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Bookkeeping Skills and Financial Performance of Smes in Kajiado County, Kenya

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Abstract: *Bookkeeping skills are critical to the financial success of small and medium-sized enterprises (SMEs), particularly in developing regions with limited financial literacy resources. This study investigates the impact of bookkeeping skills on the financial performance of SMEs in Kajiado County, Kenya. Drawing on Human Capital Theory and the Resource-Based View, it examines the relationship between bookkeeping and profitability, access to financing, and operational efficiency. A multiple linear regression analysis of 207 SMEs in Kajiado County reveals that bookkeeping proficiency accounts for a 41% variance in financial performance, with a significant positive correlation between these variables. Descriptive and inferential statistics further illustrate the influence of structured record-keeping on improved decision-making and reduced financial errors. The findings underscore the need for targeted financial literacy programs to enhance bookkeeping capabilities among SMEs, supporting sustainable growth and resilience.*

I. Introduction

Bookkeeping skills are a cornerstone of effective financial management for SMEs, enabling businesses to track income, monitor expenses, and make informed decisions. In Kenya, particularly in Kajiado County, limited financial literacy often hampers SME growth, as inadequate bookkeeping skills lead to financial instability and restricted access to credit (Adewumi & Cele, 2023). This study aims to explore the relationship between bookkeeping skills and financial performance, highlighting how record-keeping practices enhance profitability, operational efficiency, and compliance.

II. Theoretical Framework

The importance of bookkeeping is well supported by Human Capital Theory, which posits that investing in skills and knowledge, such as bookkeeping, enhances productivity and financial outcomes (Fang, 2021). The Resource-Based View (RBV) also underscores the role of internal resources—like financial management skills—in sustaining competitive advantage (Khan, 2020). In the context of SMEs, bookkeeping skills act as a strategic resource, helping businesses improve cash flow management, reduce errors, and align operations with financial goals (Kumar, 2022).

III. Empirical Review and Quantitative Analysis

Empirical research indicates a positive correlation between bookkeeping skills and SME performance. Studies suggest that SMEs with effective bookkeeping are more likely to secure loans, as transparent records build lender trust (Pham & Vu, 2022). Table 1 presents descriptive statistics on the perceived impact of bookkeeping on financial performance indicators among surveyed SMEs in Kajiado County.

Table 1: Perceived Impact of Bookkeeping on Financial Performance

Performance Indicator	Mean Score	Standard Deviation
Improved Profitability	4.21	0.82
Easier Access to Financing	3.95	0.90
Reduced Financial Errors	4.05	0.88
Improved Decision-Making	4.35	0.76

A quantitative analysis using a multiple linear regression model further clarifies the relationship between bookkeeping skills and financial performance among SMEs. Table 2 displays the regression results, indicating that bookkeeping skills account for 41% of the variance in financial performance, with a statistically significant impact.

Table 2: Regression Analysis of Bookkeeping Skills on Financial Performance

Variable	Coefficient	Standard Error	p-value
Intercept	4.35	1.55	0.01
Bookkeeping Skills	0.65	0.08	< 0.05
R-squared (R^2)	0.41	-	-
Adjusted R-squared	0.39	-	-

The model shows that each unit increase in bookkeeping skills is associated with a 0.65-unit improvement in financial performance. A correlation coefficient of 0.44 ($p < 0.05$) reinforces the positive relationship, suggesting that SMEs with proficient bookkeeping are more likely to experience financial stability and growth (Ogundana, 2021).

IV. Discussion

The analysis highlights several benefits of bookkeeping for SMEs, including enhanced cash flow management, increased access to financing, and reduced risk of financial errors. The descriptive statistics in Table 1 show that most SMEs agree that bookkeeping has positively influenced profitability and reduced errors. Moreover, bookkeeping builds trust with financial institutions, which is vital for securing loans, as seen with 55% of SMEs reporting easier access to credit following improved record-keeping (Blach, 2022). This correlation is further supported by the regression analysis in Table 2, emphasizing bookkeeping's role in promoting financial resilience and supporting long-term business sustainability.

Despite these benefits, many SMEs in Kajiado County struggle with implementing effective bookkeeping practices due to limited financial literacy and resources. This gap highlights the need for accessible financial training programs to equip SME owners with essential bookkeeping skills. Targeted training can enhance record-keeping capabilities, improve financial decision-making, and foster a culture of financial discipline (Zulfiqar, 2021).

V. Conclusion

Bookkeeping skills are a fundamental driver of financial performance among SMEs in Kenya, particularly in areas with limited financial literacy resources (Adewumi & Cele, 2023). The quantitative findings indicate a positive correlation between structured record-keeping practices and improved financial outcomes, affirming that proficient bookkeeping skills contribute to profitability, operational efficiency, and access to credit (Ogundana, 2021; Pham & Vu, 2022). By integrating bookkeeping training into financial literacy initiatives, stakeholders can empower SMEs, fostering resilience and growth in competitive markets. Enhanced financial management skills not only improve individual SME performance but also contribute to broader economic stability and growth in Kenya (Blach, 2022; Zulfiqar, 2021).

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