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EFFECT OF FINANCIAL MANAGEMENT COMPETENCE PRACTICES ON SUSTAINABILITY OF SMALL AND MEDIUM ENTERPRISES IN KENYA

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ABSTRACT

SMEs sustainability is of increasing interest worldwide as many enterprises perform dismally and are of high mortality rates. It is therefore necessary to conduct research to enhance SMEs survival rates so as to enable the sector to optimally realize the numerous benefits associated with entrepreneurship practice. The purpose of this study was to determine the effect of entrepreneurial competence practices and their impact on sustainability of SMEs in Kenya. The study employed descriptive survey design to realize the intended objectives. The target population under study was the 1015 registered SMEs in Embu County and its environs. The researcher applied stratified random sampling technique since the population was heterogeneous. The study employed questionnaires and document analysis guides to collect required data from a sample of 102 SMEs. The collected data was coded, quantified and analyzed qualitatively and quantitatively. Quantitative data was analyzed by the use of statistical package for social scientists (SPSS) whilst qualitative data was analyzed by content analysis. A substantial number of respondents had not applied entrepreneurial competence practices in their business operations. The study also established that majority of respondents measured business sustainability in terms by trends in profit, increase number of customers as well as age of business. The study concluded that the key entrepreneurial competence practices were found to have a substantial impact on sustainability of SMEs in Embu town and its environs. However, constantly monitoring was found necessary to make the competencies learnt be translated into more practical work as most of the trained entrepreneurs were not fully utilizing the acquired competencies in their ventures to attain sustainable levels.

Key words: *Entrepreneur, Entrepreneurial Competence Practices, Sustainability.*

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INTRODUCTION

The researcher attempted to link entrepreneurial competence practices to sustainability of Small and Medium Enterprises (SMEs). According to Shalley (2004), the SME sector plays a vital role in economic development and has attracted the attention of entrepreneurship scholars in recent past. Entrepreneurial ventures are recognized worldwide as they play significant role in economic development. Kauffmann (2006) notes the important role played by the SME sector and particularly its ability to provide reasonably priced goods, services, income and employment to a number of people. It is for these aforementioned reasons that there has been a growing interest and concern by the government and development partners for the improved performance and growth of the SMEs worldwide.

Studies by Chodokufa (2009) have revealed that SMEs cover about 90 percent of African businesses and contribute to over 50 percent of African employment. According to Zacharakis, Neck, Hygrave&Cox (2002), SMEs are increasingly recognized as a leading vehicle for economic development, a prime source of employment, revenue generation, innovation and technological advancement in both developed and developing nations. Historically, the informal sector has played an important role in the process of labour absorption as observed by Lambin (2004). According to Eden (2004), South African government has recognized the important role played by SME sector and has put in place programmes to encourage growth of the sector through interventions such as creation of an enabling legal framework, access to markets, finance, training, capacity building, taxation and financial incentives among others.

The Kenyan is not an exception from the rest of the world as far as the recognition and support of the entrepreneurial ventures are concerned. The important role played by the sector can be traced way back in the year 1972 following the ILO report. The Report placed emphasis on the possibility of the sector creating employment and generating income for the majority of the Kenyan people. As a result of this recognition, the sector was given considerable attention in subsequent government plans. The Sessional paper no.1 of 1986 and no.2 of 1992 for instance highlighted the importance of the sector to strengthen the Kenyan economy through its potential for poverty reduction and employment creation. Sessional paper no. 2 of 2005 and the Ministry of Economic Planning report of 2007, show that three out of five SMEs fail within their first three years of inception. This is supported by Kenya Bureau of Statistics report of 2004 which showed high failure rates and stagnation among many start-up businesses. The survey revealed that only 38% of the businesses were expanding while 58% had not added workers. The survey also showed that more enterprises were most likely to close in their first three years of operation. The recent study conducted by the Institute of Development Studies (RoK, 2008) confirms the findings as it revealed that 57% of small businesses are in stagnation with only 33% of them showing some level of growth. A further confirmation is highlighted by the Sessional paper no.2 of 2005 which shows that SMEs have high mortality rates with most of them not surviving to see beyond their third anniversaries.

Kenya is facing a major challenge of the creation of employment opportunities for its rapidly increasing workforce (Republic of Kenya, 2013). SME sector is an alternative employer to majority of Kenyans who fail to secure jobs in the public, large private and non-profit sectors (Republic of Kenya, 1999, 2008, 2009, 2012, 2013). In the last three decades, there has been a growing awareness of the relevance of entrepreneurship and small business management in Kenya for sustained economic growth, rapid employment generation and poverty eradication (Republic of Kenya, 1992, 1999, 2012, 2013 and World Bank, 2013). In Kenya, a Baseline Survey

(2013), found that SMEs employed about 50 percent of youths and women and they accounted for approximately 79.6 percent of the total labour force (Republic of Kenya, 2013). According to Ngugi and Bwisa (2013), SMEs accounts for a significant proportion of economic activities in Kenya's urban and rural areas as it generates over 70 percent of all new jobs created. They further notes that the role of SMEs in terms of employment creation, income generation, economic diversification and growth, make the sector become critical for future industrial development for the country. Longenecker (2006) cited lack of planning, improper financing and poor management as the main causes of failure of small enterprises. Mbogo (2011) asserts that regardless of the high failure rate by SMEs in Kenya, their enormous contribution to the entire economy cannot be ignored.

The National and Small Enterprise Baseline Survey of 2007 revealed that about 1.3 Million small enterprises were employing about 2.4 Million people in Kenya. This translated to an estimated GDP of 18.8 second to Agriculture and had increased from 13.8 in 1993. The Economic Strategy for Wealth and Employment Creation covering years between 2003 and 2007 (RoK, 2007), shows that nearly 25% of all households engage in some form of small business activity with the majority depending on their business for all households chores. In 2012, the SME sector created (80%) of all jobs in Kenya and contributed an estimate of 20% to the country's GDP (RoK, 2012).

Researchers have attempted to differentiate innate from acquired aspects of competencies of an individual. According to Bartlett&Ghoshal (1997), innate competencies involve traits, attitudes, self-image, and social roles and are sometimes referred to as "internalized elements". Muzychenko and Saee (2004), observes that acquired aspects of competencies involve components of competencies acquired at work or through theoretical or practical learning (i.e. skills, knowledge, and experience) and they are often referred to as "externalized elements". According to them, internalized aspects of competencies are difficult to change whilst the externalized elements can be acquired through proper training and education programs and need to be practiced (Garavan& McGuire, 2001; Mau & Lau, 2005). The focus of this study was to examine empirically acquired entrepreneurial competencies, how they were practiced and how they impacted on growth and sustainability of SMEs.

Statement of the Problem

According to Nieuwenhuizen and Hough (2003), policy-makers worldwide are in agreement that SMEs are becoming increasingly important in terms of wealth creation employment, and the development of innovation. Van Vuuren, Pretorius, and Nieman (2005b) assert that there is no better way to provide basis for rapid economic growth than to increase the number of active entrepreneurs in a society. Henning (2003) observes that the important role played by the SME sector in economic growth has been acknowledged widely. Researchers contend that SMEs are major components of many economics (Besser, Sapp, Miller and Gaskill 2003). Consequently, Medeira, Slater, Robertson and Collins, (2003) affirms that most governments, bilateral and multilateral agencies as well as non-governmental organizations worldwide have formulated policies to assist entrepreneurship development.

Researchers observes that despite the dynamics that led to the rapid growth of the SME sector coupled by numerous efforts by governments to assist the development of SME sector; the sector has proved to be volatile and experiences a high degree of business failure and decline. This is supported by Ahwireng (2003) who observes that most SMEs are unable to create long term sustainable employment and may be responsible for the high number of job and wealth losses. Though the sector faces many challenges and difficulties, Miller et al., (2003) affirms that the sector has great potential for increased employment creation. Thornhill and Amit (2003) while admitting that many SMEs fail, they also affirms that others survive beyond infancy and adolescence and become major success stories, thereby creating wealth for their founders and jobs for the communities around them.

According to Boron (2004a) and GEM, (2005a), very large number of variables is involved to determine success or failure of firms. A study by the Business Times (1997) established that more than six out of ten new businesses fail within the first 18-24 months and identified factors such as lack of planning, improper financing and poor management as the main causes of small business failure. Herrington and Wood (2003) in their study of new firms in South Africa noted that lack of education and training had reduced their management capacity and was thus cited them as the main reasons for the low level of entrepreneurial creation and the high failure rate of new ventures.

Benjamin and Rebecca (2009) presented in their research paper on entrepreneurial competencies amongst SMEs that there was high rate of entrepreneurial failure among their respondents despite the provision supports from governments. They identified entrepreneurial competencies as the missing link to successful entrepreneurship. They contend that the entrepreneurial competencies were critical success factors to entrepreneurship and they deserve serious consideration in entrepreneurial endeavour. A further recent study by Siwan& Jennifer (2010) on entrepreneurial competence demonstrates that the core concept of entrepreneurial competencies, its measurement and its relationship to entrepreneurial performance and sustainability is in need of further research and development in practice.

Based on the above insights, it was clear that researchers had attempted to identify various factors as well as entrepreneurial competencies that affected SMEs sustainability and growth. However, it had not been evidently proven why some SMEs fail whilst others were sustained. Having found an existing gap in the area of application of entrepreneurial competencies in practice since no relevant research studies had been conducted on the area, the researcher was able to come with a research topic entitled “Effect of business planning competence practices on sustainability of SMEs in Kenya".

Objectives of the Study

The overall objective of the study was to determine the effect of entrepreneurial competence practices on sustainability of SMEs in Kenya.

LITERATURE REVIEW

Competence Based Management Theory

According to this theory, organization is viewed as bundles of skills, assets, knowledge and capabilities. From the perspective of this theory, competence is the ability of an organization to sustain coordinated deployment of resources in such a way that the organization is helped to achieve its goals. The theory lays emphases on the relevance of competencies ability to obtain sustainable competitive advantages of a firm. The proponents of this theory have posited that several intensity focused approaches could lead to superior performance of firms (Rumelt, 1999; McGahan and Porter, 1997). The competency based approach has been applied in several studies which have identified competencies of managers (Adam and Chell, 1993; Durken, Harrison and Lindsay, 1993; Lau, et al., 1998; Tweed and McGregor, 2000). According to Sanchez and Heene (2004), the theory of competence management is an integrative strategy that incorporates economic, organizational and behavioural concerns in a framework that is dynamic, systematic, cognitive and holistic.

Goal Setting Theory

According to Locke (1968), a goal is the level of performance the individual is trying to accomplish; it is the object of behaviours. Goals direct attention and

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action. Intentions are viewed as the immediate precursors of human actions. Therefore goal-setting may explain how and why behaviour is facilitated or restrained in the pre-training, training, and post-training processes. The entrepreneur attending to training may exert considerable effort in order to make the most of the programme and set high goals upon return to his business. The goal-setting theory holds that once a hard task is accepted, the only logical thing to do is to try until the goal is achieved or abandoned (Locke, ibid).

Seijts, Tasa and Latham (2004) studied the effects of goal-setting on effects of goal orientation as a trait. People with a learning goal orientation tend to choose tasks in which they can acquire knowledge and skill. Seijts et al. (2014) found that a specific high learning goal is effective in increasing a person's performance regardless of their trait orientation. Goal-directed motivations are acknowledged as important elements in the formation of entrepreneurial intentions (Krueger, 1993; Krueger and Brazeal, 1994). Goals are said to lead to intentions, followed by behaviours. The theory maintains that the more specific and challenging the goal, the better the task performance. Further the theory of planned behaviours posits that attitudes are predictive of intentions and that intentions form the basis of planned behaviours (Agzen, 1991). Planning should lead to improved performance as plans provide more specificity as well as clearer intentions.

Financial Management Competence Practices

PACFL, (2008), defines financial competency as the ability to use knowledge and skills to manage financial resources effectively for a lifetime financial well-being. All over the world, financial competence has been emphasized and is believed to be a key ingredient to personal finance success as well as in entrepreneurship. UN (2003) report indicates that several countries in the world are promoting financial education as a tool for fighting poverty. This is supported by ADB (2007) report which shows some of the countries involved in financial literacy as Egypt, Uganda, Ghana, South-Africa, Tanzania, and Kenya. Particularly in Kenya, key efforts have been made by the government through Financial Sector Deepening (FSD), which educates people to enhance financial freedom. Further, financial institutions like Equity Bank and KCB have made significant effort to educate SMEs in Kenyans on areas in Finance. They provide programs that are aimed at giving entrepreneurs in Kenya an opportunity to learn how to effectively manage their business finances.

A compelling body of evidence demonstrates a strong link between financial competency and entrepreneurial success. Research shows SMEs that are run by financial competent entrepreneurs stands a higher chance of being more successful than their illiterate counterparts. Hilgat, Hogarth and Bevary (2003), finds evidence of correlation between financial competency and positive financial behavior although the direction of causality is unclear. Nunuo et.al (2012) carried out a study to examine how financial literacy influences SMEs in Ghana. Their study found out that financial competency is crucial in stimulating the SME sectors and therefore proved that financial competence has a positive effect on SMEs performance. Carter and Jones-Evas (2000) in their contribution found that basic education in financial competence enhances the overall quality of an entrepreneur as it provides the basic numeric and financial skills that increases the chance of SMEs survival. Some scholars assert that the fact that a manager has a higher education degree or even a post-graduate degree seems to stimulate the growth of the firm, thus having an impact on both survival and growth (Hall, 2000; Barkham et al., 1996).

Empirical Review

Research on SMEs survival has been carried out all over the world with several studies differing significantly. Several factors have been identified to be key determinants of SMEs survival or failure, although with inadequate empirical results. Studies on entrepreneurial competencies have been conducted by Chandler&Jansen (1992), Chandler&Hanks (1994) and Man&Lau (2002) in order to identify which competencies are vital in starting and maintaining a business. Their studies revealed core primary roles of business founder as scanning environment, choosing potential opportunities and taking advantage of those opportunities by formulating the required strategies. The studies also found credible evidence of direct relationship between founders' entrepreneurial and managerial competencies.

Another study by Bird (2002) demonstrated that competency approach seems to be an effective tool in predicting firm performance than entrepreneurial experience alone. Studies by Huck and McEwen (1991) on entrepreneurial competencies for Jamaican entrepreneurs identified three most important competency areas as management, planning and budgeting, and marketing/selling. Study by Sony and Iman (2005) also found a positive relationship between entrepreneurial learning and entrepreneurial competency as they argue that learning process is a process of ability and capability development.

Researchers (Lau, Zhao and Xiao, 2004; Prajogo and Sohal, 2001) identified a positive relationship between best business practices and business performance. Further, a joint study by Pusupakumasi and Wijewickrama (2008), relating to both large firms and SMEs also noted the relationship between business practices, management activities and firm performance. They further established that most SMEs are driven by the need to imitate large firm activities in order to establish desirable management activities that they believe will enable them become more efficient and effective if implemented through appropriate knowledge. Mandal, Venta and El-Haub (2008) also observed that best business practices produced best performance.

Strategic thinking and long term planning were identified by Analousi and Karami (2003) as major reasons for SMEs failure. Further, Fawsett and Myers (2001) are of the opinion that organizational performance is directly influenced by organizational strategy and the structure of the organisation. Business planning practices have been observed to have a positive impact on firms' performance (Eriksen, 2008; Hussam&Raef, 2007). Wickham (1998) further states that business planning is very beneficial for SMEs performance as it forces the entrepreneur/manager to continuously think about open business questions and seek out solutions which are aim to achieve SMEs vision and objectives which result in a higher performance. However, Robinson and Pearse (1984) had a different opinion and argued that strategic planning is not a popular practice among SMEs, because they do not have the time or staff to invest in strategic planning. They further argued that research on the impact of strategic planning for SMEs has been inconclusive as many SMEs do not plan.

Studies such as those by Delmar and Shane (2003); Perry (2001) and Liao and Gartner (2006) all found a positive relationship between business plans and survival whilst Gruber (2007) finds that business plans help achieve market objectives. On contrary, Honig& Karlsson (2004); Tornikoshi&Newbert (2007) all struggle to find any relationship between business plans and performance. Other studies by Gartner and Liao (2005) and Shane and Delmar (2005) found strong evidence that ventures would be terminated during the gestation period between conception and birth. According to study by Honig and Karlsson (2004), survival of business seems to be unrelated to business planning and there was no relationship between profitability and writing a business plan during the first two years after a business was founded. To conclude, much empirical research ends up inconclusive as to the effect of business planning competence practices on business performance and sustainability.

A study in Turkish by Dincer, Tatoglue and Glaister (2006) observed that SMEs were increasingly turning their attention towards business planning practices. This was probably because of the many benefits associated with business planning for SMEs. Furthermore Wang, Walker and Redmond (2010) have indicated that business planning practices are more common in better performing SMEs. It was suggested that entrepreneur's demographic characteristics, attitudinal, behaviour, managerial and technical competencies are often cited as the most influential factors related to the performance of small and medium sized enterprises (Man, Lau and Chan, 2002; Noor et.al., 2010). Further, the policies, the programmes and strategies of a business basically depend on the personal competencies of its entrepreneur which in turn influence the profitability of the enterprise (Morris, Schindehutte and Allan, 2005).

There is a substantial empirical research which have demonstrated that business planning have nothing to do with success and sustainability of SMEs and end up inconclusive as to the effect of business planning in organizations (Castrogiovanni, 1996; Brinkmann et al., 2010). Neither Brush et al., (2008) nor Tornikoski and Newbert (2007) found a positive effect on performance. Neither Edelman et al., (2008) nor Parker and Belghitar (2006) nor Tornikoski and Newbert (2007) found a positive effect between business planning and becoming operational. In the Netherlands, Van Geldesen et al., (2005) found no effect nor did Honig and Karlsson (2004) with Swedish data.

METHODOLOGY

The study adopted a descriptive survey design to find out the relevance of entrepreneurial competence practices on sustainability of SMES in Kenya. The target population of interest was all the SMEs in Embu town and its environs who were located within a distance of 2 Kilometers. According to Embu county trade offices as at 2014 there were 1015 registered SMEs within Embu town and its environs. The researcher applied stratified random sampling technique since the population was heterogeneous. The sample consisted of three sub-groups (Trade, Service, and Manufacturing). A sample size of 10% of the target population was used which gave a good representation of 102 SMEs (out of a total of 1015 SMEs). The researcher collected both primary and secondary data. Primary data was collected by use of structured open and closed-ended questionnaires whilst document analysis guide was used to collect secondary data. Secondary data obtained from existing literature through document analysis was used to ascertain the facts and complement primary data. The researcher obtained evidence from documents business plans, financial statements, business records, books of accounts among others. Qualitative data was analyzed by content analysis by simple word frequency count. Quantitative data was analyzed by the use of descriptive statistical techniques which included frequencies, percentages, mean, and mode. Statistical packages for social sciences (SPSS) were used to aid in coding, entry and analysis of quantitative data obtained from the closed-ended questions.

RESULTS

On training providers, The results showed that a significant number of respondents (34%) had received business planning competence training from Learning institutions, 22% of the respondents received training from Micro Finance Institutions (MFIs), 17% of the respondents had received training from Commercial Banks, 14% of the respondents had received training from Development Partners whilst the remaining 13% of the respondents had received training from the Government of Kenya (GoK). The result showed that training institutions stands a better chance to

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inculcate entrepreneurial competencies as opposed to other training providers.

Te study sought to find out if respondents acquired Financial Management practices through training. The results showed that 71% of respondents had acquired financial management Practices whilst 29% had not acquired financial management practices. The results concurred with UN (2003) report which indicates that several countries in the world are promoting financial education as a tool to fight poverty. This was also supported by ADB (2007) report which shows that some of the countries involved in financial literacy include Kenya, Egypt, Uganda, Ghana, South-Africa and Tanzania.

The study sought to find out specific financial management practices acquired by respondents. The results were as in Table 1.

Table 1: Specific Financial Management Practices Acquired

Financial Management Practices	Frequency	Percentage
Preparation of profit and loss statement	55	71
Preparation of cash flow statement	55	71
Preparation of balance sheet	55	71
Preparation of profitability ratios	55	71
Total	**55**	**71**

The table showed that all respondents (100%) who were trained in Financial management practices indicated that they all acquired specific Financial Management practices. The result indicated that selected financial management practices were adequately acquired by respondents. Carter and Jones-Evas (2000) is in agreement that basic education in financial competence enhances the overall quality of an entrepreneur as it provides the basic numeric and financial skills that increases the chances of SMEs survival.

The study sought to find out if respondents applied Financial Management practices in their enterprises. The results showed that 65% of the respondents had not applied Financial Management Practices whilst 35% had applied financial management practices.

The result indicate that majority of the respondents (65%) had not applied financial management practices. There is no doubt that financial competency has a positive effect on entrepreneurial support. According to Longeneter et al. (2006), Poor financial management practices have been posted as the main cause of business failure.

The table sought to find out which specific Financial management practices were being applied. The results were as shown in Table 2.

Table 2: Application of Specific Financial Management Practices

Financial Management Practices	Frequency	Percentage
Preparation of profit and loss statement	31	40
Preparation of cash flow statement	14	18
Preparation of balance sheet	7	9
Preparation of profitability ratios	12	16

The table showed that 40% of respondents prepared profit and loss statements, 18% prepare cash flow statements, and 16% prepare balance sheets whilst remaining 9% calculate profitability ratios. The result indicated that majority of respondents (40%) prepared profits and loss statement. This meant that

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entrepreneurs lay a lot of emphasis on profitability and loss issues. Cooley and Edward support the argument as they observe that reported profits reflect changes in wealth of business owners. It is also important to note that major economic decisions in business are centred of financial performance as measured by profitability.

The study sought to find out to what extent respondents agreed on the statements as regards to application of financial management practices. The results were as shown in Table 3.

Table 3: Extent to which Financial Management practices were applied

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean
I have the ability to prepare profit and loss	33	20	4	11	7	3.71
account	19	20	6	17	15	3.14
I have profit and loss statements for my business	27	25	6	12	5	3.66
I have the ability to prepare cash flow statement	19	17	5	21	13	2.79
I prepare Cash flow statements for my business	25	16	5	24	7	3.36
I have the ability to prepare balance sheet	15	16	11	18	15	2.90
I prepare balance sheets for my business	14	20	8	18	15	2.92
I have the ability to calculate profitability ratios	10	11	11	27	16	2.56
I calculate profitability ratios						

The table confirmed that majority of respondents prepared profit and loss accounts but rarely do they utilize other financial management practices. According to Wanjohi (2012), accurate financial records are not important as viewed by many SMEs and it is no wonder that so many businesses fail from beginning. This perspective was also observed by Howard (2009) that many SMEs fail to keep adequate records.

Measure of Business Sustainability

The respondents were asked to state how they measured sustainability of their businesses. Majority of the respondents (78%) indicated that they based their sustainability by trends in profits, 71% indicated increase in number of customers, 65% age in business, 26% indicated increase in assets whilst minority of respondents (19%) indicated increase in no. of employees. The result indicated that most entrepreneurs measure their business sustainability by economic viability as supported by researchers such as Borga et al., (2009) and Habbard (2009) who supported the use of sales and profit as a measure of firms' sustainability.

Document Analysis

The study employed document analysis guide to supplement data obtained through questionnaires. The respondents were asked to provide the researcher with the various documents. The study established that few respondents (14%) kept business plans. Quite a good number of respondents had documents which supplemented information obtained through questionnaires but having them does not guarantee implementation of what they contained.

Regression Analysis

In the study, a multiple regression analysis was conducted to test the relationship among variables. The study employed statistical package for social scientists (SPSS) to compute the measurements of the

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multiple regression. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable that is explained by all the four independent variables. The equation for the regression analysis model was expressed as:

$\Upsilon=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+e$

Where, Υ=SMEs Sustainability (Dependent Variable),

X_1-X_4 Independent Variables

X_1=Business Planning Competence Practices

X_2=Financial Management Competence Practices

X_3=Marketing Competence Practices

X_4=Human Resources Management Competence Practices

β_0=Coefficient of the Model B_1-β_4=βeta Coefficients of Determination

e= Stochastic Error

The multiple regression equation adopted is as follows:

$\Upsilon=1.131+0.712X_1+0.885X_2+0.754X_3+0.790X_4+e$

From the regression equation above, it was established that taking all factors in to account and constant at zero, the sustainability of SMEs would be 1.131. The findings presented also showed that taking all independent variables at zero, a unit increase in business planning practices would lead to 0.712 increases in sustainability. The regression analysis results indicated that there is a positive relationship between the four independent variables with the dependent variable.

CONCLUSIONS AND RECOMMENDATIONS

The study sought to establish effect financial management competence practices on sustainability of SMEs in Embu town and its environs. A substantial response rate was achieved which enabled desirable statistical reporting Document analysis guides were employed and ascertained the facts and complemented primary data. The instruments obtained data that addressed the objective of the study. The study established that majority of the respondents had prior financial management competencies which include preparation of profit and loss statements, cash flow statement, balance sheet profitability ratios. The study also established that financial management competence practices affects sustainability to relatively great extent as perceived by respondents. However, majority of trained respondents had not applied financial management competence practices but significant number had utilized the financial management practices as evidenced by respondents availing substantial financial record keeping documents. The study observed that entrepreneurs find it necessary to keep financial records may be due to emphasis associated with profit. The findings are supported by numerous studies. For example, Cooley and Edwards (1993), observes that reported profits reflect changes in wealth of business owners. Also European Commission (EC), 2008) lay emphasize on critical role financial information plays for successful management of any business entity. This can perhaps explain why major economic decisions in business are centered on financial performance as measured by profitability.

The study found that financial management had a positive relationship on SMEs sustainability. This was due to the fact that substantial number of respondents indicated that they applied specific financial management competencies notably preparation of profit and loss statements as well as cash flow statements. But due to the fact that majority indicated that they rarely applied financial competencies through training, it then means that it is not clear whether sustainability levels realized was as a result of learnt skills in finance management.

To make financial management competence practices training more meaningful to the beneficiaries, the following recommendations were made drawn from the study findings.

- Considering the fact that financial management competence practices were not optimally utilized, there is therefore an urgency to design an effective business monitoring programmes for policy especially to assess trainees after the training to ensure that the learnt skills enhance sustainability of the SMEs.
- Despite the fact that financial management documents have significant impact to the sustainability of SMEs, the percentage of entrepreneurs who prepare them is wanting. The entrepreneurs should therefore be encouraged to develop and use relevant financial management documents for their enterprises so as to understand their significance and reap full benefits associated with them.
- Although a considerable number of entrepreneurs have been trained on financial management related competencies, it is not very clear whether the training is relevant and therefore calls for a need analysis research to determine the exact competencies requirements useful in the informal sector.
- SMEs owners should be encouraged to create a positive attitude towards financial management competence training through creative policies so as to apply appropriately learnt skills.
- Considering that a significant number of respondents had not been trained in financial management practices, the government should broaden its efforts to ensure that a high level of entrepreneurial competency literacy is universal to all entrepreneurs.

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