding of the study and recommendations for further study were established thereafter.

5.2 Summary

The objective of the study was to investigate the impact of financial literacy on the profitability of micro and small enterprises owned by students of United States International University Africa. The study aimed at examining the effect of financial knowledge on the profitability of micro and small enterprises that are owned by the students of USIU-A, the effect of financial behavior on profitability of micro and small enterprises owned by the students of USIU-A and the effect of financial attitude on profitability of micro and small enterprises owned by the students of USIU-A.

The study adopted a descriptive research method for obtaining necessary primary data to give clear understanding of the research objectives. This research design helped in observing the effects of financial knowledge, financial behavior and financial attitude on the profitability of micro and small enterprises owned by students of USIU-A. The study involved samples drawn from students of USIU- Africa that own or manage micro or small enterprises. To achieve the objectives, a deductive approach was used, where primary data was gathered through issuing of a set of structured questionnaires to a sample population of 52 students that have their own businesses. Probability sampling was used to randomly select respondents to collect data.

A descriptive statistics and inferential statistics was employed for analyzing the impact of financial literacy on profitability of MSE’s. A Correlation analysis was used to find out the relationship between financial knowledge, financial behavior and financial attitude and profitability. Linear Regression analysis of variance, frequency distribution and cross
Tabulations was used to analyze the findings. These analyses were carried out using Statistical Package for the Social Sciences (IBM SPSS) statistical software and Microsoft excel and the report was presented using both frequency tables and graphs.

The study examined how financial knowledge affects the profitability of micro and small enterprises that are owned by students of USIU-A. The finding suggests that most of the respondents are financially knowledgeable as the greater percentage of them answered the financial knowledge questions drawn from the OECD questionnaire on Time value of money, diversification, risk and return and inflation correctly except for the most effective sources of finance for startup businesses. The study, however, reveals that financial knowledge is not significant in profitability of micro and small enterprises owned by the students.

The study assessed the effects of financial behavior on the profitability of micro and small enterprises owned by students of USIU-A and found that financial behavior slightly affect the profitability of such businesses. The study also found that majority of the business owners are uncertain on budgeting and planning, debt management, savings and some aspect of retirement planning like the knowledge of economic concepts needed for decisions, long term goals to expand the business and having alternative sources of income. However, they recorded low on record keeping and long-term financial decisions that influence retirement planning.

The study observed the effect of financial attitude of owners of micro and small enterprises and how it affects their profitability. It found that most the respondents have positive attitude when it comes to setting financial targets for the future. The study reveals that the business owners are neutral on aspects of time orientation being long-term and the influence of social environment on money management skills. The study also found that majority of the business owners do not believe in risk prevention as a way of ensuring security of their businesses and they do not have the attitude of attempting to acquire more financial skills through training programs. The study established that there is a meaningful relationship between profitability and financial attitude of micro and small enterprise owners.

5.3 Discussions

This section will present the findings as per the objectives of the study.
5.3.1 Effects of financial knowledge on profitability of MSE’s

The findings from the study uncover that majority of the respondents have adequate financial knowledge as the higher percentage could answer the basic financial knowledge questions that were drawn from the financial literacy questionnaire by (OECD INFE, 2011) correctly. However, there are some aspects that were not correctly answered as it will be discussed below for the different determinants of financial knowledge. According to empirical evidence of research by (Robb, 2014), financial knowledge influences positive financial behavior. In this study however, despite the majority being able to answer the financial knowledge questions correctly, the financial behavior and practices of the respondents lays in the neutral range. That is the individuals have adequate financial knowledge but are not necessarily putting it in practice.

The findings revealed that majority of the respondents (57.7%) being startups with less than 2 years of existence prefer to use own fund in financing their businesses. This is in line with the pecking order theory which suggests that at early stages, firms prefer to use internal source of capital (Densil, 2010). Charan and Kishinchand (2016), found that due to inherent limitations of the formal sources of finance, MSME’s financial requirements are addressed by the informal sectors or sources of finance. From the finding, we can see that 23.1% of the respondents would rather loans from family and friends and very few 9.6% and 5.8% would go for formal sources such as bank loans and micro finance institutions respectively. The findings also revealed that a good number of the respondents 34.6% would go for stocks as the source with the higher rate of return agreeing with the study by (Keasey & Paul, 1990), which found that externally raised finance is associated with higher rate of return.

Ability to recognize the time value of money is an important determinant of financial knowledge. The findings of the study show that 65.4% of the respondents recognize the changes in value of money over time and a majority believe that depending on certain factors, the value of money changes over time. These findings are in line with previous literature by (Matines, 2013; Eugene & Micheal, 2011a).
Nils and Joachim (2011), emphasized the importance of product diversification in their research on product diversification and profitability in German manufacturing firms with the findings that firms with diversified products are more than four times more profitable than single-product firms. The findings in this research suggest that a greater percentage 55.8% of the respondents have knowledge on the importance of having diversified investments. 71.2% of the respondents agree that investing a wide range of assets reduces risk of an individual or business. This is supported by the findings of (Ejaz et al., 2012) which states that profits of a firm are maximized through diversification despite the costs associated with it.

The benefit of having adequate knowledge on risk is that one can change and adopt an optimal behavior that takes risks that are sensible and worthwhile (Tarasi et al., 2011). Literatures by (Maranjian, 2013; Sullivan, 2012) highlighted that the knowledge of the relationship between risk and return is important for business owners in order to make certain change decisions or behavior decisions. The findings of this study revealed that a majority 61.5% of the respondents are aware of the relationship between risk and returns. That is, they are aware of the consequences of the risk involved in every decision they make on the returns they will expect from such decision.

The knowledge of the effects of inflation on business activities cannot be ignored. The findings of (Burke & Manz, 2014) suggested that knowledge of inflation is an important determinant of financial behavior such as taking debts, opening savings account to mention a few. From this research, 78.8% of the respondents are aware of the term inflation however, only a few 11.5% are aware of the effects of inflation on purchasing power. Therefore, the findings contradicts the suggestion by (Andonov et al., 2010) which states that MSE managers cannot ignore the knowledge of the effects of risk of unanticipated changes in purchasing power.

Robb (2014) stated that for an effective decision makings, financial knowledge is very critical. Also, (Lusardi & Mitchell, 2014) concluded from their study on economic importance of financial literacy that financial knowledge is an investment in human capital that is important for wealth accumulation. Subsequent research by (Clark et al., 2014) using a different data set found that financially knowledgeable people have more profitable investments. The findings of this research however, contradicts the above findings. It found that financial knowledge is not significant in the profitability of micro and small enterprises with a p-value > 0.05. The result
is supported by the results of (Tang et al., 2015) which found that financial knowledge alone
does not necessarily lead to profitable financial behavior rather, there are other factors they
referred to as psychological characteristics that lead to responsible financial behaviors. Also,
the results of (Monticone, 2010) showed that there is very small relationship between wealth
and financial knowledge.

5.3.2 Effects of financial behavior on profitability of MSE’s

The results on the second objective revealed that although the majority of the respondents had
good scores on financial knowledge, there are lots of uncertainties in putting the knowledge into
practice with mean response of neutral (3.0 – 3.9) on most of the financial behavior questions.
The findings therefore, contradicts the findings of (Potrich et al., 2016), which concluded that
financial knowledge and financial attitude have positive impact on financial behavior. In this
case, majority of the respondents scored high in financial knowledge however, their financial
behavior opinions are neutral.

The findings revealed that most of the respondents were not consistent with preparing written
financial objectives, making weekly or monthly budgets and using them to monitors
performance. This is supported by the findings of (Sucuahi, 2013) which insinuated that small
business owners focus more on cashflows than budgeting. It however contradicted his
subsequent findings that most MSE owners use budgeting to monitor their performances. Also,
(Kalekye & Memba, 2015) found that as much as budgeting and planning increases profits and
minimizes losses, women with micro and small enterprises are not consistent with them hence
supporting the findings of this research.

The findings of this research shows that most micro and small entrepreneurs are uncertain about
debt management literacy. That is, they are not able to access various sources of finance, not
knowledgeable on effects of inflation and interest rate and not very conversant with making
accurate calculations. These findings agree with the findings of (Assibey,2010) on inability of
MSE managers to obtain finance for their business and the findings of (Plakalovi, 2015) who
found that most MSE managers are not able to perform accurate calculations and lack numeracy
skills especially elderly, female and less educated population. The results of (Sucuahi, 2013)
however, contradicts the findings of this study as he found that most micro and small
entrepreneurs are very much aware of consequences of poor debt management when it comes to dealing with inflation and interest rate.

Researchers like (Tali, 2016) emphasized the importance of involvement in saving money as one of the ways of understanding financial literacy and building positive financial behaviour and attitude. Behrman et al. (2012), cited that individuals that are unable to save are financially illiterate. Mandell and Klein (2009), on the other hand cited that financial literacy does not mean being saving-oriented and does not mean better financial behaviour. In light of both arguments, the findings of this research can be concluded to be most respondents are moderately literate on savings as most of them are neutral when it comes to saving behaviour. That is, the respondents are aware of the benefits of saving money in order to run their businesses more effectively and to help their expansion in the future.

The findings revealed that most of the respondents do not prepare financial statements the business (income statement, balance sheet) (2.90) and they do not perform financial Analysis on the business financial statements (2.96). That is, they keep their records in an informal manner. This is supported by the findings of (Sucuahi, 2013; Kalakye & Memba, 2015) that reported that MSE managers record transactions in notebooks rather than journals or ledgers. This research also found that respondents have very little knowledge on how to maintain and balance ledger accounts (3.13) and they can make decisions from information from financial statements.

According to (Leora et al., 2015), people that are financially literate do better job having plans and savings for retirement. This research however reveals that most of the respondents disagree on basing their long-term financial decisions to suit their retirement plans (2.88). Drexler et al., (2015), found that the micro entrepreneurs in the US are not able to understand basic financial concepts which led to their inability to make good retirement plans. Agreeing with Drexler et al, this research found that most of the respondents are not certain on having knowledge on economic concepts that will guide their retirement plans in terms of ability to make sensible saving and investment decisions (3.29). The findings also suggest that most of the respondents do not have other sources of income apart from the business and do not have plans regarding retirements.
Sucuahi (2013) found that a low financial skill or poor financial behavior might have an adverse effect in the future of a business. Also, (Lusardi & Mitchell, 2007) argued that a good financial foundation of the business owners is a significant barometer of the success and growth of the enterprises in the competitive environment. The study by (Grohmann et al., 2015) has shown that financial literacy is positively related to financial behaviors such as cashflow management, debt management, savings and investment practices that maximizes benefits for micro and small enterprises. The studies above are in line with the findings of this study that reveals that financial behavior has significant impact on profitability of MSE’s (p<0.05) and a unit change in Financial Behavior would lead to 0.416 change in profitability.

5.3.3 Effects of financial attitudes on profitability of MSE’s

Financial attitude is said to be a psychological predisposition in terms of agreeing or disagreeing with certain financial management practices (Eagly & Chaiken, 1993). According to the findings of (Abiodun, 2016), successful people are financially literate such that their investments are future oriented. The findings of this research can therefore be translated as most of the MSE’s are successful because they are future oriented, that is they establish financial targets that are future oriented.

The findings of the study reveal that most of the respondents have neutral opinions when it comes to taking risks. This contradicts the findings of (Abiodun, 2016) that suggests that successful entrepreneurs are risk-takers. However, the respondents of this study believe that risk prevention does not ensure security of their business. Also, findings suggest that orientation towards the future promotes decision making and performance of the business like that of (Elizabeth et al., 2008). It established that majority of the respondents believe it is important to establish financial targets for the future (4.04) making them future oriented. However, it revealed that the respondents do not realise the importance of directing shot-term decisions towards long-term financial objectives opposing the findings of (Atkinson & Messy, 2012) which found that prioritising shot-term wants over long-term security makes people unable to make emergency savings that will serve their long-term financial plans and growth.
Researchers have attempted to find the relationship between the social environment of the business and how it affects the financial attitude of business owners. The findings of this research paper revealed that most of the respondents fall within the neutral range of effects of their social environment on their financial skills. They are also uncertain on family influence on their money management skills. The results of the findings contradict the findings of (Calamato, 2010) which revealed that the family influences individuals financial decisions including the ability to make financial choices, money management, understanding of financial issues and planning for the future.

The attitude of individuals towards financial training is an important determinant of financial literacy because it shows how willing the individual is to go extra miles to acquire financial knowledge and skills. Carlin and Robinson (2010) found that people that went through training were somewhat better at making current-cost and current-benefit tradeoff decisions as compared to those that did not. The results of the findings revealed that the respondents did not attend any training programs to attain financial skills. This is supported by the finding of (Everlyn, 2016) who conducted a study on micro and small enterprises in Kakamega county of Kenya found that a small percentage of MSE owners in that area attended training on financial literacy due to lack of awareness on training programs.

Financial decisions are more effective when the decision maker has the right attitude and hence a positive long term effect in consumption and in profitability for consumers and managers respectively (Wagner, 2015). With $p = 0.008$, the findings of the study tell that financial attitude is significant in the profitability of MSE’s such that a unit change in financial attitude would lead to a 0.549 change in profitability. The findings agree with the findings of (Abiodun, 2016) who studied the financial attitude of business managers and role they play in determining performance of the business. He found that financial attitude is linked to ability of business to obtain resources and capabilities, competitive strategic decisions, competitive advantage and performance outcomes. That is, firms with better financial attitude have more competitive advantage than those with poor attitudes.
5.4 Conclusions

5.4.1 Effects of financial knowledge on profitability of MSE’s

The study concludes that most MSE owners are knowledgeable about the basic financial concepts because a greater percentage of the respondents answered the financial knowledge questions correctly. However, the question of sources of finance was not a strong area for the respondents. That is, most of them would rather use own funds to finance their businesses that seek loans from formal finance providers for their assorted reasons. The study also concludes that financial knowledge does not necessarily lead to profitability of MSE’s. Financial knowledge is important but it requires application of the knowledge to turn into profits.

5.4.2 Effects of financial behavior on profitability of MSE’s

The study concludes that financial behavior is a significant predictor of profitability for micro and small enterprises. The students however, are not very conversant with the application of good financial behaviors in their businesses. They apply little or no budgeting and planning, debt management, saving, record keeping and retirement planning in their business activities.

5.4.3 Effects of financial attitudes on profitability of MSE’s

The study notes that financial attitudes of MSE’s influences their profitability. However, most MSE managers and owners have poor attitudes towards their financial activities. This was evident by the low future orientations, inability to takes risks and lack of participation in training programs that can promote their financial skills despite the knowledge on the importance of directing short-term activities towards long-term goals of the firm.

5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Effects of financial knowledge on profitability of MSE’s

In view of the conclusions above, government agencies along with micro finance institutions and banks should organize financial education programs that will create awareness on areas that are lacking such as more effective sources of funds for startup businesses. This will encourage MSE’s to expand and grow in areas they are lacking. Financial education programs will not only
improve the growth of the enterprises but also the entire economy as MSE’s contributes so much to the economies where they exist.

5.5.1.2 Effects of financial behavior on profitability of MSE’s

As reflected from the study, it is evident that financial behavior is an important contributor to profitability of MSE’s. This therefore, reflects the need for training programs on Budgeting and planning, debt management, record keeping, saving and retirement planning in schools and other institutions that seek to promote financial literacy and practice.

5.5.1.3 Effects of financial attitudes on profitability of MSE’s

From the results, it is evident that the financial attitude of MSE owners and managers is significant in their profitability. Therefore, it is important for both the public and private institutions, the schools, family and friends to put efforts in influencing the attitudes of MSE managers and owners positively. Positive attitudes lead to positive behaviors and hence benefits both the MSE’s and their stakeholders.

5.5.2 Recommendation for further studies

The study focused on financial knowledge, financial behavior and financial attitude as variables of financial literacy. Further research can be done testing the effects of other variables that are not covered in this study to ensure more reliability and accuracy of the data as well as the results. This study was carried out within only one university, this means that the results of this study are skewed to the beliefs and perceptions of the MSE owners within the university. It is recommended that such a study be done in other universities and institutions to increase the statistical relevance of the study and more reliable results.
REFERENCES


APPENDIX I: INTRODUCTION LETTER

Dear Respondent,

I am a graduate student at the United States International University – Africa, pursuing a Masters in the Business Administration program concentrating on Finance. I am conducting a research on the impacts of financial literacy on the profitability of students owned Micro and small enterprises for the completion of my degree. I hereby request your assistance in filling the provided questionnaire. The purpose of this study is purely academic and any opinion and information obtained in connection to this study will remain confidential to be used only for the intended research and no individual responses will be reported. Should you require a summary of the results, kindly contact the address provided below.

Thank you for your time.

Yours Sincerely,

Ahmed Hauwa Ibrahim

Email: i.hauwa@rocketmail.com
APPENDIX II: QUESTIONNAIRE

The purpose of this study is purely academic and your participation is entirely voluntary and you retain the right to withdraw at any time. All individual responses will be held in strictest confidence and only group data will be reported. Thank you for agreeing to participate in this questionnaire. In case you may need a preview of the report of this work, you can give your email…………………………

**Instructions:** Please fill-in the questionnaire provided by ticking/clicking appropriately or filling in as directed. Kindly complete all questions for this questionnaire to be valid and tick/check one box per question.

**SECTION A: GENERAL INFORMATION**

1. Business type (Industry): ________________________________

2. What is the form of business organization?
   - [ ] Sole proprietorship
   - [ ] Partnership
   - [ ] Private limited company
   - [ ] Cooperative society
   - [ ] Joint venture
   - [ ] Others (specify) ____________

3. Age of business
   - [ ] Less than 2 years
   - [ ] 2 -5 years
   - [ ] 6 -10 years
   - [ ] Greater than 10 years

4. How many employees does your business currently have?
   - Full-time:__________ employees
   - Part-time:__________employees

5. What is your position in your business ?
   - [ ] Owner
   - [ ] Manager
   - [ ] Chief-accountant
   - [ ] Finance manager
   - [ ] Other (specify)_____________
What is your HIGHEST educational qualification or nearest equivalent?

- Bachelor degree
- Master degree
- Higher degree
- Others (specify)____________

6. Gender: 

- Male
- Female

7. Age Group

- Less than 18
- 18 - 30
- 30 – 40
- Greater than 40

SECTION B: FINANCIAL KNOWLEDGE

Kindly indicate the option that best reflect your response by ticking or circling the box provided.

1. Sources of finance

   a. What are the possible sources of capital for starting a business? (may circle more than one answer)
   - Retained earnings
   - Loan from banks
   - Micro finance institutions
   - Loan from family & friends
   - Do not know

   b. Considering a long-time period, (e.g., 10 years), which asset described below gives the highest rate of return?
   - Account Bond
   - Stocks
   - Treasury bill
   - Savings in banks
   - Do not know

2. Time value of money

   a. Imagine Joseph inherits Ksh 10000.00 today and Peter inherits Ksh 10000.00 in three years. According to the time value of money, who is going to be wealthier?
   - Joseph
   - Peter
   - Both
   - None
   - Do not know
b. If you must wait for one year to get your share of X. In one years’ time, you will be able to buy:
   - [ ] More
   - [ ] The same amount
   - [ ] less
   - [ ] It depends on certain factors
   - [ ] Do not know

3. Diversification
   a. Suppose you have some money. Is it safer to put your money into one business or investment, or to put your money into multiple businesses or investments?
      - [ ] One business or investment
      - [ ] Multiple businesses
      - [ ] Both ways are safe
      - [ ] expand current business
      - [ ] Don’t know
   b. Risk can be reduced through investing in wide range of assets.
      [True/False]

4. Risk and return
   a. An investment with a high return is likely to be elevated risk.
      [True/False]
   b. There is a diminishing return as level of risk exceed a certain level.
      [True/False]

5. Inflation
   a. High inflation means that the cost of living is increasing rapidly.
      [True/False]
   b. Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy;
      - [ ] less than you can buy today
      - [ ] the same as you can buy today
      - [ ] more than you can buy today
      - [ ] depends on the kind of business
      - [ ] Do not know

SECTION C: FINANCIAL BEHAVIOR

Please indicate the most appropriate number that describes your business position on the scale: 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree
### Budgeting and Planning

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<tbody>
<tr>
<td>1</td>
<td>I prepare written financial objectives of what I want to achieve in a term for my business</td>
<td></td>
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<td>2</td>
<td>My long-term financial targets influence the managing of my expenses</td>
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<td>3</td>
<td>I follow a weekly or monthly plan for expenses</td>
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<tr>
<td>4</td>
<td>I prepare budgets to help me monitor my performance</td>
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### Debt management

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<tbody>
<tr>
<td>5</td>
<td>My debt management skills have enabled me to access various sources of finance for my business</td>
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<tr>
<td>6</td>
<td>I know the effect of inflation and interest rates on the loans I borrow for my business</td>
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<tr>
<td>7</td>
<td>I can determine accurately the total debt position of my business</td>
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<td>8</td>
<td>I can access finance at a minimum cost</td>
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### Savings

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<tr>
<td>9</td>
<td>I save a portion of my business monthly income</td>
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<tr>
<td>10</td>
<td>I keep financial reserves in case of emergency</td>
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<tr>
<td>11</td>
<td>I plan to use my savings for future growth of my business</td>
<td></td>
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<tr>
<td>12</td>
<td>My savings reduce my reliance on credits</td>
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### Record keeping

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<tbody>
<tr>
<td>13</td>
<td>I prepare financial statements for your business (income statement, balance sheet)</td>
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<td>14</td>
<td>I can perform financial Analysis on your business financial statements (gross profit margin, net profit margin, current ratio)</td>
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<tr>
<td>15</td>
<td>I have adequate knowledge on how to maintain and balance ledger accounts</td>
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<tr>
<td></td>
<td>Statement</td>
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<td>2</td>
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<tr>
<td>16</td>
<td>My decisions are guided by information from my financial statements</td>
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<tr>
<td>17</td>
<td>My long-term financial decisions are influenced by my retirement plans</td>
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<tr>
<td>18</td>
<td>I am familiar with basic economic concepts that are needed to make sensible saving and investment decisions.</td>
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<tr>
<td>19</td>
<td>I have another source of income apart from my business</td>
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<td>20</td>
<td>I plan to continue this business even in the later future</td>
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**SECTION D: FINANCIAL ATTITUDE**

Kindly indicate to what extent you agree or disagree with the following statements with regards to financial attitude

1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree

<table>
<thead>
<tr>
<th></th>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>It is important to control monthly expenses</td>
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<td>2</td>
<td>It is important to establish financial targets for the future</td>
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<td>3</td>
<td>The way I manage my money today will affect my future</td>
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<td>4</td>
<td>Making risky decisions will add value to my returns</td>
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<td>5</td>
<td>Preventing risk ensures security of my business</td>
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<td>6</td>
<td>All my short-term decisions are influenced by my long-term financial goals</td>
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<td>7</td>
<td>My social environment has contributed so much to my financial skills</td>
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<td>8</td>
<td>My parents have influenced my Money management skills</td>
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<td>9</td>
<td>I have participated in training programs for financial skills</td>
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<td>10</td>
<td>I have learnt cost/benefits trade off from training programs</td>
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</table>
SECTION E: PROFITABILITY

Kindly indicate the right answer by ticking or circling the option that applies to your business.

1. Which of the following ranges is the best indication of your business total assets?
   - [ ] Less than Ksh 100,000
   - [ ] Ksh 100,000 – Ksh 500,000
   - [ ] Ksh 500,00 – Ksh 1,000,000
   - [ ] Ksh 1,000,00 – Ksh 5,000,000
   - [ ] More than Ksh 5,000,000

2. Which of the following ranges is the best indication of your business annual sales?
   - [ ] Less than Ksh 100,000
   - [ ] Ksh 100,000 – Ksh 500,000
   - [ ] Ksh 500,00 – Ksh 1,000,000
   - [ ] Ksh 1,000,00 – Ksh 5,000,000
   - [ ] More than Ksh 5,000,000

3. Which of the following ranges is the best indication of your business annual net profits?
   - [ ] Less than Ksh 100,000
   - [ ] Ksh 100,000 – Ksh 500,000
   - [ ] Ksh 500,00 – Ksh 1,000,000
   - [ ] Ksh 1,000,00 – Ksh 5,000,000
   - [ ] More than Ksh 5,000,000

4. Do you make predictions for your profits?
   [ ] Yes
   [ ] No

5. How does your actual profits vary from the expected/estimated profits?
   - [ ] Less than expected
   - [ ] Greater than expected
   - [ ] Same with expected
   - [ ] Do not know

THANK YOU FOR YOUR TIME