

**THE IMPACT OF FINANCIAL LITERACY ON THE PERFORMANCE OF  
SMALL AND MEDIUM SCALE ENTERPRISES  
A STUDY OF SMEs IN MOROGORO MUNICIPAL**

**By**

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**A Dissertation Submitted In Partial Fulfillment of the Requirement for the Award  
of Master of Science in Accounting and finance of Mzumbe University.**

**2019**

**CERTIFICATION**

We, the undersigned certify that we have read and hereby recommend for acceptance by Mzumbe University of Tanzania the dissertation titled “**The impact of financial literacy on the performance of small and medium scale enterprises**” in partial fulfillment of the requirement for the degree of Master of Science in Accounting and Finance of the Mzumbe University of Tanzania

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## **DECLARATION**

I, Salma Kirumbi, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature\_\_\_\_\_

Date\_\_\_\_\_

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## **DEDICATION**

To my parents, Mr and Mrs Kirumbi, who instilled in me the values of education, i wouldn't be here without them.

## **ABSTRACT**

The general objective of this study was to investigate the impact of financial literacy on the performance of small and medium enterprises in Morogoro municipal. Descriptive research design was used and the researcher made use of both primary and secondary data to provide answers to the research questions. The study involved samples drawn from respondents that own or manage SMEs. Data was gathered through issuing questionnaires and conducting interviews to a sample population of 120 respondents that own or manage businesses. Non Probability sampling was used to purposely and conveniently select respondents to collect data. to analyze the findings the researcher used frequency distribution and cross tabulations which were computed using by the Microsoft excel and the report was presented using frequency tables. In order to determine the relationship and the significance of the relationship between independent variables financial attitude, financial behavior and financial knowledge with the dependent variable SMEs performance the study employed a correlation analysis and regression analysis of variance whereby the Statistical package for the social sciences (IBM SPSS) statistical software was used to conduct these statistical analyses. Results showed that the majority of respondents had adequate are financial knowledge as indicated by a majority of respondents who successfully answered questions on various concepts and terminologies associated with financial literacy; these included risk and return, time value of money, inflation and diversification. The study sought to examine the effects of financial behavior on the performance of SMEs, findings showed that financial behavior had a slight effect on the performance of SMEs. Furthermore the study examined the effects of financial attitude of owners and/or managers of SMEs and the subsequent effect on the performance of SMEs. Findings showed that the majority had a positive attitude when it came to setting financial targets for the future. It was concluded that being financially knowledgeable is not enough to make a business profitable, that knowledge needs to be put to use in the process of making decisions for the business as well as other activities in relation to the business. For instance understanding the concept of time value of money will not automatically make one make

more profits, it is the use of that understanding in making financial decisions for the business that may result in increase in earnings. Furthermore it was concluded that efficient financial behavior, the likes of savings, retirement planning, debt management, budgeting and recordkeeping play a major role in SMEs performance. From the findings it was recommended that the government as well as other institutions dealing with financial matters should provide education and trainings on proper finance that aim at encouraging the use of financial knowledge in the decision making for businesses. Such efforts should have the ability to provide encouragement and motivation to business owners to have a positive approach with regards to the future of the business in terms of growth and expansion.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the study**

Economies of developed as well as developing countries still place a heavy reliance on small businesses to have a significant contribution in efforts to trigger and sustain equitable development and economic growth. According to Mills and McCarthy (2014), 50% of the workforce in the private sector is employed by small and medium enterprises (SMEs), which in the USA account for 60% to 80% of total net job creation. In South Africa it is estimated that 91 percent of formal business entities are small and medium enterprises, these in total have a contribution of around 52% up to 57% to the GDP and contribute to around 61 percent of total employment (Abor and Quartey, 2010). Just like in many other countries around the world economists, business experts and policy makers in Tanzania agree that SMEs drive economic growth. Paul, (2009) posits that the effect of Small and medium enterprises (SMEs) are the same for both developing and developed countries which is their significant contribution to employment and output which is important in revitalizing the economy of individual nations and the world at large.

In the global economy today, corporations that are operating in various countries keep on directing their efforts towards branding and marketing instead of production which results in (Simeon and Lara, 2005). The McKinsey Global Institute (MGI) and the International Finance Corporation (IFC) carried out a study of 132 countries in 2010 and they estimated that there are 420 to 510 million SMEs all around the world. Of those SMEs, 80% to 95% are emerging markets and only 9% are formal SMEs (Kushnir et al, 2010). According to a study by Tarfasa et al., (2016) In Africa many countries, enterprises employment for both Micro, Small and medium are nearly double the level of total employment in registered large-scale enterprises, this confirms that small and medium enterprises are a main source of livelihood for a big portion of the population.

SMEs therefore are very important in jump starting private sector led growth, overall growth, and employment creation especially for developing countries that aspire to have sustainable growth.

A Small and Medium Enterprises sector that is doing well therefore has a significant contribution to the economy through production as well as creation of employment opportunities. The performance and competitiveness of SMEs must be increased so as to respond effectively to the challenges concerning poverty reduction, promotion of economic growth and creation of productive and sustainable employment opportunities in the country.

Although the benefits of SMEs all over the world are many, it is unfortunate that these enterprises have recorded a very high rate of birth rate as well as high rate of death (Oluoch, 2014; Fatoki, 2014; Turyahebwa et al, 2013; GOK, 2005). Empirical literature has indicated that a big volume of SMEs don't live long enough to celebrate their third anniversary. The reason behind this short life span is attributed to the fact that these enterprises have a tendency of remaining small making them vulnerable to collapse for a number of minor factors such as simple management mistakes in comparison to big firms. This gives managers no second chances to make mistakes since their feeble capital base does not leave room to make costly errors. Small firms have a hard time progressing into medium and large scale firms; this creates a phenomenon referred to as the "missing middle". As a Consequence, this has led to there being a. The high rate of failure can also be caused by a lack of financial literacy which causes limitations in accessing finance, poor financial management and poor planning (Njoroge, 2012; Agyei, 2014; Oluoch, 2014). These assertions are supported by Fatoki (2014).

Increasing evidence show that aside from being able to access capital, and the presence of an environment that is conducive, the financial management skills of managers are a huge determinant of whether SMEs will succeed or fail. Njoroge, (2014) argue that People who are financially literate normally have the best financial decisions making very few fewer management mistakes whereas financially illiterate individuals have a

high tendency of making poor decisions ridden with mistakes that very often prove costly (Fatoki, 2014). According to the theory of enterprise growth by Penrose (1959) the growth of a firm is greatly determined by entrepreneurial knowledge, motivation and entrepreneurial activity in terms of skills to raise the required funds and entrepreneurial judgment. The ability to raise funds refers to the owners being able to raise funds needed for expansion in a timely manner, this requires creation of trust on the part of the entrepreneur to investors in order to get them to invest in the business, investors will be persuaded if they are made to see that they stand to gain by committing their money to the business. This can be done by maintaining appropriate financial records that clearly show the profitability of the business. Entrepreneurial judgment dictates the quality of decisions made by the owner manager which largely depends on the ability of the owner to gather information, use consultancy and decide when and how to act. Players in the SME industry should have a degree of knowledge and skills financially so as they do not make decisions that could be unbeneficial to them as individuals and as a group, such skills are what is defined as financial literacy.

Nkundabanyanga and Kasozi, (2014) posits that financial literacy is the state where an individual is able to make judgments that are informed and effectively make decisions with regard to using and managing money. It refers to the ability to master a set of knowledge, attitudes and behaviors regarding financial matters. In addition it includes the possession of an attitude that facilitates management of financial affairs effectively and responsibly, this includes being able to read, analyze, communicate and manage ones financial conditions that impact their general welfare and being able to comfortably tell apart financial choices, discuss money and other financial matters. Kelmara and Wesley, (2016) argue that financial literacy assumes the role in letting individuals decide responsibly as they strive to attain financial wellbeing.

The business environment today is complex and dynamic, it is important in the running of organizational and business operations to have financial literacy. All around the world governments are interested in finding effective approaches of improving financial

literacy of their populations through development of strategies for financial education the main goal being the provision of numerous opportunities to learn (Atkinson and Messy, 2012). Ani et al., (2016) define financial education as a process through which people's abilities are developed with the goal of facilitating making correct financial decisions and to ensure successful financial management.

Financial literacy is a necessary life skill for individuals to conduct themselves intelligently with regards to financial matters in modern life, it is also, with that being established many countries strive to develop strategies with the goal of implementing financial education to improve financial literacy (Tali, 2016). A survey was carried out on a number of countries. It was found that developed countries such as the United Kingdom, Denmark, Germany, Australia, Netherlands, Finland, Norway, Israel, Sweden, and Canada had highest rates of financial literacy where about 65 percent or 4 more of adults are financially literate (Leora et al, 2015). The survey builds on prior initiatives by the Financial Literacy around the World (FLAT World) project, International Network on Financial Education (INFE), the World Bank's Financial Capability and Household Surveys, and other national survey initiatives that collect information on financial literacy.

Refera et al, (2016) present that In developed countries, the Increasing cost of life, the increasing complexity of financial markets, and the shift of retirement responsibility from government to individuals, have resulted in increase in the interest on Financial literacy because all those issues demand in individual and households personal financial management capability. They added that studies revealed recently developing countries have been modestly recognizing financial literacy showing promising outcomes of implementation of financial education and other interventions. However, there is no much information in least developing countries in Africa regarding levels of financial literacy and financial education programs. Xu and Zia, (2012) carried out a research intended to review of financial literacy all over the world, the survey results in sub-Saharan Africa showed there was a lack awareness of basic financial products and

concepts such as loans, insurance, interest on savings, and saving accounts, these were observed in large proportion of population in some countries like Nigeria, Malawi, and Mozambique. These show that the low level of financial literacy is correlated with low level of financial inclusion in Africa.

Extant studies further indicate that financial literacy is strongly associated with being able to make sound financial decisions, the wellbeing of households and the survival of businesses (FSD, 2009; Lusardi and Mitchell, 2013; Turyahebwa et al., 2013; Njoroge, 2014). The ability to manage finances well is very important to ensure that SMEs are managed well and they survive, financial literacy assist in this regard by equipping investors with the necessary skills and know how to enable them to informed decisions, make appropriate evaluation of financial products (MasterCard, 2011), furthermore it facilitates proper management of debt which improves the credit worthiness of potential borrowers. A financially literate SME manager is likely to interact with confidence with financial service providers and make fewer management mistakes than their illiterate counterparts which ultimately results to SME growth. Financial literacy also builds the skills of individuals. According to Siekei et al., (2013) financial literacy ensures that investors are ready to face challenges of difficult financial times by using strategies that ensures the mitigation of risk; such strategies include accumulation of savings, asset diversification, getting insured, refrain from excessive borrowing and being more aware of fraudulent schemes.

Margaretha and Supartika, (2016) posit that when a company is profitable it is an indication of the ability of that company to sustain a flow of earnings in a specific time frame. Having an understanding of the factors that determine what makes a company profitable is essential for business runners as it will help them develop effective strategies which would result in companies making profit. Profitability is achieved via a number of practices including but not limited to building customer loyalty, financial management and accounting practices that build advantage, position products at the top

of mind of consumers, research and development; and marketing strategies that create quality products, all these entail effective corporate governance.

Firm Performance highly depend on the degree of financial knowledge that business managers/ owners have with regards to the decision making processes, for instance timely payment of bills, managing debt properly to increase potential borrowers' credit worthiness so as to ensure improvement in economic growth, poverty reduction, sound financial systems, livelihoods and general welfare of the people. Possession of extensive knowledge to act on and the wisdom to determine the best course of action is critical to building great wealth (RichDad.com 2012).

## **1.2 Statement of the problem**

The significance of SMEs in the generation of employment and eradication of poverty in the country is openly recognized by the government. Although the importance of SMEs to the economy and the society is undeniable, it still faces numerous challenges one of them being lack of financial information and poor maintenance of business records. According to Wanjohi (2011) one of the biggest challenges for SMEs to develop and grow is a lack of adequate business skills. In large part this is a result of low education levels essentially a shortage of adequate information and records pertaining to the business. Both internal and external factors contribute to hinder access to financial information. Because of that it is not easy for SMEs to achieve their performance in terms of profitability, liquidity and long term solvency hence causing them to lose business opportunities, and fail to achieve growth in financial resources and operations (Badagawa, 2008).

Small and medium scale enterprises in Tanzania face a variety of problems. Chief among these problems is the inability to maintain decent accounting records; this problem is attributed by a lack of financial literacy. As a result this has led to a situation where small scale businessmen and women are unable to adequately trace profits of their businesses. The reason behind this is that the assembly of financial data in the process of

calculating profit is in such a way that does not help in making informed decisions and financial judgment. Financial literacy is needed to help in assembling the required financial adequately. In the end this problem has had an adverse affect on the profitability of small and medium scale businesses.

A study by Lusimbo and Muturi, (2016) investigated the significance of financial literacy on the growth of small and medium enterprises found that although managers of SMEs had fair knowledge with regard to management of debt, majority did not understand the effect of inflation and the rate of interest on loans taken in terms of matching assets and liabilities. In addition the study found that managers had shallow book keeping literacy and as a result growth recorded was very small or none. Although, there is an extensive literature that have argued that the major problems in SMEs are lack of information and business records, these various studies fail to address the significant gap in knowledge of the effects of financial literacy on performance of SMEs. Therefore the question that requires an answer is what are the effects of financial literacy on the performance of SMEs in Tanzania?

There have been numerous studies to investigate the importance of financial literacy on performance of SMEs in terms of profitability and growth. It has been observed that business failures all around the world are caused by low levels of financial literacy among people running these businesses (Niwaha et al, 2016). A big number of the reviewed literature discussing financial literacy put a focus on personal finance and fail to create a connection to business management. The previous study on this topic put their focus on individual's numerical skills and the ways in which they had an impact on their financial decisions; they did not try establishing how the individuals' literacy levels impacted business performance. Very often factors that are looked upon are literacy in book keeping literacy, ratio analysis on personal and household finance and literacy in banking services. Improving on prior literature, the researcher shifted focus to various components of financial literature which are financial knowledge, financial behavior and financial attitude and their subsequent impact on SMEs performance.

### **1.3 Objectives of the study**

#### **1.3.1 General objective**

The general objective of the study is to examine the effect of financial literacy on performance of Small and Medium Enterprises in Morogoro municipal

#### **1.3.2 Specific objectives**

The objectives of the study were to:

- i. Examine the effect of financial knowledge on the performance of SMEs in Morogoro municipal
- ii. Determine the effect of financial behavior on the performance of SMEs in Morogoro municipal
- iii. Examine the effect of financial attitude on the performance of SMEs in Morogoro municipal

#### **1.4 Research questions**

- i. What are the effects of financial knowledge on the performance of SMEs in Morogoro municipal?
- ii. What are the effects of financial behavior on the performance of SMEs in Morogoro municipal?
- iii. What are the effects of financial attitude on the performance of SMEs in Morogoro municipal?

#### **1.5 Significance of the study**

The researcher expects this study to be of significance in the following areas;

### **1.5.1 Researchers and academicians**

This study adds to the existing literature on financial literacy and SME performance, the knowledge in the study will be of help to researchers and academicians who will be interested for a variety of reasons in the topics under study.

### **1.5.2 The Government and financial regulators**

Governments seek to promote development and innovation, SMEs with their economic benefits is essential in these plans. Policymakers perceive the development of SMEs as a step in the right direction towards efforts of increasing incomes of the poor. Findings of this study have provided information on a number of ways that financial regulators and the government in general can approach the matter of financial illiteracy on entrepreneurs and come up with ways that could help promote financial education among small business entrepreneurs and owners which will enable them to have sufficient knowledge to handle financial matters for better results of their firms. Additionally it will be of help in attempts to incorporate SMEs in government policies with regard to financial matters such as accessing credits and a variety of other financial benefits that, in the future could allow for bigger and better opportunities for the poor and participants in that industry.

### **1.5.3 Investors and financial institutions**

Investor will benefit from this study as it highlights all the benefits that they stand to gain if the firm acquires financial literacy. Such benefits include among many others, proper financial management skills that will result in firms making profit.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Theoretical review**

Individuals and businesses alike, benefit from financial literacy as it strengthens the decision making process by enabling them to make informed and effective decisions with regard to money management by being able to understand and apply financial concepts. financial literacy is very important in ensuring financial stability and profitability and because of that there has been a lot of interest in the study form both government and private sector. For a long time the perception on SMEs was that of an applied trade rather than an academic discipline. Kuratko, (2009) points out that Research on the SMEs was scarce because it was thought that those who could not attend college would simply practice the concept of new business start-up. Over the years the growing importance of SMEs and their contribution towards economic growth has led to an increase in interest on SMEs and a number of research studies have been conducted with the goal of being more knowledgeable in SMEs. In this study a number of theories and concepts that are relevant to the study were reviewed.

##### **2.1.1 Dual –process theory**

This study is based off of the theory of dual-process which seems to relate more to this study. The relevance of the dual process theory in this study is due to the fact that it explains that individuals with high levels of cognition will search for knowledge and the likelihood of that knowledge influencing them is high. The implication of this is that financial literacy helps boost the decision making skills of individuals. Furthermore intuitive decision making could be reduced by providing relevant information to support decision-making through financial education. Although it is important to note that it may be difficult to achieve optimal results when individuals rely more on intuitions rather than collected information in decision making.

### **2.1.2 Concept of small and medium scale enterprises**

A definition of SME that is universally accepted does not yet exist. SMEs have been defined in different ways by people different countries. Normally various measures of size are used depending on the level of development of a particular region or country (Robinson, 1982). According to Young, (1985) SMEs are all entities that engage in economic activities regardless of their legal form. Legal form refers to form of ownership such as sole proprietorships, partnerships, Joint stock company and more. Frank, (1999) defined SMEs based on a number of criteria which are number of employees, rate of turnover and an economic definition that was based on the essential characteristics of small firms. Like it has been said there are many techniques/measurements that are used to determine SMEs and it depends on their purposes. Sales turnover, total investment and total number of employees are some of the predominantly used measurement basis (URT, 2002).

The term SMEs is used to describe micro, small and medium enterprises. In some cases the term micro, small and medium enterprises (MSMEs) is used to mean the same thing. According to URT, (2003) SMEs encompasses all non-farm economic activities such as mining, manufacturing, services and commerce. A study by Kessy and Urio (2006), defines SMEs as entities undertaking productive activities for production or distribution of goods and/or services, they are usually in but not limited to the private informal sector. The government of Tanzania provides a definition of SMEs in accordance to capital investment in machinery, employment size, and sector. An enterprise with not more than five employees is categorized as micro, an enterprise with a number of employees ranging from 5 to 49 is categorized under small, an enterprise with the number of employees between 50 and 99 is categorized as medium and an enterprise with employees exceeding 100 is categorized as large. A capital investment for SMEs ranges beginning under Tshs 5 million up to more than Tshs 800 million. This definition does not cover several informal economic enterprises such as peasant farmers, and individuals undertaking low level income generating activities (URT, 2003).

Small and medium scale enterprises have been defined differently and it changes overtime, these changes are dependent on a variety of factors such as government policy and administrative set up specific to a country, the pattern and stage of development. Parameters for defining small and medium scale enterprises are different for every country.. Ages ago during the medieval era it was defined based on employment. In India they define a small and medium scale enterprise as one which operates almost completely with hired labour from 10 to 50 hands. Another criterion for distinguishing between small and medium scale and large-scale enterprises is fixed capital investment in a unit. Governments continue to raise up this limit. Small and medium scale enterprises have a significant contribution to the total economy, even more so in developing countries such as Tanzania. Small and medium scale enterprises play a significant role in creating employment, utilization of resource and generation of income as well as promotion of gradual and phased changes. A development policy that is effective needs to increase the usage of labour in relation to capital to a degree that is efficient economically. Over the years in recent memory Small and medium scale enterprises have risen to become a vibrant and dynamic sector for developing economies. Generally, Small and medium scale enterprises have the following features:

- Decision making is easy because management structure is simple.
- Suffer from inadequacy of capital due to limited access to financial capital.
- Management and ownership are merged into one or a few several people.
- Generally there is an informal relationship between employers and employees.
- Form of business organization is usually a sole proprietorship or partnership with few instances of limited liability companies.
- Majority require more human per capital, hence labour intensive.
- High rate of business mortality.
- Normally very simple technologies are employed.
- They operate in mainly economic activities, providing a variety of goods and services.

**Table 2.1 Classification of SMEs in Tanzania**

No of employees			Capital		
Micro	Small	Medium	Micro	Small	Medium
1-4	5-49	50-99	5m	5-200m	200- 800m

**Source: World bank (2018)**

### **2.1.3 Concept and definition of financial literacy**

In general, literacy refers to the ability of an individual to read and write. The literacy definition committee provided a standard definition of literacy which is "using printed and written information to function in the society, to achieve one's goals and to develop one's knowledge and potential" (Kirsch, et al. 2001). In its usage the definition constitutes three broad areas; these are quantitative (arithmetic and numerical information), document (tabular/graphical information) and prose (written information). That being said therefore, literacy in its broadest sense includes understanding (i.e. arithmetical operations, symbols, and knowledge of words) and usage (being able to calculate, write and read) of materials related to quantitative information, documents and prose. Following this line of thought with regard to literacy, it expands to the study of a particular set of skills, such as statistical literacy, computer literacy, health literacy and many more. All forms of literacy have one thing in common and that is they measure the degree to which one understands and uses information. For instance, in health literacy what is measured is the person's ability to understand and use information with regards to health matters (Baker, 2006). According to Houston, (2009) same as other disciplines of literacy, financial literacy also has two dimensions - understanding (personal financial knowledge) and use (personal financial application).

Financial literacy was defined by the (OECD, 2011) as a mixture of knowledge, awareness, skill, behavior and attitude that are required in making proper decisions financially and as a result attain financial wellness for individuals and society as a whole. It refers to being able to utilize ones skills and knowledge in effective management of financial resources to attain perpetual financial wellness.

Therefore financial literacy refers to the set of knowledge and skills that helps a person to reach a decision that is informed and effective in so as to best utilize their financial resources. It is imperative for individuals to make the correct decisions financially, because the consequences of these choices are long lasting so if they chose wisely the resultant effects could be beneficial for a long while. It is not an easy task managing finances of a firm; SME managers find themselves constantly required to choose out of a large menu of financial needs of which many have complicated features. Thanks to Financial literacy individuals are able to acquire knowledge and understand the various concepts of finance which gives them the necessary skills to apply such knowledge and understanding which in turn boosts their confidence and motivation helping them to make the best decisions in different contexts in the finance landscape which results in improved financial state for SMEs (Hogarth, 2002).

According to Mutegi et al (2015) financial literacy contributes in the facilitation of the process for making appropriate decisions on a variety of financial matters, for instance proper management of debts and timely payment of bills, the result of making appropriate decision is the improvement of the credit worthiness of prospective credit seekers to support poverty reduction, livelihoods, sound financial systems and economic growth. Furthermore financial literacy provides individuals with means to have greater control over use of financial products and services more effectively, their financial future, and reduced vulnerability to overzealous retailers or fraudulent schemes.

Miller et al (2009) point out that financial regulators find themselves required to make improvements in the quality of financial services when facing individuals with high levels of financial literacy. Investors who have sufficient knowledge on financial matters are aware of various issues and a variety of services available to them, this ends up creating competitive pressures on financial institutions to offer services transparently and at appropriate prices. Investors with sufficient knowledge are able to make comparisons between all the options available to them, ask relevant questions, and negotiate for better terms. Financially literate Investors have the ability to make

evaluation and comparison of different financial products, such as credit and loan options, bank accounts, payment instruments, saving products, insurance coverage, and investments and end up making a decision that is most appropriate and suitable.

### **2.1.3.1 Dimensions of financial literacy**

#### **2.1.3.1.1 Financial knowledge**

According to Huston, (2017) financial knowledge can be defined as the ability to understand major financial concepts and terminologies that an individual or firm needs for carrying out daily activities. A slightly different definition is given by Potrich et al, (2016) who defined financial knowledge as a specific form of capital that an individual acquires and encompasses being able to safely master management of expenditures, incomes, and savings (Lusardi and Mitchell, 2008). Robb, (2014) posits that there is an association between financial knowledge and a number of “best practice” financial behaviors, such behaviors include having insurance protection, avoiding checking account overdrafts, monitoring credit reports, owning a dedicated retirement account, avoiding revolving debt, and having in possession an emergency fund that is adequate for emergency needs.

Additionally the organization of economic co-operation and development (OECD), argue that financial knowledge is very important in determining the level of financial literacy of an individual, which involves questions in relation to concepts such as inflation, risk and return and simple and compound interest (OECD INFE, 2011). Financial knowledge is a very important element for individuals and businesses in the decision making process of financial matters. In general, it is argued that improvement in financial knowledge will result in effective financial decisions because financial knowledge enhances a more responsible financial behavior. (Tang et al, 2015). Empirical evidence has shown that a higher level of knowledge is positively related to individuals engaging in a number of “best practices” financial behaviors.

#### **2.1.3.1.2 Financial behavior**

Zeynep (2015) defined financial behavior as the state of being capable to capture and understand the broader effects of decisions with regard to matters of finance on an individuals' circumstances and being able to make proper and accurate decisions relating to issues such as precautions and opportunities for budget planning and cash management. Various studies have come to the conclusion that various measures of individual's financial behavior can be predicted at steady consistence by financial literacy (Hung et al, 2009). According to Sucuahi (2013) a good financial behavior includes being able to make financial decisions that result in prevention of individuals and business uncertainties as well as increasing wealth. The outcome of these activities is prevention of over-indebtedness, generation of more financial assets, finance retirement, and insurance against significant unforeseen future events. Grohmann et al, (2015) argued that good financial behavior entails the state of being able to achieve diversification of assets across a variety of investments as various types of investments have different levels of risk.

#### **2.1.3.1.3 Financial attitude**

Financial attitude was defined by Latif et al, (2011) as the act of applying financial principles with the aim of creating and maintaining value through making sound decisions and managing resources properly. Financial attitude is one among the factors that have great contribution on financial management practices. According to Eagly and Chaiken (1993) financial attitude refers to psychological tendencies which are expressed through valuation of certain entities with a certain level favoring or disfavoring. That is, it is a psychological predisposition of being in agreement or disagreement with various financial management practices. According to Latif et al. (2011) financial attitude involves creating value in decision making and resource management through application of financial principles. Procurement of adequate information improves financial attitude (Abiodun, 2016). Studies have revealed that financial literacy can be enhanced by attaining the right financial attitude in terms of among many other things;

training, risk appetite, and time orientation. It was observed by Abiodun (2016) that the attitude of manager of SMEs with regard to financial matters affects business activities such as being able to access various forms of finance and expanding capital just to mention a few. Moreover it was argued that people who were successful were literate financially where they had saved and invested long term to ensure their well being for the future.

#### **2.1.4 Performance of small and medium enterprises**

SMEs make up the foundation for the economy through provision of employment, playing an important part in generating income, poverty reduction through encouraging employment in rural areas; SMEs are the engines propelling the vehicle of development and economic growth. Firms usually use performance as an indicator of financial health in a specific duration of time. There are many ways in which firm performance can be measured or defined, each capturing the various aspects of performance. One of these aspects is profitability whose job is gauging returns; another aspect is market share growth and sales growth whose jobs are to gauge firm growth. Some measure liquidity (current ratio, quick ratio) others such as return on equity and return on investment measure profitability of the firm while others measure solvency (gearing ratios). Measures such as profitability are indicators of financial success while other measures such as growth and market share are indicators of commercial success.

It is the opinion of some researchers (Muthoni, 2015), that there are many factors both internal and external to the SMEs that measure SMEs performance. Muthoni, (2015) cites among many others ability to meet daily business obligations, sales turnover, and caliber of management. However, literature on measurement of SMEs performance is very scarce in developing countries. It is therefore agreed that control of management should also consider non-financial factors as well and be expanded to take into account strategic information, that will be able to show if the business will continue to be competitive or not. According to Mohinder and Anastasia (2007) profit, cash flow and assets are also good measures of firm performances. Moreover Fabbri and Klapper

(2008) posit that profitability is the most widely used measure of SMEs financial performance. In simple terms Profitability is the function of revenue over expenditures; it is measured by a number of ratios like pre-tax profit margin and gross profit margin. Profits however as a tool for measuring performance have a lot of shortcomings.

According to Wanjohi (2011), Most SMEs do not have sufficient management capacity and training; as a result they encounter problems in management of funds that they secured for the activities relating to the business such as procurement of raw materials and products, and investment in long term assets such as plant and equipment. Because the capacity of SMEs to absorb funds from financial institutions is very small and lack financial management, they are considered as costly and insecure businesses to deal with. Due to lack of financial records as well as the cost that will be incurred to monitor and enforce loan contracts, SMEs access to credit is rationed. The government, the private sector and NGOs have advanced a number of initiatives with the goal of increasing SMEs' access to affordable credit, and financial management to enable SMEs to manage firm finances efficiently. It has not yet been clearly determined whether these initiatives on financial literacy education have borne fruit in form of more effective and efficient financial management for SMEs.

According to Siekei (2013) financial literacy programs equip individuals with credit management skills that help improve the performance of their undertakings, these improvements come in different aspects of business for example being able to acquire credit finance and manage credit portfolios so as to make sure that the liability of loan and interest on loan are kept at minimum levels. Skills in Budgeting are very important in ensuring that sales and profits multiply and business operations run smoothly. People with high levels of financial literacy behave differently depending on the existence of the dual process theories which are; intuition and cognitive theories (Evans, 2008).

Part of good performance of Small and medium scale enterprises is the ability to grow. Growth comes about as a result of decisions that are best made with sufficient financial literacy, such decisions include expansion of assets and sales operations and normally

changes in some of the key strategic objectives of a business. Improvements in the performance of SMEs entail improvements in various performance indicators such as increase in profitability, increase in efficiency and increase in output (Teruel, 2008). The available literature (Van, 2010; Waweru, 2009; Vuong, 2008) that addresses the performance of SMEs relies heavily on accounting-based financial indicators, market-based indicators as well as a combination of both. This study used profitability and sales growth as measurements of performance of small and medium scale enterprises.

#### **2.1.4.1 Profitability**

When organizations have a positive balance after all their expenditures have been set off against their income that organization is said to be profitable, therefore Profitability is the state where an organization is able to generate profits from its operations. According to Agha (2014) profitability can be defined as the ability of a company to earn profit. Profit can be reached by subtracting revenues with expenses that were incurred in generating that revenue. Therefore income and expenses are measures of Profitability. Income entails all revenue the business obtains from its activities. As the profit figure raises the better the performance of the business, at least from the profitability point of view as the business is making better returns from its invested capital. The formula for computing Profit margin is taking profits and divides it by total revenues and thereby expresses profit as a percent of total operating revenues, meanwhile return on assets is the ratio of income over average total assets, the purpose is to measure performance of management.

#### **2.1.4.2 Sales growth**

The total amount a firm gets from sales in a particular duration of time in comparison to duration of time in the past that corresponds to the current one is what is referred to as sales growth. However sales growth only occurs when sales in the current year is more than sales in the preceding year. Normally it is expressed in percentage form. For a company to survive and ensure profitability it is important to have sales growth. Sales

growth is important in measuring performance. Sales growth targets play a major role in the perceptions of business managers. In order for firms to reach their financial objectives in an efficient and effective manner they need to employ a wide variety of goals, including sales growth (Kaplan and Norton, 1996). There are many factors that influence sales growth these include but not limited to promotion, internal motivation, reducing employee turnover, equipment in the production process and the implicit opportunities for investments in new technologies.

### **2.1.5 Relationship between financial literacy and SMEs performance**

#### **2.1.5.1 Financial knowledge and SMEs performance**

According to Robb, (2014) regardless of the subject matter, financial knowledge is a very important aspect of decision making as it is supposed to produce effectively reached decisions. Lusardi and Mitchell, (2014) present that Financial knowledge has great impact on some of major organization decisions such as investment, savings, borrowing, and even plans for the future plans in the form of retirement income. Lusardi and Mitchell (2006) came with a proposition that in order to create a measure of financial competence financial literacy is needed to determine levels of competence in the terms of being able to manage financial matters and the degree to which people participate in financial markets. Some studies such as Kaplan and Norton, (1996) made attempts to highlight the relationship between financial knowledge and business growth from a profitability point of view and firm operational size.

As a result of carrying out several surveys on the topic of financial literacy Lusardi and Mitchell (2014) invented a questionnaire with often used questions for measuring financial knowledge of individuals. They examined the impact of financial literacy on economic decision making. From their study, we can conclude that businesses with less financial skills incur high costs of transaction and pay higher fee and financial knowledge is a human capital investment that promotes accumulation of wealth (Lusardi and Mitchell, 2014).

Clark et al., (2014) carried out a study to investigate the performance of investments and financial knowledge whereby they used a new set of data that was unique. The findings showed that employees who had sufficient financial knowledge had invested in more diversified and variable portfolios. It was recommended that there was a need to exert more efforts in enhancing financial knowledge as financially knowledgeable individuals invested in profitable portfolios.

A study by Guliman, (2015) investigated SME owners' financial literacy where attention was paid to financial knowledge and skills. Findings showed that the majority of SME owners had minimal knowledge financial concepts such as time value of money, taxation, and securities investment. Lack of knowledge of basic financial concepts has a negative effect on the performance of businesses (Lusardi and Bassa, 2013).

There are studies that have pointed out that although the importance of financial knowledge in individual and firm performance is obvious, it is still not enough to ensure good performance. Tang et al., (2015) investigated other variables that have a contribution to responsible financial behavior and came to a conclusion that financial knowledge is not the only thing that led to responsible financial behavior there are other psychological characteristics such as self discipline and influence of parents.

#### **2.1.5.2 Financial behavior and SMEs performance**

Financial decisions that owners of small and medium enterprises (SMEs) make determine if the firms will be profitable or not. These decisions range from saving decisions, financing decisions to working capital management. Economic activities of the country are significantly affected by small and medium enterprises, Sucuahi, (2013) notes that lackluster financial behavior and mediocre financial skills could adversely impact the future of the business. On the other hand Good financial behavior results in an environment of competition in a globalized economy, in such an environment lack of financial literacy threaten the survival of the business. Lusardi and Mitchell, (2007) argue that When business owners have a good financial foundation there is a strong

likelihood the business will succeed and achieve enterprise growth in the competitive environment. According to Abiodun, (2016) the survival of a firm is determined by a combination financial behavior and proper utilization of financial resources as financial behavior includes decisions that results in wealth maximization, sales maximization, profit maximization, and expansion of market share. There is a positive relationship between financial literacy and financial behaviors such as savings and investment practices that maximize benefits, debt management, cashflow management and for small and medium enterprises (Grohmann et al., 2015).

#### **2.1.5.3 Financial attitude and SMEs performance**

The value of profitability of a business could be added by proper financial attitude such as aversion to risk, being time oriented, social environmental factors and training. Being willing to acquire more knowledge with regards to financial management will benefit entrepreneurs as it will facilitate practical application of knowledge of financial concepts. Procuring adequate information will improve the financial attitude of business owners (Abiodun, 2016). Review of literature shows attainment of the right financial attitude will boost financial literacy, these attitudes include among many others appetite for risk, time orientation and training. In the case of risk taking, there is a common finance saying that “the higher the risk, the higher the returns”. The profitability of the business is also influenced by social environment of firm managers/owners depending on how favorable the environment is, and what influence the environment has on the attitude of the business owner or manager. Being willing to attain knowledge on financial management is also beneficial to owners/managers of businesses because allows them to put the obtained knowledge into practical application.

Researchers’ interest in studying financial literacy and the effects of financial attitudes has peaked in recent years. (Wagner, 2015) highlighted that better financial decisions are made when the decision maker is informed and hence for mangers and consumers there is a positive long term effect in profitability and in consumption respectively. Business managers’ financial attitudes play a crucial part in the determination of business

performance. It is a combination of concepts, emotions and information about learning, which in turn results in readiness to have a favorable reaction which will lead to more effective decisions that generate profits for business (Potrich et al., 2016). Research has shown that there is linkage between financial attitude business ability to secure competitive strategic decisions, resources and capabilities, performance outcomes and competitive advantage (Abiodun, 2016). He added that businesses with a more positive financial attitude have a better competitive advantage in accessing external funding.

## **2.2 Empirical review**

A study by Chepkemoi (2007) was intended to examine the effect of financial literacy training on business profitability of SMEs in Coastal region Kenya the case study of Kwale County. Members of the study population were SMEs who had received training provided by World bank. The sample size for the study was 74 small and medium enterprises from Msambweni, Kinang and Matuga, these were sub counties of Kwale. Members of the sample were determined through Simple random sampling. Descriptive survey was employed as a research design for the study and data was collected using interviews and questionnaires. From the research it was found that the profitability and performance of SMEs were positively influenced by financial literacy training. The recommendation of the study was for financial institutions to increase provision of training to SMEs with the aim of building their capacity on the available financial products and their access to them.

A study conducted by Njoroge (2013) titled “assessment of the relationship between financial literacy and entrepreneurial success in Nairobi County Kenya” intended to determine the relationship between entrepreneurial success and SMEs success. The researcher collected data from a sample of seventy nine respondents who were SME owners registered and carrying out their operations in Nairobi county picked using simple random sampling technique, data was collected through interviews. From the research it was found that all SMEs in the sample had some degree of financial literacy. Overall most entrepreneurs were financially literate. The most successful entrepreneurs

had the highest scores on financial literacy test. Meanwhile the least successful entrepreneurs displayed slow moving growth or no growth at all, and poor scores on financial literacy test. In conclusion financial literacy had a positive contribution on the success of small and medium enterprises in Nairobi county. Financial literacy played a significant part in the success of SMEs success in formal and informal sectors as well. The study ended with recommendation where the researcher argued business owners and entrepreneurs to acquire financial literacy if they intended to succeed and grow their businesses.

A study by Cherugong (2013) The researcher intended to do an examination of the aspects of the current financial literacy of small and medium scale enterprises and its subsequent impact on the performance of SMEs. Descriptive research design was employed to collect data from a population of SME owners of various business ventures ranging from general retail traders, clothes dealers, and hardware businessmen. Stratified sampling technique was used and the total sample size comprised of 85 SMEs. The researcher collected data using questionnaires. The researcher using descriptive statistics presented the findings and interpreted them with the help of tables. From the findings it was shown that SMEs that had good performance had been operational for more than half a decade and had at least three permanent employees, and had an above 10% growth in revenue annually and were essentially financially literate. Also the study established that there was a positive strong impact of financial literacy on the performance of SMEs. The researcher recommended that financial literacy providers should develop programs that are tailored to match the culture and traditions of the recipients and refrain using the same material on all since different SMEs have different experiences.

Tuyisenge et al., (2015) investigated The sample size for the study was 109 small and medium entrepreneurs in Urwego Opportunity Bank. The study adopted a descriptive survey design and data was collected from respondents using questionnaires. Statistical analysis was employed to analyze findings whereby Regression analysis was used for testing hypotheses. Results of the study showed that financial information available for

financing institutions was of very poor quality. Also decisions with regard to credit administration were very difficult coupled with high interest rates and collateral requirements causing difficulties in accessing credit and controlling the loan Book. Conclusion from the study were that, lack of literacy of small and medium enterprises causes financial institutions losing faith in them hence denying them access to credit to grow their business operations, this hampers economic and social development that is much needed.

A study was carried out by Bowen et al. (2009) with the intention of researching the challenges of managing a business among small and medium enterprises in Nairobi Kenya. Results of the study showed that more than half of SMEs keep on attaining declining performance whereby three out of five enterprises collapse within months of commencement. Out of the entire sample only 3% of respondents testified that their businesses were a success. Also it was found that 50% of those who had received business training reported that their businesses were doing well which led to the researchers concluding that relevant education or training has positive impact on the success of businesses. The study recommended that SME owners should receive relevant training if financial literacy.

### **2.3 Conceptual Framework**

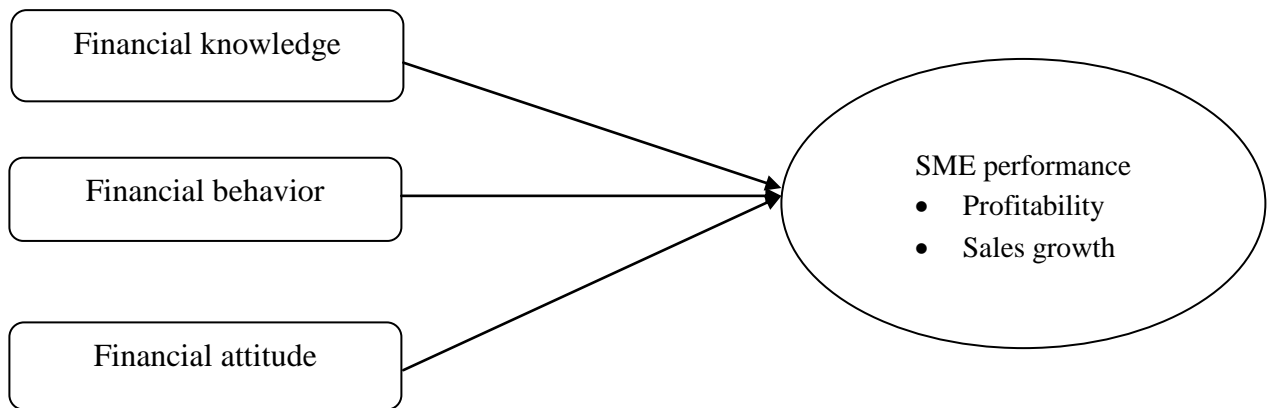
Conceptual framework is a visual or written product that explains by way of graph or chart central issues to be covered in the study, the important concepts, factors or variables and the nature of the relationship that is supposed to exist among them. Hence it can be said that the conceptual framework is a model that outlines possible courses of action to be used in a research study to present an approach that will be used to discuss an idea or thought, a Conceptual framework is made up of two variables: independent and dependent variables (Creswell, 2002).

The figure below shows the independent variables as well as the dependent variable of this study. The study tried to measure these variables in the context of the impact of financial literacy on the performance of SMEs.

**Figure 2.1 Conceptual Framework**

**Independent variables**

**Dependent variable**



**Source: Researcher's construct (2019)**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Research design**

According to Kothari (2010) a research design is the way in which the various conditions for collecting and analyzing data are arranged in a manner that attempts to align relevance to the purpose of the research with economy in procedure. “A research design entails the conceptual structure within which research is carried out; it entails the framework for the collection, measurement and analysis of data. That being said the design provides the outline of what will be done by the researcher from writing the proposal and its operational implications to the final data analysis; we need to employ research designs so as to facilitate the smooth sailing of the research objectives including which data to collect, how to collect them, and how to make analysis.

This research used a survey research design; this design was useful in this study as it facilitated capturing a broad area and population explaining the characteristics of a large population, to ensure sufficient sample is gathered to increase accuracy for achieving targeted results from which conclusions were drawn and recommendations made.

#### **3.2 Study area and population**

According to Dawson (2002) a geographical area helps trim the research topic and resources in terms of time and budget. For this study Morogoro municipal is the study area. The researcher chose this particular area to carry out the study for a number of reasons. First the study area is located in the place of residence of the researcher. For that reason it is feasible cost wise and time wise to conduct the research keeping in mind the fact that the researcher has limited financial and time resources. A population was defined by Singh (2007) from a research point of view. In this study the targeted populations were entrepreneurs and SMEs owners who conduct business around the municipal.

### **3.3 Sample size and sampling techniques**

The researcher used a certain sample size and sampling technique in this study. The following are explanations on the sample size and sampling technique:

#### **3.3.1 Sample size**

Adam and Kamuzora (2008) defined sample size as a specific number of items selected from the population to comprise a sample for the study. It also refers to the portion of population selected to be examined by the researcher on which the conclusion and generalization of the population would be analyzed (Mpunguliani, 2000). The description given by Bailey (1994) shows that when there is a sample of 30 respondents which is minimum, statistical data analysis can be done regardless of population size; hence the study fulfilled Bailey's (1994) requirement.

By imitating sample sizes from successful researches carried out on subjects similar to this study a total of 120 respondents were taken. Aczel, (2000) contends that, a sample greater than 30 is good for improvements of estimates of population parameter values, from sample statistics. In addition, Babbie (2004) considers a sample size of at least 100 as quite sufficient in many research situations. Based on that, a sample size of 120 was considered to be quite adequate for analysis and reporting

#### **3.3.2 Sampling techniques**

The study used non-probability sampling, whereby convenience sampling and purposive sampling were used.

##### **3.3.2.1 Convenience sampling**

Convenience Sampling is a non-probability sampling technique in which sample is drawn from the respondents who are available and willing, easiest to obtain in the field (Kothari, 2004).

Therefore, this technique was used in the selection of respondents who were available at field during the study. The researcher scheduled an appointment and collected data from those who were willing to cooperate in responding to some questions.

### **3.3.2.2 Purposive sampling**

Purposive or judgmental sampling is a sampling technique that enables the researcher to use personal judgment to choose cases which will provide the best answers to research questions and to meet objectives. Purposive sampling is a form of non probability sampling that strategically chooses members of a sample (Bryman and Bell, 2011). Members of the sample are chosen based on predetermined characteristics. The key characteristics for this study are position of respondents, level of knowledge, experience and many more.

Therefore this technique was used by the researcher in choosing respondents who were information rich, thus managers and other employees who were in a position to have information needed for this study were picked using this technique

## **3.4 Data collection procedures**

Data collection procedures can be defined as the approaches that are specifically used to collect information and the choice of method depend on research objectives and questions to be addressed (Yin, 1994). Data collection for the study included both primary and secondary data.

### **3.4.1 Primary data**

This is described as gathering data that does not yet exist until it is generated through the research process (Lancaster, 2005). Before data collection starts the researcher carried out a brief seminar with respondents separately where the researcher described what the intentions of the study were and what was expected of the respondents and after being satisfied that all is properly communicated and both parties have reached an understanding only then did the researcher proceed with data collection. The primary

data for this study were collected using structured questionnaire and interviews.

#### **3.4.1.1 Questionnaire**

A questionnaire refers to a list of questions to be answered by individuals within the sample of the study at their own convenience and to be returned back to the researcher within the allotted time of data collection (Kothari, 2006). This study used Questionnaires in the study to obtain information with regard to the effect of financial literacy on the performance of SMEs. Questionnaires were issued to SME owners and managers with a list of specific questions to answers the research questionnaires, Questionnaires after being filled by respondents they were collected and data thoroughly analyzed and presented in the final report.

#### **3.4.1.2 Interview**

An interview can be described as a list of questions communicated orally or verbally. Interviews are usually in the form of a face to face sit down between the researcher and the respondent to discuss the topic under study (Kothari, 2006). Interviews were carried out by the researcher in addition to questionnaires. Interviews were carried out selectively to collect information from respondents who were in a position to have an in depth knowledge concerning the various issues associated with the topic under study this process was aided by purposive sampling where the researcher picked respondents who were deemed well suited to respond to research questions posed. On events where it was deemed necessary by the researcher Interviews were conducted after collection of filled questionnaires in case of a need for follow up questions. The interviews were face to face or through mobile phone communication, the target respondents were requested for appointment and in preparation for the interview they were given copies of the interview guide in advance to familiarize them with the issues they would be expected to address, the researcher also asked to record the interview in a voice recorder so as to ensure all the information is captured and not forgotten and to save time as taking notes while interviewing could slow the speed and consume time which the respondents did not have

enough of and there was always the risk of missing some key points.

### **3.4.2 Secondary data**

Secondary data refers to published and/or already existing data that was developed from previous studies that were carried out for the purpose of accomplishing other research objectives (Saunders, 2007). Secondary data are generally regarded as unbiased and in lack of errors. Secondary data were collected and then the information was processed to check whether the data was complete and accurate to maintain accuracy, consistency and relevance to the current study. Data was coded manually by using computer applications such as word processor and excel. Literature in relation to the topics of SMEs, financial literacy and the like is researched and references are adequately shown.

### **3.5 Data analysis methods**

According to Kothari, (2004) Data analysis is the process of transforming raw data into a form that it can be easily understood and interpreted. Typically the first form of analysis is the Description of responses or observations. There are two types of data analysis which are qualitative and quantitative. Qualitative data analysis is the non-numerical examination and interpretation of observations, with the goal of discovering underlying meanings and patterns of relationships while quantitative data analysis, is the numerical representation and manipulation of the observations, with the view of describing and explaining the phenomena that those observations reflect.(Kothari, 2004)

#### **3.5.1 Quantitative data analysis**

Descriptive statistics was performed in order to summarize and describe the characteristics of data collected.

Descriptive statistics are the numerical procedures used to organize and describe the characteristics of a given sample. The characteristics of data collected were demonstrated by summarizing the demographic profile of the respondents, in terms of sex, age, education and experience. In the questionnaires and during interviews there

were questions about general characteristics of the respondents; later the research carried out descriptive analysis by calculating the sum, percentages, ratio and averages to determine the statistical features of the sample

The same was done for questions related to objectives of the study, where to determine the general consensus and come up with conclusions for the findings the researcher calculated percentages, frequency distribution and averages so as to determine the general consensus of the sample

There are two variables in this study which are financial literacy which is the independent variable and performance of SMEs which is the dependent variable. There are three dimensions that the researcher used to measure financial literacy; these are financial attitude, financial behavior and financial knowledge. Sales growth and profitability were used by the researcher to measure the performance of SMEs. The assumption of the study is that Financial literacy influences the performance of SMEs. The equation which describes the relationship between these variables is given below:

$$PSMEs = f (FL)$$

Where;

PSMEs = Small and medium scale enterprises performance (dependent variable)

FL = Financial literacy (independent variable)

The explicit form of the model can be stated thus:

$$FL = B_0 + B_1 (FK) + B_2 (FB) + B_3 (FA) + e$$

Where,

FK= Financial knowledge

FB= Financial behavior

FA= Financial attitude

Bo =constant of the model.

B1-3 = coefficients of the model.

e = disturbance terms or error term. It is assumed to be normally distributed with a mean of zero.

Therefore the final equation will be as follows

$$PSMEs = B_0 + B_1 (FK) + B_2 (FB) + B_3 (FA) + e$$

### **3.5.2 Qualitative data analysis**

Qualitative data analysis on the other hand was done by the use of explanation building and pattern matching of data and information. Objectives with regard to the topic at hand were analyzed by the use of a qualitative in-depth interview. The answers are in nature explanatory thus the researcher analyzed the explanations given and built a pattern and matching of answers to draw conclusions on the findings.

### **3.6 Ethics requirements**

The researcher observed the code of conducts which are Reliability in making sure the research's quality is reflected in the use of resources the methodology, the design, and the analysis. Maintain Honesty in the development, undertaking, making reviews, making reports and communication of the research in a fair, transparent, and full way that is not biased. Respecting participants of the research, colleagues, eco systems, society, the environment and cultural heritage. Being accountable for the research starting from idea to publication, for supervision, training and mentoring, for its management and organization, and for its broader impacts

The researcher paid great attention to the ethical issues during data collection process. The aim being to minimize risk of harm to participants and the researcher, during the whole study exercise, the researcher observed the following, among others:

The researcher obtained a voluntary consent of participation from all respondents. The researcher communicated the objectives and potential benefits of this study to the respondents so to make them aware of how the information they provide will be put to use. The researcher maintained honesty to the respondents and maintain confidentiality at all time of the study to protect the interest and identities of respondents should the information provided result to any form of backlash in their working environment.

### **3.7 Validity and reliability issues**

This study ensured the reliability and validity of all the sources used to provide the results of this study; literature review was done by examining dedicated scientific literature from credible sources, for example, Google Scholar and Scopus. On review of literature the researcher preferred to use the most recent scientific articles for the most relevant results. The most recent studies would reflect well the state of affairs with regards to SMEs landscape as it is a rapidly evolving area thus the more recent the data the more accurate the information.

#### **3.7.1 Validity of the study**

Validity is a crucial issue for any research. Validity determines whether the research truly measures what it was intended to measure or how truthful the research results are (Joppe, 2000). To ensure data validity during the data collection at the field, the following strategies were used as approved by Victor (2014) and Magigi (2015):

The study employed multiple sources of evidence, namely documentary review, questionnaires, and interviews, to provide the connection of facts during the data collection process. The researcher carried out a brief seminar to ensure an understanding with the respondents to make them aware of the research purpose and what is required of

the respondents. The study employed voice recording tools during data collection in field to ensure full data capture. The questionnaires was translated into Kiswahili language and pre-tested before data collection to avoid the language barrier with the respondents.

### **3.7.2 Reliability of the study**

Toke (2012) explains that reliability tries to find out the extent to which a measurement procedure produces the same result when the process is done repeatedly under the same conditions. To ensure reliability, the study employed methods of data collection such as questionnaires, voice recording and interviews. Questionnaires and interview guide were carefully administered to the sample so as to control the ineffectiveness of such tools that may happen in the whole process of data collection. To achieve reliability in this study, the following were adhered.

Selection of the respondents was based on the established sampling techniques for the quantitative data. Data was collected by the main researcher alone. This enabled avoidance of reliability errors which could arise due to data passing through many hands before reaching the final researcher.

## CHAPTER FOUR

### FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents findings obtained from the population used and studied. Data was collected through two collection instruments, namely; questionnaires and interviews. The goal of data analysis is in the end be able to provide evidence in response to the research questions and their corresponding objectives formulated to assist in analyzing the overall objective of this study. This study aimed at assessing the impact of financial literacy on the performance of small and medium scale enterprises. This chapter present and interpret the gathered information based on specific objectives. The finding were then discussed to determine congruence or disagreement with the reviewed literature

The sample for this study was 120 respondents; initially the researcher approached 130 respondents but due to lack of response from some respondents the total sample fell to 120 respondents. The researcher conducted 30 interviews and distributed 100 questionnaires of which 10 questionnaires (10%) were uncollected, 90 were collected by the researcher completely filled giving a 92% response rate.

**Table 4.1 Respondents**

<b>Particulars</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	120	92%
Not responded	10	8%
Total	130	100%

**Source: Field data, (2019)**

The response rate distribution is illustrated in Table 4.1 above. According to a study by Cooper and Schindler (2003) if a study has a response rate of above 75% then the response is sufficient to explain the parameters in the study the same way as it would have been with a 100% response rate. Therefore, for a study of social scientific nature a sample size greater than 75% is sufficient to proceed.

## 4.2 General information of respondents

### 4.2.1. Gender of the respondents

The gender distribution of respondents in this study was as follows.

**Table 4.2 Gender of the respondents**

Variable	Frequency	Percentage
Male	69	58%
Female	51	42%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

Results with regards to the gender of the respondents as shown in Table 4.2 indicates that the majority (more than half) of the respondents were males which represent 58% of all respondents. 42% of the respondents are females. This implies the majority of SME owners in Morogoro municipal are male.

### 4.2.2 Age range of the respondents

The age distribution of respondents in this study is shown in table 4.3 below

**Table 4.3 Respondents age distribution**

Variable	Frequency	Percentage
18-25 years	14	12%
26-30 years	21	18%
31-40 years	45	38%
41-50 years	28	22%
50+	12	10%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

The findings as per Table 4.3 show respondents age distribution was as follows; the majority of respondents at a frequency of 45 (38%) were within the age group of 31-40 years, 22% were in the age group 41-50, 18% were aged between 26-30, 12% of the respondents were between the ages of 18-25 years, and 10% were 50 years old and

above, no respondents were below the age of 18 years. Results show the majority of respondents to be of the youth age going to middle age.

#### 4.2.3 Level of education

Table 4.4 below displays results with regards to the level of education of respondents

**Table 4.4 Education level**

<b>Education level</b>	<b>Frequency</b>	<b>Percentage</b>
Primary	13	11%
Secondary	26	22%
Certificate/ Diploma	39	33%
Bachelor degree	33	27%
Masters degree	9	7%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

The study aimed at assessing the level of education of respondents, the results showed that the majority of the respondents at a frequency of 39 had certificates and diplomas, this accounted for 33% of all respondents, next were respondents with bachelor degree at the rate of 27%.

Next were respondents with secondary level education who accounted for 22% of all respondents. 13 respondents had primary level education only, making an 11% of all respondents, followed by those with master’s degree at a frequency of 9 and a rate of 7%. This has the implication that the majorities of the respondents, having college level qualification had sufficient knowledge and could easily understand financial literacy and its impact on performance.

#### 4.2.4 Age of business

Table 4.5 below presents findings with regard to the duration which the respondents had been carrying out business in their respective enterprises.

**Table 4.5 Experience of the respondents**

<b>Experience</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5 years	10	8%
5-10 years	67	56%
10+ years	43	36%
<b>Total</b>	<b>120</b>	<b>100 %</b>

**Source: Field data, (2019)**

The study also sought to determine the number of years respondents' enterprises had been in operation. The results in table 4.5 show that 56% who were the majority indicated that they had been in business for a period between 5 to 10 years, 36% indicated that they had been operational for over 10 years and 8% said they had less than 5 years. The findings indicate that the respondents had vast knowledge and experience with their businesses thus they would be fit to answer questions regarding the objectives of this study.

#### **4.2.5 Form of business organization**

The research sought to determine the various forms of business that SMEs in Morogoro were comprised of. Findings of the study showed that the majority of SMEs were sole proprietors making up 59% of all businesses from the sample population. Next were Partnerships which made up 23% of all respondents, while limited liability companies were 19%, and lastly joint venture accounted for 2%. table 4.6 presents the findings. The implication of the findings is that most of the SMEs are individual ownership.

**Table 4.6 Forms of business ownership**

<b>Business type</b>	<b>Frequency</b>	<b>Percentage</b>
Sole proprietorship	71	59%
Partnership	28	23%
Limited liability company	19	16%
Joint venture	2	2%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

### 4.3 Effects of financial knowledge on performance of SMEs

The researcher sought to determine the effect of financial knowledge on performance of SMEs. The researcher asked respondents questions regarding finance and gave them a number of options from which they were to provide answers.

#### 4.3.1 Sources of capital for starting a business

The researcher asked Respondents to indicate their most likely source of startup capital. A number of sources were listed and respondents had to choose their answers from the list. Four sources were listed, namely; private funding, family and friends, bank loans, retained earnings and loan from microfinance.

**Table 4.7 Sources of capital for starting a business**

Source of capital	Frequency	Percentage
Private funding	50	42%
Friends and Family	19	16%
Bank loans	25	20%
Retained earnings	13	11%
Loan from microfinance	13	11%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

Findings from the collected data as shown in table 4.7 indicated that majority (42%) picked private funding, followed by bank loans at 20%. The next source was loans from family and friends at 16% lastly it was retained earnings and loan from microfinance tied at 11%. From the findings it can be seen that most SMEs depend on private funding as a source of capital, some reasons for this were identified, it was pointed out that it was not easy to access bank loans, and family and friends were not available most of the time. Retained earnings was unpopular because the amount of profit earned simply was not enough for distributing profits and retaining for capital use, it would have to be one or the other and most chose the former. Respondents pointed out that private funding has its limitations as it is not easy to raise enough to expand operations. Findings showed that In general there appears to be an inability to secure formal sources of funding.

### 4.3.2 Rate of return for sources of finance

The researcher listed a number of financial options and asked Respondents to indicate a financial option they believed had with the highest return if they chose to invest in. The listed options were stocks, bonds, treasury bills and bank savings. This is illustrated in table 4.8

**Table 4.8 Rate of return of sources of finance**

<b>Source of finance</b>	<b>Frequency</b>	<b>Percentage</b>
Stocks	42	35%
Bonds	20	17%
Treasury bills	18	15%
Bank savings	23	19%
Don't know	17	14%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

Results from the findings show that 35% indicated stocks as an investment with high returns, 19% believed it was bank savings, 17% bonds while 15% thought it was Treasury bills. The rest of respondents (14%) had no idea which option to choose. Findings show there is a fairly big number of people who have no knowledge of financial options.

### 4.3.3 Time value of money

The researcher attempted to test respondents on their knowledge of the concept of time value of money. To do so the researcher invented a scenario with two characters Omega and Salma whereby Salma inherits 1,000,000 Tshs today and Omega inherits 1,000,000 Tshs in three years. The question is; using the concept of the time value of money; determine who is going to be wealthier? The correct answer is Salma will be wealthier. Table 4.9 presents the findings whereby the majority (57%) got the answer right, 20% said they didn't know the answer, the rest (23%) got the answer wrong.

**Table 4.9 Time value of money**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
Salma	65	54%
Omega	12	10%
Both	10	8%
None	9	8%
Don't know	24	20%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

#### **4.3.4 Diversification**

The researcher tested respondents' understanding of diversification, to do so the researcher asked them the following question; "suppose you have some money, keeping other factors constant which option would you say is the safest? Invest the money in one venture or invest the money in several business ventures? The researcher expected them to select "several ventures". Table 4.10 presents the findings

**Table 4.10 Diversification**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
One venture	18	15%
Multiple ventures	68	56%
Either way is safe	20	17%
Don't know	14	12%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

Results as per table 4.10 show that show that most respondents (56%) were in agreement with the researchers assertion where they chose multiple ventures. 17% believed either way was safe, 15% chose one venture and the rest (12%) said they did not know. These findings indicate respondents understood the importance of diversification as a way to minimize risk and expand operation.

### 4.3.5 Diversification and risk reduction

The researcher sought the opinion of respondents on whether diversification could be used as a tool to reduce risk, whether investing in a variety of assets reduces the risk of failure/loss. Table 4.11 presents the findings.

**Table 4.11 Diversification and risk reduction**

Variable	Frequency	Percentage
Yes	84	70%
No	24	20%
Not sure	12	10%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

The findings show that majority of respondents (70%) yes it reduces risk, 20% did not agree and 10% were not sure. The findings indicate that most respondents do understand the importance of diversification as a tool to reduce risk and are aware of ways to minimize risk.

### 4.3.6 Risk and return

The study intended to determine respondents' understanding of the relationship between risk and return. An investment with a high return is likely to be of elevated risk, respondents were asked to indicate whether that statement was true or false. Table 4.12 presents the results

**Table 4.12 Risk and return**

Variable	Frequency	Percentage
True	72	60%
False	34	28%
Don't know	14	12%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

The findings show that most people understand the relationship between risk and return whereby 60% of respondents agreed and said the statement was true, 28% of respondents said the statement was false and 12% said they did not know. From the findings it can be seen that respondents generally understand the dynamics of risk and return.

#### **4.3.7 Inflation**

The study intended to determine respondents' knowledge of inflation, the research wanted to know if respondents understood the implication of inflation. To do so the researcher asked respondents if they were aware that increase in inflation indicates an increase in the cost of living. The findings are presented in table 4.13

**Table 4.13 Inflation and cost of living**

<b>Variable</b>	<b>Frequency</b>	<b>Percentage</b>
True	94	78%
False	18	15%
Don't know	8	7%
<b>Total</b>	<b>120</b>	<b>100%</b>

**Source: Field data, (2019)**

The findings show that 78% of respondents agreed and said the statement was true, 15% did not agree and 7% said they did not know. The findings indicate that respondents had knowledge of inflation and its resulting effects.

#### **4.4 Effects of financial behavior on performance of SMEs**

The study intended to determine the effects of financial behavior on the performance of SMEs. To answer this objective the researcher prepared questions in which respondents were to answer in the form of 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 with regards to the following; retirement planning, planning and budgeting, record keeping, management of debt, and savings.

#### 4.4.1 Description of variables of budgeting and planning

According to the results of the study when it came to preparation of written financial objectives that the business intends to achieve, long-term financial plans that influence expenses management, adhering to a regular interval plan for expenses and preparing budgets to assist in monitoring performance most of the respondents were unsure on how to go on about it. The implication of this is that the majority of SMEs didn't have in place an effective mechanism for planning and budgeting and thus there is needs to teach them about all they stand to gain from planning and budgeting.

**Table 4.14 Description of variables of budgeting and planning**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Preparation of written financial objectives of what is to be achieved in a particular period	3.02	1.362
My long term financial targets influence the managing of my expenses	3.45	1.276
Following a regular interval plan for expenses	3.96	5.820
Preparing budgets to assist in monitoring performance	3.29	1.414

**Source: Field data, (2019)**

#### 4.4.2 Description of variables of debt management

Results showed that the majority of respondents were not sure about skills in managing debts that would enable them to have access to a variety of sources of finance for their businesses and other issues such as understanding how inflation affects interest rates on loans taken, determining accurately the position of total debt and being able to access finance at the lowest cost possible, this is illustrated in table 4.15. From the findings it can be seen that there is a need for educating SMEs and management of debt and its benefits.

**Table 4.15 Description of variables of debt management**

<b>Variable</b>	<b>Mean</b>	<b>Standard deviation</b>
My skills in managing debt have made it possible to access various sources of finance for my firm	3.18	1.364
I know how inflation affects interest rates on the loans I borrow for my firm	3.02	1.525
I am able to determine with accuracy the position of total debt of my firm	3.20	1.457
I am able to access finance at the lowest cost possible	3.17	1.277

**Source: Field data, (2019)**

#### **4.4.3 Description of variables of savings**

The researcher asked respondents if they retained a portion of business income for saving from time to time, saved to reduce reliance on credits, planned to use savings for future growth of the business and kept financial reserves to be used for future unforeseen emergencies. The findings show that most of the respondents were not sure with regards to the matter. This is presented in table 4.16

**Table 4.16 Descriptive of variables of savings**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
I retain a certain amount of my firm's income	3.53	1.371
I keep a reserves for financial emergencies	3.50	1.238
I plan to use my savings for future growth of my business	3.61	1.336
My savings reduce my reliance on credits	3.75	1.345

**Source: Field data, (2019)**

#### **4.4.4 Description of variables of record keeping**

The researcher inquired to respondents about record keeping, findings showed that the majority of respondents did not maintain financial statements (statement of comprehensive income and statement of financial position) for the business with a mean average of 2.90; nor did they carry out financial Analysis on the financial statements of the business (2.96). Respondents were uncertain on whether they had adequate knowledge and ability to maintain and balance ledger accounts (3.13) and their financial decisions following financial statements reports (3.22)

**Table 4.17 Description of variables of record keeping**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Able to prepare financial statements for the business (statement of income, statement of financial position)	2.90	1.489
Able to perform financial analysis on financial statements of the business (ROI, ROA etc )	2.96	1.369
Able to maintain and balance ledger accounts	3.13	1.248
Financial decisions follow reports from financial statements	3.22	1.418

**Source: Field data, (2019)**

#### **4.4.5 Description of variables of retirement planning**

The researcher sought to establish respondents views regarding retirement planning, according to the findings the majority of respondents with an average mean of 2.88 said that their long-term financial decisions were not influenced by plans for retirement, however respondents were not certain they were familiar with basic economic concepts required in making investment and saving (3.29), diversification of sources of income not relying on main business only (3.73), and having long term plans for the business (3.73).

**Table 4.18 Description of variables of retirement planning**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Retirement plans determine long-term financial decisions	2.88	1.333
Conversant with basic economic concepts required to make informed investment and saving decisions.	3.29	1.369
Apart from this business I have other sources of income	3.73	1.255
My plans for this business are long term	3.73	1.484

**Source: Field data, (2019)**

#### **4.5 Effects of financial attitude on the performance of SMEs**

This study also had intentions of establishing the effects of financial attitude on the performance of SMEs. In response to this objective the researcher created a set of questions to be answered by respondents. These questions required answers to be given in a form of a five point Likert scale where 1=strongly disagree, 2=disagree, 3=neutral,

4=agree, 5= strongly agree. The researcher structured questions to follow financial attitude.

#### 4.5.1 Descriptive of variables of financial attitude

With regard to financial attitude the researcher was able to establish from respondents' responses that they thought establishing financial targets for the future was very important (4.04). respondents were not certain if controlling monthly expenses was important (3.96) and whether the way respondents managed money today affected their future (3.87), money management skills influenced by parents/guardians (3.57), financial skills are a result of social environment (3.41), long-term financial goals influence all short-term decisions (3.39), and understanding of risk return theory (3.06). The majority of respondents did not credit training programs as a source of knowledge of cost/benefits trade off (2.81), security of the business is ensured by prevention of risk (2.80) and participation in training programs for financial literacy (2.71). These are illustrated in table 4.19

**Table 4.19 Descriptive of variables of financial attitude**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Controlling monthly expenses is very important	3.96	1.458
Establishing financial targets for the future is very important	4.04	1.322
Money management in present day will affect the future	3.87	1.409
Risky decisions increase the returns of the business	3.06	1.088
Security of the business is ensured through prevention of risk	2.80	1.172
Long term financial goals influence short-term decisions	3.39	1.320
Financial skills are influenced by social environment	3.41	1.273
My skills in managing Money was influenced by my parents	3.57	1.339
Participation in training programs for financial literacy	2.71	1.307
Training programs are responsible for the cost/benefits trade off knowledge	2.81	1.347

**Source: Field Data, (2019)**

#### 4.5.2 Description on variables of profitability

With regard to profitability the researcher prepared a range of amounts and asked respondents to select one that best indicated the state of their respective businesses with regard to profits there were different variables as shown in table 4.20 below

**Table 4.20 Description on variables of profitability**

<b>Variable</b>	<b>Mean</b>	<b>Standard Deviation</b>
Range that best indicate the total assets of the business	2.39	1.455
Range that best indicate annual sales	2.31	1.140
A range that indicate Annual net profits	2.12	1.148
Predictions profits	1.22	.422
Profits estimate	2.04	.999

**Source: Field data, (2019)**

From the findings it was revealed that for the majority of SMEs the range that best indicated the business total assets was between Tsh 10,000,000 – Tsh 50,000,000 (2.39). For the range that best indicate yearly sales the majority of respondents were ranging from Tsh 10,000,000 and Tsh 50,000,000 (2.31). Likewise, yearly net profits were ranging from Tsh 10,000,000 and Tsh 50,000,000 (2.12). Majority SMEs also made predictions for their profits (1.22). results also showed that actual profits exceeded expected/ estimated profits.

#### **4.6 Regression analysis**

A regression analysis was carried out with the aim of determining the relationship between the dependent variable (SMEs performance) against the independent variables financial attitude, financial behavior, and financial knowledge. The adjusted r squared was 0.097 which means that 9.7% of the changes in the performance of SMEs are caused by changes in financial attitude, financial behavior, and financial knowledge as shown in table 4.21.

**Table 4.21 Model summary of SMEs performance, financial knowledge, behavior and financial attitude**

Model	R	R square	Adjusted r square	Std. error of the estimate	Change Statistics				
					R square change	F change	df1	df2	Sig. F change
1	.391 <sup>a</sup>	.153	.097	.71637	.153	2.711	3 <sup>a</sup>	45	.056
a. Predictors: (Constant), financial attitude, financial behavior, financial knowledge b. Dependent variable: SMEs performance									

An analysis of variance was conducted between performance of SMEs, financial attitude, financial behavior, financial knowledge at the level of confidence at 95%, the P value was (0.056) and F critical was 2.711. These findings are indicating there was no significance. These can be seen in the illustration under table 4.22 below.

**Table 4.22 Analysis of variance (ANOVA)**

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	4.174	3	1.391	2.711	.056b
	Residual	23.093	45	.513		
	Total	27.267	48			

a. Dependent variable: SMEs performance

b. Predictors: (Constant), financial attitude, financial behavior, financial knowledge

**Table 4.23 Coefficients of performance and co factors**

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.139	.853		3.678	.001
	Financial attitude	-.549	.199	-.612	-2.756	.008
	Financial behavior	.416	.162	.541	2.565	.014
	Financial knowledge	-.346	.318	-.163	-1.089	.282

Table 4.23 above illustrating the regression equation shows that holding all other factors constant except for the variables (financial attitude, financial behavior, financial knowledge) there will be a variation of 3.139 in the performance of SMEs. The Results also indicate that holding all other variables at a constant value of zero, when financial attitude changes upward by one unit it would result to SME performance declining by 0.549 and when financial behavior changes by one unit SME performance would also change by 0.416 units. Furthermore, it was revealed that when financial knowledge decreases by one unit it leads to SME performance also decreasing by a unit of 0.346. However the findings showed that in general the equation was not significant as only the variables financial attitude and financial behavior were significant ( $p < 0.05$ ).

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

In this chapter a summary of the findings from chapter four is provided, as well as the conclusion of the findings and recommendations of the study based on the findings from research questions.

#### **5.2 Summary of the findings**

The general objective of this research was to examine the impact of financial literacy on the performance of small and medium enterprises in Morogoro municipal. The study aimed at examining the effect of financial attitude, financial behavior and financial knowledge on the performance of small and medium enterprises.

Descriptive research method was employed for the research; the researcher collected primary data through questionnaires and interviews to a sample population of 120 respondents to answer research questions. This research design helped in observing the effects of financial knowledge, financial behavior and financial attitude on the performance of small and medium enterprises in Morogoro municipal. The study involved samples drawn from SMEs in Morogoro. Non Probability sampling was used to purposely and conveniently select respondents to collect data.

In order to analyze the impact of financial literacy on the performance of SMEs the researcher employed descriptive and inferential statistics techniques. The findings were analyzed by employing correlation, Linear regression analysis of variance, cross tabulations and frequency distribution. The researcher carried out a correlation analysis so as to determine the relationship between the independent variables financial attitude, financial behavior and financial knowledge with the dependent variable performance of SMEs. The Statistical package for the social sciences (IBM SPSS version 20) statistical software and microsoft excel were used in carrying out these analyses.

### **5.2.1 Effects of financial knowledge on performance of SMEs**

The results from analysis of findings have shown that most respondents had sufficient knowledge of financial matters as the majority of them were able to answer correctly questions that were intended to test their financial knowledge, these questions were adopted from the financial literacy questionnaire by (OECDINFE, 2011). Although their knowledge is encouraging it is not at the top level as they failed to answer correctly a significant portion of the questionnaire. Research results from a prior study by Robb, (2014) argued that financial knowledge has a positive influence on financial behavior. Those findings seem to contradict findings of this study whereby although most respondents correctly answered the financial knowledge questions, it has not had the desired effect on financial behavior. Respondents' financial behavior and practices lie in the neutral range. The financial knowledge that individuals have is not being put in practice.

Results showed that most respondents (42%) preferred to use private funding to finance their businesses. Such preference follows the assumptions of the pecking order theory. According to the pecking order theory at early stages of operations, internal source of capital are preferred by entrepreneurs, once those are exhausted they move on to external credit and lastly stock market (Densil, 2010). Due to inherent constraints imposed on SMEs in securing funding from formal sources of finance, SMEs turn to informal sources of finance to address their financial requirements (Charan and Kishinchand, 2016). The findings revealed that 16% of the respondents sought loans from family and friends and very 11% would use retained earnings. There were some who went for formal sources where 20% used bank loans and 11% used microfinance institutions.

Results of the study showed that when respondents were asked to identify a source that had the highest rate of return from a list that included Stocks, Bonds, Treasury bills and Bank savings, the majority of respondents (35%) selected stocks. These findings

concluded with findings by Keasey and Paul, (1990) who found that a higher rate of return is associated with finance generated from external sources.

Financial knowledge is determined among other factors by one's ability to understand and appreciate the time value of money. In agreement with findings from previous studies (Eugene and Micheal, 2011; Matines, 2013) the findings of this research have shown that the majority of respondents (54%) understand and appreciate the variations in value of money overtime and most respondents believed that depending on a number of factors, over time the value of money would change.

From the study it was established that most owners of small and medium enterprises (56%) are aware of and understand the importance of having diversified investments. Regarding the role of diversification towards risk reduction the majority respondents (70%) were in agreement with the assertion that individuals or businesses can reduce risk by distributing investments to a wide variety of assets. The findings concur with the findings of a study by Ejaz et al., (2012) who argued that despite the costs associated with it, diversification help maximize profits of a firm. According to Nils and Joachim (2011) who carried out a study on product diversification and profitability in German manufacturing firms, firms producing and/or selling a variety of products are four times more profitable than firms producing and/or selling only one product, they emphasized that product diversification is very important.

The majority of respondents (60%) were aware of the risk/return dynamic/relationship. The respondents said that in most of the decisions that they make, they are fully aware of the consequences of the risk involved and the returns they will expect from such decisions. Tarasi et al., (2011) posit that the benefit of being adequately knowledgeable on all matters of risk is that it enables the individual to be risk conscious and thus only consider those risks that sensible and worth taking. Several prior literature (Sullivan, 2012; Maranjian, 2013) have argued that its crucial for managers and owners of firms to have adequate knowledge of the relationship between risk and return so that they can adopt an optimal behavior to effect change or behavior decisions.

Furthermore, in attempts to understand the degree of financial literacy, the study sought to establish the level of understanding respondents had on the effects of inflation on business activities. A study by Burke and Manz, (2014) present that knowledge of inflation determines an individual's financial behavior and subsequent course of action to certain financial matters such as opening savings account and taking debts among many others. Findings of this study show that most respondents (78%) had awareness of the concept of inflation; however, there was little awareness among respondents (12%) on the effects of inflation towards purchasing power. It is important that SMEs managers acquire knowledge with regards to the effects of risk of unanticipated changes in purchasing power (Andonov et al., 2010). Financial knowledge is very critical for effective decision making. In a study that aimed to assess the economic importance of financial literacy Lusardi and Mitchell, (2014) concluded that financial knowledge is a form of investing in labour capital that is crucial for accumulation of wealth. According to Clark et al., (2014) that used a dataset that was different had similar results where they found that people with financial knowledge had investments that were more profitable. However results of this study are in contradiction with findings from the reviewed literature whereby it was shown that financial knowledge was insignificant in the performance of SMEs with a p-value  $> 0.05$ ; this is due to the fact that the knowledge is not put into application. These findings concur with findings by Tang et al., (2015) who opined that financial knowledge in itself won't automatically translate into a financial behavior that could yield profits rather, it was a combination of factors they termed as psychological characteristics that resulted in financial behaviors that were responsible. In addition Monticone, (2010) found that wealth and financial knowledge had a very small relationship.

### **5.2.2 Effects of financial behavior on the performance of SMEs**

The second objective of the study was to determine the effect of financial behavior on the performance of SMEs, findings showed that despite the good scores that the majority of respondents had on financial knowledge, there are lots of uncertainties when it came

to translating that knowledge into practical application as shown by a mean response of neutral (3.0 – 3.9) on majority of questions regarding financial behavior. These findings are at odds with findings from a study conducted by Potrich et al., (2016), whereby they came to the conclusion that there is a positive effect on financial behavior caused by financial attitude and financial knowledge. However findings in this study did not support those prior findings whereby in this study although scores of financial knowledge were high their opinions on financial behavior were neutral.

Findings indicated that most respondents indicated a lack of consistency with regards to certain aspects of financial behavior such as preparation of written financial objectives, preparation of periodic budgets and monitoring business performance through them. This is in congruence with Findings from a study by Sucuahi, (2013) who pointed out that cash flows rather than budgeting was the focus of small business owners. similar to findings of this research it was found that although it has been argued that planning and budgeting minimizes losses and maximizes profits owners of small and medium enterprises are not consistent with them. However these findings were in contradiction with findings by Kalekye and Memba, (2015) who found that SME owners monitor the performance of their firms through budgeting.

When it came to literacy about debt management, results of the study indicated that the majority of respondents who were SMEs owners were unsure. According to the findings SME owners had difficulties accessing several means of finance, did not have sufficient knowledge with regards to the effects of inflation and interest rate. Also respondents had trouble making accurate computations. These results are in line with results from a study by Plakalovi, (2015) as well as findings from a study conducted by Assibey (2010) to examine reasons for SME managers being unable to secure finance for their businesses, findings from these prior literature found that the majority of owners and managers of small and medium enterprises lack basic numerical skills and are unable to do calculations accurately especially females, elders, and lower literacy population. The findings of this study contradicted the findings by Sucuahi, (2013) which found that

small and medium entrepreneurs were in full awareness with regard to the aftermath impact of managing debt poorly in dealing with interest rates and inflation.

Tali, (2016) argued that in order for one to understand financial literacy and build positive financial attitude and financial behavior it is important for them to get involved in money saving practices. According to Behrman et al. (2012) financially illiterate individuals normally show an inability to save. However, a study by Mandell and Klein (2009) opposes these conclusions and argue that being financially literate is not synonymous with saving orientation and doesn't automatically result to better financial behavior. Results of this study show that for the majority of respondents the level of literacy on savings was moderate as most of them were neutral when it came to saving behavior, respondents did understand that in order to expand operations or to conduct business smoothly it was important to retain a portion of earnings and save the money for these purposes.

The results showed that the majority of respondents did not maintain or keep financial records in the form of financial statements (statement of comprehensive income, statement of financial position) (2.90) and did not conduct financial performance analysis on the financial statements of the business (2.96). Financial records were informally kept. These findings are in line with several studies in prior literature (Kalakye and Memba, 2015; Sucuahi, 2013) that noted that notebooks instead of ledgers and journal were used to record transactions by SME managers. Findings of the study also showed the level of respondents' knowledge with regards to maintaining and balancing ledger accounts was little (3.13) and could use information from financial statements to make decisions.

Individuals with sufficient levels of financial literacy are better at planning and saving for retirement (Leora et al., 2015). This however was not necessarily the case for the majority of respondents in this study who did not agree that their long term financial decisions were made keeping in mind plans for retirement (2.88). A study Drexler et al., (2015), discovered that in the US small entrepreneurs their understanding capacity of

basic financial concepts was very poor, this resulted in them being unable to make good retirement plans. Findings of this study are in agreement with those of Drexler et al, as results revealed that the majority of respondents were uncertain if they had knowledge of economic concepts that would be helpful for their plans for retirement in terms of being able to make sensible decisions regarding investments and saving (3.29). Also results show that apart from retained earnings most respondents did not have alternative sources of income and did not have retirement plans.

The future of a business can be negatively affected by a lack of financial skills and/or poor financial behavior (Sucuahi, 2013). In an environment of competition business owners with a good financial foundation are the key to growth and success of the business (Also Lusardi and Mitchell, 2007). There is a positive relationship between financial literacy and elements of financial behavior such as management of cash flow, management of debt, investment and saving practices that maximize benefits for SMEs (Grohmann et al., 2015). Results of this study concur with the above studies as they show that financial behavior has a significant impact on SMEs performance as shown by ( $p < 0.05$ ), whereby a variation of one unit in Financial Behavior would result in a variation of 0.416 in the performance of SMEs.

### **5.2.3 Effects of financial attitudes on the performance of SMEs**

According to Eagly and Chaiken, (1993) financial attitude refers to the psychological predisposition with regard to being in agreement or disagreement with certain practices relating to financial management. Successful people have high levels of financial literacy and because of that they invest with long term goals (Abiodun, 2016). Taking the above findings from previous studies into consideration it can be concluded in this study that the majority of respondents were successful because they invest with long term goals.

When it came to taking risks the majority of respondents in this study had neutral opinions. These findings are in disagreement with findings from a study by Abiodun,

(2016) who stated that successful entrepreneurs had an appetite for risk, something that SME owners in this study did not share. Findings show that respondents didn't think that risk prevention ensures business security. Furthermore, according to the findings respondents believed being future oriented would promote efficient decision making and improve business performance. Elizabeth et al., (2008) argued that it is important to define and set long term financial targets and becoming future oriented. Results of this study however showed that respondents did not grasp that it was important to direct short term decisions towards long term financial objectives. These findings disagree with the findings of Atkinson and Messy, (2012) who argued that making short term wants a priority at the expense of long term security creates an inability for people to save for contingencies that will serve their financial plans and growth in the long term.

There have been attempts made to establish the relationship between a business's social environment and its effects on business owners' financial attitude. The results of this study showed that the majority of the respondents were within the neutral range of effects of their social environment on their financial skills. Also respondents were not very sure about the influence of their families on their skills for managing money. These findings were in contradiction with the findings of Calamato, (2010) who found that financial decisions of individuals are influenced by their families; this includes being able to make financial choices, manage money, understand financial issues and make future plans.

Individuals' attitudes with regard to financial training are an important determining factor of financial literacy as it provides an indication of the individual's willingness to go above and beyond to obtain financial knowledge and skills. A study by Carlin and Robinson (2010) discovered that individuals that had received training were to an extent better at making decisions with regard to cost-benefit tradeoff in comparison to those who hadn't received any training. Findings of the study showed that respondents had not received any training programs to obtain financial skills. These findings are in line with findings by Everlyn, (2016) who carried out a research on small and medium enterprises

in Kakamega county of Kenya, the findings of that study discovered that because of lack of awareness on training programs only a very small portion of SME owners participated in training on financial literacy.

According to Wagner, (2015), When Individuals have the right attitude they make financial decisions are more effective which positively impact long term consumption plans of consumers and long term performance of SME managers. The results of this study revealed that the effects of financial attitude towards the performance of SMEs was significant as shown by a significance value of  $p = 0.008$ , a unit increase in financial attitude results in an increase of 0.549 in the performance of SMEs. Such findings are in congruence with the findings of a study by Abiodun, (2016) who examined the financial attitudes of business managers and the role they play to determine business performance. The findings from the study revealed that there was a link between financial attitude and factors such as competitive advantage and performance outcomes, competitive strategic decisions, firm's ability to attain resources and capabilities. There is a competitive advantage for firms with better financial attitude over firms with poor financial attitude.

### **5.3 Conclusions**

#### **5.3.1 Effects of financial knowledge on performance of SMEs**

From the findings the researcher concludes that the majority of SME managers have a certain degree of knowledge with regards to fundamental concepts relating to matters of finance as most respondents were able to provide accurate responses to questions with regards to financial knowledge. However, respondents did not know many different sources of finance, to the majority personal funds were the go to sources and there was reluctance to seeking formal sources of finance such as bank loans. The researcher concluded that financial knowledge doesn't automatically result in improvement in SMEs performance. Financial knowledge requires being converted into practical application so as to obtain profits.

### **5.3.2 Effects of financial behavior on performance of SMEs**

From the findings of the study, the researcher concluded that the performance of small and medium enterprises is significantly determined by financial behavior. The findings however show there is poor initiatives of transforming good financial behaviors into practices that would be of benefit to their businesses. Factors such as planning for retirement, saving, management of debts, record and planning and budgeting are scarcely applied in their businesses.

### **5.3.3 Effects of financial attitudes on performance of SMEs**

From the findings it was revealed that the performance of SMEs is greatly influenced by financial attitudes of SME managers. However, the findings showed that the attitude of SME managers and owners in regard to their financial activities was very poor. This was observed through a lack of enthusiasm to long term goals; being unable to take risks, lack of interest in participating in training programs to improve their financial skills even though they are well aware it is important to direct short term activities towards long term business goals.

## **5.4 Recommendation**

### **5.4.1 Recommendation for improvement**

#### **5.4.1.1 Effects of financial knowledge on performance of SMEs**

Taking into consideration the above conclusions, the researcher recommended that there should be efforts from banks, microfinance institutions as well as government agencies in an attempt to improve the literacy levels of entrepreneurs organize financial education programs so as to improve the awareness of SME managers on various matters of finance including but not limited to proving knowledge about the various sources of finance for businesses in their infancy. The outcome of such initiatives would be the expansion and growth of SMEs especially in areas where they had previously struggled. If financial education programs will be initiated not only will it result in improvement in

enterprise growth but also the national economy since the contribution of SMEs to the general economy is significant.

#### **5.4.1.2 Effects of financial behavior on performance of SMEs**

The findings of the study indicated that there is a significant contribution of financial behavior towards SMEs performance. Based upon that revelation the research recommend an increase on all forms of awareness towards planning and Budgeting, managing debts, keeping records saving and making retirement plans. Topics in those areas should be taught in schools and other institutions that provide education with the goal of promoting financial literacy and its practices.

#### **5.4.1.3 Effects of financial attitudes on performance of SMEs**

The findings of the study showed that there is a positive relationship between financial attitude of SME owners and managers and the performance of small and medium scale enterprises. It is obvious then that there is a need to encourage the right attitude from managers if they are to perform exceptionally. When the attitude is positive it will result in an individual displaying positive behavior, this will lead to improvement, expansion and growth of SMEs.

#### **5.4.2 Recommendation for further studies**

This research investigated financial literacy with a special focus on the elements of financial literacy which were financial attitude, financial behavior and financial knowledge. In the future prospective researchers may focus on testing different variables that were not investigated in this study. The researcher analyzed findings from data collected from small and medium scale enterprises operating in only the Morogoro municipal; the findings provide an accurate description of firms operating in the municipal but it cannot be said with absolute certainty that the views of SME owners in Morogoro are the same for the rest of the country. That being said then there is room to

carry out the same study but in a different population so as to see whether the results are the same or they vary.

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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE

Dear respondent,

My name is **SALMA KIRUMBI** a student from Mzumbe University pursuing a Masters degree in Accounting and Finance (Msc A and F). In order to complete studies, a student is required to submit a report from a research study. This study is being carried out to the fulfillment of that requirement.

I kindly request you to take a moment of your time to voluntarily respond to this questionnaire appropriately according to your own understanding and experience. Your participation in this study will provide me with the necessary data and information from which conclusion can be drawn. This study is part of my studies and information given here will be treated with strict confidentiality. Data will be reported in aggregate and all responses will remain anonymous. I highly appreciate your participation

This questionnaire seeks your views on the topic “**THE IMPACT OF FINANCIAL LITERACY ON THE PERFORMANCE OF SMEs**”

*The whole questionnaire will not take much of your time.*

The responses are entirely *anonymous* so you may not write your name and please try to be as honest as possible. All the responses will be analyzed together and reported as a whole. \_\_\_\_\_

My e-mail [salmakirumbi@gmail.com](mailto:salmakirumbi@gmail.com)

Phone number +255 714 952 598

**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?

<input type="checkbox"/> Sole proprietorship	<input type="checkbox"/> Cooperative society
<input type="checkbox"/> Partnership	<input type="checkbox"/> Joint venture
<input type="checkbox"/> Private limited company	<input type="checkbox"/> Others (specify) _____
3. Age of business

<input type="checkbox"/> Less than 5 years
<input type="checkbox"/> 5 -10 years
<input type="checkbox"/> More 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?

<input type="checkbox"/> Owner
<input type="checkbox"/> Manager
<input type="checkbox"/> Chief-accountant
<input type="checkbox"/> Finance manager
<input type="checkbox"/> Other (specify) _____
6. What is your HIGHEST educational qualification or nearest equivalent ?

<input type="checkbox"/> Bachelor degree
<input type="checkbox"/> Master degree
<input type="checkbox"/> Higher degree
<input type="checkbox"/> Others (specify) _____
7. Gender:

<input type="checkbox"/> Male
<input type="checkbox"/> Female
8. Age Group

<input type="checkbox"/> 18 - 25
----------------------------------

- 26 - 30
- 31 – 40
- 41 - 50
- Greater than 50

## **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 and 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 Salma inherits Tsh 1,000,000 today and Omega inherits Tsh 1,000,000 in three years. According to the time value of money, who is going to be wealthier?
  - Salma
  - Omega

- Both
- None
- 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 exceeds 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

<b>Budgeting and Planning</b>		1	2	3	4	5
1	I prepare written financial objectives of what I want to achieve in a term for my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	My long-term financial targets influence the managing of my expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	I follow a weekly or monthly plan for expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	I prepare budgets to help me monitor my performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Debt management</b>		1	2	3	4	5
5	My debt management skills have enabled me to access various sources of finance for my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	I know the effect of inflation and interest rates on the loans I borrow for my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	I can determine accurately the total debt position of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	I can access finance at a minimum cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Savings</b>		1	2	3	4	5
9	I save a portion of my business monthly income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	I keep financial reserves in case of emergency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	I plan to use my savings for future growth of my business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	My savings reduce my reliance on credits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Record keeping</b>		1	2	3	4	5
13	I prepare financial statements for your business (income statement, balance sheet)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- |    |  |                          |                          |                          |                          |                          |
|----|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 14 | I can perform financial Analysis on your business financial statements (gross profit margin, net profit margin, current ratio) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 15 | I have adequate knowledge on how to maintain and balance ledger accounts   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 16 | My decisions are guided by information from my financial statements  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|    | <b>Retirement planning</b>   | 1                        | 2                        | 3                        | 4                        | 5                        |
| 17 | My long-term financial decisions are influenced by my retirement plans   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 18 | I am familiar with basic economic concepts that are needed to make sensible saving and investment decisions                    | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 19 | I have another source of income apart from my business   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 20 | I plan to continue this business even in the later future  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

**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

- |   |   |                          |                          |                          |                          |                          |
|---|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|   |   | 1                        | 2                        | 3                        | 4                        | 5                        |
| 1 | It is important to control monthly expenses                   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 | It is important to establish financial targets for the future | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 | The way I manage my money today will affect my future         | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

- 4 Making risky decisions will add value to my returns
- 5 Preventing risk ensures security of my business
- 6 All my short-term decisions are influenced by my long term financial goals
- 7 My social environment has contributed so much to my financial skills
- 8 My parents have influenced my Money management skills
- 9 I have participated in training programs for financial skills
- 10 I have learnt cost/benefits trade off from training programs

#### **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 Tsh 5,000,000
  - Tsh 5,000,000 – Tsh 10,000,000
  - Tsh 10,000,000 – Tsh 50,000,000
  - Tsh 50,000,000 – Tsh 100,000,000
  - More than Tsh 100,000,000
2. Which of the following ranges is the best indication of your business annual sales?
  - Less than Tsh 5,000,000
  - Tsh 5,000,000 – Tsh 10,000,000
  - Tsh 10,000,000 – Tsh 50,000,000
  - Tsh 50,000,000 – Tsh 100,000,000
  - More than Tsh 100,000,000

3. Which of the following ranges is the best indication of your business annual net profits?
- Less than Tsh 5,000,000
  - Tsh 5,000,000 – Tsh 10,000,000
  - Tsh 10,000,000 – Tsh 50,000,000
  - Tsh 50,000,000 – Tsh 100,000,000
  - More than Tsh 100,000,000
4. Do you make predictions for your profits?  
[Yes/No]
5. How do 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**