

# **An investigation into the effect of conventional financial record-keeping on the financial performance of Micro and small enterprises : a case of MSEs in Nkubu, Imenti South District**

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## **Abstract:**

The role played by MSEs in the Kenyan economy is undoubtedly important. Entrepreneurship and firm creation is mostly related to micro and small enterprises, which lead us to look at them as an important development agent in an economy, (Beyene 2002). Studies indicate that a majority of MSEs have poor record-keeping behaviour and do not have adequate financial records/statements (Kibuka, 1996; Lomouth, 2003; Rukunga, 1999). The primary objective of this study therefore was to reveal the effect of conventional financial record keeping on the financial performance of MSEs. Specific objectives include establishing the level of financial record keeping, determining the effect of the level of financial record keeping and the effectiveness of record keeping systems and training in record keeping on financial performance of MSEs. Using questionnaires, primary data was collected from a sample of 90 owners out of 181 licensed MSEs practicing record keeping in Nkubu Town, Imenti South District. The data was analyzed using descriptive statistics and measures of central tendency such as mean, mode, standard deviation, frequencies, and percentages were used to describe and analyze the study findings. These were then presented in tables and graphs for easy understanding and interpretation. Interrelations between various factors were determined through correlations. The influence of the factors on final value was tested through regression analysis. The study's findings indicated that; the proportion of keeping conventional records to the ideal set, proportion of transactions captured by the record keeping systems, training in record keeping, market size and the scope of activities had no association with the return in investment. Only operation cost has an effect on the financial performance of the MSEs. Therefore it is concluded that there is no relationship between conventional financial-Record keeping and Financial Performance of MSEs, and enlighten the MSEs owners that the most vital factor to consider is operation cost which has a small but positive impact on the financial performance of the MSEs. Recommendation for further study is to find out the effect of conventional financial record keeping on financial performance of the Small and Medium enterprises.