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INFLUENCE OF FINANCIAL LITERACY AND WORKING CAPITAL MANAGEMENT ON FINANCIAL GROWTH OF SMALL BUSINESS ENTERPRISES IN KAKAMEGA COUNTY, KENYA

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ABSTRACT

This study sought to investigate the influence of financial literacy and working capital management on financial growth of small business enterprises in Kakamega County, Kenya. The study used descriptive survey design. The study targeted 319 small business enterprises operating in a formalized organizational structure in Kakamega County, Kenya. The study used structured questionnaire as the main research. Statistical Package for Social Sciences (SPSS) version 24 was used in data analysis. From a total of 178 questionnaires, 108 questionnaires were returned when completely filled depicting a response rate of 60.7% which was good for generalizability of results to a wider population. From the values of unstandardized regression coefficients with standard errors in parenthesis, both independent variables financial literacy and working capital were significant predictors of financial growth of small business enterprises (dependent variable). The study concluded that financial literacy arising from education level and or financial management training of small business owners or managers can boost financial growth of small business enterprises because the financially literate owners or managers can understand and help mitigate financial needs of their small businesses. Further, effective working capital management can significantly influence financial growth of small business enterprises. The study recommended that first, small business owners or managers should embrace financial literacy training to assist them effect sound financial management measures in their business which will subsequently boost financial growth of their small business. Secondly, small business owners or managers should effectively management working capital of their business to avoid the business experiencing cash problems which definitely will have a bearing on financial growth of the business.

Key Words: *Financial Literacy, Working Capital, Financial Growth, Small Business Enterprises*

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INTRODUCTION

All over the world, small business enterprises have been recognized as engines of growth and development and they are the backbone of the economy in many successful developed nations .The enterprises cut across every sector of the economy and include general trade like wholesale and retail, services, farm activities and manufacturing. They have emerged as a vibrant and dynamic component of the economy by virtue of their significant contribution to GDP, industrial production and exports (Dunne & Hughes, 2003). In the world over, small business enterprises are recognized as one of the most important sources of employment, wealth creation, poverty reduction and contributing to competition with other large businesses. According to World Bank (WB, 2002) small business enterprises have such a crucial significance in the development of an economy that they can't be ignored hence their development should form one of the objectives of any country.

That is, small business enterprises play a significant part in economic growth worldwide including African countries. Studies point out that in developed and developing economies small business enterprises contribute on average 60% of formal employment in the manufacturing sector (Ayyagari et al., 2007). An important aspect for SMEs sector development is access to credit particularly from financial institutions, thus, Le, Venkalesh and Nguyen (2006) pointed out that the achievement stage for any particular small business enterprise is to have adequate access extend some sources of finance. small business enterprises have become important players in the Kenyan economy, but at the same time they continue to face constraints that limit that development and financial performance. Lack of access to financial services is one of the main constraints and a number of factors have been identified to explain this problem. These include segment and incomplete nature of financial market, which increases transaction costs associated with financial services. On the supply side, most formal financial institutions consider small business enterprises un-creditworthy, thus denying them credit. Lack of access to financial resources has been seen as one of the reasons for enterprises section in Kenya as most financial institutions view them as unstable and often place tighter lending requirements before advancing credit (Atieno, 2013).

Globally, small business enterprises have been known to play a significant role in both developed and developing economies. In Finland, for instance, more than 79% of all firms are small business enterprises that is, firms with fewer than 250 employees, and they constitute more than one half of all firms, if measured by the number of personnel (61%) or by turnover (51%) (Statistics Finland 2002; cited by Federation of Finnish Enterprises, 2002. Moreover, small business enterprises make a remarkable contribution to regional economic development. They are often the only feasible engines of development, especially in peripheral regions. They generate societal growth in terms of new jobs and revenues, create innovations, and forms flexible production networks. Besides, small business enterprises are largely recognized as engines of growth and development and are the backbone of economy in many successful developed nations (Zhou & Luo, 2007). For instance, the 2012 Enterprise Baseline Survey revealed an existence of 17 million Small and Medium Scale Enterprises in Nigeria, employing 32.41 million persons and contributing about 46.54% of Nigeria's Gross Domestic Product in nominal terms. In Malaysia, small business enterprises contribute about 32% to the country's GDP (W B, 2012). In general, the small business enterprises sector can thus contribute to the GDP of high income countries by as much as 51 percent and the middle and low income countries small business enterprises can produce up to 39% and 16% respectively of local GDP (W B, 2012).

The importance of small business enterprises has been emphasized in all development plans in Kenya since independence in 1963. These enterprises cut

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across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation, income generation and poverty reduction. According to the Sessional Paper No. 2 of 2005 on development of Micro and Small Enterprises substantial funds have been spent to implement Government policies and programs, and to build institutions specifically aimed at promoting the small business enterprise Sector since independence. The sector is considered as one of the major contributors to the Kenyan economy by providing income and employment to a significant proportion of the population. Available data show that about a decade ago, SMEs in Kenya employed 3.2 million people and accounted for 18% of national GDP (Woldie *et al.,* 2008). According to the Economic Survey 2004, employment within the SME sector increased from 4.2 million persons in 2000 to 5.5 million persons in 2003 accounting for 75.3 percent of the total persons engaged in 2003.

This is one of the 47 counties created under the constitution of Kenya (2010) with economic aspects that favors various business environment, its powers are provided in article 191 and 192 and fourth schedule of the constitution of Kenya and county government Act of 2012, found in the western region of Kenya (constitution of Kenya, 2010) This area has witnessed rapid formation of SMEs to help address unemployment and poverty, a phenomena which has ever bedeviled the region.

Statement of the Problem

The significance of small enterprises has been emphasized in all development plans in Kenya since independence in 1963. These enterprises cut across all sectors of the Kenyan economy and provide one of the most prolific sources of employment creation; income generation and poverty reduction hence have a significant contribution to Kenya, GDP (Kangai, 2014). However this enterprises have continuously remained stagnant in terms of growth and expansion because some enterprises have low survival rate, since less than a third of their business survive transition from first to second generation ownership and those that do, about half do not survive the transition from second to third generation ownership and more so, their survival rate is deteriorating with alarming survival ratio (Kangai, 2014). These firms have continued to experience many constraints like poor access to markets and financial services, lack of innovativeness, poor access to information, unfavourable policies among others that have inhibited the realization of their full potential (Kangai, 2004).This therefore implies need for intervention and more research on various concepts of their business and operations to enhance their performance in the country.

To help crack most constraints of small enterprises performance in an economy, most practitioners and scholars alike have used innovation, technology, knowledge management, human capital, intellectual capital (Ionela *et al.,* 2011) among other independent variables with little emphasis on credit access, financial literacy, working capital management and technical efficiency which can also a positive bearing on small business enterprises performance. Further, studies on influence of access to credit on Small enterprises performance have shown both significant and insignificant influence; Wanjohi (2009); Harper and Soon, (2009); Opiyo (2015); Fatoki and Asah (2011); . Another stream of researchers; Kumar & Francisco (2005; Berger and Udell (2006); Pandula, (2011); Kasseeah and Thoplan (2012); also had inconclusive empirical results on the influence of financial literacy and working capital management has shown positive results; Shin & Soenen (2005); Atril (2006); Raheman & Nasri (2007) and negative influence on small business enterprises performance (Chakraborty, 2008).

Therefore, the inconsistencies in study results plus lack of satisfactory empirical data on what really influenced unsteady performance of small enterprises in developing countries motivated this research to study the influence of financial literacy and working capital management on the financial growth of small enterprises in Kakamega County, Kenya.

Objectives of the Study

The general objective of this study was to investigate the influence of financial literacy and working capital management on financial growth of small business enterprises in Kakamega County, Kenya. The specific objectives were:-

- To assess the influence of financial literacy on financial growth of small business enterprises in Kakamega County, Kenya
- To evaluate the influence of working capital on financial growth of small business enterprises in Kakamega County, Kenya

Research Hypotheses

- **H_{01}:** Financial literacy does not significantly influence financial growth of small business enterprises in Kakamega County, Kenya
- **H_{02}:** Working capital does not significantly influence financial growth of small business enterprises in Kakamega County, Kenya

LITERATURE REVIEW

Theoretical Framework

Cash Conversion Cycle theory

Cash conversion cycle theory was propounded by Blinder and Maccini (2001) and asserts that cash conversion cycles the time it takes a company to convert its resource inputs into cash. It evaluates how effectively a firm is managing its working capital. In most cases, a company acquires inventory on credit, which results in accounts payable. A firm can also sell products on credit, which results in accounts receivable. Cash, therefore, is not involved until the firm pays the accounts payable and collects accounts receivable. So the cash conversion cycle measures the time between outlay of cash and cash recovery (Siddiquee, Khan & Shaem Mahmud, 2009).

Further, cash conversion cycle measure describes how quickly a company can convert its products into cash through sales; thus, the shorter the cycle, the less time capital is tied up in the business processes, and thus the better for the company's bottom line (Wang, 2002. That is, the proponents of this theory argue that a short cycle allows a business to quickly acquire cash that can be used for additional purchases or debt repayment. The lower the cash conversion cycle, the more healthy a company generally is. Businesses attempt to shorten the cash conversion cycle by speeding up payments from customers and slowing down payments to suppliers. Cash conversion cycle can even be negative; for instance, if the company has a strong market position and can dictate purchasing terms to suppliers that is it can postpone its payments (Brennan et al., 2003). The cash conversion cycle theory is therefore relevant to this study in that it assesses how top managers of small business enterprises can utilize their financial literacy skills and working capital management skills to foster financial performance of small business enterprises.

Working Capital Management Theory

Working capital management theory was advanced by Smith (2004). This theory is guided by two methods static and dynamic. The static method is based on the liquidity ratios. Commonly used current and quick ratios based on the data of balance sheet, measures liquidity at some point in time. The dynamic method is related to the operations of the company (Brigham & Ehrhardt, 2004). Thus, Working capital management theory is based on the traditional models of the cash conversion cycle that was initiated by Blinder and Maccini (2001). In this regard, Cash conversion cycle is a dynamic measurement of the time between cash payment for raw materials and then receiving it from accounts receivable. As far as the dynamics of ongoing liquidity management is concerned cash conversion cycle combines both balance sheet and income statement data to measure liquidity with dimension of time (Brennan et al., 2003). Therefore, since cash conversion cycle is the most important aspect in working capital management, it tells

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about the investment and credit decisions in the customer, inventory and suppliers, which show average number of days started from the date when the firm starts payments to its suppliers and the date when it begins to receive payments from its regulars (Blinder & Maccini, 2001).

As an empirical test of working capital management, Bodie and Merton (2006) analyzed the trends in the working capital management and its influence on business performance for small manufacturers of Mauritius. He reported that firm's needs for working capital of change over time depending on the rate of creation of money and high internal investment in inventories and receivables led to reduced profitability. There are two concepts of working capital namely quantitative and qualitative**.** According to quantitative concept, the amount of working capital refers to total of current assets. Current assets are considered to be gross working capital in this concept. The qualitative concept gives an idea regarding source of financing capital. According to qualitative concept the amount of working capital refers to "excess of current assets over current liabilities (Abuzayed, 2012).

Upper Echelons Theory

This study was guided by the upper echelons theory of firm performance. The core of upper echelons theory, has two interconnected parts: executives act on the basis of their personalized interpretations of the strategic situations they face, and these personalized construals are a function of the executives' experiences, values, and personalities. As such, the theory is built on the premise of bounded rationality the idea that informationally complex, uncertain situations are not objectively "knowable" but, rather, are merely interpretable. That if we want to understand why organizations do the things they do, or why they perform the way they do, we must consider the biases and dispositions of their most powerful actors—their top executives (Hambrick, 2007).Thus the upper echelons perspective focus onto executive groups, rather than to individuals, plus demographic profiles of executives (both as individual executives and total management teams to yield better explanations of firm performance outcomes. The theory suggests that top managers influence firm performance based on their personality traits, choices, preferences and values (Hambrick & Mason, 1984). The impact of the top manager is salient in small firms since they have a stronger leeway in decision making (Hambrick & Finkelstein, 1987). In this study therefore, this theory applies to top managers of small business enterprises in as far as their personality traits, choices, preferences and values affect the overall performance of the small business enterprises which they manage.

Empirical Review of Literature Relevant to the Study

Financial literacy and financial growth of small business enterprises

To begin with, Kumar and Francisco (2005), found a strong education effect in explaining access to financial services in Brazil. They also found that graduates had the least difficulties raising finance from banks. The researchers have given three interpretations for this finding. Firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated managers/owners have the skills to manage the other functions of the business such as human resources, finance, marketing, and these skills results to high performance of the business which helps those firms to access finance without any challenges. The third reason is from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion (Kumar & Francisco, 2005).

Further, Berger and Udell (2006) asserted that the owner's level of education also increases the

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probability of SMEs' access to credit. This is because highly qualified owners/managers of small business enterprises are more efficient in their work and moreover, providers of funds have more confidence in those with higher academic qualifications than those with lower levels of qualification (Berger & Udell, 2006). Educated managers/owners are able to understand the loan application procedures, present positive financial information and build closer relationships with their bankers (Pandula, 2011). However, most small business enterprises owners in developing countries tend to have low level of formal education. Most firm owners learn their trade through apprenticeship with an experienced master (Aryeetey, 2004).

Working capital management and financial growth of small business enterprises

First, according to Atril (2006), there is evidence that many small business enterprises are not good at managing their working capital and this has been cited as a major cause of their high failure rate compared with that of large business. In this regard, Bhattacharya (2001) studied the effect of different variables of working capital management on the operating profitability of firms listed on Pakistani Stock Exchange. They selected a sample of 94 Pakistani firms in Karachi city for a period of six years from 1999 – 2004 and found a strong negative relationship between variables of working capital management and profitability of the firm. They found out that as the cash conversion cycle increases, it leads to decreasing profitability of the firm; therefore they suggest that managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level.

Secondly, Shin and Soenen (2005) researched on the relationship between working capital management and financial performance of Indian firms, using a sample of 58,985 firms covering the period of 1975 – 1994. The standard measure of working capital management is the cash conversion cycle. They examined this relationship by using correlation and regression analysis. They found a strong negative relationship between the length of cash conversion cycle and financial performance as measured by growth in sales, net income and market share. Similarly, Raheman and Nasri (2007). Analyzed the impact of working capital management on firms' performance in a sample of 204 firms listed on Pakistani Stock Exchange for the period 1998 – 2007. They used Pearson and Spearman's correlations and the results indicate that cash conversion cycle and inventory turnover in days are significantly affecting the firm's performance.

More so, Ghosh and Maji (2004) made an empirical study on the relationship between utilization of current assets and operating profitability in 92 Indian cement and tea industry. A cross sectional survey was carried out in each of the firms. A comparative analysis was done and it was concluded that the degree of utilization of current assets was positively associated with the operating profitability of cement and tea industries.

Further, Garcia and Martinez (2007) used food industry in Greece to examine the cash conversion cycle as a liquidity indicator of 55 firms and attempts to determine its relationship with the current and the quick ratios, with its component variables, and investigates the implications of the cash conversion cycle in terms of profitability. A descriptive survey was used. Secondary data was analyzed using a regression model. The results of their study indicate that there is a significant positive relationship between the cash conversion cycle and the traditional liquidity measures of current and quick ratios. The cash conversion cycle also positively related to the return on assets and the net profit margin but had no linear relationship with the leverage ratios.

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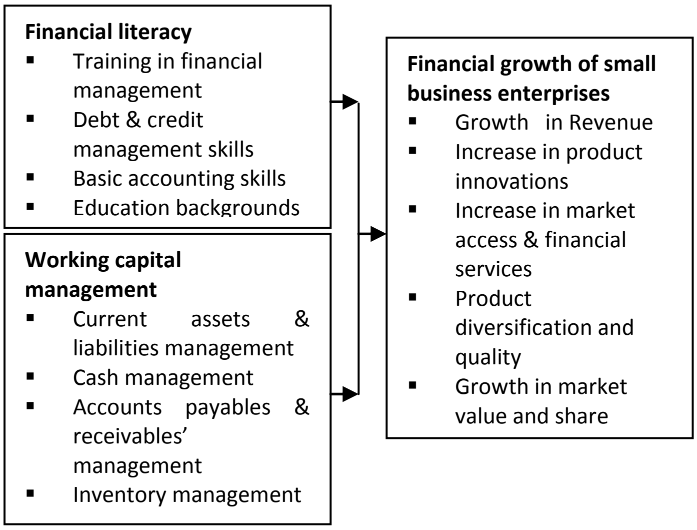
Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Source: (Author, 2019)

METHODOLOGY

This study adopted descriptive survey design which according to Cooper and Schindler (2007) is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. This study targeted the top manager/owner manager of 319 Small Business enterprises located in Kakamega County. Kakamega County had about 319 registered small businesses that were concentrated in the region's urban Centre and heterogeneous in nature (Kakamega County; Industrialization, Trade and Enterprise Development Office, 2018). The study used structured questionnaires as the main research instrument. Kothari (2008) defines a questionnaire as a research tool consisting of a number of questions printed or typed in a definite order on a form or set of forms. Analysis of the data was done using quantitative analysis. Computer software of Statistical Package for Social Sciences (SPSS) version 24 was used in data analysis. Descriptive statistics which included percentages, frequencies, mean, and standard deviations was computed. For variable relationships, correlation analysis and linear regression analysis was computed. The multiple regression model equation is; $\mathbf{Y=\alpha+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon}$;

Where; Y is the dependent variable (SME performance),

α is the constant,

β_1……….β_4 are beta coefficients, X_1…………X_4 are independent variables (credit access, financial literacy, working capital, technical efficiency) and ε is the error term.

FINDINGS

Descriptive Statistics

Descriptive statistics in this study were summation of responses based on independent variables (financial literacy and working capital management) and the dependent variable (financial growth of small business enterprises in Kakamega County). Descriptive statistics thus showed the outcomes of responses to each of the statements on the study variables using Likert scale with values ranging from 5 to 1; that is; 5=Strongly Agree, 4=Agree, 3= Uncertain, 2=Disagree and 1= Strongly Disagree. The results were presented in the table form showing frequencies of responses as per each statement and its corresponding percentage score in brackets.

Financial literacy and financial growth of small business enterprises

This assessed objective one of the study; that is, the influence of financial literacy on financial growth of small business enterprises in Kakamega County. Respondents were asked to respond to 6 statements namely; (i) Debt management literacy reduced no-payment of loans by small business enterprises; (ii) Use of Financial Literacy Programs to small business enterprises owners and top managers influenced access to and better credit utilization; (iii) Small business enterprises top managers/owners book keeping and budgetary skills influenced access to loans and their subsequent utilization by the small business enterprises; (iv) Training of small business enterprise managers and or owners before loaning

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them influenced loan access and efficient credit use by the small business enterprises; (v) The use of internal or self-audit aspect of financial literacy reduced loan default rates by the small business enterprises and (vi); Generally, financial literacy of small business enterprises top managers influenced financial performance of the small business enterprise The results are presented in the table 1.

Table 1 : Descriptive Statistics; Financial Literacy

	Frequency and Percentage (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**Mean**	**Std.Dev**
1.Debt management literacy reduces noon-payment of loans by small business enterprises	10(9.3)	57(52.7)	3(2.8)	27(25.0)	11(10.2)	3.26	0.826
2.Use of Financial Literacy Programs to small business enterprises owners and top managers influence access to and better credit utilization	12(11.1)	52(48.1)	2(1.9)	35(32.4)	7(6.5)	3.25	0.808
3.Small business enterprises top managers or owners book keeping and budgetary skills influence access to loans and their subsequent utilization by the small business enterprises	10(9.3)	62(57.3)	8(7.4)	22(20.4)	6(5.6)	3.44	0.788
4.Training of small business enterprise managers and or owners before loaning them influence loan access and efficient credit use by the small business enterprises	15(13.9)	50(46.3)	3(2.8)	31(28.7)	9(8.3)	3.29	0.853
5.The use of internal or self-audit aspect of financial literacy reduces loan default rates by the small business enterprises	8(7.4)	50(46.3)	28(25.9)	18(16.7)	4(3.7)	3.37	0.972
6.Generally, financial literacy of small business enterprises top managers influence financial performance of the small business enterprise	10(9.3)	61(56.5)	7(6.5)	17(15.7)	13(12.0)	3.35	0.810
Valid N (listwise) 108							
Grand mean = 3.327							

From table 1, most respondents agreed (52.7%) and strongly agreed (9.3%) that debt management literacy reduced non-payment of loans by small business enterprises. This implied that possibly training on how to manage debts accrued by the business can assist small business owners improve their debt management skills, thus clear loans to avoid accumulation of business debts. Secondly, there were mixed reactions on the efficacy on financial literacy programs because while 48.1% of respondents agreed, a fairly good percentage disagreed (32.4%) that use of Financial Literacy Programs to small business enterprises owners and top managers influence access to and better credit utilization. Those who agreed (48.1%) may have benefitted from the financial literacy programs but those who disagreed (32.4%)

More so, most respondents agreed (57.3%) and strongly agreed (9.3%) that small business enterprises top managers or owner's book keeping and budgetary skills influence access to loans and their subsequent utilization by the small business enterprises. This implies that book keeping and budgetary skills are really relevant in the management of any business and eventually assists business owners or managers in the subsequent utilization of the secured loans. However, a relatively small number of respondents disagreed (28.7%) and agreed (46.3%) that training of small business enterprise managers and or owners before loaning them influence loan access and efficient credit use by the small business enterprises. The percentage of respondents (28.7%) who disagreed to this statement could be due the fact that established small business enterprises with financially literate owners or managers do not require financial training before loaning them while those who accepted to have prior training could be first time small business owners or managers who require financial or accounting skills to effectively manage small business enterprises.

On overall, most respondents agreed (56.5%) and strongly agreed (9.3%) that generally, financial literacy of small business enterprises top managers influence financial performance of the small business enterprises. This is supported by Kumar and Francisco (2005) who found a strong education effect in explaining access to financial services in Brazil; and graduates had the least difficulties raising finance from banks because more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs.

Working Capital Management and financial growth of small business enterprises

This assessed objective two of the study; that is, the influence of working capital on financial growth of small business enterprises in Kakamega County. Respondents were asked to respond to 6 statements namely; (i) there was good control of current assets & liabilities; (ii) There was effective cash management in the small business enterprises (iii)There was good management of accounts payables (creditors) and accounts receivables (debtors); (iv) The small business enterprises had good inventory management mechanisms; (v)This small business enterprise has adequate capital to run its activities and (vi) Generally, Working Capital affected Financial Performance of small business enterprise. The results are presented in the table 2.

Table 2: Descriptive Statistics; Working Capital Management (WCM)

	Frequency and Percentage (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**Mean**	**Std.Dev**
1.There is good control of current assets & liabilities	15(13.9)	59(55.5)	3(2.8)	23(21.3)	8(7.4)	3.45	0.879
2.There is effective cash management in the small business enterprises	14(13.0)	41(38.0)	4(3.7)	36(33.3)	13(12.0)	3.06	0.913
3.There is good management of accounts payables (creditors) and accounts receivables (debtors)	17(15.7)	43(39.8)	7(6.5)	31(28.7)	10(9.3)	3.24	0.982
4.The small business enterprises has good inventory management mechanisms	10(9.3)	46(42.6)	6(5.6)	33(30.5)	13(12.0)	3.06	0.862
5.This small business enterprise has adequate capital to run its activities	6(5.6)	51(47.2)	7(6.5)	35(32.4)	9(8.3)	3.09	0.964

6.Generally, Working Capital affects Financial growth of small business enterprise	10(9.3)	50(46.3)	7(6.5)	27(25.0)	14(13.0)	3.14	0.864
Valid N (listwise)	**108**						
Grand mean = 3.173							

From table 2, most respondents agreed (55.5%) and strongly agreed (13.9%) that there was good control of current assets and liabilities; this implied that most business enterprises in Kakamega county had thriving well out of financial crisis because they had good control of their current assets and liabilities. Secondly, there were mixed reactions about working capital management because only 38.0% agreed while 33.3% disagreed that there is effective cash management in the small business enterprises implying more effort was required in effecting cash management in small business enterprises in Kakamega County.

In related responses, a small percentage of respondents agreed (39.8%) and also disagreed (28.7%) that there was good management of accounts payables (creditors) and accounts receivables (debtors) implying that management of creditors and debtors is a challenge to small business enterprises in Kakamega County, Kenya. More so, only 42.6% of respondents agreed while 30.5% disagreed that the small business enterprise had good inventory management mechanisms; implying a relatively high number of small business enterprise in Kakamega County have poor inventory management which could subsequently affect their financial growth.

On overall response, however, a fairly high number of respondents agreed (46.3%) while 25.0% disagreed that generally, working capital affects financial growth of small business enterprise. This implies that the flow of ready funds to run a small business enterprise really affect financial growth of the small business enterprise. This assertion is supported by Owalabi (2012) who asserts that the main objective of working capital management is to ensure the maintenance of satisfactory level of working capital in a way that will prevent excessive or inadequate availability of ready funds to run the small business enterprise. Padachi (2006) also posit that, management of working capital is important for the financial health of all businesses, irrespective of type and size; thus poor management of working capital can result in cash flow problems which reduces business enterprise's profitability and invariably leads to financial crises coupled with its associated effects.

Multiple Regression Analysis

Linear regression analyses showing both the F values and the corresponding significant values revealed that the two independent variables (financial literacy, and working capital Mgt. are indeed different from each other and that they affect the dependent variable (financial growth of small business enterprises) in a different manner, hence, the possibility of running multiple regression. The mandatory model assumptions for running multiple regression analysis were also checked and met. The results were shown in table 2.

Table 3: Multiple regression results

Model Summary

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	.955[a]	.911	.908	.36473	.911	263.825	2	105	.000

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Model		Sum of Squares	df	Mean Square	F	Sig.
			ANOVA[b]			
1	Regression	140.384	2	35.096	263.825	.000[a]
	Residual	13.702	105	.133		
	Total	154.086	107			

a. Predictors: (Constant), Technical Efficiency, Working capital, Credit Access, Financial Literacy

b. Dependent Variable: Financial Growth of small business enterprises

Table 3 showed the multiple regression results of the combined effects of the four independent variables (credit access, financial literacy, working capital, technical efficiency). The results in table 3 showed that the F-statistics produced was significant (F=263.825, *significant* at *p<.001*), thus confirming the fitness of the model. For an R square of 0.911, we can say that the study model explains 91.1% of the variations in financial growth of small business enterprises, while other factors not in this study model accounts for 8.9%, thus, it is a very good model.

Table 4: Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.784	.136		5.744	.000
	Financial Literacy	.136	.068	.124	2.006	.047
	Working Capital Mgt.	.247	.038	.255	6.554	.000

a. Dependent Variable: Financial growth of small business enterprises

Further, from the values of unstandardized regression coefficients with standard errors in parenthesis in table 4, all the independent variables (financial literacy; β = 0.136 (0.068) at *p<0.05 and* working capital Mgt; β = 0.247 (0.038) at *p<0.01* were significant predictors of financial growth of small business enterprises (dependent variable). Therefore, the multiple regression equation for overall significant influence of the independent variables (financial literacy and working capital Mgt.) on financial growth of small business enterprises in Kakamega County (dependent variable) is;

(v) $Y= 0.784 ++0.136X_1+ 0.247X_2$

Where;

Y= financial growth of small business enterprises

X_1= financial literacy

X_2= working capital Mgt

Hypothesis Testing

Research **Hypothesis one** stated that financial literacy does not significantly influence financial growth of small business enterprises in Kakamega County, Kenya. The study results indicate that there exists a positive and significant effect of financial literacy on financial growth of small business enterprises in Kakamega County (β= 0.136 (0.068), at *p<0.51*. **Hypothesis two is thus rejected.** The study results therefore imply that a single increase in financial literacy skills of small business owners and or managers will lead to 0.136 unit improvement in financial growth of small business enterprises in Kakamega County. These results are supported by Berger and Udell (2006) who asserted that the owner's level of education also increases the probability of SMEs' access to credit. This is because highly qualified owners/managers of small businesses are more efficient in their work and moreover, providers of funds have more confidence in those with higher academic qualifications than

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those with lower levels of qualification (Berger & Udell, 2006). Educated managers and or owners are able to understand the loan application procedures, present positive financial information and build closer relationships with their bankers (Pandula, 2011). However, most small business owners in developing countries tend to have low level of formal education. Most firm owners learn their trade through apprenticeship with an experienced master (Aryeetey, 2004) hence the need to learn business financial management skills.

More so, according to Kasseeah and Thoplan (2012), educational level is measured via ordered measures depending on the level of the participant as either; primary, secondary or tertiary level hence some studies concur that the quality of human capital increases with increased schooling and training. From the funds supply perspective banks and financial institutions perceive small business owners with higher educational qualification as being more creditworthy. Therefore, in such a case well educated entrepreneurs have a higher likelihood of accessing bank loan than those without. These authors also suggested that educated managers also possess the necessary confidence to overcome any barriers they might come across when seeking access to bank loan and are well informed in regard to bank credit services and requirements. Thus, it is more likely that such individuals tend to apply for loan more than those with lower educational qualification (Kasseeah & Thoplan, 2012).

Research **Hypothesis two** stated that working capital management does not significantly influence financial growth of small business enterprises in Kakamega County, Kenya. The study results indicate that there exists a positive and significant effect of working capital on financial growth of small business enterprises in Kakamega County (β= 0.247 (0.038), at $p<0.01$. **Hypothesis two is thus rejected.** The study results therefore imply that a single increase in efficient working capital management in small business enterprises will lead to 0.247 unit improvement in financial growth of small business enterprises in Kakamega County. These results are supported by Shin and Soenen (2005) who researched on the relationship between working capital management and financial performance of Indian small firms, using a sample of 58,985 firms covering the period of 1975 – 1994. The standard measure of working capital management is the cash conversion cycle. They examined this relationship by using correlation and regression analysis. They found a strong negative relationship between the length of cash conversion cycle and financial performance as measured by growth in sales, net income and market share. Similarly, Raheman and Nasri (2007) analyzed the impact of working capital management on firms' performance in a sample of 204 firms listed on Pakistani Stock Exchange for the period 1998 – 2007. They used Pearson and Spearman's correlations and the results indicate that cash conversion cycle and inventory turnover in days are significantly affecting the firm's performance.

However, Chakraborty (2008) carried out a study on the relationship between working capital and profitability with reference to selected companies in the pharmaceutical industry and noticed that the joint influence of the liquidity, inventory management and credit management on the profitability were statistically very significant in nine out of 17 pharmaceutical companies selected for the study. A regression analysis was done and the results of the analysis showed that an inverse relationship between working capital and profitability of selected pharmaceutical companies. To also support the negative relationship, Zariyawati et al. (2009) also examined the relationship between profitability and the length of the cash conversion cycle using six different economic sectors which are listed in Bursa Malaysia. A descriptive survey was used and data was analysis using regression model. The results of this analysis showed a strong negative significant relationship between cash conversion cycle and firm profitability.

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CONCLUSIONS

First, the study concluded that financial literacy arising from education level and or financial management training of small business owners or managers can boost financial growth of small business enterprises because the financially literate owners or managers can understand and help mitigate financial needs of their small businesses.

Secondly, the study also concludes that effective working capital management can significantly influence financial growth of small business enterprises; simple because if a small business has cash flow management issues, then this can pose a huge challenge to its financial growth.

RECOMMENDATIONS

First, small business owners or managers should embrace financial literacy training to assist them effect sound financial management measures in their business which will subsequently boost financial growth of their small business.

Secondly, small business owners or managers should effectively management working capital of their business to avoid the business experiencing cash problems which definitely will have a bearing on financial growth of the business.

Areas for further research

First, a similar study can be done in manufacturing firms in industrial area, Nairobi County, so as to ascertain the efficacy of technical efficiency on financial growth of small manufacturing firms.

Secondly, another study can be done to assess the effectiveness of financial literacy programs on financial growth of small business enterprises because some researchers have termed financial literacy programs as mere marketing gimmicks by financial lending institutions.

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