

**MODERATING EFFECT OF FINANCIAL LITERACY ON THE
RELATIONSHIP BETWEEN ORGANIZATIONAL CULTURE AND
FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN
NANDI COUNTY, KENYA.**

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**A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS, ECONOMICS AND
MANAGEMENT SCIENCES IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTERS IN
BUSINESS MANAGEMENT (FINANCE OPTION), UNIVERSITY OF
ELDORET, KENYA**

2025

DECLARATION

This thesis is my original work and has not been presented for the award of an academic degree in any other university and should not be copied in part or reproduced in any format without prior written authority from the author and/or University of Eldoret.

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DEDICATION

I dedicate this research proposal to the almighty God, the creator and the provider of all things. Also, I dedicate this work to my parents and other family members for their love and continuous encouragement through this academic journey. Finally, I dedicate this work to my spouse for her moral and spiritual support through this journey.

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ABSTRACT

Small and Medium Enterprises sector is a key driver of Kenyan economy as it contributes to the Gross Domestic Product and creates 80% of employment. However, most new businesses end up failing within their early years of operations because of their dismal financial performance. The main aim of the study is to examine the moderating effect of financial literacy on the relationship between organizational culture and financial performance of small and medium sized enterprises in Nandi County, Kenya. The specific objectives are to determine the effects of clan, hierarchy, adhocracy and market cultures on financial performance of small and medium sized enterprises in Nandi County, Kenya. Furthermore, the study examines the moderating effect of financial literacy on the relationship between clan, adhocracy, market, hierarchy cultures and financial performance of Small and Medium Enterprises. Resource Based View, Dual process and Agency Theories guided the study. The study utilized explanatory research design and cluster sampling technique to collect data from a sample size of 376 Small and Medium Enterprises obtained by use of Yamane formula from a target population of 6347 registered Small and Medium Enterprises in Nandi County, Kenya. Primary data was collected using self-administered closed-ended questionnaire. Cronbach's alpha coefficient was used to test reliability and factor analysis to test the validity of research instruments. Data was analyzed through SPSS Version 23. Correlation and hierarchical regression analysis was used to ascertain the strength and direction of relationships between variables. The study findings indicated that Clan culture ($\beta = 0.322$, $p=0.000$), Adhocracy culture ($\beta = 0.255$, $p=0.000$), Market culture ($\beta=0.140$, $p=0.012$) and Hierarchy culture ($\beta = 0.200$, $p = 0.000$) had a positive and significant direct effect on financial performance. Results of the control variables indicate that firm age ($\beta=.136$, $P = .045$) significantly influences financial performance while firm size ($\beta=.012$, $P=.898$) does not. These control variables explain 1.2% of the variance in financial performance (R^2 of .012 and $\Delta R^2 = 0.12$). Additionally, the findings of the study revealed that financial literacy moderates the relationship between clan culture, ($\beta = -0.157$, $p = 0.000$, $R^2 = 0.618$, $\Delta R^2 = 0.032$), adhocracy culture ($\beta = 0.156$, $p = 0.011$, $R^2 = 0.625$, $\Delta R^2 = 0.007$), hierarchy culture and financial performance ($\beta = -0.186$, $p = 0.026$, $R^2 = 0.631$, $\Delta R^2 = 0.006$). Findings further revealed that Financial Literacy does not moderate the link between market culture and SME's performance ($\beta = -0.029$, $p = 0.688$, $R^2 = 0.625$, $\Delta R^2 = 0.000$). ΔR^2 indicates the variance in financial performance that moderation process accounts for. The study provides new knowledge to the literature that financial literacy moderates the relationship between clan culture and financial performance, adhocracy culture and financial performance, and lastly, hierarchy culture and financial performance. The findings help the owners/managers in developing strategies to cultivate financial literacy and supportive culture, policy makers to formulate policies to enhance financial literacy, manage culture to achieve sustainable improvement in financial performance of SMEs. Further study should be undertaken using longitudinal research so as to allow researchers to look at changes over time in regards to organizational culture.

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LIST OF ABBREVIATIONS

| | |
|--------------|---|
| ADB | African Development Bank |
| CEO | Chief Executive Officer |
| CVF | Competing Value Framework |
| FP | Financial Performance |
| FL | Financial Literacy |
| GDP | Gross Domestic Product |
| HP | Hewlett- Packard Corporation |
| IBMC | International Business Machines Corporation |
| KNBS | Kenya National Bureau of Statistics |
| NGO's | Non-Governmental Organization |
| OECD | Organization for Economic Cooperation and Development |
| OCAI | Organization Culture Assessment Instrument |
| ROA | Return On Assets |
| ROE | Return On Equity |
| SMEs | Small and Medium-Sized Enterprises |
| SPSS | Statistical Package for Social Sciences |
| TQM | Total Quality Management |
| WCM | Working Capital Management |
| USA | United States of America |

OPERATIONALIZATION OF TERMS

Financial Performance: is viewed as the ability of the business to meet its financial objectives, obligations, and commitment to providing service (Ganyam, Ivungu, & Anongo, 2019)

Organizational Culture: Organizational culture is an embodiment of values, beliefs, and behaviour patterns which subconsciously drives members of a firm to make each choice and decision (Ortega-Parra & Ángel Sastre-Castillo, 2013).

Financial Literacy: Financial literacy entails knowledge and understanding of financial concepts and skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts and to better the financial well-being of SMEs(Hogarth, 2002).

Small and Medium Enterprises: SMEs in Kenya are defined as enterprises with no more than one hundred employees. Notably, micro-enterprises have less than ten employees, small enterprises have a range of ten to forty-nine employees, and medium-size enterprises have 50 to 99 employees (ROP, 2019). This study will adopt the above definition to measure the size of MSMEs.

Adhocracy Culture: A system of beliefs and values of development, inspiration, diversity, independence and attention to detail which inspires employees in an institution to demonstrate actions of ingenuity and flexibility (Cameron & Quinn 2006).

Clan Culture: A system of beliefs and values of affection, membership, group effort, conviction and support which encourages employees in an institution to show deeds of collaboration and involvement (Cameron & Quinn, 2006).

Hierarchy Culture: It is a system of beliefs and values of communication, formalization and consistency which motivates employees in an institution to exhibit behaviours of conformity and predictability (Cameron & Quinn, 2006).

Market Culture: A system of beliefs and values of capability and realization of planned objectives which encourages employees in an institution to demonstrate deeds of obtaining customer information, setting of challenging and achievable goals and put emphasis on productivity (Cameron & Quinn, 2006).

CHAPTER ONE

INTRODUCTION

1.0 Overview

This chapter entails background of the study, statement of the problem, objectives of the study, research hypothesis, significance and scope of the study.

1.1 Background of the Study

According to Aribawa (2016) financial performance is the success of an organization that realizes strategic and predetermined targets with the behavior that will be expected by an organization. A good performance in terms of finances by Small and Medium Enterprises will play an increasingly important role in the national economy. Financial performance reflects a business's ability to meet its strategic and operational goals, serving as a key indicator of its health, sustainability, and long-term viability (Nasimiyu, 2023). Thus, SMEs demonstrate improved performance to remain afloat and competitive during economic meltdowns (Rumanti et al., 2023). Prior literature has linked numerous predictors to the financial performance of SMEs.

Financial performance is measured by the level of performance of a business over a specified period of time and can be expressed as overall profits and losses during that time. Evaluating the performance of a business financially allows decision-makers to rate the results of business strategies and activities in objective monetary terms. The financial structure of a firm is shaped by the financial performance of the firm. It is also factual that the financial condition of the business can influence its operating performance.

Several scholars in various areas such as business and strategic management have developed a lot of interest in financial performance subject. Because of its implications on organizations' financial health and survival, financial performance has remained a fundamental concern of many businesses. Good financial performance portrays how management is effective and efficient in utilizing company's resources which in the end contributes to a country's economy (Mokhtar, Karbhari, & Naser, 2005).

Every firm's financial performance shows its financial health, and it is a reflection of a firm's financial soundness and profitability. Financial performance can be estimated or calculated with various tolls but each measure draws or portrays the different aspect of financial performance. Codjia (2010), points out that a statement of financial performance is an accounting summary that details a business organization's revenues, expenses and net income. Codjia (2010), further states that a statement of financial performance is known as statement of profit or loss or statement of income; and a corporation may prepare a statement of financial performance on a monthly, quarterly or annual basis. Ishmaila (2011), argues that financial performance measurement can be among the biggest challenges faced by businesses in the SME sector, especially with regard to their survival, if management is not trained in how to manage finance and measure performance.

There have been various measures of financial performance. For example, return on sales reveals how much a company earns in terms of its sales, return on assets (ROA) determines an organization's ability to make use of its assets and return on equity (ROE) reveals what return investors take for their investments. The benefits of financial measures are the easiness of calculation and that definitions are universally accepted.

Traditionally, the success of a manufacturing system or company has been evaluated by the use of financial measures (Tangen, 2003). Liquidity ascertains the ability of the business to meet financial obligations as they come due, without disrupting the normal, on-going operations. Maltz, Shenhar, and Reilly (2003) noted that “for over thirty years measuring organizational performance has been a major research topic in organization theory literature where managers and researchers are still struggling with the issue of performance measurements”.

SMEs are crucial in the betterment of the economic condition of the nation. However, the painful reality is that the SMEs are still not generating the desired revenue, (Hyder & Lussier, 2016). Despite of all these importance and vital contribution in the economy of the country, SMEs sector has faced a lot of hurdles. Entrepreneurs undergo many obstacles that hinder them from achieving their long term sustainability and development goal (Khalique, Bontis, Bin Shaari, & Isa, 2015).

In current dynamic and competitive global environment, SMEs play an important role in the economic progress of developing states (Minai, Raza, bin Hashim, Zain, & Tariq, 2018). World Trade Organization says that SMEs constitute over 90% of business population globally and generating around 60% to 70% of employment which contributes to more than 55% to the GDP in developed economies (ADB, 2020). SMEs constitutes for more than 85% of privately owned business and contributes to more than 50% of employment and GDP in many African countries (Mwangi & Birundu, 2015). According to Kithae, Gakure, and Munyao (2012) SMEs in Kenya creates 80% of employment and contributes only 18% of the Gross Domestic Product.

Organizational culture in this study will be the predictor variable. Organizational Culture is the shared values, beliefs, attitudes, and norms that shape the behavior of individuals within an organization. It represents the unwritten rules that guide how people interact, make decisions, and respond to challenges within the workplace. Organizational culture is often considered a critical factor influencing various aspects of organizational functioning (Jamali, Ibrahim, Horas, & Haeruddin, 2024). As per Jigjiddorj, Zanabazar, Jambal, and Semjid (2021), organizational culture plays a pivotal role in shaping the values and priorities of employees, emphasizing long-term sustainability and financial prudence.

Organizational culture is a value that can be understood and obeyed together, which is owned in a company so that its members can feel as one family and can create an organization that is different from other organizations. A positive culture that emphasizes collaboration, innovation, and employee well-being can lead to higher employee engagement and productivity. Engaged employees are more likely to go the extra mile, resulting in better quality work and increased output (Cameron, Quinn, DeGraff, & Thakor, 2022).

When employees are empowered and valued, it translates to better customer service. A customer-centric culture leads to higher customer satisfaction and loyalty, which can translate into increased sales and repeat business. A culture that encourages open communication and information sharing fosters better decision-making. This can lead to fewer costly mistakes and improved risk management. Not all strong cultures are positive, a highly competitive, cutthroat culture might lead to burnout and employee turnover, ultimately negatively affecting overall performance. By fostering employee

engagement, customer satisfaction, and effective decision-making, companies can create a sustainable competitive advantage thus leading to improved firm performance.

Research on the organizational culture-performance relationship has been conducted in several countries; Malaysia (Ha, Lo, & Wang, 2016); Nigeria (Ozigbo, 2013); Syria (Alnesr & Ramzani, 2019); Qatar (Kumaresan & Rani, 2013); Iran (Akhavan, Zahedi, Dastyari, & Abasaltian, 2014); Kenya (Joseph & Kibera, 2019) and all these studies reports a positive relationship between organizational culture and performance.

Competing Value Framework will be used to analyze types of organizational culture. This model is pegged on the findings of the “Competing Values Model” which is performed for determining the organizational efficiency and organizational culture relationship (Kwan & Walker, 2004). According to Cameron and Quinn (2011), each organizational culture type demonstrates the development and change level of the organization. Cameron and Quinn made use of four different culture typologies namely, Clan, adhocracy, market and hierarchical cultures. It is suggested that the cultural structure of each organization may be inclined to one of these typologies.

Financial literacy is the moderator variable in this study on the link between organizational culture and financial performance of SMEs in Nandi County, Kenya. Financial literacy entails knowledge and understanding of financial concepts and skills, motivation, and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts and to better the financial well-being of SMEs(Hogarth, 2002). Financial literacy can be interpreted as the capability to understand, know, and manage finances well. The roots of financial literacy can be

associated with the rise of modern financial systems, increased individual responsibility for financial planning, and the realization that individuals needed a certain level of financial knowledge to make in-formed decisions (Adeyombo, Ogunlusi, Oyelude, & Oyebode, 2024; P. Ali, Anderson, McRae, & Ramsay, 2016). As financial markets became more sophisticated, the importance of understanding financial concepts and tools became apparent (Obi-Anike, Daniel, Onodugo, Attamah, & Imhanrenialena, 2023)

According to Ningsih, Nariani, and Trisnadewi (2023), financial literacy is not only related to knowledge about finance, but also the ability to manage finances and make relatively appropriate financial decisions for future interests. Studies that were undertaken to ascertain the effects of financial literacy on the financial performance include (Eniola & Entebang, 2016). Mutegi, Njeru, and Ongesa (2015) affirms that financial literacy enables the firm to achieve their short term and also the long-term obligations through informed decision-making processes like settling bills on time, proper bookkeeping, improved budgeting skills, which position the business strategically in the market.

Oseifuah (2020) found that financial literacy strengthened the relationship between access to finance and youth entrepreneurial performance in South Africa, indicating that even when funding is available, knowledge of financial management determines its effective utilization. Hidayat and Kusumaningtuti (2022) similarly reported that small and medium-sized enterprises (SMEs) with higher financial literacy derived greater benefits from financial inclusion in improving profitability and sustainability. At the household level, Potrich, Vieira, and Kirch (2021) demonstrated that financial literacy enhanced the positive relationship between responsible financial behavior and financial

well-being, suggesting that literacy converts financial discipline into meaningful outcomes. Extending this logic to the digital economy, Nguyen and Pham (2024) revealed that financial literacy magnified the benefits of digital financial-service use for household financial resilience in Vietnam. In entrepreneurship research, Adomako, Amankwah-Amoah, and Danso (2023) observed that financially literate entrepreneurs were better able to align entrepreneurial orientation with superior firm performance, especially in uncertain business environments. Complementing these findings, Adeola and Evans (2025) showed that financial literacy amplified the positive effects of fintech adoption on household financial well-being in Sub-Saharan Africa, while Al-Smadi (2025) found that financially literate investors made more rational investment decisions by moderating the relationship between risk attitude and investment choice.

Previous studies (Hajipour & Ghanavati, 2011; Yesil & Kaya, 2013) showed that organizational culture had no significant effect on firm financial performance of SMEs. Davidson, Coetzee, and Visser (2007) reported that only few traits of organizational culture were positively linked with financial performance, (Yilmaz & Ergun, 2008; Zakari, Poku, & Owusu-Ansah, 2013) showed that there was positive significant relationship between organizational culture and performance. The conflicting findings above were the main drive for studying the moderating effect of financial literacy in the relationship between organizational culture and financial performance of SMEs. Baron and Kenny (1986) showed that using a variable for potential moderation is primarily introduced when there were inconsistent results between independent and dependent variables. Moreover, according to Baron and Kenny (1986) a moderator variable can be a

qualitative or quantitative variable that affects the direction and/or strength of the relation between an independent variable and dependent variable.

1.2 Statement of the Problem

Small and Medium Enterprises' performance is vital to a country's economy as it contributes to Gross Domestic Product (GDP) and also source of employment. SMEs are the main foundations of any nation's economy towards attainment of their social development (Arshad & Arshad, 2019). SMEs are considered as the major part of any developed economy industrial state (Y. Ahmad & Pirzada, 2014; Umar, Omar, Hamzah, & Hashim, 2018). In the current competitive and dynamic environment, SMEs play a vital role in the economic progress of developing countries (Minai et al., 2018). Correspondingly, the World Trade Organization confirms that SMEs constitute over 90% of the global business population, creates approximately 60% to 70% of employment and contributes more than 55% to the GDP in developed economies (ADB, 2020).

In Africa, SMEs constitutes more than 85% of private owned business and more than 50% of employment and GDP in most of the countries (Mwangi & Birundu, 2015). According to Kithae et al. (2012) SMEs in Kenya create 80% of employment but the sector only contributes 18% of the Gross Domestic Product.

However SMEs in Kenya despite being identified as one of the major sector that enhance industrial and economic development their contribution has not been achieved as they have not performed credibly well (Economy Survey 2017). The business statistics in Kenya shows that the rate of failure in small business is high with only 3 out of 5

business surviving to one year after establishment and those that are lucky to survive 80% of them go under before the fifth year (Kenya National Bureau of Statistic 2020).

While several studies have investigated the link between organizational culture and financial performance in SMEs, the majority have concentrated on the developed economies (Arabeche et al., 2022). Similarly, most research has examined these variables in isolation. Further, these studies have reported mixed results that are positive (Arabeche et al., 2022; Ayandibu & Vezi-Magigaba, 2021), negative (Lozano, 2013), insignificant (Hajipour & Ghanavati, 2011; Yesil & Kaya, 2013), requiring further empirical studies to correct this anomaly. In addition, a few SME studies in Kenya have studied financial performance with different predictors (Ahmed, 2022; Ali, Ogolla, & Nzioki, 2022; Kawira, 2021), creating a gap to explore financial literacy as a predictor variable. Despite its importance, few studies have explored financial literacy as a moderator in the relationship between organizational culture and financial performance (Fatoki, 2021).

This study addresses these gaps by investigating how financial literacy strengthens the link between organizational culture and financial performance among SMEs in Nandi County, Kenya. We contend that the combination of a collaborative culture and strong financial skills leads to superior outcomes compared to either factor alone (Goso, 2022). By focusing on this moderating role, the research contributes to both theory and practice, offering actionable insights for entrepreneurs, policymakers, and training institutions seeking to improve SME sustainability.

1.3 Objectives of the Study

The following are the objectives of the study.

1.3.1 General Objective

To examine the moderating effect of financial literacy on the relationship between organization culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.

1.3.2 Specific Objectives

- i. To examine the effects of clan culture on financial performance of Small and Medium Enterprises in Nandi County, Kenya
- ii. To establish the effects of Adhocracy culture on financial performance of Small and Medium Enterprises in Nandi County, Kenya
- iii. To determine the effects of Market culture on financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- iv. To analyze effects of Hierarchy culture on financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- v. To assess the effects of financial literacy on financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- vi. To determine the moderating effect of financial literacy on relationship between:
 - a) Clan culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.

- b) Adhocracy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- c) Market culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- d) Hierarchy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.

1.4 Research Hypotheses

H₀₁: Clan culture has no significant effect on the financial performance of Small and Medium Enterprises in Nandi County, Kenya.

H₀₂: Adhocracy culture has no significant effect on the financial performance of Small and Medium Enterprises in Nandi County, Kenya.

H₀₃: Market culture has no significant effect on the financial performance of Small and Medium Enterprises in Nandi County, Kenya.

H₀₄: Hierarchy culture has no significant effect on the financial performance of Small and Medium Enterprises in Nandi County, Kenya.

H₀₅: Financial literacy has no significant effect on the financial performance of Small and Medium Enterprises in Nandi County, Kenya.

H₀₆: Financial literacy has no moderating effect on the relationship between:

- a) Clan culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- b) Adhocracy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.

- c) Market culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.
- d) Hierarchy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya.

1.5 Significance of the Study

This study adds to already existing knowledge on organizational culture because future researchers now have a reference point from the information gathered hence contribute to the subsequent studies. Better and clearer comprehension of the association between financial literacy, organizational culture and financial performance of Small and Medium Enterprises will be realized.

Useful data to policy makers, i.e. banks and government to formulate appropriate policies and programs that are tailor-made to benefit the fast-growing small-scale enterprises is provided. To management, information regarding the organizational culture of SMEs is provided creating an avenue for need to adopt the best adaptive and supportive organizational cultures, in Nandi County in an effort to ensure better and effective financial performance. For the employees the study highlights that developing financial knowledge alongside sharing cultural values such as teamwork, integrity and innovation enhances decision making, accountability and ultimately improving profitability.

1.6 Scope of the Study

The study examined the moderating effect of financial literacy on the relationship between organizational culture and financial performance of Small and Medium Enterprises. The area of study was Nandi County where the target population was 6347 and the sample size of 376. The study was guided by Resource Based View theory, Dual process theory and Agency theory. The study utilized explanatory research design and was done between the months of March and April 2025.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

This chapter includes theoretical review, concepts of financial performance, organizational culture, concept of financial literacy, empirical review, summary of gaps and conceptual framework.

2.1 Theoretical Review

The study was hinged on three theories, namely, Resource Based View theory, Dual process theory and Agency theory.

2.1.1 Resource Based View Theory

To understand the performance and competitiveness of SMEs, we anchor our study on the Resource-Based View (RBV) theory. Borrowed from the field of management strategy, the RBV was discovered by Wernerfelt (1984) and developed by Barney (1991). RBV argues that an organization's future performance is dependent on its inbuilt heterogeneous resources and capabilities that are valuable, rare, difficult to imitate, and non-substitutable (Hernández-Linares, Kellermanns, & López-Fernández, 2021). When a firm possesses such resources, it can outperform competitors and maintain a sustainable advantage in the marketplace. RBV categorizes organizational resources into three main types: physical (equipment, infrastructure), human (skills, knowledge, relationships), and organizational (culture, systems, processes) (Seedee, 2012; UYANIK, 2023). Among these, intangible resources particularly organizational culture, trust, and managerial

expertise are increasingly recognized as critical, especially in small and medium enterprises (SMEs) where tangible assets and economies of scale may be limited.

For organizational culture to serve as a source of sustained competitive advantage, Barney (1991) outlines three essential conditions: Value: The culture must enhance the firm's ability to exploit opportunities or neutralize threats. Rarity: It must be uncommon among competitors in the same industry. Imperfect imitability: Even if rivals understand the culture, they should not be able to replicate it due to historical, social, or causal ambiguity. This makes culture a particularly powerful resource especially in SMEs, where strong internal cohesion and shared values can compensate for limited financial or structural advantages.

However, the RBV assumes that firms can identify, develop, and protect these strategic resources. In practice, many SMEs lack formal management systems, financial literacy, or analytical tools needed to fully harness their internal assets (Madhani, 2010). As a result, while the theory provides a compelling rationale for competitive advantage, its application in small business contexts requires careful consideration of these operational constraints.

RBV theory has been used widely in several studies such as Al Harthi, N., & Al Shamsi, S. (2024), examining Organizational culture as a strategic resource for financial performance,

In summary, the RBV offers a robust lens for analyzing organizational performance by emphasizing the strategic importance of internal capabilities. For SMEs, where hard assets may be scarce, soft resources like culture and knowledge become vital levers for

differentiation, innovation, and resilience. This study applies the RBV to examine how organizational culture, as a valuable and often inimitable organizational resource, influences financial performance, particularly when reinforced by financial literacy, which enhances the firm's ability to manage and leverage its resources effectively.

2.1.2 Dual Process Theory

The dual process theory is a cognitive psychology theory that explains the different ways in which individuals process information. Dual-process theories (Evans, 2008), embrace the idea that decisions can be driven by both intuitive(system 1) and cognitive processes(system 2). Although dual-process theories can come in several different forms, they are all in agreement on distinguishing the two main processing mechanisms. (System 1) processes can be characterized as quick, intuitive and operates unconsciously and (System 2), as slow, controlled, deliberate and conscious. System 2 is crucial for logical, analytical and rational thinking (Evans & Stanovich, 2013) which is necessary to consistently implement complex financial investment decisions. Additionally in social psychology, dual processes are used to explain how judgments are made regarding people and situations and thus affecting our reliance on stereotypes and the accuracy of information learned from others.

The Dual-Process theory has been used widely in various researches. For instance, Esiebugie, Richard, and Emmanuel (2018) investigated financial literacy and performance of SMEs in Benue State, Nigeria, and suggests "that dual process theory shows that highly cognitive investors seek out information and are likelier to be influenced by relevant messages". Financial literacy training boosts the decision-making

skills (Esiebugie et al., 2018). Moreover, Chepngetich (2016) also used the Dual processing theory in her tilted “study of the effect of financial literacy and the performance of SMEs in Kenya”. On the other hand, Ye and Kulathunga (2019), used the Dual-Process theory to evaluate financial literacy's effects on promoting the sustainability of SMEs. Ye and Kulathunga (2019) agreed that financial literacy aids SMEs in meeting the challenges related to business dynamics and financial markets, which results in sustainability. Dual process financial literacy theory is relevant to this study since it shows owners/managers of SMEs the need to embrace cognition when it comes to decision-making on enterprise operations which may result in optimizing financial performance.

2.1.3 Agency theory

This study is underpinned by the Agency Theory to explain how organizational culture influences the financial performance of small and medium-sized enterprises (SMEs). According to Agency Theory (Jensen & Meckling, 1976), conflicts often arise between owners (principals) and managers or employees (agents) due to divergent goals and information asymmetry. A strong and cohesive organizational culture serves as an informal governance mechanism that aligns employees' behavior with organizational objectives, reduces opportunistic tendencies, and fosters accountability (Awan & Akhtar 2023). In this sense, culture minimizes agency costs by embedding shared norms and ethical standards that guide financial decision-making and resource utilization.

The Agency theory has been used in various researches. For instance, Arora & Sharma (2022) investigated Agency costs, organizational culture, and financial performance in Indian manufacturing firms, and suggests “integration of Agency Theory and culture

models explains how trust-based cultures lower monitoring cost”. Moreover, (Lee & Kim 2021) also used the Agency theory in her titled “Organizational culture, governance, and financial performance in Korean firms”. On the other hand, Ghosh & Mukherjee (2020), used the Agency theory to evaluate Corporate culture and firm performance in emerging markets. Ghosh & Mukherjee (2020) agreed that shared values reduce agency costs and enhance performance. The managers are the agents while the owners are the principals. In this case managers, who serve as owners’ agents, are required to act in the owners’ best interests. However, in most cases, managers’ and owners’ interests do not always converge. The managers may focus on a range of personal benefits at the expense of shareholders’ interests. Such personal benefits may include higher compensation, additional incentives, job security and sometimes securing assets or cash flows (Tudose, 2012). This may eat into the profits available to the owners and ultimately, adversely affect performance of the SME. The owners may normally try to deter such value transfers by putting in place supervision, monitoring and control mechanisms. Another way of reducing agency costs of free cash flow and imposing discipline and efficiency is through leveraged buyouts(Stewart, Zacharia, & Artis, 2012). Clear alignment of the agents’ interest with those of the owners will ensure increased profitability and growth of the SME thus validating the financial performance variable. In summary Agency Theory is used because it clarifies how and why a strong, value-driven organizational culture minimizes agency costs, aligns managerial behavior with owners’ financial interests, and thereby enhances financial performance.

2.2 Concept of Financial Performance

Financial performance reflects a business's ability to meet its strategic and operational goals, serving as a key indicator of its health, sustainability, and long-term viability (Nasimiyu, 2023). Most of the performances can be measured either objectively or subjectively. Profitability, market share and growth entails objective measurement of financial performance. It is more valid to use non-financial indicators to measure the firm performance, so as to limit the gap of the information available (Dess & Robinson Jr, 1984). Several scholars have emphasized the use of subjective methods because the data collection process becomes simpler because the owners or managers of the firms tend to not disclose the crucial financial data of the business, so subjective measures are appropriate to use (Escribá-Esteve, Sánchez-Peinado, & Sánchez-Peinado, 2008). Measurement of performance can be evaluated in four different methods that is "organizational performance (financial), innovative outcomes (innovation), customer-related outcomes (customer satisfaction), and employee-related outcomes (employee satisfaction)" (Kirca, Jayachandran, & Bearden, 2005).

Financial performance refers to the degree to which financial objectives of an organization are being or have been met. Financial performance can also be used to measure a firm's overall financial health over a certain period of time. Financial performance evaluation is done with the help of financial analysis of a firm (Horngren et al., 2012). When analyzing the firm's financial performance there are four main areas that are taken into consideration. This involves analysis of financial structure, working capital activity and profitability and can be done using two dimensions; namely material used and mode of operation dimensions. In the material used dimension, analysis done

internally and externally. Internal analysis can be conducted by executive, employees of the organization and any other party who is able to access the books of account and other internal information related to the business. The external analysis encompasses outsiders of the business that is; investors, credit agencies, government agencies, and creditors who doesn't have access to the internal records of the company, but rely on published records (Metcalf & Titard, 1976). The mode of operation dimension involves horizontal and vertical analysis. Horizontal analysis involves analyzing and reviewing financial statements for a given number of years. The current figures are compared with those of a base year. In the vertical analysis quantitative relationship of the various items of financial statements on a particular date form the analysis bases which are used for comparison with other organizations of the same category (Schönbohm, 2013).

Performance can only be tangible when the business has the ability to achieve its main objectives and goals. From earlier studies there are several factors that influences the performance of Small and Medium Enterprises (Kamunge, Njeru, & Tirimba, 2014). Performance in Small and Medium Enterprises is recognized in terms of output as quantified objective or profitability (Francis & Martin, 2010). Performance can also be measured by how employees renders their services, and any good performance will be termed as a success while poor performance will be termed as failure (Wanjiku, 2015).

Financial measure may include growth in profit and increase in sales turnover while nonfinancial measure may include overall performance of the business, customer loyalty, and reduction in employee turnover, customer satisfaction, brand awareness and job satisfaction. Atieno (2009) affirmed that financial measures are simple because they are easy to understand and compute while non-financial performance is so complex and

unrealistic to compute. Several studies have concluded that various factors indeed affect performance of Small and Medium enterprises and access to finance has been identified as a major factor (Gichuki, Njeru, & Tirimba, 2014).

Some researchers on Small and Medium Enterprises concluded that small businesses are undercapitalized because most of the business owners rely on their own savings, and contributions from family and friends, access to finance still remains as a great challenge (Mutiria, 2017). Many Small and Medium Enterprises are unable to meet the minimum conditional requirement of the commercial loan which include collateral and others find the loan being too expensive as a result of high interest charged (Ndungu, 2016).

Firm performance is an important part of a company in identifying and evaluating the suitability of the outcomes of business activities with a predetermined plan (Al-Mamary et al., 2020; Anwar & Shah, 2021; Sarker & Palit, 2015). Achieving optimal firm performance will lead to increased sales and company competitive advantage (Anwar & Shah, 2021; Le & Ikram, 2022; Porter, 1996). The results of the company's performance measurement can bring out its advantages with the aim of being a differentiator from its competitors (Amin, Thurasamy, Aldakhil, & Kaswuri, 2016; J. B. Barney, 1995). The importance of understanding firm performance at the Small and Medium Enterprises level has attracted the attention of many researchers (Acosta, Crespo, & Agudo, 2018; G. A. Ali, Hilman, & Gorondutse, 2020; Amin et al., 2016; Ariasih, Yasa, Rahyuda, Giantari, & Shantika, 2018; Sarker & Palit, 2015; Solikahan & Mohammad, 2019) to measure the cause and effect of firm performance.

2.3 Concept of Organizational Culture

Organization culture refers to the shared values, beliefs, attitudes, and norms that shape the behavior of individuals within an organization. It represents the unwritten rules that guide how people interact, make decisions, and respond to challenges within the workplace. Organizational culture is often considered a vital factor that influences various aspects of organizational functioning (Jamali et al., 2024). As per Jigjiddorj et al. (2021), organizational culture plays a pivotal role in shaping the values and priorities of employees, emphasizing long-term sustainability and financial prudence. Understanding Organizational culture is important in the definition of organization's behavior. It outlines the values, beliefs, shapes, norms and practices of a business while displaying a mental picture of an organization to its stakeholders. Organizational culture has a set of unique features that are gradually developed within the organization over time.

Biswas (2015) noted that organizational culture values the achievements' and accomplishment of organizational members', offering a holistic view of how the setting and accomplishment of goals are interrelated, and how each individual can strive to achieve the objectives. (Hofstede, Hofstede, & Minkov, 2005; Motilewa, Canaanland, Agboola, & Adeniji), described organizational culture as a collective spirit mechanism that differentiates members of one organization from the others. Schein, as cited in (Joseph & Kibera, 2019) described culture as an overall phenomenon in the organization such as the environment, rite and rituals, workplace atmosphere and corporate values. He also defined organizational culture as a swirling dynamic force that is engaging and interactive within the organization and influences the beliefs and attitudes of its employees and management.

Organizational culture cannot be developed and imposed by management nor is it easily defined and duplicated across different organizations. Coming up with the proper set of culture is vital in fostering creativity, innovation and growth of business. Culture that supports and promotes innovation can be reflected by behaviors or traits that exemplify appreciation reward for creativity, embraces risk taking, freedom, proactiveness, focus on teamwork, clear communication, participation, mutual trust and respect. Harel, Schwartz, and Kaufmann (2020) emphasis are on encouraging informal employee interactions, encouraging frequent monitoring of employees' performance, continuous experiment with innovation and knowledge sharing. Organizational culture can either promote or discourage innovation among its employees depending on the flexibility of organizations to accommodate such cultures. In contrast a weak culture leads to poor leadership and management, poor customer – relations, low employee efficiency and high employee turnover.

Experts and practitioners have proposed that for indicators that influence organizational performance to be assessed, there are certain cultural dimensions that can be utilized as competitive principles and the combination of these dimensions constitutes four quadrants with each having distinct features(Cameron & Quinn, 2011). Clan and adhocracy culture provide flexibility and adaptability to an organization while hierarchical and market culture focuses on stability and control to the organization. A combination of clan and hierarchy culture concentrates on internal process and integration while a combination of adhocracy and market culture focus on external environment and competitiveness within which the firm operates. In this study, we claim

that organizational culture plays a vital role in shaping the innovation performance of a firm.

Organizational culture is an embodiment of values, beliefs, and behaviour patterns which subconsciously drives members of a firm to make each choice and decision (Ortega-Parra & Ángel Sastre-Castillo, 2013). Schneider et al. (2013) indicated organizational culture as the norms that members of an organization perceive as their work environment, and these norms influence how members behave and adapt to achieve organizational goals. Organizational culture is the way that organizational members relates with each other and other stakeholders (Simoneaux & Stroud, 2014). Yirdaw (2016) indicated organizational culture as the glue which combines the nonhuman resources to the human resources in an organization to build teamwork and good performance. Weber and Tarba (2012) indicated that business managers use the organizational culture to differentiate their organization from other organizations. Though Apple Inc., International Business Machines Corporation (IBM), and Hewlett-Packard Corporation (HP) have similar technologies and operating environment, these organizations have diverse cultures (Schein, 2010). The culture of Apple involves the development of simple, innovative and elegant products (Toma & Marinescu, 2013). The priorities of IBM culture are long-term thinking, and highly committed employees (Flamholtz & Randle, 2011; Kotter & Heskett, 2008). The cultural focus of HP is innovation and autonomy of employees (Childress, 2013).

Organizational culture contributes favorably to corporate governance and management (O'Connor & Byrne, 2015). The influence of effective organizational culture on corporate performance is recognized by many business managers (Unger, Rank, & Gemünden, 2014). Warren Buffet, one of the world's wealthiest entrepreneurs, asserted how

organizational culture is important for organizational performance (Childress, 2013). Likewise, Howard Schultz, the founder of Starbucks Coffee Company, confirmed that corporate culture is a vital factor in Starbucks' success (Flamholtz & Randle, 2011).

2.3.1 Clan Culture

Clan culture is concerned with human relations and internally focused (Cameron & Quinn, 2011). The "clan" form of culture portrays an organization with common beliefs and goals, solidarity, personality. Its importance is portrayed by concerns in employee's loyalty, group cohesion and commitment. The term clan culture is derived from its similarity to a family-type of structure. Teamwork, employee involvement programmes, and corporate commitment to employees are features that best describes clan culture (Cameron, 2008). Trust, loyalty, solidarity, individual development, tradition, morale, collaboration, consensus and participation also characterize clan culture (Cameron, 2008; Tseng, 2010).

Clan culture tends to have a workforce that is committed to the organization and focuses mainly on shared values and open-door policy. Achievement of goals is characterized in respect of a good working environment and high consideration for employees. Management establishes organizations by promoting trust, empowerment and nurturing of employees. A strong organizational image in the marketplace is produced by unified behaviour and customers are best considered as the main stakeholders. The basis on which clan type of culture is pecked on is the feeling of belonging which creates optimistic emotional employee stance in respect of a firm (Hartnell, Ou, & Kinicki, 2011). If a firm recruits, trains, and retains their esteemed workers then they will be successful (Cameron & Quinn, 2011).

The main principle of clan culture is that of a firm's believe in and obligation to its employees which makes it possible to promote employee participation and open door policy. Development and sustenance of a good work environment will boost the satisfaction, morale and commitment of employees towards the management and their firm as a whole.(Cameron, 1988; Tseng, 2010) affirms that firms that have clan culture achieve sustainable advantage in terms of well trained and developed employees who have strong unity and high self-esteem. The authors further argue that firm's performance emanates from interdependent behaviours such as knowledge sharing, mutual assistance and cooperation. Fekete and Bocskei (2011) found out that clan culture is significantly related to firm's performance. They also argued that the main factors behind the positive relationship are; loyalty, devotedness and traditions. Clan culture portrays several characteristics in the workplace that are likely to have a significant effect on a firm's productivity results. Typical examples of clan culture are the Successful Japanese companies with effective team structure (Berrio, 2003).

The employees of the organization undertake their tasks as a team. Clan culture is people-oriented as it enhances the sense of belonging of employees, and all initiatives of the organization do not meet any kind of resistance as they feel involved in the process and as such work together to achieve organizational goals. A clan culture, based on large body of evidence and theory provides a strong basis on which to conclude that it fosters small firms' innovativeness, proactiveness and risk-taking (Arditi, Nayak, & Damci, 2017; Chatterjee, Pereira, & Bates, 2018; Joseph & Kibera, 2019; T. Kim & Chang, 2018).

2.3.2 Adhocracy Culture

Adhocracy culture put emphasis on new products and service, development, change, productivity and growth (Cameron & Quinn, 2011; Tseng, 2010). The main aim of this sort of culture is to promote suppleness and ingenuity where doubt and hopelessness lingers. These characteristics reflect external orientation and have better developed knowledge conversion and corporate performance (Tseng, 2010). Adhocracy culture therefore focuses on change designed to satisfy key external stakeholders. This orientation concentrates on growth, stimulation, creativity and variety.

(S. K. J. Lee & Yu, 2004) argues that organizational culture that is identified by its adaptability to external environment has the ability to positively influence performance results. Adhocracy culture is often characterized by an entrepreneurial, dynamic, and creative environment. Innovativeness and continually enhancing the dominance of a firm's products and services is given priority.

Eagerness for continuous change, acquisition of new knowledge and new resources forms the basis of Strategic plans of adhocracy type of culture. Production of unique and value-added products and services by an organization means success. An organization is built by developing a compelling vision, emphasizing new ideas and technologies, flexibility and adaptability. Ogbonna and Harris (2002) found out that adhocracy culture is positively related to organizational performance. Fekete and Bocskei (2011) reported that adhocracy culture influences economic outcomes of companies. Examples of this culture is the transaction of business by organizations over the internet and using advanced technology which is defined as the new economy (Acar & Acar, 2014).

2.3.3 Market Culture

Word "market" refers to a form of organization that has emerged due to new designs relating to a firm that is faced with competitive challenges (Cameron & Quinn, 2011). Market culture is externally oriented towards competition. It aids the organization to concentrate on how to achieve results through competition. Market culture focuses on the organization's external environment and how it can establish itself better than other competitors through pricing, branding, and innovation among others. Market culture supports intense competition within an industry which eventually helps employees think critically by performing their tasks uniquely. This culture supports innovation, helps organization achieve its set objectives and develop an ability to withstand fierce competition and sail through global markets easily.

Organizations with market culture entails values such as; consistency, productivity and goal achievement (Yesil & Kaya, 2013). The propelling force is aggressiveness with the aim of setting and achieving challenging goals. Success Criteria is based on goal achievement by employees, which are normally an outcome from the activities that connect a firm with the market and stakeholders. Traditionally, the main purpose of organizations that emphasizes on market culture is the pursuit and accomplishment of well-defined objectives (Cameron, Bright, & Caza, 2004).

The supposition in market culture is that the external environment is hostile and not benign, consumers are concerned with value and are very choosy, and the organizations should continuously improve performance (Quinn & Spreitzer, 1991). In this type of culture, managers build an organization by formulating clear objectives and enhancing a firm's performance through hard work and productivity. Healthy and positive

competition among employees can be used to enhance productivity through improving employee performance. In firms that achievement and efficiency is the standard, employees are inspired through setting of achievable objectives and by giving timely feedback on performance, which eventually enhances an intuition of capability, mind-set of self-efficiency and collective efficacy (Xenikou & Simosi, 2006).

Han, Kim, and Srivastava (1998) asserts that organizational culture which is market-oriented has been increasingly considered an essential element of better firm performance. They further established that market culture supports innovativeness, which finally influences firm's performance. In a study, (Fekete & Bocskei, 2011) found out that market culture had a positive effects on a organizations efficiency ,effectiveness and competitiveness, which finally improves on the performance results. These researchers proclaimed that market culture emphasizes external environment and particular features that seems to have a notable part in making companies adapt to their operating environments (Yesil & Kaya, 2013). Finally, market culture has been proven to improve output, especially when the performance is measured using market results (Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2016)

2.3.4 Hierarchy Culture

The hierarchy culture is identified by clear decision-making authority, regulatory and procedural guidelines, monitoring and accountability structures, which are evaluated as crucial to performance, standardized formalization, and a clear work framework that includes working procedures to guide and control all organizing participants (Cameron & Quinn, 2011). Formal regulations and well-explained standard operating procedures are often seen as the major features of hierarchy culture (Cameron et al., 2004).

In hierarchy culture, management are concerned with good organization, constancy and certainty (Tseng, 2010). Formalized rules and procedures, Clear lines of decision making, authority, control and accountability are considered as gateways to success and also value center for maintaining efficient, fast, reliable and smooth flowing production of goods and provision of services (Cameron & Quinn, 2011).

Other salient features are clarity in role definitions, efficient processes and systems, focused planning, and conformity to rules and regulations (Sanz-Valle, Naranjo-Valencia, Jiménez-Jiménez, & Perez-Caballero, 2011). Organizations are built by maximizing processes, costs reduction, establishing and implementing sound policies and procedures. Hierarchy type of culture emphasizes on uniformity, coordination, internal efficiency and evaluation. Management of an organization play a very vital role in achievement of efficiency, whose personal qualities and skills determines the strategy to be employed and goals to be attained. Tseng (2010) argues that most of the standardized companies possesses prescribed controls and processes, therefore portraying better organizational performance as a result of their effective management.

Hierarchy culture is not employee-oriented; it has high power distances and as such employees are not actively involved in the decision-making process. However, this type of culture promotes integration in the workplace, aligns organizational focus with overall objectives and improves the internal processes of the organization thereby improving efficiency, promotes unity of command and direction. It is opined that hierarchical culture does not promote creativity, risk taking and innovativeness because it is focused on internal processes, following laid down rules and procedures. However, (Asif &

Sajjad, 2018; Joseph & Kibera, 2019; Khan & Ahmed, 2019) all found an affirmative link between hierarchical culture and performance of firms.

2.4 Concept of Financial Literacy

Financial literacy is a broad concept that encompasses domains such as financial knowledge, behaviour, and attitude (Arceo-Gómez & Villagómez, 2017). There is no agreed definition regarding financial literacy in the literature (Remund, 2010). Some studies have defined financial literacy as the potential to read, comprehend, analyze and communicate the personal financial conditions that affect the financial well-being (Beal & Delpachitra, 2003; Chen & Volpe, 2002; Mandell, 2008; Morton, 2005; Petpairote, 2023; Respati et al., 2023);

Financial literacy is defined by the Organization for Economic Cooperation and Development (OECD) as a combination of the awareness, knowledge, skills, attitudes, and behaviours that are required to enact wise financial decisions, with the ultimate goal of achieving financial certainty and take part in economic life (Lusardi, 2019). Financial literacy is measured through financial knowledge, behaviour, attitude, and financial decision-making. Financial knowledge is an important domain of financial literacy. Delavande, Rohwedder, and Willis (2008) postulates that financial knowledge is a type of capital obtained in life by learning how to manage income, expenditure, and savings prudently. Knowledgeable persons handle financial data effortlessly (Ramalho & Forte, 2019). Financial knowledge is probable of having an effect on young adults' awareness of money behaviours like recording of expenses and a saving attitude (Supanantaroeck, Lensink, & Hansen, 2017). Lower financial knowledge has been associated to a higher

likelihood of engaging in risky financial practices amongst college students (Mitchell & Lusardi, 2015).

The roots of financial literacy can be related to the rise of modern financial systems, increased individual responsibility for financial planning and the realization that individuals need a certain level of financial knowledge to make rational decisions (Adeyombo et al., 2024; P. Ali et al., 2016). As financial markets became more sophisticated, the essence of grasping financial concepts and tools became apparent (Obinike et al., 2023). As articulated by Beck and Demirguc-Kunt (2006), financial literacy is defined as the proficiency to comprehend and apply diverse financial skills, ranging from budgeting and investing to debt management and knowledgeable financial decisions.

Financial behaviour is the key antecedent in predicting financial well-being (Rahman, Isa, Masud, Sarker, & Chowdhury, 2021). Financial behaviour is classified as favorable or unfavorable and is displayed through individuals' patterns of saving and spending. Expedient financial behaviour is often viewed as the foundation of financial well-being. Several studies have established that desirable financial behaviours are linked with affirmative financial outcomes. A study by Fan and Park (2021) found a positively significant association between financial management behavior and the financial well-being of youth. Unpleasant financial behaviour entails excessive expenditure on products and services, impulsive use of credit, running out of cash, absence of savings culture, and failure to meet obligations (Roberts, Struwig, Gordon, & Radebe, 2021). Riyazahmed (2021) found that financial behaviour has a significant effect on financial well-being. Individuals that agonize about debt repayment and meeting financial emergencies are

linked with undesirable financial behavior, low financial well-being and lower levels of savings (Marsden, Zick, & Mayer, 2011). Financial attitude is important in demonstrating pleasant financial behaviour that leads to effective handling of personal finances.

Financial attitude influences financial management behaviour (Ameliawati & Setiyani, 2018). Youth may exhibit either favourable or unfavourable dispositions towards their present financial circumstances, monetary resources, and credit. Studies revealed that being positive about the status of finances is related with better financial results because individuals would put more effort into remedying the circumstances and behave positively towards money. Holding a negative conviction towards finances is related with poor management of money (Robb & Woodyard, 2011). Thus, young adults must demonstrate a positive financial attitude in order to react positively towards their finances.

Financial decision-making is an important aspect of financial literacy and achieving financial well-being. Financial decision-making is a subject of locus control, which focuses on how people view the world, which later affects their beliefs and shapes their perception through external and internal extremes (Grable, Park, & Joo, 2009). Financial decision-making plays a crucial role in determining the amount of money that is saved, the allocation of an individual's financial resources, the selection of investment products, the level of risk undertaken, and ultimately, the potential return that can be attained. These actions in turn directly lead to differences in individuals' wealth (Xu & Yao, 2022). Individuals' financial decisions are influenced by various settings, conditions, and changes over time. Financial decision arrangements may vary by the types of financial decisions, e.g., small vs. large purchases, bill payment, savings, investing, and financial

planning (J. Kim, Gutter, & Spangler, 2017). Financial decisions nowadays are more complex for young adults than in the past, and they have considerable consequences for young adults' life pathways, well-being, and wealth (Sirsch, Zupančič, Poredoš, Levec, & Friedlmeier, 2020).

2.5 Link between Organizational Culture and Financial Performance of Small and Medium Enterprises.

This sub-section entails empirical review of variables. These variables are predictor, moderating and outcome variables. The predictor variable comprises of four constructs, that is, clan culture, adhocracy culture, market culture and hierarchy culture. The moderating variable is the financial literacy while the outcome variable is financial performance.

2.5.1 Clan Culture and Financial Performance of Small and Medium Enterprises.

Clan culture is a system of values, affections, beliefs, group efforts, support and conviction membership which encourages employees in an organization to display acts of teamwork and participation (Cameron, 2008). Cameron and QUINN (1999) examined the duty of culture on success and performance of an organization. The study disclosed that each of the four types of organizational culture in respect of the Competing Values Framework model contributes to firm's success depending on the needs of its stakeholders and strategic direction. Thomas, Marosszeky, Karim, Davis, and McGeorge (2002) utilized (Cameron & QUINN, 1999) CVF model and Organizational Culture Assessment Instruments(OCAI) to examine the culture of Australian construction firms. Its results showed that clan culture was positively and significantly linked with quality outcomes.

The main principle of clan culture is that of a firm's believe in and obligation to its employees which makes it possible to promote employee participation and open door policy. Development and sustenance of a good work environment will boost the satisfaction, morale and commitment of employees towards the management and their firm as a whole.(Cameron, 2008; Tseng, 2010) affirms that firms that have clan culture achieve sustainable advantage in terms of well trained and developed employees who have strong unity and high self-esteem. The authors further argue that firm's performance emanates from interdependent behaviours such as knowledge sharing, mutual assistance and cooperation.

Fekete and Bocskei (2011) found out that clan culture is significantly related to firm's performance. They also argued that the main factors behind the positive relationship are; loyalty, devotedness and traditions. Clan culture portrays several characteristics in the workplace that are likely to have a significant effect on a firm's productivity results. Typical examples of clan culture are the Successful Japanese companies with effective team structure (Berrio, 2003).

The employees of the firm undertake their tasks as a team. Clan culture is people-oriented as it enhances the sense of belonging of employees, and all initiatives of the organization do not meet any kind of resistance as they feel involved in the process and as such work together to achieve organizational goals. A clan culture, based on large body of evidence and theory provides a strong basis on which to conclude that it fosters small firms' innovativeness, proactiveness and risk-taking (Arditi et al., 2017; Chatterjee et al., 2018; Joseph & Kibera, 2019; T. Kim & Chang, 2018).

2.5.2 Adhocracy Culture and Financial Performance of Small and Medium Enterprises.

Chan, Shaffer, and Snape (2004) examined the role taken by culture of a firm as a moderating variable on the effect of high-performance human resource practices on organizational performance of local and foreign companies in Hong Kong. Organizational culture was evaluated by involvement culture, member conformity culture, policy adaptability culture and mission culture adopted from (Denison & Mishra, 1995). The findings showed that some cultures of a firm and high-performance human resource practices interacts and in fact have an effect on firm's performance. The findings also indicated that adaptability and involvement types of culture significantly and positively influenced organizational performance.

Tseng (2010) conducted a research on organizational culture and information change on firm productivity. The study evaluated the association between culture of a firm and information change on corporate performance. The findings of the study showed that adhocracy type of culture compared to hierarchy and clan cultures promotes knowledge conversion and enhances organizational productivity

Zhang, Zhu, and Liu (2012) conducted a study to evaluate the association between culture and firms productivity in 25 investments of 9 regions in China. Empirical evaluation was utilized to examine clan culture, adhocracy culture, market culture and hierarchy culture on firm's productivity. The results of the study showed that: market culture and adhocracy culture had a significant effect on productivity, hierarchy and clan cultures had a negative effect on company efficiency, but market and adhocracy cultures had a positive significant effect on firm productivity.

Naranjo-Valencia et al. (2016) conducted a study on organizational culture, performance in Spanish industrial companies and novelty. They evaluated the role of organizational culture as a force that can inspire or discourage novelty and eventually have an impact on the firm performance. The respondents were Spanish organizations with employees more than 15 and are located in Southeast Spain. It covered several industries but those in agricultural sector were excluded. Data was gathered through face to face interviews with the companies' Chief Executive Officers (CEOs). The results demonstrated that organization culture may promote the novelty and firm's performance or it can be a hindrance to both of them, depending on the ideals upheld by the firm's culture. It was additionally established that the adhocracy culture surpassed all the other predictor variables.

The research by (Felipe, Roldán, & Leal-Rodríguez, 2017) established an affirmative link between adhocracy culture and firm's productivity. This argument supports prior studies that agile organizations are highly flexible and adaptive. This findings are in agreement with prior studies' empirical support of adhocracy culture as a vital pre-condition for successful organizational performance (Matzler, Abfalter, Mooradian, & Bailom, 2013).

2.5.3 Market Culture and Financial Performance of Small and Medium Enterprises.

(Thomas et al., 2002) utilized the Competing Values Framework(CVF) model's and Organizational Culture Assessment Instrument (OCAI) tool of (Cameron & QUINN, 1999) to evaluate the culture of Australian construction firms. The findings showed that market culture which was very common was found to have negative effect on quality outcomes. Fey and Denison (2003) undertook a research on Russian firms and compared their outcomes with the ones obtained from similar firms studied in United States of

America (USA). Generally, they summarized that in the United States of America context, market culture was vital; whereas in the Russian context, adhocracy culture with a flexible inclination was the crucial feature of effectiveness.

Xenikou and Simosi (2006) studied Greek firms and concluded that market culture, rules that promote productivity, effectiveness and goal setting were associated with higher performance. The research carried out by (Deshpandé, Farley, & Webster Jr, 1993) in Japanese companies disclosed that the market type of culture had a positive and significant relationship with better firm productivity. Adhocracy type of culture had an average positive association with improved productivity while hierarchy and clan cultures were linked with dismal performance.

Dadzie, Winston, and Dadzie (2012) conducted a research on corporate culture, competitive approach, and firm performance in Ghana. The research assessed the effects of competitive approach on the association between organizational culture and productivity of companies. The outcomes of the study confirmed negative and positive impacts of organizational culture on performance. Companies which puts more emphasizes majorly on market culture had a greater probability to be directly linked with productivity, while those companies that adopts adhocracy or hierarchy cultures had more probability of being related indirectly with performance, depending on their alignment to various strategies.

Haggalla and Jayatilake (2017) undertook a study on organizational culture and turnover intention in information technology firms in Sri Lanka. The results affirmed that there was a relationship between firms culture and turnover intention in the information

technology industry. The research also showed that market type of culture was the predominant organizational culture among the four (clan, adhocracy, market and hierarchy) categories in respect of the CVF model. In a study undertaken by (Aketch, Basheka, & Bagire, 2017), on organizational culture and performance of Small and Medium Enterprises in Uganda, it was revealed that clan culture and market culture were significant influencers of performance of Small and Medium Enterprises unlike adhocracy and hierarchy culture.

2.5.4 Hierarchy Culture and Financial Performance of Small and Medium Enterprises.

Acar and Acar (2014) conducted a research on organizational culture and organizational performance among Turkish hospitals. Data was collected from 512 employees of 99 hospitals of major cities. The study disclosed that the hierarchy culture was the most common culture in the Turkish healthcare industry. Felipe et al. (2017) evaluated the effects of corporate culture ethics on organizational agility on Spain-based companies. The study didn't find a negative association between hierarchy culture and organizational agility as expected but a positive significant effect. According to the researchers, this finding was certainly unexpected and suggested that certain features associated to hierarchy culture lead to more agile organizations.

Nguyen and Watanabe (2017) evaluated the effect of culture of a firm on total quality management (TQM) execution and firm performance; evidence from the Vietnamese construction sector. The major purpose for this study was to assess the link involving culture of a firm and TQM, and the influence of TQM implementation on organizational performance improvement within the context of the Vietnamese construction industry. A

survey was conducted with 104 respondents from Vietnamese construction enterprises. Outcomes of the investigation revealed that in Vietnamese construction companies, hierarchy and clan cultures were dominant.

The hierarchy culture is marked by clear decision-making authority as well as regulatory and procedural guidelines, monitoring and accountability structures, which are assessed as essential to performance, standardized formalization, and a clear work framework that includes working procedures to control all organizing participants (Cameron & Quinn, 2011). Formal regulations, well-articulated standard operating procedures are often regarded as the main characteristics of hierarchy culture (Cameron et al., 2004). Leadership and management in hierarchy type of firm culture are concerned with constancy, certainty, and good organization (Tseng, 2010). Clear lines of decision making authority, standardized rules and procedures, control and accountability mechanisms are cherished as keys to success (Cameron & Quinn, 2011). Key values Centre on maintaining efficient, reliable, fast, smooth flowing production of goods and provision of services (Cameron & Quinn, 2011).

The other key values are clear role definitions, focused planning, efficient systems and processes and adherence to norms and regulations (Sanz-Valle et al., 2011). Driving purposes include obtaining high quality or optimization, sometimes expressed as predictability or productivity. Leaders build organizations by optimizing processes, cutting costs, and establishing and implementing policies and procedures. Hierarchy culture can therefore be described as emphasizing internal efficiency, uniformity, coordination, and evaluation. A significant role in achieving efficiency is played by leaders of an organization, whose personal qualities and skills determine organizational

strategy, goals and results to be achieved. Tseng (2010) argues that more formalized companies usually possess prescribed controls and processes, thus, they have better developed organizational performance because of their effective management.

This type of culture is not employee-oriented; it has high power distance and as such employees are not actively involved in the decision-making process. However, this type of culture promotes integration in the workplace, aligns organizational focus with overall objectives and improves the internal processes of the organization thereby improving efficiency, promotes unity of command and direction. It is opined that hierarchical culture does not promote creativity, risk taking and innovativeness because it is focused on internal processes, following laid down rules and procedures. However, (Asif & Sajjad, 2018; Joseph & Kibera, 2019; Khan & Ahmed, 2019) all have found a positive relationship between hierarchical culture and performance of firms.

2.5.5 Financial Literacy and Financial Performance of Small and Medium Enterprises.

Bruhn and Zia (2011) investigated the impact of business and financial literacy program on owner/managers of Small and Medium Enterprises. It was established that SMEs with greater performances are associated with owner/managers with better financial literacy levels. Nyamao, Patrick, Martin, Oondo, and Otieno (2012) argued that around 57% business operators rarely attend business training despite them having limited or zero knowledge in financial literacy, therefore, lacking financial knowledge which is essential in the operation of their enterprises. Performance of SMEs was found to be below average.

Simeyo, Martin, Nyamao, Patrick, and Odondo (2011) established that training had a significant effect on the performance of the micro enterprises investments. The research further revealed that most of the respondents were very contented with the availability of capital investment and basic business skills training in micro enterprises investment. This signifies that business skill training that accompanies the provision of small loans is likely to improve the capability of the SME owners to utilize funds and therefore affects improves performance. In risk management, the outcomes showed that respondents were averagely contented with the achievement of business risk management skills. From the findings the owners of SMEs were not adequately equipped with business risk management knowledge and skills, therefore unable to adequately mitigate business risks. In the event that such risks materialize, then their micro enterprises are affected negatively. Sucuahi (2013) highlights that the crucial function of the micro enterprises can be improved and bolstered by the owner/managers of SMEs through fine and precise financial management skills.

A good financial basis of the owner/managers of SMEs is an important parameter of the success and growth in SMEs performance. Additionally financial literacy influences access and payment of loans. One of the major causes of the high failure rate of new micro enterprises in South Africa is lack of financing from formal sector.

Osinde, Iravo, Munene, and Omayio (2013) studied the effect of business development services on the SMEs performance and established that the owner-managers who obtained business advices and resources displayed an increase in sales and market shares. The study also established that owners-managers who attended the trainings recorded an upgrade in their businesses in terms of sales growth and profits. Eighty-three percent

(83%) of the owners-managers who attended trainings reported better progress in terms of profits unlike 41.2% of those who never attend any training. Wise (2013) , established that as financial literacy increases in a firm, the more it leads regular preparation of financial statements. The owner/ manager of SME that prepares financial statements regularly have a lower probability of loan default than the one who doesn't produce financial statements at all.

The Association of Chartered Certified Accountants (2014) presents that low level or lack of financial awareness is one of the challenges that financial institutions. Nunoo and Andoh (2011) concluded financial literacy is an essential factor in discussing prudent use of financial services. Lack or low levels of financial literacy may prevent owner-managers of SMEs from comprehending and analyzing financial products and services from financial institutions. This will hinder their performance in service delivery and growth. According to Eniola and Entebang (2016) , performance is commonly employed as an index of a SME's health over a given period of time. This places performance as one of the vital issues of SMEs. The capacities to institute changes in handling of perceived market opportunities, adapting to the environment, and possessing certain managerial skills, leads to strategic improvement of firm performance. Product innovations, proactiveness, creativity, networking and technological changes are critical factors that brings about improvement in firm performance. Performance encompasses growth, survival, success, and competitiveness.

According to Eniola and Entebang (2016) performance can be described as the firm's ability to generate acceptable results and actions. Additionally financial literacy enables owners-managers to be more creative in the utilization of credit facilities, monitoring of

budgets, timely purchase of raw materials, minimization of production, fixed and variable costs (Adomako & Danso, 2014; Reich & Berman, 2015). A combination of internal and external literacy has been reported to have a high correlation with the business performance of young entrepreneurs (Bruhn and Zia 2011), and similar findings are supported by Agbemava et al. (2016). Authors like Reich and Berman (2015) and Cowling, Liu, Ledger, and Zhang (2015) were of the view that financial literacy is critical in responding to the turbulent global challenges such as Brexit and the global financial crisis. Ali et al., (2018) concluded that if entrepreneurs are granted time to understand and acquire the financial skills, it will aid them to become competitive as the economy today is open, robust and more challenging. Budget control seemed to be the main factor that owner-managers were more concerned with since a well-prepared budget will influence the performance of the SMEs. Financial literacy is vital in attaining better financial performance of SMEs. As a result, financial literacy becomes crucial in financing decisions of SMEs (Adomako & Danso, 2014).

Recent evidence suggests low levels of financial literacy among owner-managers of SMEs in emerging and advanced economies. From previous studies, only a few owner-managers are able to comprehend and analyze basic financial concepts (Cole, Sampson, & Zia, 2012; Lusardi, 2015, 2019). Financial literacy is very important since lack of it definitely poses challenges which negatively impact the growth of SMEs. This scenario brings a challenge for owner-managers of SMEs in their endeavour to improve SME performance. This is occasioned by the fact that banks, government agencies, and other organizations nowadays consider the financial literacy level of the owner-manager before engaging with them (Lusardi, 2015).

In a separate study, RATNAWATI and SOELTON (2022) demonstrates a positive and substantial correlation between financial literacy and SMEs performance. Likewise, Makdissi, Nehme, and Chahine (2020) established a favorable connection between financial literacy and the performance of SMEs.

2.6 Summary of Gaps

Table 2.1: Summary Gaps

| Author | Topic | Methodology | Findings | Knowledge Gaps |
|---|---|--|--|---|
| Shea, Usman, Arivalagan, and Parayitam (2023) | “Knowledge management practices” as moderator in the relationship between organizational culture and performance in information technology companies in India | Survey Research design was utilized. The sample size was 1255. | The results reveal that: cooperative culture, innovative culture, consistent culture and effectiveness culture were all positively and significantly related to organizational performance; Knowledge Management practices were positively and significantly related to organizational performance, Knowledge Management practices moderate the relationship between various dimensions of organizational culture and organizational performance | -Current study utilizes explanatory research design. -Contextual gap exists. |
| Jardioui, Garengo, and El Alami | How organizational culture influences | Case study. Four manufacturing | According to the results, Organizational Culture has a | - Small sample size will limit generalizability and |

| | | | | |
|-----------------------------------|---|---|---|---|
| (2020) | performance measurement systems in SMEs | SMEs with heterogeneous OC were investigated by companies' means of documents reviews, participant observations and semi-structured interviews. | huge impact on PMS in manufacturing SMEs | potential response bias from participants. -Contextual gaps exist. - Explanatory research design will be utilized. |
| Reino, Rõigas, and Mürsepp (2020) | Connections between organizational culture and financial performance in Estonian service and production companies | -Cross-sectional survey research design was utilized. -Sample size was 2256. -Study conducted in Estonia. | There is a positive influence of clan, adhocracy, market and hierarchical culture on the performance. | -Explanatory research design used in the current study -Contextual gaps exist |
| Thoon (2020) | Effects of Organizational Culture on Employees Performance: Case of Yee Sheen Company | Survey research design, Systematic sampling method was used. -Samples size of 120. -Data collected | Cooperating culture, innovating culture and harmonizing culture have positive relationship with employee performance. In contrast, cooperating culture and harmonizing culture have a | -Explanatory research design utilized in the current study -Contextual gap exists. -Small sample size will limit generalizability and |

| | | | | |
|----------------------------|--|--|---|---|
| | | through structured questionnaires - Study conducted in China | positive influence on employee performance, while innovation culture has no noticeable impact on employee performance. | potential response bias from participants |
| Peter et al. (2018) | Government financial support and Financial performance of SME's | Survey, stratified and simple random technique, Descriptive statistics and Multiple Regression | Financial assistance has significant impact on the performance of SMEs, these supports are inadequate and characterized by stringent, unrealistic bureaucratic details. | -Explanatory research design was utilized in the current study therefore Methodological gap exists. |
| Nguyen and Watanabe (2017) | Impact of project organizational culture on performance of constructions projects. | Survey | Competitive advantage had a positive relationship with financial performance. | -Explanatory research design was utilized in the current study therefore Methodological gaps exist. -Contextual gap exists |

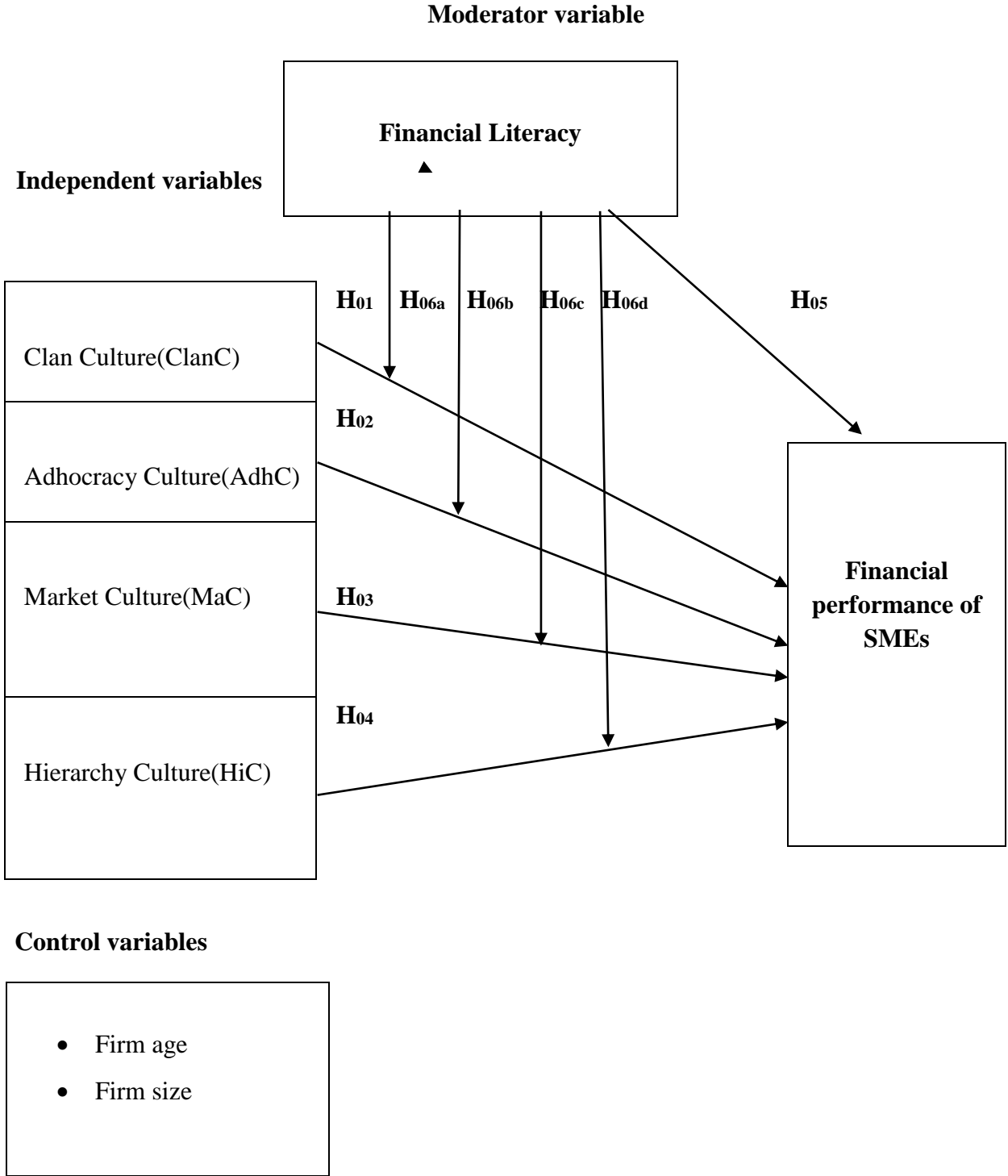


Figure 2.1: Conceptual Framework

Source: Researcher (2024)

CHAPTER THREE

METHODOLOGY

3.0 Overview

The chapter deals with Research design, Study area, Target population, Sampling design, Data collection Instruments, Measurements, Data analysis, Reliability, Validity and Ethical considerations.

3.1 Research Design

According to (Kothari, 2004), research design is a plan, a roadmap and blueprint strategy of investigation conceived so as to get information on study questions. The choice of a research design is directed by the intention of the investigation, the kind of study, the duration within which information is to be gathered and the nature of evaluation to be undertaken (Uma Sekaran & Bougie, 2016).

Research design is described as a blue print or outline for conducting a study in such a way that maximum control will be exercised over factors that could interfere with the validity of the research results (Polit & Beck, 2004). Explanatory research design establishes the causal relationships between variables (Rahi, 2017). It looks for the reasons and causes and provides evidence to support or refute the explanations or predictions. Additionally, it helps get fresh insight into a situation to extend, elaborate or test a theory. On that account, its prime objective is to identify issues and main variables in the given research problem, which is the main focus of this study.

This study therefore adopted explanatory research design because the idea behind it is to measure variables using data collected from a representative sample and then to examine a cause effect relationship among the variables. The study attempted to find the causal effect of organizational culture, and financial literacy on Small and Medium Enterprises performance, hence explanatory research design is appropriate in finding the causal effect.

3.2 Study Area

The study was conducted in six sub counties within Nandi County, these include Emgwen, Nandihills, Chesumei, Aldai, Mosop and Tindiret. It was mainly centered on SMEs licensed by Nandi County; that is, Small and Medium Enterprises which are distributed within these sub-counties. The reason for choosing Nandi County is because of the dismal performance as indicated in the number of licensed SMEs which stood at 8611 (Department of Trade (Nandi County Government) in the year 2019 to the current number of 6347 (Department of Trade (Nandi County Government) 2023) in the year 2023. Also, the area is under researched in terms of Small and Medium Enterprises.

3.3 Target Population

Mugenda and Mugenda (2003) defines target population as that population to which a researcher wants to generalize the results of a study. Kombo and Tromp (2009) define the target population as a grouping of people, entities or articles from which samples are taken for measurement. The target population for this study consists of 6347 Small and Medium Enterprises licensed by County Government of Nandi. For Small and Medium Enterprises to effectively achieve their objectives, the abilities of all employees working in these organizations need to be optimized through effective management practices. This study targeted the managers/owners of the Small and Medium Enterprises.

Table 3.1: Target Population

| Location Within the County | Number of SMEs |
|-----------------------------------|-----------------------|
| Aldai | 568 |
| Emgwen | 2326 |
| Nandi Hills | 749 |
| Mosop | 443 |
| Chesumei | 1942 |
| Tinderet | 319 |
| Total | 6347 |

Source: Department of Trade (Nandi County Government) 2023

3.4 Sample Size and Sampling Design

Blumberg, Cooper, and Schindler (2014) defined a sample as a fraction of the target population and it is expected to have the attributes of the population under study. Sample size is a salient feature of any empirical study whose objective is to make references about a population from a sample (Kothari, 2004). Sampling is the nomination of a set of individuals from within a given population, mainly with the intention of making predictions using their statistical inference (Saunders, Lewis, & Thornhill, 2009). The main reason of sampling is to get an understanding regarding some characteristics or features of the whole population based on the attributes of the given sample (Blumberg et al., 2014).

The formula below was used to calculate the sample size as, (Yamane, 2004):

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{6347}{1 + 6347(0.05)^2}$$

$$n = 376$$

Where:

n - Sample size,

N - Target Population

e - Error term

Margin of sampling error of 0.05 was used in the study.

3.4.1 Sampling Design

The study used Stratified sampling technique to select the SMEs where respondents were picked. Therefore, SMEs were divided into six stratas (Sub counties) where the sample size was distributed according to Neyman allocation formula. The study divided the population of the strata with the total population then multiplied by the study sample size giving the sample of each stratum. Thereafter the lottery method was used to select sampled SMEs in each cluster.

$$n_h = \left(\frac{N_h}{N} \right) n$$

Where;

n_h = Sample size in stratum h

n= Total sample size

N= Total population size

N_h =Population size in stratum h

Table 3.2: Sample Distribution Table

| Sub Counties | Population | Sample |
|---------------------|-------------------|---------------|
| Aldai | 568/6347*376 | 34 |
| Emgwen | 2326/6347*376 | 138 |
| Nandi Hills | 749/6347*376 | 44 |
| Mosop | 443/6347*376 | 26 |
| Chesumei | 1942/6347*376 | 115 |
| Tinderet | 319/6347*376 | 19 |
| Total | 6347 | 376 |

Source: Department of Trade (Nandi County Government) 2023

3.5 Types of Data, Collection Procedures and Instruments

Development of instruments by the researcher to collect the required data is fundamental (Mugenda & Mugenda, 2003). Primary data was utilized in the study. The researcher collects primary data information in order to address a research phenomenon. Questionnaire that contained the study variables was used to collect the Primary data. A questionnaire is an instrument used to collect information and its role is to transform the research objectives into specific research questions and answers to the questions provides hypothesis testing data (Jupp, 2006). A questionnaire is generally a tool used for collection of data in research (Cresswell, 2012).

According to Kothari (2004), benefits of a questionnaire as a data collection instruments include; information from larger samples can be gathered using a shorter period of time , at a lower cost, biasness is largely reduced if not eliminated because the response is on a paper and confidentiality is guaranteed. An opportunity for respondents to present their own views and offer anonymity which helps generate more truthful and genuine responses than is possible in an interview is guaranteed by the questionnaires (Mills &

Gay, 2016). Uma Sekaran and Bougie (2016) argued that questionnaires promotes the accuracy and independence of feedback from the respondents.

Questionnaires to collect primary data were Self-administered. Research assistants were first trained and engaged to aid in distribution and collection of questionnaires. 376 managers/owners of Small and Medium Enterprises were targeted participants to be sampled. The procedure that was used to administer the questionnaires was drop and pick. An introductory letter requesting permission to conduct the research from the sampled business was sent prior to visiting each business for data collection. The questionnaire entailed four sections; section 1 was the respondent's background, section 2, assesses financial performance, section 3, assesses organizational culture, section 4, assesses financial literacy. The researcher trained and appointed research assistants to distribute self-administered questionnaires to SMEs owners/managers due to large sample size. This activity was covered between the months of March and May 2025.

3.6 Pilot Study.

Pilot study is an assessment that is carried out on a small group of respondents to ascertain that the questions presented in the questionnaire are reliable (Marczyk, DeMatteo, & Festinger, 2010) .The purpose of a pilot study is to test run the questionnaire and utilize the feedback given to streamline it to suit the main research (Muus & Baker-Demaray, 2007). A pilot study is undertaken to detect the shortcomings in the design and instrumentation and also provide proxy data for a selection of probability samples (In, 2017). therefore, the pilot study assists in improving the main study's quality and efficiency (Ismail, Kinchin, & Edwards, 2018). The questionnaire was

pretested to ensure that there is clarity and validity of information before being administered.

Neuman et al. (2011) recommended that before conducting the actual study a pilot study consisting of at least 10% of the target population to check on the consistency and soundness of the study tools should be conducted. Small and Medium Enterprises within Uasin Gishu County were chosen to participate in the pilot study because of their homogenous characteristics with those SMEs of Nandi County. Out of the 40 questionnaires that were administered to respondents, 34 were returned and this represented a response rate of 85%. The results of the pilot test were excluded in the actual study. Cronbach's alpha (α) was utilized to ascertain the reliability of the questionnaire. The results for reliability are as shown in **Table 3.3** below.

Table 3.3 Pilot test Reliability results

| Variable | No. of Items | Cronbach's Alpha |
|-----------------------|---------------------|-------------------------|
| Financial performance | 7 | 0.788 |
| Clan culture | 7 | 0.774 |
| Adhocracy culture | 7 | 0.813 |
| Market culture | 7 | 0.793 |
| Hierarchy culture | 7 | 0.703 |
| Financial literacy | 9 | 0.770 |
| Cumulative | 44 | 0.862 |

3.6.1 Reliability of Instruments

Reliability shows the degree to which a scale can reproduce the same measurement results in repeated attempts (Bajpai, 2014). To determine the reliability of the measuring instruments, Cronbach alpha (α) was utilized. Cronbach alpha is the widely used measure for checking reliability, especially when studies use the multiple Likert-type of scale in the study (Tavakol & Dennick, 2011). The alpha coefficient computed lies between 1 which implies perfect internal reliability and 0 implying absence of internal reliability. The higher the alpha coefficient the more reliable the scale (De Vaus, 2013; Kipkebut, 2010). There is no universal agreement among researchers regarding the adequate value of reliability but as a rule of thumb, the acceptable Cronbach alpha coefficient should be more than 0.70 (Blumberg et al., 2014).

3.6.2 Validity of Instruments

According to Leedy and Ormrod (1980) validity is the ability of a study tool to ascertain what it is expected to measure. Validity is classified into four types namely; face, construct criterion-related and content validity. Validity therefore shows the degree to which the outcomes obtained from the analysis of data represent the variables under study. Validity also measures how effective the measuring instrument undertakes its role (Sürücü & MASLAKÇI, 2020). This study embraced face, content, criterion-related, and construct validity.

Face validity occurs when the investigator critically verifies the measuring instrument by letting an expert in the respective field to assess and evaluate the intention of the

instrument (Duckett, 2021). The supervisors evaluate the measuring instrument based on the relevance of the research questions to the study's objectives so as to test face validity.

Content validity shows the extent to which all the items in the measuring instrument serves its expected purpose. content validity therefore helps the researcher to evaluate whether the expression of the items in the measuring instrument represents the variable intended to be measured (Souza, Alexandre, & Guirardello, 2017; Sürücü & MASLAKÇI, 2020). Content validity can be measured using three approaches namely; literature, qualitative studies and opinion of a team of experts (Leedy & Ormrod, 1980). Expert /supervisors opinion was utilized to test content validity of all the variables.

Criterion-related validity refer to how well one measure (independent variable) predicts the results for another measure of interest (criterion), (Burns et al., 2017). It therefore correlates test outcomes with another criterion of interest and deals with the relationship between scale scores and some specific measurable criterion. Criterion validity is used to predict current performance or future performance. This is supported further by Souza *et al.* (2017), through his argument that when the criterion is measures the future then its referred as predictive validity , while concurrent validity is when the criterion determines the current performance. Correlation results were utilized to test criterion-related validity. Where, a value close to 1.00 indicates a strong correlation between variables, whereas a value close to 0.00 shows that the correlation is negative.

Construct validity is the degree to which the data collection instrument measures the idea, concept , behaviour, or quality (theoretical construct) are required to measure(Sürücü & MASLAKÇI, 2020). According to Mugenda and Mugenda (2003) construct validity is an

examination of the extent to which information collected from an instrument perfectly and precisely explains a theoretical view. Moreover, construct validity can be categorized into hypothesis testing, cross-cultural and structural or factorial validity. According to Souza *et al.* (2017), factorial validity can be verified either by employing confirmatory factor analysis (CFA) or exploratory factor analysis (EFA). This study utilized factorial validity since it provides tools to examine the relationships between several variables, defining the factors, that is, the variables related to each other. Based on the argument above, factorial loads of each item must be at least 0.5, and if an item presents a value less than 0.5, then it should be dropped from the factorial model.

3.7 Measurements of Variables.

Table 3.4: Measurement of Variables

| Type | Variables | No. of Items | Unit of measurement | Source |
|----------------------|-----------------------|--------------|----------------------|---|
| Dependent variable | Financial Performance | 7 | 5 Point Likert scale | (Watson, 2007) |
| Independent variable | Clan culture | 7 | 5 Point Likert scale | Organizational Culture Assessment Instrument (K. Cameron & Quinn, 2011) |
| Independent variable | Adhocracy culture | 7 | 5 Point Likert scale | Organizational Culture Assessment Instrument (K. Cameron & Quinn, |

| | | | | |
|----------------------|--------------------|---|----------------------|---|
| | | | | 2011) |
| Independent variable | Hierarchy culture | 7 | 5 Point Likert scale | Organizational Culture Assessment Instrument (K. Cameron & Quinn, 2011) |
| Independent variable | Market culture | 7 | 5 Point Likert scale | Organizational Culture Assessment Instrument (K. Cameron & Quinn, 2011) |
| Moderator variable | Financial literacy | 9 | 5 Point Likert scale | Van Rooij, Lusardi, and Alessie (2011) |

3.7.1 Control Variables

Prior studies in literature (Adil, Ghafoor, Shafqat, Munir, & Murtaza, 2023; Rundjan & Susanti, 2023; Rwakihembo, Aryatwijuka, Kalinda, & Nimusiima, 2023) have indicated that firm age and size significantly influences financial performance hence they were controlled.

3.8 Data Analysis, Interpretation and Presentation

First, the questionnaires were coded and screened to eliminate those that which were incomplete or incorrectly filled and verification done to ascertain that all are accurately filled. Data obtained from the field were analyzed quantitatively using Statistical Package for the Social Sciences (SPSS) Version 23.0. Descriptive statistics was used to analyze quantitative data so as to create mean and standard deviation from the feedback provided by the respondents in regard to their profile. To confirm whether there was an association between predictor and outcome variables, correlation analysis was undertaken. This was accomplished by utilization of Pearson Correlation which displays correlation coefficients between variables. to test whether organizational culture had an effect on financial performance of Small and Medium Enterprises regression analysis was utilized. Reliability and internal consistency of data instruments were measured by Cronbach's alpha coefficient. Finally, the outcomes of the study are presented through graphs, tables, percentages, and description.

3.8.1 Regression Analysis

Hierarchical multiple regression analysis was used to establish the relationship between the predictor variables and outcome variable. Blumberg et al. (2014) observed that hierarchical multiple regression analysis displays whether the study hypothesis is

statistically supported or not. Test of hypothesis relied on the unstandardized coefficients and p values to ascertain whether the null hypothesis is to be rejected or accepted.

3.8.2 Diagnostic Tests

Regression models explain the relationship regarding the predictor and outcome variables. Diagnostic tests depends on certain assumptions about the variables that are to be fulfilled in order to allow effective analysis to take place and any violation of these assumptions leads to unreliable results(Osborne & Waters, 2002). The assumptions of multiple regression assessed in this study included normality, linearity, multicollinearity and homoscedasticity as discussed below.

i. Linearity Test

Linearity defines the outcome variable as a linear function of the predictor (independent) variables (Hair Jnr, Black, Babin, & Anderson, 2010). In multiple regressions linearity of relationships shows the extent to which difference in the outcome variable is linked with the predictor variable. In case of linearity violation, all the regression estimates including standard errors, regression coefficients, and statistical significance will be biased (Jena & Pradhan, 2017). Linearity involving the outcome variable and each predictor variable was analyzed using the Pearson's product moment correlation coefficient.

ii. Normality Test

Normality is the assumes that variables are normally distributed(Osborne & Waters, 2002). The errors between the predicted and actual values should be distributed normally, and a plot of the residuals values will resemble a normal curve. According to Hoyt, Leierer, and Millington (2006) variables that aren't distributed normally distorts the relationships and significance tests they also influence both Type I and Type II errors and the overall results. Histogram, skewness and kurtosis were used to evaluate the normality.

iii. Multicollinearity Test

According to Hair Jnr et al. (2010), multicollinearity is a situation where one independent variable is determined by a combination of the other variables or when the predictor variables are strongly correlated. According to (G. D. Garson, 2012), intercorrelation between the predictor variables above 0.80 indicates a possible problem. Multicollinearity raises the standard errors of the coefficients, which vehemently leads to decline in the prognostic capability of the independent variables on the dependent variable (Fidell, 2001). Variance inflation factor (VIF) values were utilized to assess multicollinearity. According to Al Mandil (2016),Variance Inflation Factor (VIF) explains the amount of variability in the predictor variables that is not accounted by other predictor variables. When the VIF value is >4.0 , the predictor variable should be eliminated from the analysis due to multicollinearity. Alternatively, tolerance can be used as a substitute for the variance inflation factor (VIF) since tolerance is the reciprocal of VIF.

iv. Homoscedasticity Test

Homoscedasticity refers to a condition in which the variance of the errors (residuals) in a regression model is constant across all levels of independent variables. It occurs when an equal level of variance is maintained between predictor and outcome variables which can be tested using Levene's test, box plots, and scatter plots, among others (Al Mandil, 2016; Flatt & Jacobs, 2019; G. D. Garson, 2012). Violations of homoscedasticity can result in Type 1 errors. When using a scatter plot to test the homogeneity of variance, most points should concentrate around zero (Ernst & Albers, 2017; Flatt & Jacobs, 2019). This study utilized the scatter plot concept to examine the error term's constant variance. In this study, normal P-P scatter plot were utilized to test homoscedasticity. In this case, homoscedasticity was tested by use of visual examination on the scatter plot of the standardized residual by the standardized predicted values (Simiyu, Bonuke, & Komen, 2020). Homoscedasticity is indicated when the residuals are not evenly scattered around the horizontal line.

Model Specification

Model 1: $FP = \beta_0 + \beta_1 FirmAge + \beta_2 FirmSize + \varepsilon \dots \dots \dots R^2$

Model 1 was used to evaluate how much variance is explained by control variables.

Model 2: $FP = \beta_0 + C + \beta_1 ClanC + \beta_2 AdhC + \beta_3 MaC + \beta_4 HiC + \varepsilon \dots \dots \dots \Delta R^2$

In model 2, the independent variables were added to the first model to examine how much variance is explained by the independent variable while holding control variables constant.

Model 3: $FP = \beta_0 + C + \beta_1 ClanC + \beta_2 AdhC + \beta_3 MaC + \beta_4 HiC + \beta_5 FL + \varepsilon \dots \dots \dots \Delta R^2$

In Model 3, the model tested the variance accounted for by the moderator in the outcome variable while holding predictor variables and control variables constant.

$$\text{Model 4: FP} = \beta_0 + C + \beta_1 \text{ClanC} + \beta_2 \text{AdhC} + \beta_3 \text{MaC} + \beta_4 \text{HiC} + \beta_5 \text{FL} + \beta_6 \text{FL} * \text{ClanC} + \varepsilon$$

..... ΔR^2

This model tested the effect of the moderator (financial literacy) on clan culture and the outcome variable while controlling control variables, direct effects of the moderator and also other predictor variables (adhocracy, market and hierarchy culture)

$$\text{Model5: Y} = \beta_0 + C + \beta_1 \text{ClanC} + \beta_2 \text{AdhC} + \beta_3 \text{MaC} + \beta_4 \text{HiC} + \beta_5 \text{FL} + \beta_6 \text{FL} * \text{ClanC} + \beta_7 \text{FL} * \text{AdhC} + \varepsilon \dots \Delta R^2$$

This model 5 tested the effect of the moderator (financial literacy) on adhocracy culture and the outcome variable while controlling control variables, direct effects of the moderator and also other predictor variables (clan, market and hierarchy culture)

$$\text{Model6: Y} = \beta_0 + C + \beta_1 \text{ClanC} + \beta_2 \text{AdhC} + \beta_3 \text{MaC} + \beta_4 \text{HiC} + \beta_5 \text{FL} + \beta_6 \text{FL} * \text{ClanC} + \beta_7 \text{FL} * \text{AdhC} + \beta_8 \text{FL} * \text{MaC} + \varepsilon \dots \Delta R^2$$

This model tested the effect of the moderator (financial literacy) on market culture and the outcome variable while controlling control variables, direct effects of the moderator and also other predictor variables (adhocracy, clan and hierarchy culture)

$$\text{Model7: Y} = \beta_0 + C + \beta_1 \text{ClanC} + \beta_2 \text{AdhC} + \beta_3 \text{MaC} + \beta_4 \text{HiC} + \beta_5 \text{FL} + \beta_6 \text{FL} * \text{ClanC} + \beta_7 \text{FL} * \text{AdhC} + \beta_8 \text{FL} * \text{MaC} + \beta_9 \text{FL} * \text{HiC} + \varepsilon \dots \Delta R^2$$

This model 7 tested the effect of the moderator (financial literacy) on hierarchy culture and the outcome variable while controlling control variables, direct effects of the moderator and also other predictor variables (adhocracy, market and clan culture).

Where:

FP = Dependent variable (Financial Performance).

ClanC = Clan culture

AdhC = Adhocracy culture

MaC = Market culture

HiC = Hierarchy culture

FL = Moderator (financial literacy).

C = Control variables (Firm Age and Size)

X*FL = Moderation of financial literacy on organizational culture.

β_0 = Constants, **β_1 , β_2 , β_3 , β_4 , β_5 , β_6 , β_7 , β_8 , β_9** are parameters of estimate.

ε = Error term

Conditions for Moderation

For moderation to take place the following conditions are to be met; the difference between resultant R^2 after interaction should be more than the R^2 before interaction and must be significant, the resultant coefficient after interaction term should not be zero (0) and with or without interaction the overall model should be significant.

3.9 Ethical Considerations

A researcher must take ethical aspects into consideration in order to protect the informants when he is undertaking a study. The importance of ethical issues in research was acknowledged by ensuring the importance of observing the ethical issues such as integrity, honesty, confidentiality, and respondent's rights such as privacy and freedom of expression while giving information. Written permission to carry out research was granted by the University, and letters sent to the targeted respondents. The purpose of the study (academics) was explained to potential participants and given an explanation pertaining and the data collection process. They were allowed to ask questions and any

concerns raised by them regarding the data collection process addressed. It was clearly outlined that their participation is voluntary. The respondents were assured that their identity will remain anonymous as they were informed not to indicate their names on the questionnaire. By not revealing their names and identity in the data collection process, analysis and reporting of the study findings ensured anonymity and confidentiality of the participants. An introductory letter from the University and NACOSTI permit were obtained before collection of data.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Overview

The chapter entails analysis of data collected using the research tools discussed in the previous chapters. The chapter discusses the research findings' analysis, presentation, and interpretation. Therefore, this chapter presents the respondents' response rate, demographic features, and descriptive and inferential statistics.

4.1 Response Rate and Missing Data

The research focused on collecting data from owners/ managers of SMEs in Nandi County, Kenya. The sample size of the study was 376 respondents. Three hundred and seventy-six (376) questionnaires were dispatched to the respondents; however, out of 376, only three hundred and forty two (352) were collected from the field. Some respondents who did not return the questionnaires said they misplaced them, and others their shops were closed during collecting administered questionnaires. After screening the data gathered, only 344 questionnaires were well-filled, representing 92% of the total questionnaires administered. However, 8 were not completely filled and hence were dropped from the study, representing about 2 % of the issued questionnaires as displayed in Table 4.1. According to Kazzazi, Haggie, Forouhi, Kazzazi, and Malata (2018), above 50% response rate is considered viable for the study. The study had a 92% response rate; hence data collected was viable to proceed to the analysis.

Missing data is viewed as the observations in the data collection instrument that exist but have not been captured or captured and then lost (Simiyu et al., 2020). Missing data may cause bias and reduce the results' efficiency (Madley-Dowd, Hughes, Tilling, & Heron, 2019). The researcher and his assistants reduced the presence of missing values in the field by quickly cross-checking if all questionnaire items had been addressed upon receiving the questionnaire from the respondents. In cases where the questionnaire had not been filled well, the respondent's attention was drawn and asked to act on an unanswered question(s). In addition, before the beginning of data analysis, descriptive statistics, specifically frequency, were conducted to check if any missing values were missing during data entry, and any missing values were rectified immediately.

Table 4.1: Response Rate

| Categories | No. of questionnaires | Percentage% |
|---------------------------|------------------------------|--------------------|
| Effective Questionnaires | 344 | 92 |
| Unreturned Questionnaires | 24 | 6 |
| Returned and Defective | 8 | 2 |
| Total | 376 | 100 |

4.2 Demographic Information of Respondents

The section presents the demographic characteristic of the respondents of this research. The demographic information section is essential since it provides data concerning respondents and is necessary to decide whether the individuals in the study are representative samples of the targeted population for generalization purposes (Ray & Rubenstein, 2020). This section consists of demographic information such as, gender, age, highest level of education, firm size and firm age. The examination of 344

participants of this research in regard to gender, age, level of education, duration of business in operation, and size of the business measured by the number of employees is revealed by Table 4.2

4.2.1 Gender

The study sought to examine the gender of the participants to ensure fair engagement of participants in terms of their gender. The result of the study indicated that the ownership and management of the SMEs in Nandi County is gender sensitive as shown by Table 4.2. Male respondents were; 50.6% (n=174), while female was explained by 46.4% (n=170).

4.2.2 Respondent's Age

Table 4.2 below displays the age bracket in which the respondent in the sample size falls between. The researcher used different age groups to ensure the study comprised multiple opinions from different age brackets. The study's outcome revealed that most respondents were aged between 31-40 years, explained by 52% (n=179), followed by 33.1% of the participants aged between 21-30 years (n=114). The respondents aged 41 to 50 years were explained by 12.2% (n=42). The fourth respondent Category was those aged 51-60 years, representing 2.6%, (n=9). This portrays that majority of the respondents in this research were aged 40 years and below, representing 85.1% (n=293).

4.2.3 Level of Education

Individual's understandability of different issues can be explained by the level of education (Onyango, 2018; Otieno, 2016). The findings of the study showed that majority of the respondents had a diploma representing 33.1%, (n=114), 26.7 % (n=92) of the respondents in this study had a certificate, 23% (n=79) had a bachelor's degree whereas,

1.7% (n=6) had post graduate qualifications. The findings further revealed that all the respondents possessed at least a secondary level of education and they were able to understand and fill the questionnaires accurately. It also indicates that majority of the respondents had a relative understanding of predictor and outcome variables in regard to their respective organizations.

4.2.4 Firm Age

The study examined how long the enterprise has operated. The outcomes in Table 4.2 shows that most SMEs have operated between 5-10 years accounting for 45.1% (n=155), 36.9 % (n=127) of SMEs had operated for less than 5 years, while 14% (n=48) accounted for the enterprises that have been in operation for the period between 11 to 15 years. The study indicated only 14 out of 344 SMEs have been in operation for over 15 years accounting for 4.1% of all the respondents. This clearly reflects the high mortality rate of SMEs, which could be caused by non-adoption of effective organizational cultures, financial illiteracy, and unfavorable government policies, among other factors.

4.2.5 Firm Size

The study determined the number of enterprises operating at different levels of SMEs measured by the number of employees, as tabulated in Table 4.2. It was established that of the 344 respondents, SMEs with employees below 10 accounted for 49.1% (n=169), followed by those businesses with employees between 11-49, which represented 45.3 % (n=156). The ones with more than 50 employees were the least, scoring 5.5 % (n=19). It was revealed that there is a high rate of start-ups, but a minimal number of these enterprises grow to another level of SME's classes. This could result from poor financial

performance as measured by profitability, sales growth, and the enterprises' liquidity position.

Table 4.2: Demographic information of the Respondents

| Demographic Factor | | Frequency | Percentage % |
|---------------------------|--------------------|------------------|---------------------|
| Gender | Male | 174 | 50.6 |
| | Female | 170 | 49.4 |
| Total | | 344 | 100 |
| Age | 21-30 years | 114 | 33.1 |
| | 31-40 years | 179 | 52 |
| | 41-50 years | 42 | 12.2 |
| | 51-60 years | 09 | 2.6 |
| Total | | 344 | 100 |
| Level of Education | Secondary | 53 | 15.4 |
| | Certificate | 92 | 26.7 |
| | Diploma | 114 | 33.1 |
| | Degree | 79 | 23 |
| | Postgraduate | 06 | 1.7 |
| Total | | 344 | 100 |
| Firm age | Below 5 Years | 127 | 36.9 |
| | 5-10 Years | 155 | 45.1 |
| | 11-15 years | 48 | 14 |
| | Above 15 years | 14 | 4.1 |
| Total | | 344 | 100 |
| Firm size | Below 10 Employees | 169 | 49.1 |
| | 11-49 Employees | 156 | 45.3 |
| | Over50 Employees | 19 | 5.5 |
| Total | | 344 | 100 |

4.3 Descriptive Statistics for Variables.

The outcome, Predictor and moderator variables were subjected to descriptive statistics analysis (mean and standard deviation). The outcome variable was financial performance,

and predictor variables were clan, adhocracy, market, and hierarchical culture, whereas financial literacy in this study utilized as the moderator.

4.3.1 Descriptive Statistics for Financial Performance.

The financial performance, which is the predictor variable of the study, had two building blocks: profitability and growth in sales. The variable had seven measurement items presented on a Likert scale with five points. The results revealed that most of the businesses have increased sales turnover over the years; it had the highest mean of 4.5 and a standard deviation of 0.752 meaning that the deviation from the mean was within the acceptable range. The respondents are also in agreement that the annual average sales have been increasing over the years with a mean of 4.3 and a standard deviation of 0.806 signifying that the deviation from the mean was within the acceptable range. Other measurement items had above-average mean, indicating that questions were evenly responded to. However, the question of whether the business sales turnover had surpassed the targets over the years scored the least mean of 4.01 with a standard deviation of 0.966 showing that the deviation from the mean was within the acceptable range.

Table 4.3: Mean and Standard Deviation for Financial Performance.

| Measuring items | Mean | Std. Dev |
|---|-------------|-----------------|
| The sales turnover of the business has been improving over the years | 4.50 | .752 |
| The annual total sales of the business have been increasing over years | 4.30 | .806 |
| The SME realized higher output increasing gross profits | 4.26 | .829 |
| The average sales of the business have been increasing over years | 4.26 | .836 |
| The return on assets of the business has been increasing in the last three years. | 4.20 | .837 |
| The net profits of the business have been above the average | 4.11 | .849 |
| The business's sales turnover has surpassed the targets over the years. | 4.01 | .966 |

n=344 *Scale 1=Strongly Disagree; 5 Strongly Agree

4.3.2 Descriptive Statistics for Clan Culture.

Seven items were used to measure clan culture with four dimensions: mutual trust, teamwork, human resource development and commitment to the organization with the aid of the five Likert scale. Five Likert scale was used since it gives a variety of options, which increases the chance of meeting the objective reality of the respondent. Table 4.4 reveals that most of the participants of this study agreed that management approach is exemplified by teamwork, with a mean score of 4.42 and a standard deviation of 0.789 signifying that the deviation from the mean was within the acceptable range. This was followed closely with the measurement item indicating that emphasis on human resource development as one of the success factors, accounting for a mean score of 4.21 and a standard deviation of 0.817 showing that the deviation from the mean was within the acceptable range of 0.5-1.0. Other items that were used to measure clan culture were above the average mean, but most of the respondents were in disagreement that great

importance is given to commitment in the organization, scoring a mean of 4.09 and a standard deviation of 0.833 meaning that the deviation from the mean was within the acceptable range.

Table 4.4: Mean and Standard Deviation for Clan Culture.

| Measuring items | Mean | Std. Dev |
|---|------|----------|
| The management approach in our company is exemplified by teamwork. | 4.42 | .789 |
| Our company emphasizes human resource development as one of the success factors | 4.21 | .817 |
| The glue that binds our company together is mutual trust | 4.14 | .697 |
| The leadership in our organization exemplifies mentoring and nurturing characteristics. | 4.13 | .797 |
| Our company is an individual place like an extended family | 4.11 | .842 |
| Our organization defines achievement on the foundation of concern for employees | 4.10 | .840 |
| Great importance is given to commitment in our organization | 4.09 | .833 |

(2025) n=344 *Scale 1=Strongly Disagree; 5 Strongly Agree

4.3.3 Descriptive Statistics for Adhocracy Culture.

Table 4.5 below shows that majority of the respondents concurred that management of employees is characterized by promotion of individual initiative, represented by a mean score of 4.23 and a standard deviation of 0.849 showing that the deviation from the mean was within the acceptable range; additionally, the respondents also agree that stressful expansion and promptness to encounter any forthcoming challenges are vital, with a mean score of 4.20 and a standard deviation of 0.937 signifying that the deviation from the mean was within the acceptable range. Out of seven items measuring adhocracy culture, the data revealed that the measuring item “One of the strategic priorities in our organization is acquirement of latest resources.” scored the lowest, with a mean of 3.55

and a standard deviation of 1.126 signifying that the deviation from the mean was within the acceptable range.

Table 4.5 Mean and Standard Deviation for Adhocracy Culture.

| Measuring Items | Mean | Std. Deviation |
|---|-------------|-----------------------|
| The management of employees in our organization is characterized by promotion of individual initiative. | 4.23 | .849 |
| Our company stresses that expansion and promptness to counter any forthcoming challenges are vital. | 4.20 | .937 |
| In our organization, there is commitment to creation of new ways of providing services to customers | 4.20 | .945 |
| Operations in our organization are exemplified by entrepreneurship spirit. | 4.14 | .877 |
| In our organization, originality and search for opportunities are valued | 4.03 | .917 |
| The glue that binds our company together is obligation to originality and improvement. | 3.65 | 1.077 |
| One of the strategic priorities in our organization is the acquirement of latest resources. | 3.55 | 1.126 |

n=344 *Scale 1=Strongly Disagree; 5 Strongly Agree

4.3.4 Descriptive Statistics for Market Culture.

In Table 4.6, Statistics shows that most of the respondents accepted that “the glue that binds the business together is stress on goal achievement”, scoring the highest mean score of 4.26 and standard deviation of 0.82 signifying that the deviation from the mean was within the acceptable range. Moreover, there was agreement among the owners/managers of SMEs defines achievements on the foundation of increase in number of customers, garnering a mean of 4.22 and a standard deviation of 0.843. The item “organization measurement of targets and objectives is undertaken on regular basis” scored the lowest mean of 3.89 with standard deviation of 0.939 affirming that the deviation from the mean was within the acceptable range.

Table 4.6 Mean and Standard Deviation for Market Culture

| Measuring Items | Mean | Std. Deviation |
|---|------|-------------------|
| The glue that binds our company together is stress on goal achievement. | 4.26 | .820 |
| Our organization defines achievement on the foundation of increasing the number of customers | 4.22 | .843 |
| Management in our company is illustrated by having a results-oriented focus. | 4.12 | .852 |
| Managers and subordinates jointly set goals that are ambitious but realistic | 4.10 | .830 |
| Management style in our organization is characterized by goal achievement. | 4.08 | .867 |
| Management of employees in our company is exemplified by encouragement of a competitive spirit. | 4.00 | .847 |
| In our organizations, measurement of targets and objectives is undertaken on a regular basis. | 3.89 | .939 |

n=344 *Scale 1=Strongly Disagree; 5 Strongly Agree

4.3.5 Descriptive Statistics for Hierarchy Culture

In Table 4.7, the results indicates that majority of the SMEs will perform exemplary well if there is consistency between the values of its employees and the organization; this had the highest mean of 3.4 and a standard deviation of 1.394. The respondents also agree that most SMEs define achievement on the foundation of efficient service delivery with a mean score of 3.18 and standard deviation of 1.279 showing that the deviation from the mean was within the acceptable range. Other measurement items had an above-average mean, indicating that questions were evenly responded to. However, the item, “Management style in our company is exemplified by security of tenure” scored the least mean score of 2.57 and standard deviation of 1.143 signifying that the deviation from the mean was within the acceptable range.

Table 4.7 Mean and Standard Deviation for Hierarchy Culture

| Measuring Item | Mean | Std. Deviation |
|--|-------------|-----------------------|
| An organization will perform well if there is consistency between the values of its employees and the organization | 3.44 | 1.394 |
| Our organization defines achievement on the foundation of efficient service delivery | 3.18 | 1.279 |
| Teamwork in our company is depicted by operational competence. | 3.18 | 1.284 |
| The management approach in our company is illustrated by careful monitoring of performance | 3.12 | 1.286 |
| The glue that binds our company together is prescribed regulations. | 2.94 | 1.312 |
| The values shared by staff in our organization are respect for and compliance with policies. | 2.88 | 1.225 |
| Management style in our company is exemplified by security of tenure. | 2.57 | 1.143 |

n=344 *Scale 1=Strongly Disagree; 5 Strongly Agree

4.3.6 Descriptive Statistics for Financial Literacy.

Table 4.8 shows mean with standard deviation measuring items relating to financial literacy, which partakes the role of a moderator in the study. Financial literacy enhances profitability of the organization was the highest, with a mean of 4.43 and a standard deviation of 0.733 signifying that the deviation from the mean was within the acceptable range. Further the findings showed that majority of respondents agreed that financial knowledge enhances effective savings for the organization, getting a mean score of 4.34 and standard deviation of 0.836. However, the statement “Financial attitude enables the company to apply financial principles in order to create value.” had the lowest mean score of 3.86 and standard deviation of 1.039 showing that the deviation from the mean was within the acceptable range. This clearly indicates why some SMEs do not cut off from the rest by creating a competitive edge over the competitors

Table 4.8 Mean and Standard Deviation for Financial Literacy.

| Measuring Items | Mean | Std. Deviation |
|--|-------------|-----------------------|
| Financial literacy enhances profitability of the organization | 4.43 | .733 |
| Financial knowledge enhances effective savings for the organization. | 4.34 | .836 |
| Financial literacy is crucial for allocation of financial resources in the organization. | 4.33 | .832 |
| Financial literacy plays a key role in selecting funding options for our business operations. | 4.25 | .808 |
| Financial literacy plays a major role in the growth of our organization. | 4.24 | .801 |
| Financial knowledge enhances investment decisions in the organization for profit maximization. | 4.15 | .908 |
| Financial attitudes improve the profitability of the business through planning. | 4.14 | .915 |
| Financial literacy enhances investment options for the organization. | 4.06 | .958 |
| Financial attitude enables the company to apply financial principles in order to create value. | 3.86 | 1.039 |

n=344 *Scale 1=Strongly Disagree; 5= Strongly Agree

4.4 Reliability Test for the Research Instrument

According to U Sekaran (2016) reliability is the consistency with which a tool gauges a concept and supports it to approximate the goodness of a measure. Reliability of the information gathering instruments was evaluated by use of Cronbach's alpha. The results as displayed in Table 4.9 shows that clan culture, adhocracy culture, market culture, hierarchy culture, financial literacy and financial performance had a Cronbach's alpha of 0.870, 0.867, 0.703, 0.827, 0.919 and 0.784 respectively. All the variables thus had Cronbach's alpha coefficients above 0.7. Since the cumulative alpha coefficients were greater than 0.7, it was concluded that the instruments had an acceptable reliability coefficient and were suitable for the study.

Table 4.9: Reliability Results

| Variable | No. of Items | Cronbach's Alpha | Remarks |
|-----------------------|---------------------|-------------------------|----------------|
| Financial performance | 7 | 0.784 | Accepted |
| Clan culture | 7 | 0.870 | Accepted |
| Adhocracy culture | 7 | 0.867 | Accepted |
| Market culture | 7 | 0.703 | Accepted |
| Hierarchy culture | 7 | 0.827 | Accepted |
| Financial literacy | 9 | 0.919 | Accepted |
| Cumulative | 44 | 0.868 | Accepted |

4.5 Factor Analysis

The Kaiser-Meyer-Olkin (KMO) Measure is an index for comparing the magnitude of the observed correlation coefficients to the magnitude of the partial correlation coefficients. The probability associated with the Bartlett's test is < 0.001 which satisfies the requirement of having less than the significance level. Bartlett's test of sphericity is used to examine the hypothesis that the variables in the population correlation matrix are uncorrelated (Jim, 2008). Explanatory factor analysis was utilized, and Kaiser-Meyer-Olkin Measure of Sampling adequacy was 0.903 above the threshold of 0.6 as submitted by (Sarıçam, 2018). Bartlett's test sphericity must be significant for the suitability of data. The findings in Table 4.10 indicate that Bartlett's test sphericity was significant with a Chi-square of 6356.800, at (Df=820, P=.000). Given these tests, it clearly shows that data was valid to test for the hypotheses.

Table 4.10 KMO Results

| KMO and Bartlett's Test | | |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .903 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 6356.800 |
| | Df | 820 |
| | Sig. | .000 |

4.6 Total Variance Explained

Table 4.12 displays the variances and reveals that the 6 components explain 54.9% of the total variances in the variables included on the components. After rotation, each extracted factor has Eigen value greater than 1 and accounts for a different percentage of variance to the squared loadings. The "Rotation Sums of Squared Loadings" give the Eigen values after rotation and make the output more understandable and is necessary to enhance the interpretability of the factors (Kaiser, 1964).

The factor loading used was clustered into financial performance, clan culture, adhocracy culture, market culture, hierarchy culture and financial literacy. The result in Table 4.11 shows that 41 items resulted in six components. Component 1 was loaded as financial literacy with nine measuring items with an initial eigenvalue of 10.253, explained by a variance of 25.008. Component 2 as clan culture, seven items loaded under it with an eigenvalue of 3.574 and variances of 8.717. Component 3 as adhocracy culture with seven items and initial eigenvalue of 2.857 with variance of 6.968. Component 4 as hierarchy culture, seven items with initial eigenvalue of 2.28 and explained by a variance of 5.561, component 5 as financial performance, six items with an initial eigenvalue of

1.864 and a variance of 4.546. One item “The annual average sales of the business have been increasing over years” was removed from the study since they did not achieve the threshold of 0.5 and finally, market culture emerged as component 6 had an eigenvalue of 1.698 with a variance of 4.142 representing five items. Two items “Management of employees in our company is exemplified by encouragement of competitive spirit” and “In our organizations, measurement of targets and objectives is undertaken on regular basis” were removed from the study since they did not achieve the threshold of 0.5 Eigenvalue greater than 1 indicates that each factor can explain more variation than individual dimension. The table further revealed that the six components explain more than 54% cumulative variance.

Table 4.11 Total Variance Explained

| Component | Total | Initial Eigenvalues | |
|--------------------------|--------------|----------------------------|---------------------|
| | | % of Variance | Cumulative % |
| 1. Financial literacy | 10.253 | 25.008 | 25.008 |
| 2. Clan culture | 3.574 | 8.717 | 33.725 |
| 3. Adhocracy and culture | 2.857 | 6.968 | 40.693 |
| 4. Hierarchy culture | 2.280 | 5.561 | 46.254 |
| 5. Financial performance | 1.864 | 4.546 | 50.800 |
| 6. Market culture | 1.698 | 4.142 | 54.941 |

Table 4.12 Rotated Component Matrix

| Variable items | Component | | | | | |
|---|-----------|---|------|---|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 |
| The sales turnover of the business has been improving over the years | | | | | .672 | |
| The net profits of the business have been above the average | | | | | .654 | |
| The return on assets of the business has been increasing in the last 3 years. | | | | | .701 | |
| The average sales of the business have been increasing over years | | | | | .748 | |
| The business's sales turnover has surpassed the targets over the years. | | | | | .601 | |
| The SME realized higher output increasing gross profits | | | | | .699 | |
| The management approach in our company is exemplified by teamwork. | .624 | | | | | |
| The glue that binds our company together is mutual trust | .600 | | | | | |
| Our company emphasizes human resource development as one of the success factors | .711 | | | | | |
| Our company is an individual place like an extended family | .770 | | | | | |
| Leadership in our organization exemplifies mentoring & nurturing | .687 | | | | | |
| Great importance is given to commitment in our organization | .700 | | | | | |
| Our organization defines achievement on the foundation of concern for employees | .633 | | | | | |
| The management of employees in our organization is characterized by promotion of individual initiative. | | | .576 | | | |
| Operations in our organization are exemplified by entrepreneurship spirit. | | | .667 | | | |
| One of the strategic priorities in our organization is the acquirement of latest resources. | | | .698 | | | |
| The glue that binds our company together is obligation to originality & improvement. | | | .782 | | | |
| In our organization, originality and search for opportunities are valued | | | .599 | | | |
| Our company stresses that expansion and promptness to encounter any forthcoming challenges are vital. | | | .604 | | | |
| In our organization, there is commitment to creation of new ways of providing services to customers | | | .620 | | | |
| The glue that binds our company together is stress on goal achievement. | | | | | | .665 |
| Management in our company is illustrated by having results-oriented focus. | | | | | | .629 |
| Our organization defines achievement on the foundation of increasing the number of customers | | | | | | .714 |
| Managers and subordinates jointly set goals that are ambitious but realistic | | | | | | .688 |

| | |
|--|------|
| Management style in our organization is characterized by goal achievement. | .615 |
| The glue that binds our company together is prescribed regulations. | .742 |
| Management style in our company is exemplified by security of tenure. | .645 |
| Our organization defines achievement on efficient service delivery | .679 |
| Teamwork in our company is depicted by operational competence. | .664 |
| The management approach in our company is illustrated by careful monitoring of performance | .723 |
| The values shared by staff in our organization are respect for & compliance with policies. | .689 |
| An organization will perform well if there is consistency between the values of its employees and the organization | .739 |
| Financial literacy enhances profitability of the organization | .610 |
| Financial literacy enhances investment options for the organization. | .717 |
| Financial literacy is crucial for allocation of financial resources in the organization. | .807 |
| Financial literacy plays a major role for the growth of our organization. | .797 |
| Financial knowledge enhances effective savings for the organization. | .785 |
| Financial knowledge enhances investment decisions in the organization for profit maximization. | .612 |
| Financial attitude enables the company to apply financial principles to create value. | .738 |
| Financial literacy plays a key role in selecting funding options for our business operations. | .719 |
| Financial attitudes improve the profitability of the business through planning. | .713 |

4.7 Data Transformation

After component factor analysis data transformation was done using the remaining items that satisfied the required criteria by loading on only a single construct as expected in the study. Every construct from the questionnaire was measured using multiple items. The average of multi-items of each construct that was utilized in the final correlation and multiple regression analysis was essential. Financial performance of SMEs is the

dependent variable and is composed of six (6) items $(FP1+FP3+FP4+FP5+FP6+FP7)/6$. Clan culture is an independent variable in the study loaded all the seven (7) items $(CL1+CL2+CL3+CL4+CL5+CL6+CL7)/7$, Adhocracy culture is also an independent variable and loaded all seven items $(AD1+AD2+AD3+AD4+AD5+AD6+AD7)/7$, Market culture is the third independent variable and only loaded five items $(MA1+MA3+MA4+MA5+MA7)/5$, Hierarchy culture which is also an independent variable is composed of seven items $(HI1+HI2+HI3+HI4+HI5+HI6+HI7)/7$. Financial literacy which is the moderator in the study loaded all the nine measuring items $(FL1+FL2+FL3+FL4+FL5+FL6+FL7+FL8+FL9)/9$.

4.7.1 Descriptive Statistics for the Variables

Numerous measuring items through a structured questionnaire were posed to the identified respondents to measure each variable utilized in the study: financial performance, clan, adhocracy, market, hierarchy culture and financial literacy. The mean value of financial performance is 3.6909, explained by the standard deviation of 0.70925 with skewness and kurtosis of -0.928 and 0.635, respectively. The results further revealed that the clan culture scored a mean of 3.9279 and standard deviation of 0.88305 with Skewness of -1.123 and kurtosis of 0.828. The findings in Table 4.13 indicate adhocracy culture scored a mean of 4.0678 and standard deviation of 0.72285 and skewness and kurtosis of -1.146 and 1.687, respectively. The study's findings further indicated that market culture scored a mean of 3.2954 and standard deviation of 0.97344, accounting for the skewness of -0.376 and Kurtosis of -1.044. Hierarchy culture scored a mean of

3.2255, standard deviation of 0.92367, skewness of -0.121 and kurtosis of -0.906. Finally, this study revealed that financial literacy, which acts as a moderator, garnered a mean score of 3.8824 and a standard deviation of 0.64692, represented by skewness of -0.753 and kurtosis of 0.162. Generally, Table 4.13 illustrates that all variables used in the study had mean values with a standard deviation close to one; this indicates that, on average, the research participants had similar opinions regarding the measuring items and data drawn from a normal distribution population.

Table 4.13 Descriptive Statistics for the Variables

| Variables | N | Mean | Std.Dev | Skewness | Kurtosis |
|-----------------------|----------|-------------|----------------|-----------------|-----------------|
| Financial Performance | 344 | 3.6909 | .70925 | -.928 | .635 |
| Clan Culture | 344 | 3.9279 | .88305 | -1.123 | .828 |
| Adhocracy Culture | 344 | 4.0678 | .72285 | -1.146 | 1.687 |
| Market Culture | 344 | 3.2954 | .97344 | -.376 | -1.044 |
| Hierarchy Culture | 344 | 3.2255 | .92367 | -.121 | -.906 |
| Financial Literacy | 344 | 3.8824 | .64692 | -.753 | .162 |

4.8 Correlation Analysis

Correlation analysis is a technique of assessing the relationship between variables. The study analyzed the associations that are inherent among the independent, dependent variables and moderator variables and their results presented in Table 4.14.

Findings revealed that financial literacy was significantly associated with financial performance of SME ($r = 0.652$, $p=0.01$). Further, clan culture was positively and significantly correlated to financial performance of SMEs ($r = 0.608$, $p=0.01$). Moreover,

hierarchy culture was positively correlated with financial performance of SMEs ($r = 0.540, p=0.01$). Besides, adhocracy culture was positively and significantly associated with performance of SMEs ($r = 0.520, p=0.01$). Additionally, market culture and financial performance of SMEs had the weakest link but were positively correlated with financial performance of SMEs ($r = 0.501, =0.01$). The table further revealed no multicollinearity problem.

Table 4.14 Pearson Correlation Analysis

| Variable (n=344) | 1 | 2 | 3 | 4 | 5 | 6 |
|-----------------------|--------|--------|--------|--------|--------|---|
| Financial Performance | 1 | | | | | |
| Clan Culture | .608** | 1 | | | | |
| Adhocracy Culture | .520** | .493** | 1 | | | |
| Market Culture | .501** | .461** | .265** | 1 | | |
| Hierarchy Culture | .540** | .471** | .329** | .712** | 1 | |
| Financial Literacy | .652** | .562** | .437** | .456** | .425** | 1 |

** Correlation is significant at the 0.01 level (2 Tailed)

4.9 Diagnostic Test

Before fitting a regression model, it is important to find out whether all the regression model assumptions are valid before performing inferences. Regression analysis is a statistical tool for estimating the relationship among variables with reason and result relation (Uyanık & Güler, 2013). Frequently, regression analysis is run to examine the correlations between constructs that have cause-and-effect relations and also for prediction purposes (Gogtay, Deshpande, & Thatte, 2017; Uyanık & Güler, 2013). It is essential to run suitable model diagnostics before conducting statistical tests. Diagnostic procedures allow a researcher to interrogate whether the suppositions of a regression

model are valid so as to make a decision on the validity of subsequent inference results (Brooks, 2014). The diagnostic tests carried out in this study were linearity, normality, multicollinearity and homoscedasticity. When these regression assumptions are not achieved, the study will likely be inaccurate, and the researcher may make wrong inferences due to type 1 type 11 errors. To avoid the aforementioned consequences, the researcher checked for regression assumptions before testing the hypotheses, as discussed below.

4.9.1 Linearity

Linearity in multiple regressions shows the extent to which a variation in the outcome variable is associated with the predictor variable. Previous studies have proven that if the relationship between predictors and outcome variables is not linear in nature then will result in wrong inferences (Al Mandil, 2016; Casson & Farmer, 2014; Ernst & Albers, 2017). To test the assumption of linearity, the researcher utilized scatter plots by visual inspection of p-p plots to verify whether the variables were linearly related, as submitted by (Casson & Farmer, 2014). The linearity assumption of regression is met when the association between variables is linear, and the scatter plot score is represented by a straight line rather than a curve (Al Mandil, 2016; Hickey, Kontopantelis, Takkenberg, & Beyersdorf, 2019). **Figure 4.1** indicates that scatter plots are clustered around the trend line in a linear form, indicating that there is a positive between the variables; hence the assumption of linearity of variables has been fulfilled.

Normal P-P Plot of Regression Standardized Residual

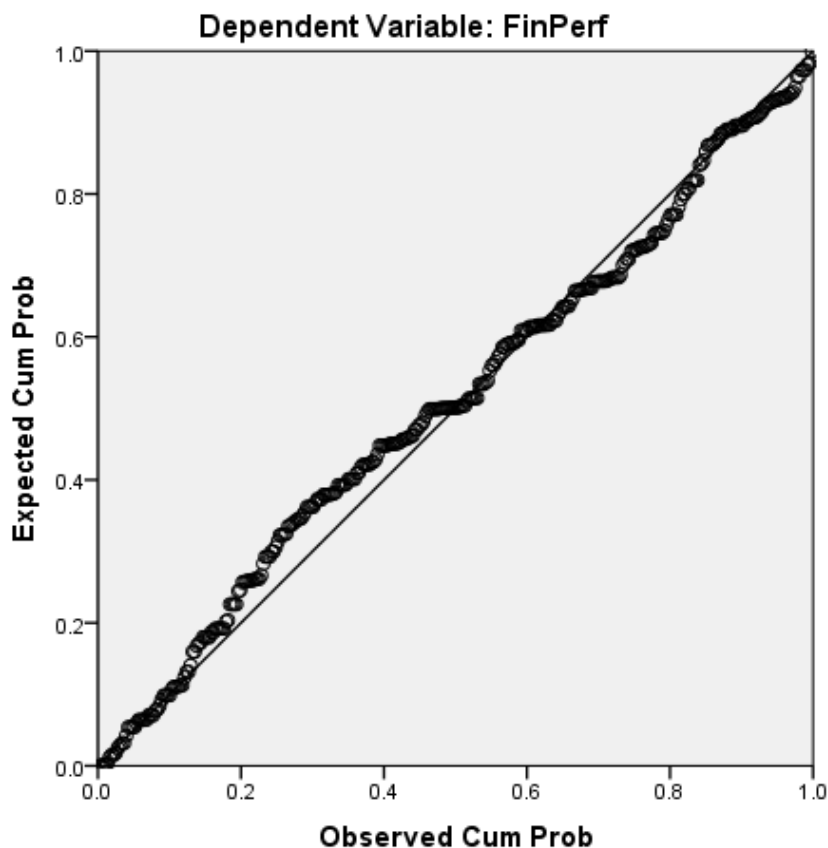


Figure 4.1: Test for linearity

4.9.2 Normality Test

The fundamental assumption in regression analysis is the normality of the residuals in the dependent variable in order to take a broader view of results of research beyond the sample collected (Field, 2009). In statistics, it is tradition to believe or assume that observations are normal. To test for the normality in this study, the researcher adopted Skewness, kurtosis, and histograms as suggested by (Oppong & Agbedra, 2016; Uttley, 2019). **Figure 4.2** shows that data used in this research was drawn from a normally distributed population; this is evident by the bell-shaped curve as advocated by (Das & Imon, 2016).

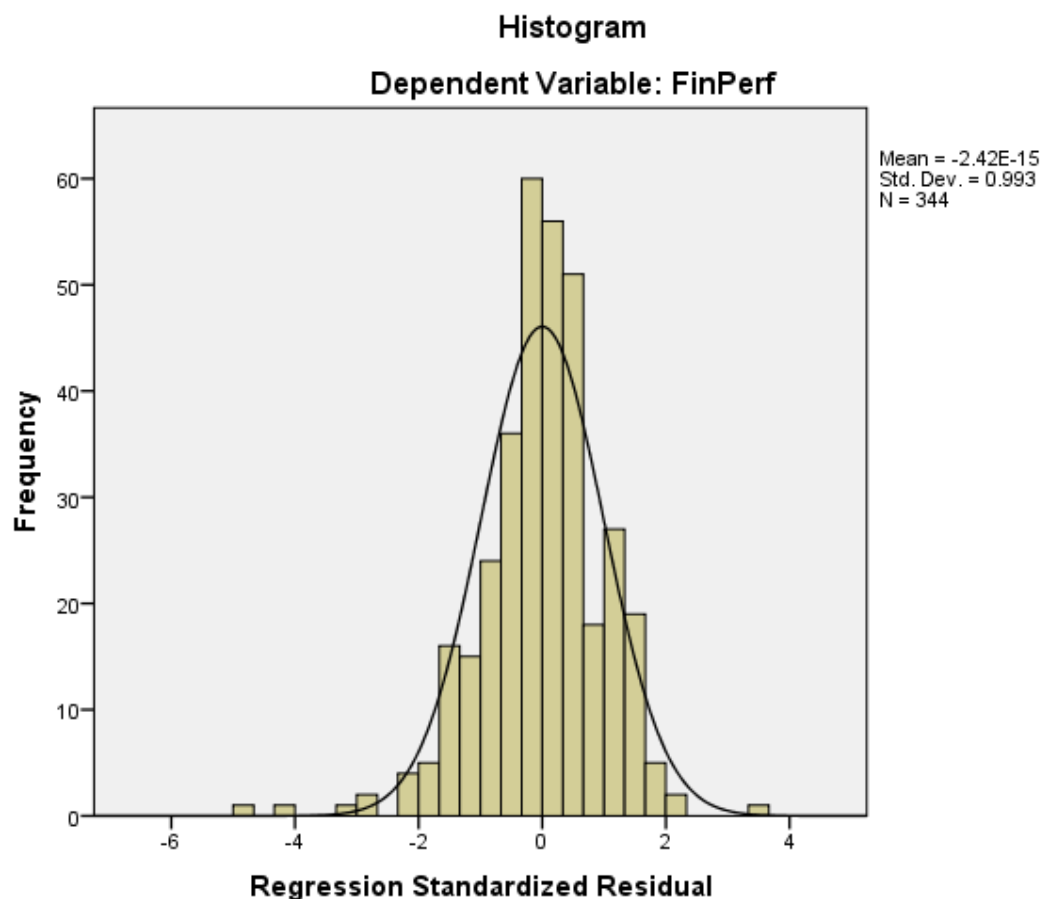


Figure 4.2: Normality Test

Normality assumption was further tested using Skewness and kurtosis. Skewness characterizes the degree of given distribution around the mean, whereas kurtosis is perceived to be the peakness or flatness of a distribution compared with a normal distribution (Čisar & Čisar, 2010; G. D. Garson, 2012; Mishra et al., 2019). As a rule of thumb, skewness, and kurtosis should range between +2 to -2. (G. D. Garson, 2012). The result in Table 4.15 shows skewness and kurtosis, indicating that data was normally distributed with skew values ranging from -0.121 to -1.146. Kurtosis values were also within the acceptable margin, ranging from 1.687 to -1.044.

Table 4.15 Normality test

| Variables | Skewness | Kurtosis |
|-----------------------|-----------------|-----------------|
| Financial Performance | -.928 | .635 |
| Clan Culture | -1.123 | .828 |
| Adhocracy Culture | -1.146 | 1.687 |
| Market Culture | -.376 | -1.044 |
| Hierarchy Culture | -.121 | -.906 |
| Financial Literacy | -.753 | .162 |

4.9.3 Testing for Homoscedasticity

Homoscedasticity occurs when an equal level of variance is maintained between predictor and outcome variables which can be tested using Levene's test, box plots, and scatter plots, among others (Al Mandil, 2016; Flatt & Jacobs, 2019; G. D. Garson, 2012). Violations of homoscedasticity can result in Type 1 errors. When using a scatter plot to test the homogeneity of variance, most points should concentrate around zero (Ernst & Albers, 2017; Flatt & Jacobs, 2019). This study utilized the scatter plot concept to examine the error term's constant variance. Figure 4.3 reveals that standardized residual values quoted against standardized predicted values are scattered around zero, showing that the assumption of homoscedasticity has been met.

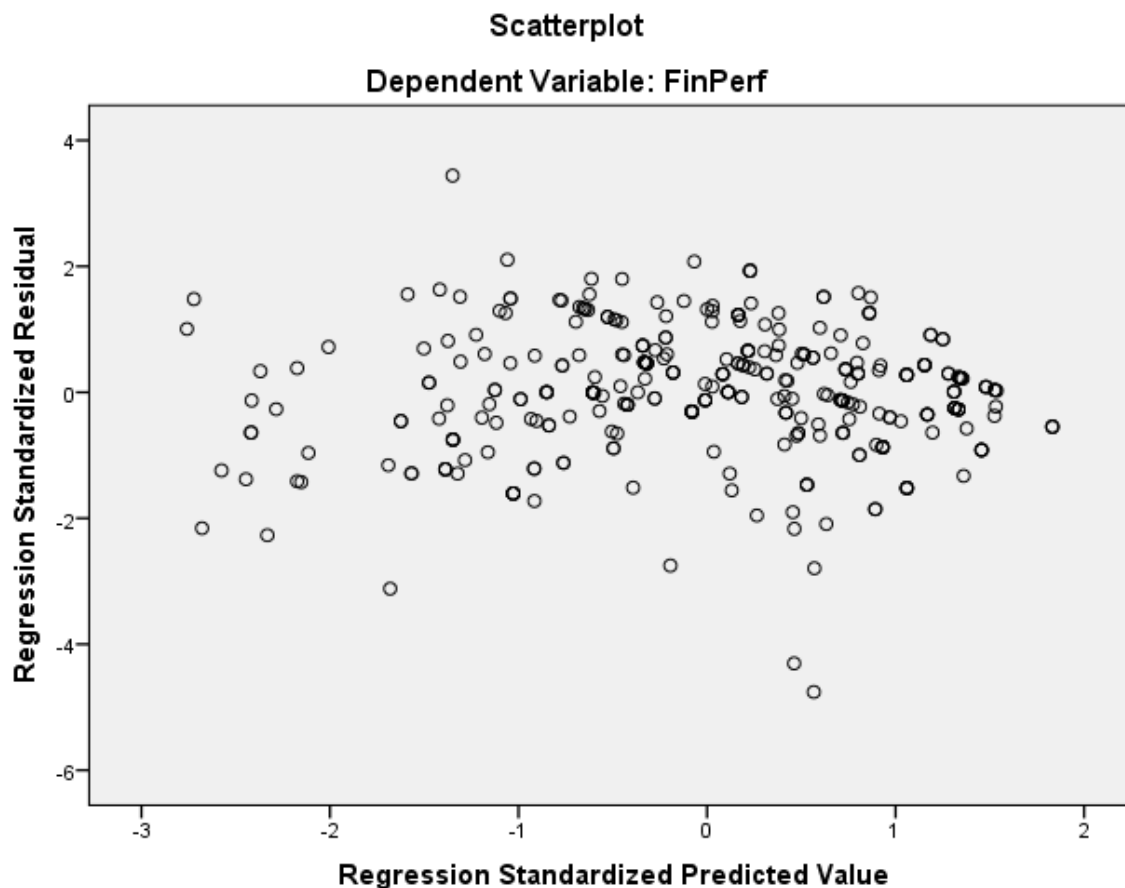


Figure 4.3 Homoscedasticity Test

4.9.4 Multicollinearity Test

Multicollinearity occurs when two or more independent variables are highly correlated and provide redundant information about a response. The presence of multicollinearity results in an increase in standard error of coefficients, nonsensical parameter estimates and reduces reliability (Muriuki & Ombaba, 2018). Multicollinearity was tested using the Variance Inflation Factor (VIF), as suggested (Al Mandil, 2016; Hickey et al., 2019). Many scholars (Al Mandil, 2016; Daoud, 2017; G. Garson, 2012; Hickey et al., 2019), suggested that to ensure the absence of multicollinearity, VIF values should be < 4.0 .

Table 4.16 indicates that VIF values are < 4.0 , demonstrating that variables are optimally correlated and hence there are no multicollinearity problems in this study.

Table 4.16: Multicollinearity Test

| Variables | Collinearity Statistics | |
|--------------------|-------------------------|-------|
| | Tolerance | VIF |
| Clan Culture | .543 | 1.841 |
| Adhocracy Culture | .691 | 1.447 |
| Market Culture | .446 | 2.243 |
| Hierarchy Culture | .460 | 2.175 |
| Financial Literacy | .541 | 1.847 |

4.10 Hypothesis Testing

Hypothesis testing is a technique used to examine a possible conclusion from two different and likely conflicting hypotheses (null and alternative Hypothesis) (Ilakovac, 2009). The study examined seven formulated hypotheses at a 5% significant level and 95% confidence interval. The study also applied the concept of p-value to test the hypothesis. P- Value indicates the degree to which the data conforms to the pattern predicted by the test hypothesis and all the other assumptions used in the test. P- value less than or equal to 0.05 means that the tested hypothesis is false and should be rejected; however, if $p > 0.05$, it indicates that the test hypothesis is true and should be accepted (Greenland et al., 2016). Moreover, the beta coefficient from the statistical model shows the slope, which describes the relationship between variables. Before testing the

hypothesis, the researcher checked for model fit, as shown in **Table 4.17** which was significant at ($p \leq 0.05$)

4.10.1 Results for Direct Effects of Control Variables on Financial Performance of SME's.

A hierarchical regression model was utilized to test control variables thus, Results in Table 4.17 indicate that firm age ($\beta = 0.136$, $p=0.045$) had a significant effect on SME's financial performance while firm size ($\beta=0.012$, $p= 0.898$) was found to be insignificant.

The result in Table 4.17 further portrayed that control variables had R^2 of 0.12 and ΔR^2 of 0.12 and the model was significant at $p \leq 0.001$, $F=2.145$. This indicates that control variables explain 1.2% variations in financial performance of SME's.

4.10.2 Effect of Predictor Variables on Financial Performance of SME's (H₀₁, H₀₂, H₀₃, H₀₄).

Model 2 of the Table 4.17 shows the inclusion of independent variables in statistical analysis to test the direct effect of clan culture, adhocracy culture, market culture and hierarchy culture as displayed in H₀₁, H₀₂, H₀₃ and H₀₄ while holding control variables (firm age and size) constant. The study's results in Table 4.17, Model 2 shows that the model fit is $F = 86.339$ and significant at $p = 0.000$. It implies that all predictor variables significantly affect financial performance. The $R^2 = 0.512$ reveal that all the variables in this model explains 51.2% of the variance in financial performance of SME's. However, the $\Delta R^2 = 0.500$ shows that when control variables are held constant, the 4 independent variables account for 50% of the variance in financial performance of SME's.

Additionally results in Table 4.17, Model 2 shows that Clan Culture ($\beta=.322$, $p=.000$) Adhocracy Culture ($\beta=.255$, $p=.000$) Market Culture ($\beta=.140$, $p=.012$) and finally, Hierarchy Culture ($\beta=.200$, $p=.000$); significantly and positively influence financial performance based on the statistical evidence, the researcher therefore rejects all null hypotheses (H_{01} , H_{02} , H_{03} and H_{04}).

4.10.3 Effects of Financial Literacy on Financial Performance of SME's (H_{05}).

The study tested the direct effect of financial literacy on financial performance by holding controls and predictor variables constant. The results in Table 4.17, Model 3 indicates model fit where F- statistics =59.311 the model was significant at $p\leq 0.05$. The results of the study revealed that the association between financial performance and financial literacy had a coefficient of determination R^2 of 0.585 indicating that all the variables in this Model 3 accounts for 58.5% of the variance in the financial performance of SME's. The $\Delta R^2 = 0.073$ indicates that when all factors are held constant, Financial Literacy explains 7.3% of the variance in Financial Performance of SME's.

The results in Table 4.17, Model 3 further reveal that involvement of financial literacy in direct effect had unstandardized coefficient $\beta = 0.351$ and $p = 0.000$ which met the decision criteria $p\leq 0.05$ as submitted by McLeod (2021). Since the statistical model was significant, we rejected the null hypothesis. Thus, financial literacy significantly affects the financial performance of SMEs.

4.10.4 Moderating Effect of Financial Literacy on the relationship between Clan Culture and Financial Performance of SME's (H_{06a}).

Model 4, in Table 4.17 displays that the moderator (financial literacy) was introduced to moderate the association between clan culture and financial performance while holding constant control variables. Results in Table 4.17 show that Model 4 had $R^2 = 0.618$ implying that all the variables in this Model explain 61.8% of the variance in Financial Performance of SME's. The result further shows an increment in the $\Delta R^2 = 0.032$ indicating that the moderation process accounts for 3.2% of the variance in financial performance. Additionally, the F- statistics produces 28.425, $p \leq 0.01$. Thus, confirming the model fits with the inclusion of the moderator. The results revealed that financial literacy moderates the association between clan culture and financial performance. Based on the results displayed in Table 4.17, where $\beta = -.157$, $p = 0.000$, **H_{06a}** is therefore rejected. These results are further illustrated by Figure 4.4 which reveals that at low levels of clan culture in an organization, Financial Performance is high with high financial literacy levels. As a firm embraces clan culture, there is an increase in financial Performance(3.084 to 4.224) and vice-versa. Therefore, financial literacy acts as a remedy for low clan culture situation in a business entity .

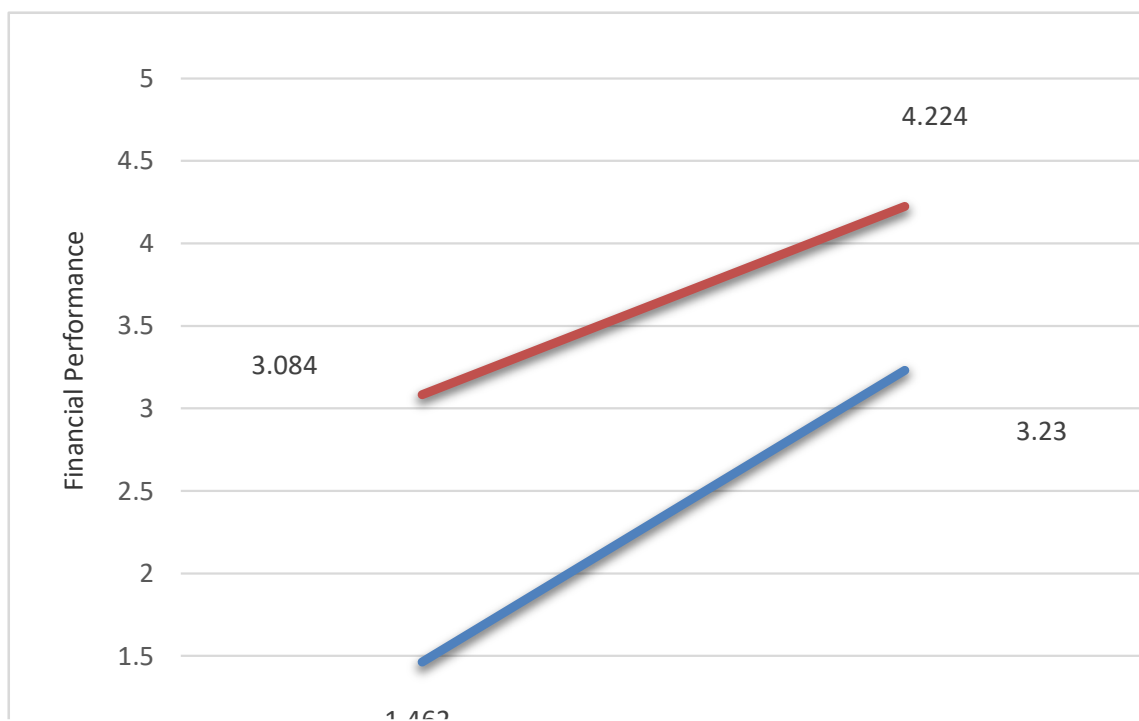


Figure 4.4: The Moderation of Financial Literacy on Clan Culture and Financial Performance

4.10.5 Moderating Effect of Financial Literacy on the Relationship Adhocracy Culture and Financial Performance of SME's (H_{06b}).

The results in Table 4.17 Model 5 indicates that a moderator's involvement in the interaction between adhocracy culture and financial performance indicates F-statistics = 6.511, thus confirming the model fit with the inclusion of the moderator which was significant at $p \leq .05$. The result in Table 4.17 Model 5 further shows that the interaction among variables had a coefficient of determination $R^2 = 0.625$ implying that all the variables in this Model explains 62.5% of the variance in Financial Performance. The result further shows an increment in the variance of $\Delta R^2 = 0.007$ indicating that the moderation process accounts for 0.7% variance in financial performance. The results also reveal that the introduction of a moderator between the variables had $\beta = 0.156$ and $p =$

0.011 which is within the acceptable range. Therefore, the relationship was significant; hence, the null hypothesis was rejected. These findings are further explained by Figure 4.5 which indicates that at low levels of adhocracy culture in a firm, Financial Performance is high with high adoption of Financial Literacy. As Adhocracy culture increases, Financial Performance increases in a firm that embraces Financial Literacy (High Financial Literacy from 3.2 to 3.9) and no change in Financial Performance in a firm that doesn't embrace (Low levels of Financial Literacy) as shown by a score of 2.37 to 2.4. Hence, in this case Financial Literacy is a solution for low levels of Adhocracy culture.

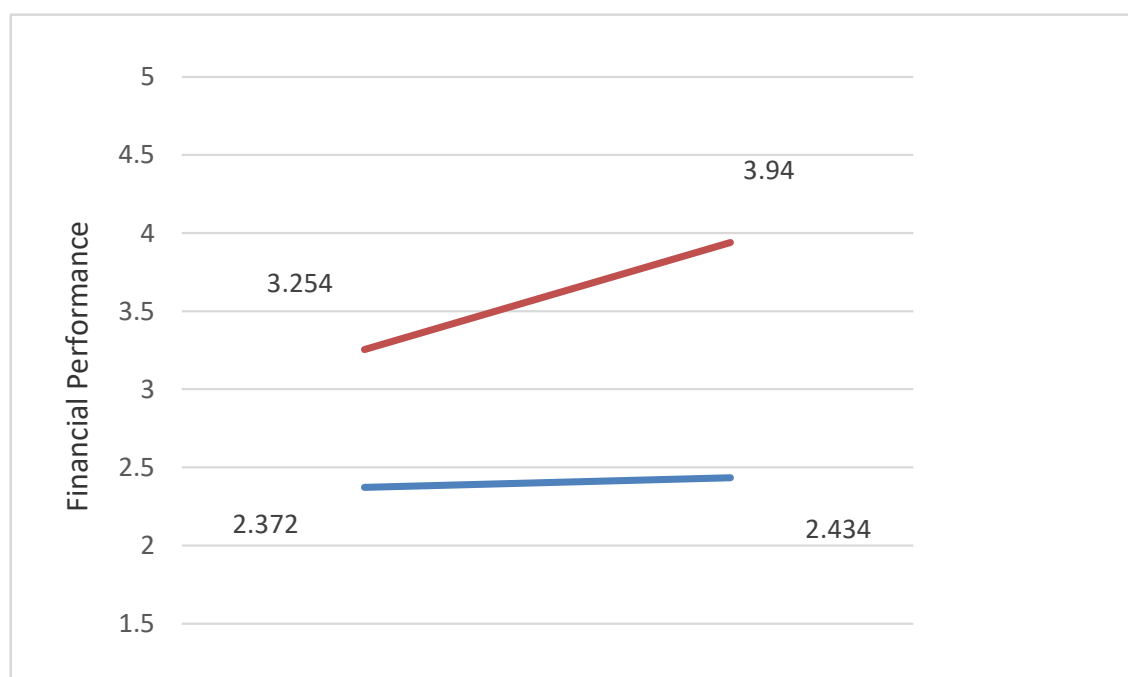


Figure 4.5: The Moderation of Financial Literacy on Adhocracy Culture & Financial Performance.

4.10.6 Moderating Effect of Financial Literacy on the Relationship between Market Culture and Financial Performance of SME's (H_{06c}).

In Table 4.17, Model 6, the study tested the moderating effect of financial literacy on the relationship between market culture and financial performance. Before testing the hypothesis, the researcher checked for model fit, and the results in Table 4.17 indicated that F-statistics = 0.162 and p= 0.688. The results in Table 4.17 show an $R^2 = 0.625$ with an incremental variance $\Delta R^2 = 0.000$ explaining the financial performance. The finding in Table 4.17 further revealed an insignificant moderating effect of financial literacy on market culture and financial performance of SMEs evident by $\beta = -0.029$, $P=0.688$; thus, the study failed to reject the null hypothesis.

4.10.7 Moderating Effect of Financial Literacy on the Relationship between Hierarchy Culture and Financial Performance of SME's(H_{06d}).

From Table 4.17, Model 7 tested the moderating effect of financial literacy on hierarchy culture and financial performance of SMEs while controlling the moderator, control variables and predictor variables. The findings in Table 4.17, moderator's interaction between hierarchy culture and financial performance indicates F-statistics = 4.968 which was significant at $p < .05$. This indicates that the model is fit for testing the moderating effect of financial literacy involvement on the relationship between hierarchy culture and financial performance. The result in Table 4.17 further shows that the interaction among variables had coefficient of determination $R^2 = 0.631$ implying that all the variables in this Model explains 63.1% of the variance in Financial Performance. The result further shows an increment in the variance of $\Delta R^2 = 0.006$ indicating that the moderation process accounts for 0.6% of the variance in financial performance.. The results also reveal that

the interaction of the moderator (financial literacy) on the relationship between hierarchy culture and Financial Performance had $\beta = -0.186$ and $p = 0.026$ which is within the acceptable range. Therefore, the relationship was significant; hence, the null hypothesis was rejected.

This findings are further illustrated by Figure 4.6 which reveals that the interaction term of Financial Literacy between these variables gives an increase in Financial Performance as higher levels of Financial Literacy increases the score of Financial Performance from 2.95 to 4.28, hence the higher the Financial Literacy the higher the Financial Performance and vice-versa.

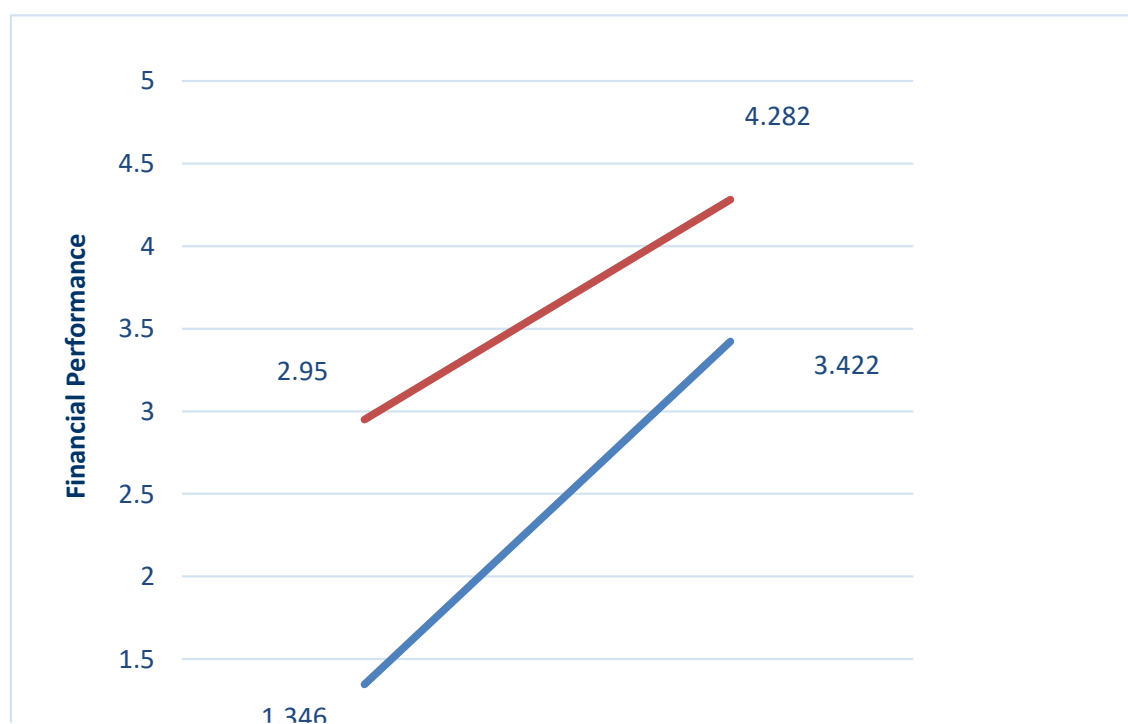


Figure 4.6: The Moderation of Financial Literacy on Hierarchy Culture and Financial Performance.

Table 4.17 Hierarchical Regression Results

| Variable | Model 1 | | Model 2 | | Model 3 | | Model 4 | | Model 5 | | Model 6 | | Model 7 | |
|----------------|---------|------|-----------|------|-----------|------|-----------|------|----------|------|----------|------|----------|------|
| | B | P-v | β | P-v | β | P-v | β | P-v | B | P-v | β | P-v | β | P-v |
| Constant | -.271 | .136 | -.183 | .156 | -.200 | .093 | 2.255*** | .000 | 1.797*** | .000 | 1.810*** | .000 | 1.937*** | .000 |
| Firm Age | .136* | .045 | .052 | .285 | .021 | .638 | .035 | .416 | .039 | .364 | .038 | .369 | .032 | .452 |
| Firm Size | .012 | .898 | .056 | .392 | .103 | .088 | .086 | .138 | .077 | .180 | .078 | .180 | .080 | .163 |
| ClanC | | | .322*** | .000 | .201*** | .000 | .727*** | .000 | 1.128*** | .000 | 1.058*** | .000 | .983*** | .000 |
| AdhC | | | .255*** | .000 | .186*** | .000 | .223*** | .000 | -.184 | .262 | -.188 | .254 | -.223 | .176 |
| MaC | | | .140* | .012 | .071 | .174 | .102* | .043 | .092 | .068 | .201 | .465 | -.272 | .432 |
| HiC | | | .200*** | .000 | .183*** | .000 | .190*** | .000 | .187*** | .000 | .183*** | .000 | .852** | .005 |
| FL | | | | | .351*** | .000 | .654*** | .000 | .597*** | .000 | -.172*** | .000 | .616*** | .000 |
| ClanC*FL | | | | | | | -.157*** | .000 | -.287*** | .000 | -.047*** | .001 | -.241** | .003 |
| AdhC*FL | | | | | | | | | .156* | .011 | .022* | .010 | .174** | .005 |
| MaC*FL | | | | | | | | | | | .106 | .688 | .094 | .297 |
| HiC*FL | | | | | | | | | | | | | -.186* | .026 |
| R ² | .012 | | .512 | | .585 | | .618 | | .625 | | .625 | | .631 | |
| ΔR^2 | .012 | | .500 | | .073 | | .032 | | .007 | | .000 | | .006 | |
| F | 2.145 | | 86.339*** | | 59.311*** | | 28.425*** | | 6.511* | | .162 | | 4.968* | |

Note: significant *p \leq .05; **p \leq .01; ***p \leq .001, ClanC=Clan Culture, AdhC=Adhocracy Culture, MaC=Market Culture, HiC= Hierarchy Culture, FL= Financial Literacy.

Table 4.18: Summary of Hypotheses Test Results

| | Hypothesis | β | P-value | Decision Rule |
|--------------|---|---------------------------|----------------|--------------------------------|
| H01: | Clan culture has no significant effect on financial performance of Small and Medium Enterprises in Nandi County, Kenya | .322 | .000 | Rejected since $p < .05$ |
| H02: | Adhocracy culture has no significant effect on financial performance of Small and Medium Enterprises in Nandi County, Kenya | .255 | .000 | Rejected since $p < .05$ |
| H03: | Market culture has no significant effect on financial performance of Small and Medium Enterprises in Nandi County, Kenya | .140 | .012 | Rejected since $p < .05$ |
| H04: | Hierarchy culture has no significant effect on financial performance of Small and Medium Enterprises in Nandi County, Kenya | .200 | .000 | Rejected since $p < .05$ |
| H05: | Financial literacy has no significant effect on financial performance of Small and Medium Enterprises in Nandi County, Kenya | .351 | .000 | Rejected since $p < .05$ |
| H06a: | Financial literacy has no moderating effect on the relationship between Clan culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya. | -.157 | .000 | Rejected, since $p < .05$ |
| H06b: | Financial literacy has no moderating effect on the relationship between Adhocracy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya. | .156 | .011 | Rejected since $p < .05$ |
| H06c: | Financial literacy has no moderating effect on the relationship between Market culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya. | -.029 | .688 | Fail to reject since $p > .05$ |
| H06d: | Financial literacy has no moderating effect on the relationship between Hierarchy culture and financial performance of Small and Medium Enterprises in Nandi County, Kenya. | -.186 | .026 | Rejected since $p < .05$ |

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Overview

This chapter summarizes the research findings, discussion, conclusion, and recommendations for future research.

5.1 Summary of the Research Findings

The general objective of the study was to determine the moderating effect of financial literacy on organizational culture and financial performance of SMEs in Nandi County, Kenya. The Organizational culture had four constructs namely; clan, adhocracy, market and hierarchy cultures that were directly linked to the outcome variable (financial performance) then the moderator (financial Literacy) was introduced in the relationship between predictor variables and outcome variables. Before testing the hypotheses, the research assessed the impact of the control variables on the outcome variable. The outcomes indicated that control variables (firm age and firm size) had an R^2 of 0.012; this implied that control variables explained 1.2% of the variance in financial performance. Thus, to make the right inference, covariates were controlled in this study. The study findings further indicate that clan culture ($\beta = 0.322$, $p=0.000$), adhocracy culture ($\beta = 0.255$, $p=0.000$), market culture ($\beta=0.140$, $p=0.012$) and hierarchy culture ($\beta = 0.200$, $p = 0.000$) all have a significant and direct effect on the financial performance of SMEs. Also, the results have shown that financial literacy had a significant direct effect on financial performance ($\beta=0.351$, $p=0.000$).

Additionally, the research sought to analyze the moderating effect of financial literacy on the association between clan culture, adhocracy culture, market culture, and hierarchy culture and financial performance of SMEs. The outcomes of the research revealed that financial literacy moderates the link between clan culture and financial performance ($\beta = -0.157$, $p = 0.000$), adhocracy culture and financial performance ($\beta = 0.156$, $p = 0.011$), and hierarchy culture and financial performance ($\beta = -0.186$, $p = 0.026$). Therefore, from the above evidence, null hypotheses were rejected, except market culture and financial performance ($\beta = -0.029$, $p = 0.688$) which had a p value > 0.05 thus making it insignificant.

5.2 Discussions

This section reviews how this study relates to prior researches.

5.2.1 Effect of Clan Culture on Financial Performance of SME's.

The first objective of the study was to examine the effects of clan culture on financial performance of SMEs. The study revealed that clan culture had a strong significance on financial performance of SMEs, ($\beta=0.322$, $p=0.000$).

The result is in agreement with previous studies done by other scholars. For instance, found out that clan culture is significantly related to firm's performance. They also argued that the main factors behind the positive relationship are; loyalty, devotedness and traditions. Clan culture portrays several characteristics in the workplace that are likely to have a significant effect on a firm's productivity results. Typical examples of clan culture are the Successful Japanese companies with effective team structure (Berrio, 2003).

Felipe et al. (2017) undertook a study to examine the effects of organizational culture values on organizational agility on Spain-based firms. The findings revealed that clan culture had a positive significant effect on enterprise performance.

The research by Cheng, Hua, and Wang (2023) examined the effects of clan culture on private-sector financial and social performance, based on data from China's 2007 Annual Census on Industrial Enterprises. The findings showed that clan culture affects financial performance but enhances social performance thus in concurrence with the outcomes of this study. Cheng et al. (2023) found that clan culture significantly improves task and contextual performance. M. C. Lee and Ding (2024) also found a positive correlation between clan culture and job success.

5.2.2 Effect of Adhocracy Culture on Financial Performance of SME's.

The second objective of the study was to establish the effects of adhocracy culture on financial performance of SMEs. The indicators of adhocracy culture taken into consideration were, promotion of individual initiative, entrepreneurial leadership and acquisition of new resources. The results portrayed that adhocracy culture had significant effect on financial performance of SMEs ($\beta = 0.255$, $p=0.000$). The outcomes therefore amplified that adhocracy culture had a significant impact on financial performance of SMEs.

The findings concurs with the study by Joseph and Kibera (2019) that reported that adhocracy culture is significantly related to organizational performance. Fekete and Bocskei (2011) found that adhocracy culture influences economic outcomes of companies. Examples of adhocracy culture are organizations transacting business over

the internet which is nowadays defined as new economy and use of advanced technology. Naranjo-Valencia et al. (2016) revealed a positive effect involving adhocracy type of culture and firm productivity. This is in line with prior related studies that have labelled agile organizations as highly flexible and adaptive. This finding also fits with prior studies' empirical support of adhocracy culture being an important precondition for organizational performance success (Matzler et al., 2013).

Tansoo and Tuntrabundit (2018) looked at how adhocracy culture affects SMEs' performance. Seven SMES owners who were honored with Thailand's SMEs National Awards were interviewed in-depth to gather data. Data from 201 entrepreneurs were gathered using questionnaires. The findings showed that adhocracy culture directly affects performance. . However, the results contradict Misigo, Were, and Odhiambo (2019) study, which found that companies perform worse when an adhocracy culture is present.

5.2.3 Effect of Market Culture on Financial Performance of SME's.

The third purpose of this study was to determine the effects of market culture on the financial performance of SMEs. The indicators of market culture taken into consideration were goal achievement, competitive spirit and results-oriented leadership. The results indicate that market culture had a significant influence on financial performance of SMEs in Nandi County, Kenya. ($\beta=0.140$, $p=0.012$).

This study supports previous studies which have shown that market type of culture has a direct effect on financial performance. For instance, in a research conducted by Aketch et

al. (2017) on corporate culture and performance of SMEs in Uganda, found out that market culture significantly affects the performance of SMEs.

The results of this study is in concurrence with the outcomes of Khedhaouria, Nakara, Gharbi, and Bahri (2020) which supported market and adhocracy culture as cultures that supports the performance of small firms in Tunisia. The findings of the study showed proof of both diverging and converging effects of corporate culture on organizational performance. Firms that put more emphasis on market culture or clan culture were found to be expressly linked with productivity, whereas companies with adhocracy culture or hierarchy culture were more probably indirectly related with performance.

Singh, Del Giudice, Tarba, and De Bernardi (2019) study examined the link between market-oriented culture and firm performance using survey data from 336 small- and medium-sized businesses in the UAE. The findings indicated that a market-oriented culture enhances firm performance.

5.2.4 Effect of Hierarchy Culture on Financial Performance of SME's.

The fourth objective of this study was to analyze the effect of hierarchy culture on financial performance of SMEs in Nandi County, Kenya. Formal rules and policies, efficient service delivery and employment security were the indicators of hierarchy culture that were taken into consideration. The results revealed that hierarchy culture had a significant effect on financial performance of SMEs. ($\beta = 0.200$, $p = 0.000$). It is opined that hierarchical culture does not promote creativity, risk taking and innovativeness because it is focused on internal processes, following laid down rules and procedures. However, several studies (Asif & Sajjad, 2018; Joseph & Kibera, 2019; Khan & Ahmed,

2019) have been done using this variable have found a significant association between hierarchical culture and performance of firms.

Hakami and Abdlwahed (2022) study examined the effect of a hierarchical culture on the performance of Saudi Arabian SMEs. The study engaged forty three (43) workers from more than thirty (30) SMEs and the outcomes revealed a positive and direct relationship between the performance of SMEs and the hierarchy culture. Hierarchical culture can really influence the effectiveness of SMEs based on the results of the study.

The results therefore indicate that hierarchy culture had a significant effect on performance of SMEs in Nandi County, Kenya. The current study's findings are in agreement with the study of Acar and Acar (2014), who undertook a study on organizational culture types and their effects on organizational performance in Turkish hospitals.

5.2.5 Effect of Financial Literacy on Financial Performance of SME's.

The objective was to assess whether financial literacy has a direct significant effect on financial performance. The result of Hypothesis H_{05} revealed that financial literacy had a significant effect on financial performance. Literature has also confirmed that a high level of financial literacy enables enterprises to run efficiently therefore resulting in greater and better financial performance. Moreover, financial literacy allows owners/ managers to make viable decisions on monetary matters, resulting in healthy business (Jemal, 2019). Thus, these results agree with Jemal (2019), who points out that financial literacy positively and significantly influences the financial performance of Small and Medium and Enterprises. ($\beta=0.351$, $p=0.000$).

The current study's findings also concur with the arguments of Otieno (2016), whose study on the impact of financial literacy on the financial performance of SMEs in Ruiru town in Kenya shows a significant influence in the relationship between the variables.

5.2.6 The Moderating Effect of Financial Literacy on the Relationship between Clan Culture and Financial Performance of SME's.

Hypothesis **H_{06a}** postulated that financial literacy has no moderating effect on the relationship between clan culture and financial performance of SMEs. The result revealed that financial literacy moderates the relationship between clan culture and financial performance with $\beta=-0.157$, $p=0.000$. Financial Performance is high when financial literacy levels are high. As an organization embraces clan culture, Financial Performance increases and vice-versa. Therefore, financial literacy acts as a remedy for low clan culture situation in a business entity as illustrated in Figure 4.4. Little is known about financial literacy as a moderator on clan culture and financial performance. Thus, these findings provide new knowledge in the body of literature.

5.2.7 The Moderating Effect of Financial Literacy on the Relationship between Adhocracy Culture and Financial Performance of SME's.

In Hypothesis **H_{06b}**, the researcher examined whether financial literacy could strengthen or even diminish the association between adhocracy culture and the financial performance of SMEs. The results shows a significant interaction between adhocracy culture and financial performance with the involvement of financial literacy ($\beta=0.156$, $p=0.011$). The results clearly show that financial literacy significantly strengthens the link between adhocracy culture and financial performance. These findings add some new knowledge into literature.

In Figure 4.5 it indicates that at low levels of adhocracy culture in a firm, Financial Performance is high with high adoption of Financial Literacy. Financial Performance increases as Adhocracy culture increases in a firm that embraces Financial Literacy (High Financial Literacy from 3.2 to 3.9) and no change in Financial Performance in a firm that doesn't embrace (Low levels of Financial Literacy) as shown by a score of 2.37 to 2.4. Hence, in this case Financial Literacy is a solution for low levels of Adhocracy culture.

5.2.8 The Moderating Effect of Financial Literacy on the Relationship between Market Culture and Financial Performance of SME's.

In Hypothesis **H_{06c}**, the researcher examined whether financial literacy moderates the link between market culture and the financial performance of SMEs. The current study's findings reveal that financial literacy has no moderating effect on market culture and the financial performance of SMEs ($\beta=-0.029$, $p=0.688$). This requires further investigation in other counties or countries due to cultural issues to ascertain the validity and generalization of these findings.

5.2.9 The Moderating Effect of Financial Literacy on the Relationship between Hierarchy Culture and Financial Performance of SME's.

In Hypothesis **H_{06d}**, the researcher assessed whether financial literacy moderates the relationship between hierarchy culture and the financial performance of SMEs in Nandi County, Kenya. Results from the research indicate statistically significant interaction between hierarchical culture and financial performance of SMEs with the involvement of financial literacy ($\beta= -0.186$, $p = 0.026$). Findings from the research affirmatively revealed that hierarchy culture and financial literacy significantly impacts on performance of SMEs in Nandi County, Kenya. This is a new knowledge in literature.

These findings are further illustrated by Figure 4.6 which reveals that the interaction term of Financial Literacy between these variables gives an increase in Financial Performance as higher levels of Financial Literacy increases the score of Financial Performance from 2.95 to 4.28, hence the higher Financial Literacy the higher the Financial Performance and the lower the financial literacy the lower the financial performance.

5.3 Conclusion of the Study

The main objective of this study was to examine the moderating effect of financial literacy on the relationship between organizational culture and the financial performance of SMEs. The independent variable had four primary constructs: clan, adhocracy, market and hierarchy cultures. Financial literacy was introduced in the association between predictor variables and the outcome variable to serve as a moderator. Firm size and age were introduced as control variables in the statistical model. The specific objectives of this study were to examine the direct effects of clan, adhocracy, market and hierarchy cultures on financial performance of SMEs.

This study further investigated the direct effect of financial literacy on financial performance. Furthermore, to contribute to the body of knowledge, the study evaluated the moderating effect of financial literacy on clan culture and financial performance, adhocracy culture and financial performance, market culture and financial performance and hierarchy culture and financial performance. The study's findings concluded that clan culture, adhocracy culture, market culture, hierarchy culture and financial literacy significantly affected financial performance of SMEs. It also confirmed that financial literacy has a conditional or moderating effect on all relationships of independent and dependent variables except market culture.

5.4 Implications of the Study

This section entails the theoretical, policy and managerial implications of the study.

5.4.1 Theoretical Implications of the Study

The study is in support of the Dual process theory that cognitive managers or owners can help their enterprises achieve the goal of financial performance by making decisions based on shreds of evidence such as the book of accounts, budgets, and cash balances, among others. The results also support the view in the Resource Based theory, that the assets (financial literacy/ knowledge) of the firm are the basis for its competitive advantage and contribute to existing literature.

This research confirms what has already been established by other scholars; clans, adhocracy, market, hierarchy cultures and financial literacy have a significant direct effect on the financial performance of SMEs. On the other hand, the study also provides new findings or knowledge to the literature that financial literacy moderates clan culture and financial performance, adhocracy culture and financial performance, and lastly, hierarchy culture and financial performance. From the results of the study financial literacy had no moderating effect on market culture and financial performance of SMEs in Nandi County, Kenya.

The research offers additional empirical evidence from the SMEs in Kenya to the research stream on organizational culture. The findings of this research provide a theoretical and an empirical case explaining that organizational culture and financial literacy are crucial for enhancement of firm's performance. The research pushed discussions on the validity of organizational culture based on the four types of culture in regard to the CVF model and financial performance by showing their relevance in SMEs.

5.4.2 Policy Implication of the Study

The findings of the study may help the effort of policymakers regarding the policies to be formulated and implemented to reduce the mortality rate of SMEs. The finding of the study reveals that financial literacy influences the financial performance of SMEs. Therefore, for the SMEs to flourish, owners or managers need financial knowledge relating to access and management of funds (Susan, 2020). Thus, the policymakers should develop policies to strengthen training programs that can help owners / managers of the business to be equipped with financial literacy skills which may reduce the business's mortality rate.

The outcome of this study informs policy makers to formulate policies on how to develop and adopt appropriate organizational culture that promotes mutual trust, teamwork, new products/services development, human capital development, setting of attainable goals and efficient service delivery so as to improve on performance. Productivity can also be strengthened through the advocacy of entrepreneurship culture, human capital development and team orientation. Recommendation is also made to the managers/owners of the SMEs to take into account the importance of organizational culture and their impact on a firm's performance. This encourages them to develop and administer suitable organizational culture that allows their respective SMEs achieve better and reasonable performance.

5.4.3 Managerial Implications

Managers/owners of SMEs are required to consider corporate culture as a vital element in regard to the financial performance of their firms. To make sure that SMES obtains better and reasonable performance, they should design and sustain a culture that is identified by

team effort and mutual trust so as to make sure that employees are devoted to their work and the firm as a whole. Managers/owners of SMEs need to have strategies in place that considers manpower development as one of the success factors. Concentration should be on mentoring and nurturing features and ensuring that their firms explain achievements hinged on employees concern in their strategic plans. SMEs management should also develop strategies that assures that their firms are exemplified by their adaptability to macro environment. This can also be achieved through adhocracy type of culture that prioritize growth, developing new products and services, change and productivity outlined to convince external stakeholders. Managers need to have strategies in place that build their own strong visions that concentrates on dynamism, new ideas and future oriented entrepreneurship.

Managers/owners of SMEs in should build their firms by clarifying goals and bettering performance through hard work and productivity. workforce are encouraged in Organizations where effectiveness and realization are the standard, by setting attainable goals and by giving comments on employee performance, which will eventually promote awareness of expertise and attitude of self-efficiency and collective abilities. Managers play a vital role in the achievement of high organizational performance because their personal qualities and skills dictate the organizational strategy to be adopted, goals to be set and results to be achieved.

Managers/owners of the SMEs should develop strategies that enhance the implementation of processes, procedures and policies that ensures uniformity, internal efficiency, coordination and evaluation to direct the behaviour and performance of organizations members. Financial literacy strategies should be absorbed and custom made by

managers/owners of SMEs. This is because they play a very great role in designing organizational culture therefore impacting on financial performance of SMEs.

5.4.4 Employees Implications

By exploring how financial literacy influences the relationship between organizational culture and financial performance, the study highlights the critical role employees' play in translating cultural values into success. Employees who possess higher levels of financial literacy are better equipped to understand the financial implications of their daily decisions manage resources effectively and contribute to achieving organizational financial goals. Furthermore, the study emphasizes that a supportive and learning-oriented organizational culture encourages employees to develop financial competencies that enhances both personal and organizational outcomes. Finally, financial literate employees are more likely to exhibit responsible behaviour leading to improved financial well-being and reduce stress. Collectively, these benefits contributes to a more engaged, productive and empowered workforce. Therefore, findings of this study will provide valuable insights into how SMEs can invest in employee financial education as a means of strengthening overall organizational performance and sustainability.

5.5 Limitations and Recommendations of the Study

This study, like any other, has several limitations. Use of CVF model presents limitations such as oversimplification, static representation, subjectivity in assessment, contextual limitations, lack of predictive power and focus on values not behaviour. Future researchers can utilize other organizational culture models in order to enhance the results. Besides, the research is conducted based on cross-sectional study which tends to give rise

to a few problems such as difficulties making causal inference. Longitudinal research is recommended for future research that allows researchers to look at changes over time. Another limitation is that respondents may have bias towards the questionnaires provided and due to their different backgrounds and their different level of experience they may answer the questions based on their own perceptions. Future researchers can expand their research by expanding the sample size in study that could enhance the variety of perceptions.

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APPENDICES

Appendix I: Introduction Letter

PHILIPH KIMUTAI KEMBOI

P.O. BOX 32-30304

KAPCHENO

Email: Kimutkem@gmail.com

Mobile: 0720144564

Dear Respondent,

REF: COLLECTION OF DATA

I am a student at the University of Eldoret pursuing a master's degree in business management- Finance option. I am currently conducting research on the *Moderating effect Financial Literacy on the relationship between Organizational Culture and Financial Performance of Small and Medium Enterprises in Nandi County-Kenya*.

The intention of this letter therefore is to request you to spare a few minutes and respond to the attached questionnaire. As a representative of your company, your views are of importance in my study, and I would appreciate you responding to this questionnaire. The information given will be utilized exclusively for scholarly purpose and will be handled confidentially. Thank you for your support.

Yours faithfully,

Philiph Kimutai Kemboi

Appendix II: Survey Questionnaire

Read through each question carefully and follow the instructions given. Answer the questions by ticking in the box that best describes your answer or writing your answers in the spaces provided where applicable. The responses provided will be used for academic purposes only and will be treated confidentially.

PART 1: BACKGROUND INFORMATION

This part of the questionnaire entails background information.

1.1 Please indicate your gender by ticking against the relevant box.

Male

Female

1.2 What is your age in years? (Tick one)

21-30

31-40

41-50

50- 60

1.3 What is the highest level of education you have attained? (Tick one)

High School Certificate Diploma bachelor's degree Post Graduate

1.4 How long has the business been in operation? (Tick one)

Below 5 years 5- 10 years 11-15 years 15 years and above

1.5 How many employees do you have?

below 10

11 - 49

Above 50

PART 2: FINANCIAL PERFORMANCE

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1=Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree) on the financial performance of your organization.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----|---|----------|----------|----------|----------|----------|
| I | The sales turnover of the business has been improving over the years | | | | | |
| ii | The annual average sales of the business have been increasing over years | | | | | |
| iii | The net profits of the business have been above the average | | | | | |
| iv | The return on assets of the business has been increasing in the last three years. | | | | | |
| v | The average sales of the business have been increasing over years | | | | | |
| vi | The business's sales turnover has surpassed the targets over the years. | | | | | |
| vii | The SME realized higher output increasing gross profits | | | | | |

PART 3: ORGANIZATIONAL CULTURE

2.1. CLAN CULTURE

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree) on the way clan culture in your company promotes financial performance.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----|---|----------|----------|----------|----------|----------|
| I | The management approach in our company is exemplified by teamwork. | | | | | |
| Ii | The glue that binds our company together is mutual trust | | | | | |
| Iii | Our company emphasizes human resource development as one of the success factors | | | | | |

| | | | | | | |
|-----|---|--|--|--|--|--|
| Iv | Our company is an individual place like an extended family | | | | | |
| V | The leadership in our organization exemplifies mentoring and nurturing characteristics. | | | | | |
| Vi | Great importance is given to commitment in our organization | | | | | |
| vii | Our organization defines achievement on the foundation of concern for employees | | | | | |

2.2. ADHOCRACY CULTURE

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1= Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree) on the way adhocracy culture in your organization promotes financial performance.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|---------|---|---|---|---|---|---|
| i | The management of employees in our organization is characterized by promotion of individual initiative. | | | | | |
| ii | Operations in our organization are exemplified by entrepreneurship spirit. | | | | | |
| iii | One of the strategic priorities in our organization is acquirement of latest resources. | | | | | |
| iv | The glue that binds our company together is obligation to originality and improvement. | | | | | |
| v | In our organization, originality and search for opportunities are valued | | | | | |
| vi | Our company stresses that expansion and promptness to encounter any forthcoming challenges are vital. | | | | | |
| vi i | In our organization, there is commitment to creation of new ways of providing services to customers | | | | | |

2.3 MARKET CULTURE

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1=Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree) on the way market culture in your organization promotes financial performance.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----|---|----------|----------|----------|----------|----------|
| i | The glue that binds our company together is stress on goal achievement. | | | | | |
| ii | Management of employees in our company is exemplified by encouragement of competitive spirit. | | | | | |
| iii | Management in our company is illustrated by having results-oriented focus. | | | | | |
| iv | Our organization defines achievement on the foundation of increasing the number of customers | | | | | |
| v | Managers and subordinates jointly set goals that are ambitious but realistic | | | | | |
| vi | In our organizations, measurement of targets and objectives is undertaken on regular basis. | | | | | |
| vii | Management style in our organization is characterized by goal achievement. | | | | | |

2.4 HIERARCHY CULTURE

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1=Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree) on the way hierarchy culture in your organization promotes financial performance.

| | Statement | 1 | 2 | 3 | 4 | 5 |
|-----|--|----------|----------|----------|----------|----------|
| i | The glue that binds our company together is prescribed regulations. | | | | | |
| ii | Management style in our company is exemplified by security of tenure. | | | | | |
| iii | Our organization defines achievement on the foundation of efficient service delivery | | | | | |
| iv | Teamwork in our company is depicted by operational competence. | | | | | |

| | | | | | | |
|-----|--|--|--|--|--|--|
| v | The management approach in our company is illustrated by careful monitoring of performance | | | | | |
| vi | The values shared by staff in our organization are respect for and compliance with policies. | | | | | |
| vii | An organization will perform well if there is consistency between the values of its employees and the organization | | | | | |

PART 4: FINANCIAL LITERACY

Show (√) your level of agreement or disagreement with each of the following statements on a scale of 1 to 5 (1=Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree)

| | Statement | 1 | 2 | 3 | 4 | 5 |
|------|--|----------|----------|----------|----------|----------|
| I | Financial literacy enhances profitability of the organization | | | | | |
| ii | Financial literacy enhances investment options for the organization. | | | | | |
| iii | Financial literacy is crucial for allocation of financial resources in the organization. | | | | | |
| iv | Financial literacy plays a major role for the growth of our organization. | | | | | |
| V | Financial knowledge enhances effective savings for the organization. | | | | | |
| vi | Financial knowledge enhances investment decisions in the organization for profit maximization. | | | | | |
| vii | Financial attitude enables the company to apply financial principles in order to create value. | | | | | |
| viii | Financial literacy plays a key role in selecting funding options for our business operations. | | | | | |
| ix | Financial attitudes improve profitability of the business through planning. | | | | | |

Appendix III: Introductory Letter from the University

Introductory Letter



P. O. Box 1125 - 30100, Eldoret, Kenya
 Tel: +254 53 2063257 / 2033712/13 Ext. 2352/3
 Mob: 0736 493555; Fax: +254 53 206 3257
 E-mail: hodbbusinessmgmt@uoeld.ac.ke
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OFFICE OF THE DEPUTY VICE CHANCELLOR (ASA)
SCHOOL OF BUSINESS, ECONOMICS AND MANAGEMENT SCIENCES
DEPARTMENT OF BUSINESS MANAGEMENT

REF: UOE/B/BBM/ ATT/032

DATE: 10TH SEPTEMBER, 2024

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE:DATA COLLECTION- PHILIPH KIMUTAI KEMBOI SBUS/BBM/M/005/22

The bearer of this letter is a postgraduate student in the Department of Business Management. The student is currently undertaking Research, collecting data for the proposal titled "*Moderating Role of Financial Literacy on the Relationship between Organizational Culture and Financial Performance of SMEs in Nandi County* "

Any assistance accorded to him will be highly appreciated.

Thank you



DR. EMMANUEL TANUI
HEAD, DEPARTMENT OF BUSINESS MANAGEMENT



Appendix V: Similarity Report



University of
Eldoret
Centre of Knowledge and Innovation

University of Eldoret
Certificate of Plagiarism Check for Thesis



| | |
|--------------------------|--|
| Author Name | Philip Kimutai Kemboi SBUS/BBM/M/005/22 |
| Course of Study | Type here... |
| Name of Guide | Type here... |
| Department | Type here... |
| Acceptable Maximum Limit | Type here... <input type="text"/> |
| Submitted By | titustoo@uoeld.ac.ke |
| Paper Title | MODERATING EFFECT OF FINANCIAL LITERACY ON THE RELATIONSHIP BETWEEN ORGANIZATIONAL CULTURE AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NANDI COUNTY, KENYA. |
| Similarity | 14% |
| Paper ID | 4598430 |
| Total Pages | 157 |
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Signature of Student

Signature of Guide



Head of the Department

Director of Post Graduate Studies

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