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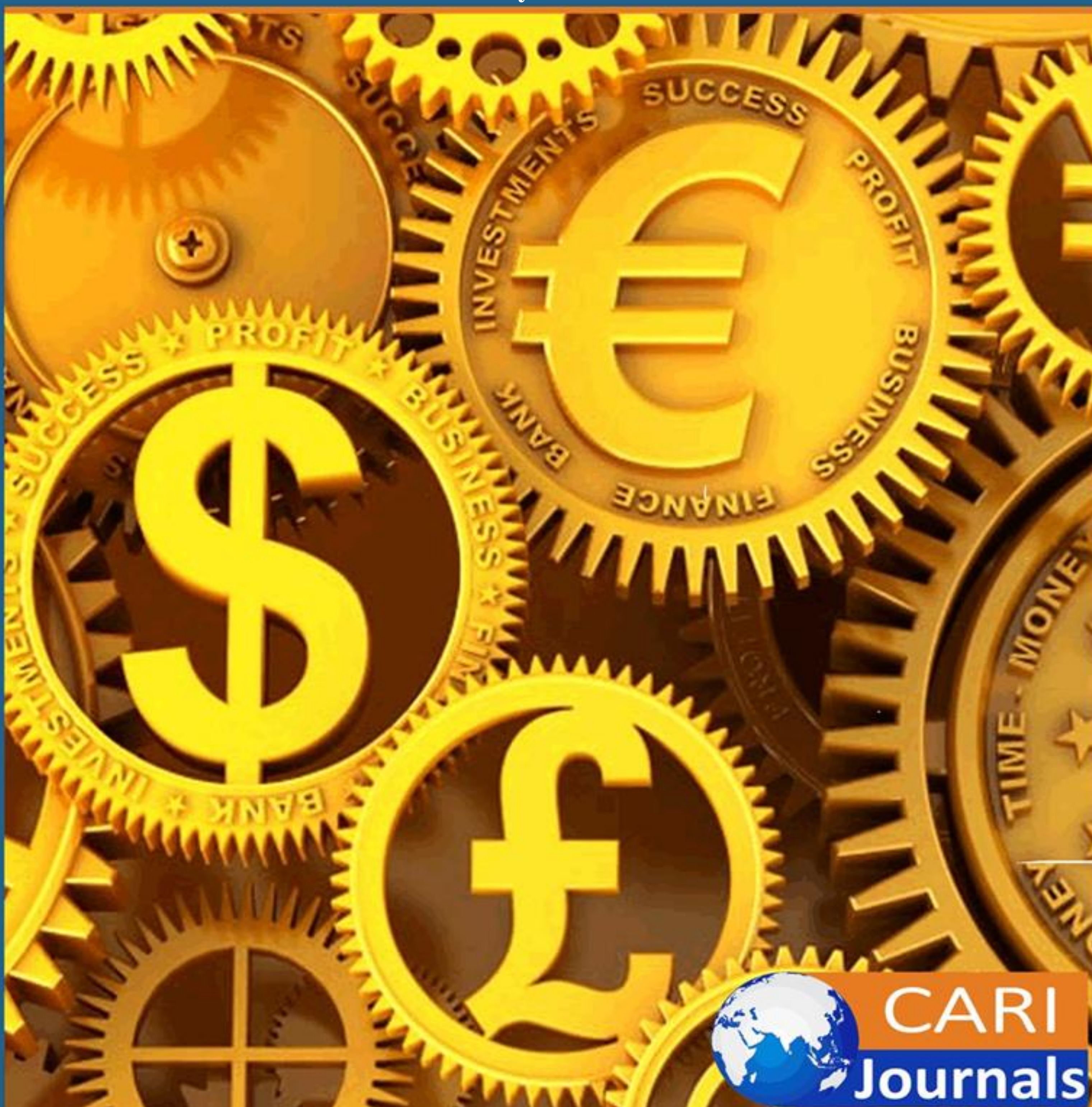

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Financial Management Knowledge and Financial Performance of Small and Medium Enterprises in Garissa Township Subcounty, Kenya

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Abstract

Purpose: The importance of SMEs is realized throughout Kenya's economy, as they contribute 70% to the country's GDP and account for 80% of employment creation. However, SMEs in Garissa Township appear to be undergoing severe financial constraints, as an estimated 60% of SMEs die within three years of existence. Poor financial management knowledge has been identified as a key contributor to their underperformance. This study investigated the influence of financial management knowledge on the financial performance of SMEs in Garissa Township.

Methodology: The study employed a descriptive correlational research design. The population comprised 716 SMEs operating in Garissa Township, as obtained from Garissa County records. The units of observation comprised managers of the SMEs. A sample size of 97 SMEs was derived from the target population. A questionnaire containing both open- and closed-ended questions was used to collect primary data, while a secondary data collection sheet was used for secondary data that was acquired from the respondents. Both descriptive and inferential statistics were used to analyze data and were generated through the Statistical Package for Social Sciences tool. The study employed a multiple linear regression to assess the relationships between the dependent and the independent variables. Thematic analysis was used to analyze the qualitative data. Data presentation was by way of graphs and tables.

Findings: The study established that financial management knowledge positively and significantly influences the financial performance of SMEs in Garissa Township. This is depicted by a beta value of 0.353 and a significance value of 0.000. The study concluded that financial management knowledge significantly influences the financial performance of SMEs in Garissa Township. Specifically, adequate financial literacy enhances transparency, improves decision-making, safeguards assets, and strengthens the financial sustainability and growth of small and medium-sized enterprises.

Unique Contribution to Theory, Policy and Practice: The study recommended that SME owners and managers enhance financial management skills through training. In addition, policymakers and SME support institutions should deliver financial management training and hands-on guidelines to enhance financial performance within SMEs and achieve better performance.

Keywords: *Financial Management Knowledge, Financial Performance and Small and Medium Enterprises*

1. Background of the Study

Small and Medium Enterprises (SMEs) are recognized as crucial engines of economic growth as they comprise the majority of firms worldwide and contribute significantly to the generation of jobs and global economic development (Al-Haddad et al., 2019). This sector accounts for more than 50% of global employment and about 90% of enterprises. Moreover, within developing nations, conventional SMEs generate approximately 40% of domestic income (She et al., 2020). Through rapid industrialization, innovation, entrepreneurship development, support for important industries, revenue generation, job creation, and poverty reduction, SMEs have significantly impacted the global economy (Abisuga et al., 2019).

Financial management knowledge refers to the ability of business owners and managers to understand and apply financial principles in managing organizational resources effectively. It enhances budgeting, financial planning, cost control, and investment decisions, thereby improving business performance. The variable consists of the following: decision-making ability to allow for prudent financial decisions; level of financial education allowing for proper application of financial management skills; accounting knowledge to promote efficient and accurate recording and reconciliation of financial activities. An SME with sound financial knowledge helps enhance profitability, financial discipline, financial stability and long-term survival (Brigham & Ehrhardt, 2022; Lusardi & Mitchell, 2023; OECD, 2023).

Statement of the Problem

The importance of SMEs for economic growth, job creation and poverty reduction is widely acknowledged. In Kenya, SMEs contribute significantly to GDP and employment opportunities in Kenya. This sector is vital for achieving national development goals such as Vision 2030, Africa's Agenda 2063, and the United Nations Sustainable Development Goals. The optimal path for SMEs involves their operational growth, which should result in national economic stabilization and socioeconomic progress. The actual situation shows that Kenyan SMEs still struggle with low financial performance. According to statistics, 60% of SMEs shut down during the initial three years of operation, which indicates that the majority have high rates of failure. Return on Assets, which represents the company's primary financial indicator, dropped from 12.5% to 8.3%, indicating a decline in financial performance. The dangerous patterns which exist today jeopardize two vital economic functions, which include creating jobs and developing stronger economic systems that protect against financial downturns.

The weak financial management knowledge is a big reason for this problem. Lack of financial management knowledge in most of the SMEs leads to their incapacity to generate credible financial records, which causes misuse of money and weakened internal controls. The problem is also more serious due to the absence of elementary financial management know-how and poor financial literacy. SME owners need financial management knowledge to help them make correct financial decisions and handle resources while knowing their business performance and forecasted financial results. SMEs' failure has far-reaching effects that go beyond specific companies. This results to businesses losing employees, thus lowering family incomes and raising poverty rates in places like Garissa that already face financial difficulties. The outcomes make it more difficult to achieve both domestic and global development goals, which are aimed at ending poverty while maintaining economic growth and generating appropriate employment opportunities.

While many studies have looked at the financial elements of SMEs, the majority have focused on particular problems such as financial literacy. Financial management knowledge measures have not been thoroughly examined as a factor affecting financial performance. Furthermore, despite the distinct economic and social characteristics of the area, there is still a dearth of study that focus especially on Garissa Township. The difficulties faced by SMEs in this area could not be sufficiently addressed by current research from other fields. Therefore, by examining how financial management knowledge affects the financial performance of SMEs in Garissa Township, this study aims to close these disparities.

Objectives of the Study

To assess the influence of financial management knowledge on the financial performance of small and medium-sized enterprises in Garissa Township, Kenya.

2. Literature Review

Theoretical Review

Proprietary theory

Developed by William A. Paton (1922), in his accounting writings, the Proprietary Theory states the definition of business ownership from the aspect of the proprietor. This theory describes business as part of the owner, so the revenues, assets, liabilities and expenses of the business actually are of the business and directly influence the owner. In terms of that aspect, the business purpose of accounting in this is to determine the wealth and position of the owner; since that owner takes the full risk and gets the full fortune, it largely relies on the owner's financial competence, financial knowledge and financial responsibility to manage cash funds (Schmidt, 2018). Based on such ideas of the theory, prudent cash management, appropriate budgeting, rational investment decisions, and correct usage of finance and so on become some crucial factors deciding the performance.

This theory is important to the current study since most SMEs are owned and managed by its owners, so it would be the owners themselves who are to be personally involved in all aspects of financial planning and management, such as budgeting, accounting, cash flow management and investment decisions. The owners of SMEs can utilize financial management skills in planning the resources of a business effectively, ensuring cost control, managing risk and making appropriate business decisions, which could in turn contribute to the enterprise performance and profitability. For owners with adequate financial management knowledge, there would be feasibility to manage realistic budgeting, accurate accounting systems and comprehensive accounting records as well as effective use of financial strategies.

This theory backs the second aim of the study, which is to assess the effect that financial management expertise has on the financial performance of SMEs in Garissa Township, Kenya. Financial performance can be strongly attributed to the financial know-how of the owner; given that owners account for almost all of the financial decision-making process in the business, the better the skills, the higher the accountability of resource use and financial performance of the business.

However, Proprietary Theory has been accused of placing an overemphasis on the interest of the owners of the business at the expense of the employees, creditors, customers, governments and general public; further, the theory is argued to be suited better for the owner-managed business and a sole trader than for today's modern organizations which have separate legal identity and have multiple stakeholders in view. The theory is also criticized on grounds that it does not offer good justification for financial accountability. Notwithstanding, the theory is much more relevant in the context of this study as most SMEs in Garissa Township are owner-managed businesses in which owners have direct involvement in financial management decision-making, and thus the theory can well be used to explain how financial management skills have improved financial responsibility and financial performance.

Empirical Review

Yakob et al. (2021) research aimed to measure the nexus of financial literacy and SMEs financial performance. The main objective was to analyze how Malaysian small and medium-sized businesses' (SMEs) performance is affected by financial literacy. 200 SME managers and owners were given questionnaires to complete in order to collect the data. Multiple regression analysis was used to adjust for management profile and SME-specific factors in order to examine the impact of financial literacy on SMEs' performance. The study came to the conclusion that financial literacy significantly and favourably affects the performance of SMEs based on the findings of multiple regression analysis. Financially literate managers and owners are aware of business-related financial concepts such as savings, debt, insurance, and investment that guarantee the success of their organization. According to the survey, proactive measures should be put into place more quickly to ensure that entrepreneurs have a sufficient degree of financial literacy. However, there is a contextual gap because the study was carried out in Kenya.

Umogbaimonica et al. (2018) investigated the impact of financial literacy on the financial well-being of small and medium-sized businesses in Nigeria's Benue State. One of the study's specific objectives was to look at how financial behavior, financial attitude, and financial knowledge affected the success of SMEs. A well-structured questionnaire was utilized to gather a sample of 154 respondents, from whom the researcher gathered both primary and secondary materials. Descriptive statistics such as frequency and simple percentages were utilized to analyze the collected data, and multiple linear regression analysis was employed to investigate the relationship between the elements of the model. The study found a favorable and significant relationship between SMEs' performance and their financial knowledge, conduct, and attitude. It was found that the attitudes and financial knowledge of SMEs affect their performance. The necessity of training programs on debt management, record-keeping, retirement plans, saving, and budgeting and planning was suggested, among other things, for schools and other organizations that aim to encourage financial literacy and practice. The study, however, was centred on financial literacy and was conducted outside Kenya.

For their part, Mudumizi and Claude (2024) looked into the relationship between financial literacy and the business's financial performance of SMEs in Kigali City's Nyarugenge District. To identify the extent to which financial literacy affects SME performance, researchers, through quantitative methodologies and a correlational design, analyzed financial planning, record-keeping, and knowledge about financial access among 211 SME owners in the trade, manufacturing, and service sectors. The findings showed that there is a significant relationship between financial planning abilities, record-keeping, financial access knowledge and the financial performance of SMEs. The study emphasized the significance of financial literacy to improve SME performance in addition to promoting specific education regarding financial planning, record-keeping, and bank access comprehension. The study presented a conceptual knowledge gap as it focused only on financial literacy.

The impact of financial management methods on the financial achievements of SMEs in Mombasa County, Kenya, was examined by Okeyo and Kaplelach (2022). Their research concentrated on assessing how certain SMEs' financial results were impacted by their financing, investment, and liquidity strategies. The study used a study design that was descriptive and focused on 206 respondents from particular SMEs in the area. Stratified sampling was used to choose a sample of 62 participants, of whom 60 completed and returned the questionnaire. SPSS was used for data analysis, and a multiple regression model was applied to investigate the study's goals. The frequency distribution tables, average scores, and deviations from the mean were used to display the results. The findings revealed that all SMEs incorporated financial management practices in their routine operations, leading to the conclusion that these practices significantly affect the financial performance of most SMEs. The study recommended that business owners to prioritize financial management techniques while developing their operational plans. Although the study focuses the assessment on general financial management practices, the current research tries to establish the financial management knowledge focusing on SMEs financial performance.

The reviewed literature consistently indicates that financial management knowledge positively influences the financial performance of SMEs. Studies by Yakob et al. (2021), Umogbaimonica et al. (2018), Mudumizi and Claude (2024), and Okeyo and Kaplelach (2022) established that financial knowledge, literacy, planning, record-keeping, and financial decision-making enhance business performance by improving resource utilization and financial decision quality. Despite this consensus, differences exist in terms of study contexts, conceptual focus, and research designs. Most studies were conducted outside Kenya, particularly in Malaysia, Nigeria, and Rwanda, while the Kenyan study focused on general financial management practices rather than financial management knowledge. Additionally, many studies conceptualized financial knowledge from the perspective of financial literacy instead of financial management knowledge as an accountability practice. Variations also exist in the performance measures employed across studies. Therefore, both contextual and conceptual gaps remain regarding how financial management knowledge influences the financial performance of SMEs in Garissa Township, Kenya, necessitating the present study.

Conceptual Framework

Financial Management Knowledge
- Decision-making proficiency
- Financial Training Level
- Accounts Balancing Knowledge

→

SME Financial Performance
- Revenue Growth

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework

3. Methodology

This study adopted a descriptive correlational research design. The population of this study comprised of 716 SMEs operating in Garissa Township. The units of observation comprised of managers of the SMEs, while the units of analysis comprised the SMEs. The study's sample size of 97 was derived as per Nassiuma (2008) formula. The proportionate random sampling technique was utilized in the study to distribute the sample size across the categories of SMEs considered in the study, comprising retail chain distributors, food and beverage restaurants, open-air markets and animal sales. A questionnaire containing both open- and closed-ended questions was used to collect primary data, while a secondary data collection sheet was used for secondary data.

Data Analysis

The study employed both quantitative and qualitative data analysis approaches. For the quantitative data, the study employed descriptive statistics in form of means, averages, and standard deviations in summarizing and relating variables from administered questionnaires in line with Willis (2022) recommendation. Inferential statistics comprising of Pearson correlation Coefficient (r), regression analysis and p-values were employed in relating the variables of the study. Thematic analysis was applied in analyzing the qualitative data collected through the open-

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ended questions contained in the questionnaire. The findings were shown in form of table and figures for easier understanding and explanation. The model for the study was as presented below:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \varepsilon_{it}$$

Where; Y= Dependent variable, i.e Revenue growth of SME i in year t, X_{1it} =Financial management knowledge score for SME i in year t, β_0=regression coefficient (constant), β_1= coefficients of the independent variables and ε_{it}=error term

4. Results

Response Rate

The study issued 97 questionnaires to the targeted respondents, comprising managers of the SMEs. Out of the issued questionnaires, 81 were fully responded and returned for analysis. This represented a response rate of 83.5%. The response rate was considered sufficient and justifiable for the study. This was as per Kothari (2014) assertion that a response rate of 60% or above is deemed adequate for analysis and drawing conclusions.

Descriptive Results

Financial management knowledge and Financial Performance of SMEs

The descriptive results on financial management knowledge was presented in Table 1.

Table 1: Descriptive results on financial management knowledge

Statement	SD	D	N	A	SA	Weighted Mean	Standard Deviation
I have knowledge in financial access	11	7	16	21	26	3.543	1.379
I am conversant with record keeping	15	3	18	16	29	3.506	1.476
The Knowledge on balancing of the ledger has improved my operations	21	13	11	13	23	3.049	1.588
I have improvement in record keeping as a result of financial management knowledge	22	12	19	8	20	2.901	1.53
I have had training in financial planning	23	16	11	9	22	2.889	1.597
Average						**3.178**	**1.514**

The result in Table 1 shows that the respondents agree with the statement that they were conversant with record-keeping as well as knowledge of financial access, as shown by a response mean of 3.506 and 3.543, respectively. A neutral response was, however, observed on the statement whether they have had training in financial planning (mean=2.889) as well as whether the knowledge of balancing the ledger had improved their operations (mean=3.049). Similarly, there was neutrality amongst respondents on the statement that they had improvement in record keeping as a result of financial management knowledge (mean=2.901).

On average, all respondents had a neutral response on the statements on financial management knowledge, as shown by a response mean of 3.178 and a standard deviation of 1.514. The results concur with findings from Umogbaimonica et al (2018), who established a positive and significant effect between financial knowledge, financial behavior and financial attitude and the performance of SMEs and that attitudes and financial knowledge of SMEs affect their performance. The finding that respondents possessed moderate financial management knowledge supports the Resource-Based View (RBV), which argues that valuable organizational capabilities such as financial knowledge enhance decision-making and contribute to superior financial performance.

The second section on financial management knowledge required respondents to indicate whether financial management knowledge had improved SMEs' overall performance. Table 2 presents the results.

Table 2: Contribution of financial management knowledge to performance of SME

Financial Management Knowledge	Frequency	Percentage
Yes	62	76.50%
No	19	23.50%
Total	**81**	**100%**

According to the results, 76.5% of respondents indicated financial management knowledge had contributed to SME performance, while 23.5% said it did not. The thematic analysis revealed that the majority of respondents linked financial management expertise to better control over corporate finances, less waste, better planning, and the capacity to handle financial difficulties, according to the thematic analysis of the responses. The minority with differing views linked financial management knowledge to obstacles including restricted access to official training, dependence on unofficial business methods, and external limitations like market volatility and security worries. The disparate viewpoints may have resulted from the difficulties overshadowing the advantages of financial literacy.

Financial Performance

The descriptive results on financial performance were presented in Table 3.

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Table 3: Descriptive results on financial performance

Statement	SD	D	N	A	SA	Weighted Mean	Standard Deviation
Return on Investment increased last year	4	11	14	18	34	3.827	1.253
My business experienced an increase in revenue	3	10	18	18	32	3.815	1.195
My business experienced an increase in Profits	4	10	17	17	33	3.802	1.239
Average						**3.815**	**1.229**

The findings presented in Table 14 reveal that respondents agreed that SME's Return on Investment had increased (mean=0.827) and that their business had experienced an increase in profits (mean=3.802). Respondents further agreed with the sentiments that their business had experienced an increase in revenue (mean=3.815).

Inferential Statistics

Correlation Analysis

The study assessed the correlations between the independent and dependent variables using a correlation matrix. Table 4 displays the correlation analysis results.

Table 4: Correlation Results

		Financial Management Knowledge	Financial Performance
Financial Management Knowledge	Pearson Correlation	1	
	Sig. (2-tailed)		
Financial Performance	Pearson Correlation	.477	1
	Sig. (2-tailed)	0.000	
	N	81	

The results revealed that financial management knowledge bear a moderate positive and significant correlation with financial performance of SMEs in Garissa Township, as shown by a correlation value of 0.477 and a significance value of 0.000. The results implies that enhancing financial management knowledge among owners of SMEs in Garissa Township is likely to significantly improve the SMEs' financial performance. The results are supported by findings from Yakob et al. (2021), who revealed that financial literacy has a favorable and significant impact on SMEs' performance. Managers and owners who are financially literate understand business-related financial principles that ensure their business performance.

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Regression Analysis

Model summary

The model summary was utilized to depict the degree of relationship between the independent variable and the dependent variable. The model summary further showed the percentage accounted by the independent variable on the dependent variable. Table 5 displays the results

Table 5: Model Summary

R	R-Square	Adjusted R Square	Std.Error of the Estimate
.645[a]	.416	.393	.698

a. Predictors:(Constant), Financial Management Knowledge

According to the results presented in the table, the R-value established in the study was 0.645. This implied that there existed a strong positive relationship between financial management knowledge and financial performance of SMEs in Garissa Township. Similarly, the coefficient of determination represented by the R-squared value was 0.416, implying that 41.6% of the financial performance of SMEs in Garissa Township can be accounted by financial management knowledge.

Analysis of variance

The Analysis of Variance (ANOVA)was incorporated in the study to assess whether the model linking the dependent variable with the independent variable was statistically significant. Table 6 presents the results.

Table 6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.698	1	26.698	56.208	.000[b]
	Residual	37.524	79	0.475		
	Total	64.222	80			

Dependent Variable: Financial Performance
Predictors:(Constant), Financial Management Knowledge

According to the results displayed in Table 6, the p-value was 0.000, which was less than 0.05. This had the implication that the model linking the dependent and the independent variables of the study was statistically significant. It was therefore considered a good fit for the study for assessing the relationships.

Regression coefficients

The regression coefficients were utilized in the study to show how changes in the independent variables affected the dependent variable. Table 7 presents the results

Table 7: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Predictors	**B**	**Std.Error**	**Beta**	**t**	**sig.**
(Constant)	1.421	0.352		4.034	0.000
Financial Management Knowledge	0.353	0.057	0.543	6.159	0.000

Dependent Variable: Financial Performance

The results revealed that financial management knowledge positively and significantly affected the financial performance of SMEs in Garissa Township. This was shown by a coefficient value of 0.353 and a p-value of 0.000<0.05. The results implied that when aspects of financial management knowledge increase by one unit, the financial performance of SMEs increases with 0.353 units. The results are supported by findings from Mudumizi and Claude (2024), who revealed the existence of a significant relationship between financial planning abilities, record keeping, financial access knowledge and financial performance of SMEs.

The model of the study thus becomes:

Financial Performance = 1.421+ 0.353 (Financial Management Knowledge)

Hypothesis Testing

The study assessed the hypothesis using the p-value results derived from the regression analysis. A hypothesis was rejected if the p-value was less than 0.05. Table 8 presents the hypothesis testing results.

Table 8: Hypothesis Testing

Hypothesis	**Method and Criteria**	**Remark**
H_{01}: Financial management knowledge has no significant effect on the financial performance of small and medium-sized enterprises in Garissa Township, Kenya	Multivariate regression analysis (p=0.000< 0.05)	Reject $\mathbf{H_{01}}$

Discussion

The findings of this study revealed that there is a significant effect on the financial performance of the SMEs in Garissa Township in Kenya due to expertise in financial management. The descriptive analysis results depicted that most SME owners and entrepreneurs had intermediate knowledge in critical financial operation aspects, namely record-keeping and knowledge of access to financing due to mean scores above the midpoint, indicating that the majority had an adequate concept of good fundamental financial accounting skills, perhaps because these aspects might form a normal routine business operation. However, while financial planning knowledge and ledger balancing together with improved financial accounting record maintenance as a function of expertise in financial management displayed neutrality of mean scores, deficiencies in more tactical financial capabilities were identified, indicating while SMEs may encounter basic financial management activities, they lack thorough formal exposure and application in its advanced use

The descriptive result correlated positively with prior empirical studies focusing on different levels of financial literacy among SMEs. Though owners of SMEs often demonstrate fundamental financial literacy knowledge, Umogbaimonica et al., (2018) discovered the general effect of financial knowledge was mediated by lack of effective planning and behavioral use. Consistent with this Mudumizi & Claude (2024) discovered that SMEs without adequate exposure to formal financial management training tend to employ crude record-keeping methods that do not promote successful long-term financing. Studies conducted in much more urban settings however recorded relatively high levels of financial management competencies such as Fatoki (2014) which found that SMEs in South Africa had strong bookkeeping and financial planning techniques primarily based on greater availability to training and institutional support. This demonstrated environmental variations which can partially explain why there were non-significant effects in the current study.

A significant and favorable moderate relationship between financial performance and expertise in financial management was also established by the correlation analysis. There is evidence that financial management expertise affects financial performance, i.e., increased financial management expertise goes together with better financial performance of the SMEs in Garissa Town. The financial management expertise also had an implication of a significant influence on performance, based on the correlation results. This is contrary to the conclusion by Yakob et al., (2021) that reported a positive moderate relationship between SME performance and financial literacy. According to him, knowledgeable managers in finance can take correct decisions on financing, investment and cost control. Similar findings were also observed from Lusimbo and Muturi (2016) where SME that had the highest financial literacy had relatively better financial performance (profitability and survival) due to higher decision-making abilities. The impact of financial management expertise on SME financial success was further empirically supported by regression results.

The study posits that improvements in financial management knowledge lead to discernible improvements in performance evidenced by the strong positive beta coefficient, which revealed that financial management knowledge was a significant predictor of financial performance. This result is consistent with the findings of Mudumizi & Claude (2024) who found that financial literacy knowledge, financial skills planning and record keeping were a significant predictor of success for SME's business performance. However, the modest beta coefficient value revealed that financial management knowledge had an interaction effect with other factors, namely: market environment, financial accessibility, managerial competence and regulations governing the business as stated in my explanation regarding my second objective. This is consistent with the findings of Ahmad et al. (2018), which showed that financial literacy is significantly positively associated with business performance in SMEs, an impact which is strengthened in combination with both entrepreneurial orientation and good institutional support.

Eniola & Entebang (2015), on the other hand, argue that financial literacy has an indirect rather than a direct relationship with business success because the direct effect of financial literacy is through enhancement in business activities. It is through enhanced behavior related to financial management as well as ease in accessing financing that financial literacy enhance performance.

5. Conclusions and Recommendations

Conclusion

The study concluded that SME owners and managers understand fundamental bookkeeping and financial access, yet their lack of advanced financial skills prevents their business growth from progressing forward. The current level of financial literacy enables people to survive yet it lacks the necessary skills for achieving optimal financial results and handling complicated economic situations. The conclusion showed that knowledge of financial management is the best predictor of the outcomes achieved by an organisation. Thus, a training program designed for financial planning and bookkeeping should be provided to business owners. The business owners' competence gained a stronger understanding and enhanced abilities would lead them with greater competence to making sound strategic choices impacting positive financial success.

Recommendations

Owners of SMEs need to improve their financial management knowledge in the area of budgeting, financial planning, ledger maintenance and interpreting financial statements with ongoing formal and/or informal training or education. This will help to make business decisions more rationally.

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