# The Effect of Savings Literacy on the Financial Viability of Micro, Small and Medium Enterprises in Kitui County, Kenya.

**Mwalimu Mukunzu[1], Dr. Tecla Kirwa[2], Dr. Ghabon Yasin[3]**

**[1,2]Department of Economics, Finance and Accounting, Kibabii University**

**[3]Department of Economics, Maseno University**

**[*]Corresponding Author**

**DOI: https://doi.org/10.47772/IJRISS.2026.100601346**

**Received: 04 July 2026; Accepted: 10 July 2026; Published: 18 July 2026**

## ABSTRACT

The objective of the study was to establish the effect of savings skills on the financial viability of Micro, Small and Medium Enterprises in Kitui County, Kenya. The study was underpinned by Resource Based View theory. A descriptive research design was employed. The researcher collected data using self-administered questionnaires and interviews. The target population comprised 1,800 MSMEs. Yamane formula was used to get a sample of 327. Self-administered questionnaires were issued to a sample of 327 Micro, Small and Medium Enterprises in Kitui County, Kenya. The data gathered were examined by use of both inferential and descriptive statistics. A multiple regression model was employed to demonstrate the link between the independent and dependent variables. The data generated were typed in and examined utilizing the Statistical Package for Social Sciences (SPSS) version 26, and information was generated and displayed through the use of tables, charts, and frequency distribution tables. This study found that Savings literacy (r=0.818, p=0.00) significantly influenced the financial viability of MSMEs in Kitui County, Kenya. The findings of this study would provide valuable insights for policymakers, financial institutions, and educational bodies to develop targeted financial literacy programs and interventions to enhance the financial health of Micro, Small and Medium Enterprises in Kitui County.

**Keywords:** Savings Literacy, Financial Viability, Keynesian Theory

## BACKGROUND OF THE STUDY

The financial viability of Micro, Small, and Medium Enterprises (MSMEs) is crucial for their economic growth and overall economic stability (Varga, 2021). Micro, Small, and Medium Enterprises perform an integral role in the world economy in creating employment and supporting livelihoods. It is estimated that the sector employs over 15 million people and contributes about 30% to the national value added. Despite this, MSMEs continue to face substantial challenges, key among them being limited access to finance that impedes their growth (Velmurugan et al., 2024). Additionally, many MSMEs struggle with financial viability, often leading to stagnation or business failure (Hardyansah & Putra, 2023). A major challenge facing these enterprises is the limited financial literacy skills among business owners and managers of Micro, Small and Medium enterprises in most developing countries, which have barriers to access to finance, difficulties in exploiting technology, insufficient managerial capabilities, and regulatory burdens in their business environment (Kenya Bankers Association, 2023).

Financial literacy refers to the knowledge and understanding of financial principles and concepts, such as budgeting, saving, investing, and debt management (Kumari, 2020). For managers or owners of micro, small, and medium enterprises, financial literacy is particularly important due to several reasons: Managers with a strong grasp of financial concepts are better equipped to perform their roles effectively, making informed decisions that benefit both their clients and their employers; financially literate individuals are more likely to manage their personal finances well, reducing the risk of debt and financial stress (Sibanyoni, 2021). This can contribute to higher job satisfaction and productivity; those who work in client-facing roles need to understand financial products and services thoroughly to provide accurate advice and build trust with clients. Continuous learning and application of financial knowledge can lead to career advancement and general growth of business entities (Selvi et al., 2024).

In Zimbabwe, Savings enable MSME owners to accumulate capital for business expansion and cushion against financial shocks. By cultivating a strong saving culture, businesses can reduce their dependence on external financing, improve cash flow stability, and enhance resilience during economic downturns (Henager & Cude, 2019). The ability to set aside funds for future investment and unforeseen circumstances plays a critical role in ensuring business continuity and financial growth (Yakob et al., 2021). Many entrepreneurs fail to access beneficial financial products due to limited knowledge, ultimately affecting their growth and financial sustainability. Moreover, certain age groups, particularly the youth and the elderly, are more affected by this knowledge gap, further limiting business potential in these demographics. Addressing saving knowledge disparities is critical in empowering MSMEs to leverage financial opportunities for long-term viability.

In Kenya, MSME managers and owners are often exposed to sophisticated financial products and services but may struggle to make informed financial decisions without adequate financial literacy (Njoki, 2024). A lack of financial acumen can lead to financial instability, business failure, and missed growth opportunities. Successful businesses require financially literate managers who can handle complex financial instruments and make strategic decisions to enhance profitability and long-term viability (Musau et al., 2022). The absence of financial literacy leads to poor financial planning, excessive debt burdens, and inadequate savings, ultimately impacting the financial stability of MSMEs (Molosiwa & Molosiwa, 2025). Addressing the financial literacy gap among MSMEs is essential for their financial viability and overall economic contribution. This study aimed to assess the level of financial literacy among MSMEs in Kitui County, examine its impact on financial viability, and identify challenges in financial literacy Skills.

**Problem Statement**

The financial viability of Micro, Small, and Medium Enterprises (MSMEs) is crucial for their economic growth and overall economic stability (Sinha et al., 2024). Despite the availability of financial institutions providing access to financial resources and services, many MSMEs struggle to sustain operations, with some failing to pay employees or meet financial obligations. Reduced cash flows and weak financial management contribute to their poor financial viability (Kenya Bankers' Association, 2023). Additionally, MSMEs face significant challenges in accessing credit, both formal and informal, due to difficulties in obtaining required documentation and weak financial positions, further highlighting their financial instability (Chibueze et al., 2025).

Financial literacy plays a critical role in determining the financial viability of MSMEs. Studies indicate that while many enterprises have previously operated savings accounts, a significant portion still lacks structured financial planning (Dwyanti, 2024). Only 41% of enterprises prefer loan tenures of 1-3 years, while 31% opt for 3-5 years, and merely 10% prefer loans with over six-year maturity. These preferences reflect a limited understanding of long-term financial management and investment strategies, which can be attributed to inadequate financial literacy. Financial literacy encompasses key aspects such as budgeting, saving, investing, and debt management, which are essential for ensuring sound financial decision-making and business sustainability (KBA, 2020).

MSME managers and owners are often exposed to sophisticated financial products and services but may struggle to make informed financial decisions without adequate financial literacy. A lack of financial acumen can lead to financial instability, business failure, and missed growth opportunities. Successful businesses require financially literate managers who can handle complex financial instruments and make strategic decisions to enhance profitability and long-term viability. The absence of financial literacy leads to poor financial planning, excessive debt burdens, and inadequate savings, ultimately impacting the financial stability of MSMEs (Muli, 2021). Addressing the financial literacy gap among MSMEs is essential for their financial viability and overall economic contribution. This study aimed to assess the level of financial literacy among MSMEs in Kitui County, examine its impact on financial viability, and identify challenges in financial literacy Skills.

### Main Objective

To determine the influence of savings literacy skills on the financial viability of Micro, Small and Medium Enterprises in Kitui County, Kenya.

### Research Hypothesis

$H_{01}$: There is no significant relationship between savings literacy on the financial viability of Micro, Small and Medium Enterprises in Kitui County, Kenya.

## THEORETICAL LITERATURE

### Resource-Based View Theory

The Resource-Based View (RBV) theory, introduced by Birger Wernerfelt in 1984 and further developed by Jay Barney in 1991, provides a robust framework for understanding how internal resources contribute to an organization's sustained competitive advantage. The theory posits that firms with valuable, rare, inimitable, and non-substitutable resources can achieve superior financial performance and long-term sustainability (Wernerfelt, 1984; Barney, 1991). In the context of Micro, Small, and Medium Enterprises (MSMEs), financial literacy is regarded as a critical internal resource that influences decision-making, risk management, and financial viability.

Similarly, the Permanent Income Hypothesis (PIH), proposed by Milton Friedman in 1957, suggests that individuals and business owners base their consumption and savings decisions on their expected long-term income rather than their current earnings. This theory emphasizes the importance of financial planning and informed financial behaviour in ensuring long-term financial stability (Friedman, 1957). Entrepreneurs who possess strong financial literacy skills are better equipped to estimate their permanent income accurately, allowing them to make prudent decisions regarding savings, investments, and debt management.

When integrated, the RBV and PIH theories provide a comprehensive understanding of the role financial literacy plays in the financial viability of MSMEs. The RBV highlights financial literacy as a key internal capability that enhances business performance, while the PIH underscores the significance of financial foresight in ensuring stable consumption, savings, and investment patterns. Research indicates that MSMEs with higher financial literacy levels are better positioned to manage financial challenges, secure financing, and sustain long-term growth (Duran, 2024).

By leveraging insights from both theories, MSMEs can enhance their financial viability by improving financial literacy, making strategic financial decisions, and aligning resource allocation with long-term financial expectations. This integrated perspective provides valuable insights for policymakers, financial institutions, and educational bodies in designing targeted financial literacy programs that promote MSME growth and sustainability.

### Empirical Literature

In Malaysia, Assifuah-Nunoo (2023) conducted research on financial literacy and financial performance of small and medium-sized Enterprises. The study employed multiple regression analysis to test the influence of financial literacy on SME performance by controlling for manager profile and SME-specific characteristics. Data were obtained from questionnaires distributed to managers/owners. The study used simple random sampling to select samples to represent the population. The sample size for the study was 364 SMEs. The multiple regression results showed that managers or owners with savings skills managed financially healthy businesses that had very good financial viability. This implied that savings had a significant effect on the financial viability of SMEs.

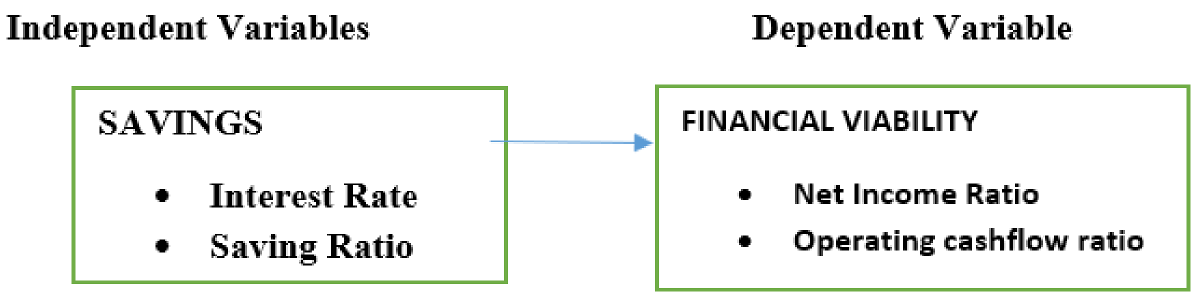
Research done in Nigeria on the impact of Microfinance Banks on the growth of small and medium Enterprises in Lagos Metropolis asserted that savings among SMEs are encouraging because of the higher interest rates compared to deposit banks, faster loan disbursement, among others. The data were collected using questionnaires given to owners of SMES. There were 209 questionnaires distributed, of which only 205 were viable and analysed using the SPSS Package. The study established that a majority of respondents accepted that micro-savings positively affect the financial performance of SMEs, with results from analysis of their responses showing a positive mean ranging from 3.94 to 4.11. This study found that savings has a significant effect on the financial performance and by extension, the financial viability of SMEs (Aladejebi,2019)

In Tanzania, Mhanganya et al.,(2024) did research entitled, A deep dive into financial strategies of SMES in Morogoro Municipality. The study used a cross-sectional research design and a multiple linear regression model. The study found that the capital structure comprising private savings, bank credit, reserved earnings, on-bank loans, equity, and trade credit plays a critical role in influencing the financial viability of these businesses. The study found that savings contributed the highest ROI with a coefficient of 0.305, which is significant at $p<0.01$. The study suggested that there existed a significant relationship between private savings and return on investment. Private savings offer SMES a degree of financial independence, allowing them to invest in growth opportunities without relying on external debts which normally attracts strict repayment terms and conditions.

Onyango, (2023) did a study of how financial literacy moderates accounting practices and financial performance of MSMEs in the Republic of Kenya. Micro, Small and Medium Enterprises (MSMEs) are significant in developing many economies by creating employment, alleviating poverty and food insecurity, and contributing to the Gross Domestic Product. Despite their significance, MSMEs face multiple challenges that affect their capacity to achieve desired economic outcomes. An explanatory research design and simple random sampling were used to select a representative sample. Data was collected from 398 managers/owners of MSMEs using a self-administered questionnaire. The hierarchical regression model was used to test the study hypothesis in SPSS vs.23. Accounting practices and financial literacy were found to have a positive and significant influence on MSMEs' financial performance. Results further show that financial literacy moderates the relationship between accounting practices and financial performance. The study underlines the importance of accounting approaches and financial literacy in.

## CONCEPTUAL FRAMEWORK

Creswell et al., (2007) defines a conceptual framework as a coherent system of concepts, assumptions, expectations, beliefs, and theories that support and direct research and theory development within a particular field of study. It provides researchers witDh a structured approach by outlining the key variables, constructs, and relationships relevant to the research problem or topic at hand(Hammerton et al., 2002).




Source: Researcher (2024)

**Figure 1: Conceptual Framework**

## RESEARCH METHODOLOGY

The study used a descriptive research design. This design refers to a set of methods and procedures that describe variables. It involves gathering data that describe events and then organizing, tabulating, depicting, and describing the data. The target population is the registered MSMEs in Kitui County, and according to the Kitui County Government Department of Trade and Industrialization, there 1800 registered MSMEs. The unit of inquiry was the owners since the majority of them did not have a strong financial base to employ many workers. This study used Yamane's formula to determine the sample size, which was 327 respondents (MSMES).

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

## RESULTS AND DISCUSSIONS

**Table 1: Descriptive statistics of Saving Literacy**

| | N | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| I regularly set aside a portion of business income as savings. | 284 | 1 | 5 | 3.11 | 1.465 |
| My business relies on savings as a key source of reinvestment capital. | 284 | 1 | 5 | 4.03 | 1.426 |
| I understand the importance of interest rates when choosing a savings account. | 284 | 1 | 5 | 3.10 | 1.460 |
| My business has a structured savings plan. | 284 | 1 | 5 | 3.08 | 1.441 |
| Savings have contributed to my business's financial stability and growth. | 284 | 1 | 5 | 4.00 | 1.434 |
| Valid N (listwise) | 284 | 1 | 5 | 3.46 | 1.426 |

Source: Field Data (2025)

The descriptive statistics show a moderate level of savings practices among the respondents, with an overall mean of 3.46 (SD = 1.426). The highest mean scores were recorded for the statements "My business relies on savings as a key source of reinvestment capital" (Mean = 4.03, SD = 1.426) and "Savings have contributed to my business's financial stability and growth" (Mean = 4.00, SD = 1.434). These findings indicate that most respondents recognize the importance of savings in financing business operations, promoting growth, and enhancing financial stability.

However, relatively lower mean scores were reported for regularly setting aside business income as savings (Mean = 3.11), understanding the importance of interest rates when choosing a savings account (Mean = 3.10), and having a structured savings plan (Mean = 3.08). This suggests that although respondents appreciate the role of savings in business success, many have yet to adopt consistent saving practices or formal savings strategies. Strengthening financial literacy and encouraging structured savings habits could improve the long-term financial sustainability of their businesses. The findings are in line with those of Aladejebi (2019), who found that savings have a significant effect on the financial performance and, by extension, the financial viability of SMEs.

**Table 2: Autocorrelation**

| Model | Durbin-Watson |
|---|---|
| 1 | 1.472[a] |
| a. Predictors: Savings literacy | |
| b. Dependent Variable: Financial Viability | |

Source: Field Data (2025)

The model summary presents the Durbin–Watson statistic, which is used to assess whether the regression model's residuals exhibit autocorrelation. In this study, the model examines the effect of Savings literacy on the financial viability of MSMEs. The reported Durbin-Watson value is 1.472.

**Table 3: Correlation Analysis**

| | | Saving Literacy | Financial Viability |
|---|---|---|---|
| Savings | Pearson Correlation | 1 | .818** |
| | Sig. (2-tailed) | | .000 |
| | N | 284 | 284 |
| Financial Viability | Pearson Correlation | .818** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 284 | 284 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

Source: Field Data (2025)

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

A Pearson correlation analysis was conducted to assess the relationship between savings literacy and financial viability among MSMEs. The results indicate a strong, positive, and statistically significant association between savings literacy and financial viability ($r = 0.818$, $p < 0.001$, $n = 284$). The positive correlation coefficient indicates that higher levels of savings literacy are associated with higher levels of financial viability. Because the p-value is less than 0.01 (2-tailed), the relationship is statistically significant, implying that the observed association is unlikely to have occurred by chance. The findings suggest that improving savings literacy among MSME owners or managers is likely to enhance the financial viability of their enterprise.

**Regression Analysis Of Savings Literacy And Financial Viability Of Msmes**

**Table 4: Regression Analysis of Savings Literacy and Financial Viability of MSMEs**

| **Model Summary** | | | | | | |
|---|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | | | Std. Error of the Estimate |
| 1 | .818[a] | .669 | .668 | | | 1.82315 |
| **ANOVA[a]** | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| **1** | Regression | 1896.707 | 1 | 1896.707 | 570.632 | .000[b] |
| | Residual | 937.332 | 282 | 3.324 | | |
| | Total | 2834.039 | 283 | | | |

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.028 | .517 | | 5.859 | .000 |
| | Savings literacy | .788 | .033 | .818 | 23.888 | .000 |
| a. Dependent Variable: Financial Viability | | | | | | |

Source: Field Data (2025)

The regression analysis was conducted to determine the effect of Savings literacy on the Financial Viability of Micro, Small, and Medium Enterprises (MSMEs). The purpose of this analysis is to understand whether businesses that practice better savings literacy habits are more likely to achieve financial stability and sustainability.

The model summary shows a correlation coefficient (R) of 0.818, indicating a strong positive relationship between Savings literacy and Financial Viability. This means that as businesses improve their savings practices, their financial viability tends to increase. The R Square value of 0.669 reveals that about 66.9% of the variation in Financial Viability among MSMEs can be explained by their savings practices alone. The Adjusted R Square of 0.668 confirms that the model is reliable and accurately reflects the relationship. The Standard Error of the Estimate is 1.823, which represents the average distance between the actual financial viability scores and those predicted by the model.

The ANOVA results show an F-value of 570.632 with a p-value of 0.000, which is statistically significant at the 0.01 level. This indicates that the regression model is meaningful and that Savings has a significant effect on Financial Viability. In simpler terms, this confirms that the observed relationship is not due to random chance.

The regression coefficients provide more detail about the relationship. The constant (intercept) is 3.028, representing the expected financial viability score when Savings literacy is zero. The coefficient for Savings literacy is 0.788, with a t-value of 23.888 and a p-value of 0.000, showing a positive and statistically significant effect. The standardized coefficient (Beta = 0.818) confirms that Savings literacy is a strong predictor of Financial Viability. This means that for every one-unit increase in Savings, the financial viability of a business is expected to increase by approximately 0.788 units.

In practical terms, these findings suggest that MSMEs that regularly save a portion of their income are more likely to achieve financial stability and long-term sustainability. Savings allow businesses to reinvest in operations, cover unexpected expenses, avoid financial stress, and plan for future growth. The results indicate that promoting a culture of saving among MSMEs is crucial for improving their financial performance.

## CONCLUSION

The study concludes that savings have a significant positive effect on the financial viability of MSMEs. Businesses that consistently set aside a portion of their income are better positioned to fund reinvestments, cushion against financial shocks, and sustain operational continuity. Savings serve as a critical source of internal capital, enabling businesses to pursue growth opportunities without relying solely on external financing. Therefore, effective savings practices directly enhance business stability and the capacity for long-term financial sustainability.

## RECOMMENDATIONS

Based on the findings and conclusions of this study, several recommendations are proposed to enhance the financial viability of MSMEs in Kitui County, Kenya, focusing on the development and application of financial literacy skills.

First, it is recommended that MSME owners develop structured savings practices. Businesses should consistently set aside a portion of their income as savings to serve as a buffer against unexpected expenses and as a source of reinvestment capital. By prioritizing savings, business owners can strengthen financial resilience, reduce dependence on external financing, and support sustainable growth.

Second, accurate and systematic bookkeeping practices should be emphasized. MSMEs should maintain detailed records of all financial transactions, whether through manual systems or digital accounting tools. Effective bookkeeping enables owners to monitor business performance, identify opportunities for improvement, and make informed financial decisions. Training in modern accounting practices and software use can further enhance these skills and contribute to operational efficiency.

## REFERENCES

1. Assifuah-Nunoo, E. (2023). Access to finance, financial literacy and small and medium-scale enterprises sustainable performance. Journal of Engineering Applied Science and Humanities, 8(2), 118–142.
2. Association, K. B. (2023). STATE OF THE BANKING INDUSTRY REPORT 2023 STATE OF THE BANKING. August.
3. Chibueze, T., Taiwo Adeshina, L. U. C., Ewubajo, S. D., & Ebere, L. (2025). Access to credit and financial inclusion of MSMEs in sub-Saharan Africa: Challenges and opportunities. International Journal of Financial Management and Economics, 8(2), 12.
4. Creswell, J. W., Hanson, W. E., Clark Plano, V. L., & Morales, A. (2007). Qualitative Research Designs: Selection and Implementation. The Counseling Psychologist, 35(2), 236–264. https://doi.org/10.1177/0011000006287390
5. Dwyanti, D. (2024). The importance of financial literacy in financial management in micro, small and medium enterprises (MSMEs). Journal of Applied Management and Business, 5(1), 1–6.
6. Hammerton, J., Osborne, M., Armstrong, S., & Daelemans, W. (2002). Introduction to Special Issue on Machine Learning Approaches to Shallow Parsing. Journal of Machine Learning Research, 2(4), 551–558. https://doi.org/10.1162/153244302320884533
7. Hardyansah, R., & Putra, A. R. (2023). Building Regional Economic Stability Through Effective Legal Protection for Micro, Small, and Medium Enterprises in Indonesia. Journal of Social Science Studies, 3(1), 15–22.
8. Kumari, D. A. T. (2020). The Impact of Financial Literacy on Investment Decisions: With Special Reference to Undergraduates in Western Province, Sri Lanka. Asian Journal of Contemporary Education, 4(2), 110–126.
9. Mhanganya, S., Kamuzora, A., & Utouh, H. (2024). Maximizing Returns: A Deep Dive into the Financial

Strategies of SMEs in Morogoro Municipality. NG Journal of Social Development, 14(1), 79–90.
10. Molosiwa, T., & Molosiwa, J. (2025). The impact of financial literacy on the performance of Small and Medium-sized Enterprises (SMEs): A review of literature. International Journal of Research in Business and Social Science, 14(3), 320–332.
11. Musau, S. M., Muathe, S., & Mwangi, L. W. (2022). Financial literacy and consumer protection: A road map to digital financial access by SMEs in Kenya. The Journal of Entrepreneurial Finance (JEF), 24(2), 1–25.
12. Njoki, D. M. (2024). Effect of financial literacy on the growth of micro and small enterprises in Kenya. African Journal of Commercial Studies, 4(1), 31–37.
13. Onyango, O. T. (2023). Accounting Practices , Financial Literacy And Financial Performance Of Micro , Small And Medium Enterprises. 4(9), 700–719. https://doi.org/10.47153/jbmr49.7942023
14. Selvi, S., Pakaya, A. R., & Nahar, F. H. (2024). Management behavior: The role of financial literacy and financial knowledge of MSME actors. Jurnal Aplikasi Manajemen, 22(3), 909–919.
15. Sibanyoni, B. (2021). Investigating non-compliance with corporate governance principles on material losses in selected business organizations. North-West University (South Africa).
16. Sinha, K. J., Sinha, S., & Sinha, B. J. (2024). Micro, Small, and Medium-Sized Enterprises (MSMEs): The significant role and challenges in Indonesia's economy. International Journal For Multidisciplinary Research, 6(3), 20824.
17. Varga, J. (2021). Defining the economic role and benefits of micro, small and medium-sized enterprises in the 21st century with a systematic review of the literature. Acta Polytechnica Hungarica, 18(11), 209–228.
18. Velmurugan, R., Thirumalaisamy, R., Paquibut, R., & Abouraia, M. (2024). An integrated framework for the financial sustainability and entrepreneurial success of micro, small, and medium enterprises. In The AI Revolution: Driving Business Innovation and Research: Volume 2 (pp. 233–246). Springer.