Financial Literacy Role in Enhancing Savings and Financial Performance among SMEs: Evidence from Licensed Hardware Stores in Kasarani Sub-County

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Abstract

Financial literacy plays a key role in the growth and performance of Small and Medium Enterprises suitable for economic growth by offering employment opportunities and supporting local supply chains. Despite their importance, many SMEs fail within a few years, often due to the financial illiteracy of their owners. However, limited studies have specifically examined hardware stores, a key SME segment in Kenya's construction-driven economy. The focus of the study was to determine the influence of financial literacy on the financial performance of licensed hardware stores in Kasarani Sub-County. Study focused on saving as a financial literacy component. Guided by the Resource-Based View, the study's approach was descriptive. Using a simple random sampling procedure, a sample of 334 hardware stores was selected from a population of 2,036 licensed hardwares stores in Kasarani Sub-County using Yamane's formula. Data was collected via structured questionnaires, with reliability and validity confirmed through a pilot study in Ruiru Sub-County, and Cronbach's alpha greater than 0.7. The findings revealed that savings explained 14.1% of the changes in financial performance with a p-value less than 0.05, indicating a statistically significant and positive relationship. These results highlight that savings have a modest explanatory power on financial outcomes, with possible factors such as cash management, budgeting, and risk management outside the study explaining 85.9% of the changes in financial performance. The study recommends targeted financial literacy training and institutional support to strengthen SME structured savings culture as a pathway to improved profitability and long-term growth.

Keywords: Financial Literacy, SMEs, Savings, Financial Performance, Business Failure

1.0 Introduction

Globally, small and medium-sized enterprises (SMEs) are important drivers of economic growth across both developed and developing economies. However, SMEs face persistent challenges that threaten their sustainability, including limited access to affordable financing, high competition, and regulatory constraints (Tomé, 2019). These constraints are prevalent in developing countries, where structural economic weaknesses and underdeveloped financial systems hinder SME growth. Such challenges underscore the importance of internal financial management strategies, particularly savings practices, as a buffer against capital shocks and a source of capital for reinvestment (Khwatenge & Muchelule, 2023). Micro, small, and medium enterprises (MSMEs) have been supportive to Kenya's labor market, employing an estimated 15 million individuals. Among youths entering the workforce, nine out of ten secure employment within MSMEs, underscoring their significance in national economic development (Ministry of Co-operatives and Micro, Small and Medium Enterprises, 2023).

Recognizing SMEs role in alleviating unemployment and poverty, the Kenyan government has implemented various support mechanisms to enhance their sustainability and growth. These efforts include financial assistance programs such as the Uwezo Fund and Youth Enterprise Fund, which provide SMEs with essential capital to scale their operations (Macharia & Njoroge, 2020).

In enabling growth of a business, the adoption of concepts such as financial management and planning by the owners enhances the outcomes of business operations (Muñoz, 2021). Scholars argue that financial management and planning as key elements of financial literacy also foster strategic decision-making and improved resource allocation. Additionally, a broader conceptualization of financial literacy extends beyond traditional financial education, addressing its practical applications in financial management and business sustainability (Lyons & Kass-Hanna, 2021).

Financial illiteracy hinder SME owners to make prudent decisions financially towards navigating a dynamic business environment, or reduce the risk of business failure (Barno et al., 2021). The COVID-19 pandemic further exposed these vulnerabilities, as many SMEs lacked contingency plans (Saifurrahman & Kassim, 2021). The cumulative effect of these failures has had broader economic repercussions, destabilized local economies, reduced employment, and a continued decline in SME financial performance in the post-COVID era (Mashizha et al., 2019). This exposure to a changing business environment necessitates need for actions to build entrepreneurial and financial competencies among SME owners.

Financial Literacy Across the Globe, Within Regions, and in Kenya

Financial literacy levels are relatively comparable across most countries, despite variations in economic growth. Globally, the financial literacy rate is at 33% with low-income, middle-income, and developed countries averaging 25%, 30% and 50% financial literacy rates respectively (OECD, 2023). The United States, positioned among the wealthiest nations globally, still faces financial management challenges among SME owners. In the United States of America, only 54% of SME owners clearly comprehend concepts such as financial management before initiating their business operations (Myranda, 2025). Similarly, while financial literacy rates in nations such as Finland, Germany, Israel, the Netherlands, Norway, Sweden, the United Kingdom, Austria, and Switzerland stand at 65%, this proficiency does not necessarily extend to SME owners. Many SMEs struggle with debt repayment, primarily due to the high interest rates imposed by financial institutions.

Furthermore, SME owners often encounter financial difficulties as they fail to recognize the risks associated with high loan amounts, increasing the likelihood of default and potential business failure. They fail to adopt other sources of financing such as savings to support business operations (Faulkner, 2022).

Financial literacy levels in low and middle-income countries are significantly lower compared to those in higher-income nations. Ghana's SME entrepreneurs face a critical challenge due to limited financial knowledge and skills. Their inability to access adequate financing is compounded by restricted opportunities for financial education. This would otherwise equip them to manage their businesses more effectively by identifying better financing for their business (Agyei, 2018).

South Africa experiences significant business failure among SMEs largely due to low financial literacy among business owners (Masingili, 2024). Similarly, Nigeria faces challenging economic conditions, characterized by high unemployment and inflation. In response, policymakers have proposed economic initiatives designed to support SMEs as drivers of economic growth. These initiatives include financial literacy programs aimed at enhancing entrepreneurial decision-making, improving financial performance, and ensuring business sustainability (Adewumi & Cele, 2023).

The growth of SMEs significantly relies on the ability of the owners not to only to understand financial management and planning concepts but also applying them effectively in business operations. In Kenya, SME growth has remained sluggish, partly due to business owners relying on personal judgment rather than seeking professional financial expertise. The lack of structured financial knowledge impairs key areas, such as failure to adopt structured savings practices, contributing to financial instability among SMEs (Musau et al., 2022).

SMEs globally face significant collateral constraints in securing financing from financial institutions to support business operations. Restricted access to funding hinder SMEs from realizing their full commercial potential, impeding growth and sustainability. Entrepreneurial success is closely linked to financial literacy, as possessing the necessary financial skills and experience enables business owners to mitigate these challenges effectively (Saad et al., 2021).

Educational training in financial literacy enhances the decision-making processes by business owners needed to navigate the difficult financial environment.

Moreover, an organization's core capabilities in adoption of internal financing through savings are fundamentally anchored in financial literacy. Adoption of savings by SMEs owners mitigates against the risk of expensive external financing (Alvarez et al., 2022).

Strategic policy frameworks for SMEs are pivotal to accelerate growth and supporting business operations into the future. However, the realization of such objectives is contingent upon several factors, with access to finance being among the most critical. Despite ambitious policy efforts, a persistent gap exists between SME development strategies and the availability of financial resources, hindering their ability to expand operations and remain competitive. SMEs owners face financial exclusion while financial institutions have access to credit data and risk assessment tools. As a result, SMEs owners often face unfavorable loan conditions, limiting positive business outcomes (Hussain et al., 2018).

For SMEs to achieve sustainable growth, they must continuously identify and develop new income-generating avenues, leveraging financial knowledge to assess market opportunities and optimize investments (García et al., 2021). Furthermore, a critical factor of competitive advantage is financially literate business owners and managers. This allows firms to enhance value creation, improve financial resilience, and strengthen their market positioning. A well-developed financial knowledge base among business owners and employees contributes to a positive financial outcome (Ye & Kulathunga, 2019). Recognizing the significance of integrating financial education into business strategies, empowers SMEs in navigating economic uncertainties, foster innovation, and establish sustainable enterprises in the long term.

SMEs' financial outcomes play a major role in determining their long-term viability. Profitability or losses directly impact their ability to sustain operations and expand. Enhancing SME efficiency requires strategic interventions, including technological innovation, facilitating productivity, and revenue generation. Additional approaches include increasing sales volume, diversifying products and services with a focus on quality, and investing in human capital development (Menne et al., 2022). Financial performance is assessed using various quantitative metrics, such as return on investment, return on equity, sales volume, net income, and net profit margin. These tools enable SMEs owners to make rational decisions aimed at strengthening the firm's financial position and ensuring sustainable growth (Azizah et al., 2023). SMEs continue to face a major challenge in accessing financing thus impacting their operational stability. Financial institutions often require collateral as a condition for credit approval, limiting SMEs' ability to secure funding.

This is reflected in the failure of SMEs to consistently adopt effective savings mechanisms. This constraint can lead to operational stagnation, reduced profitability, and, in severe cases, business failure (Chilembo, 2021). To mitigate these challenges, SMEs must explore alternative funding sources, including personal savings, financial support from relatives and close associates, and participation in organized financial groups. Maintaining savings within formal financial institutions and structured savings groups enhances their ability to access credit, thereby improving financial outcomes for the business (Ndindah, 2022).

Within the business context, hardware stores represent a unique subset of SMEs that face distinct financial challenges, particularly in regions with seasonal demand fluctuations. Kasarani Sub-County, one of Nairobi's fastest-growing urban areas, hosts a high density of hardware-based SMEs. Despite their prevalence, there is limited empirical data on the how savings as a component of financial literacy enhances performance among these businesses financially. Understanding how savings practices influence financial outcomes in this sector is essential for designing effective support mechanisms and promoting SME sustainability. The general objective was to evaluate the influence of financial literacy on financial performance among licensed Hardware Stores in Kasarani Sub-County. The specific objective was to evaluate the influence of savings on financial performance among SMEs: a study of hardware stores in Kasarani Sub-County.

1.2 Literature Review

The study utilized resource-based view emanating from Barney (1991) and resulted in a big change in the strategic planning and management of organizations. This theory was put into the limelight by Penrose (2009). He focused on how firms can focus on efficiency and effectively utilize their resources at their disposal and adopting approaches of diversification.

The view focuses on the internal resources of a firm that it uses as a competitive advantage over other firms instead of relying on its external resources (Utami & Alamanos, 2023).

The resource-based view directs use of tangible and intangible firm resources as a pathway advantage to staying in business into the foreseeable future (Hitesh, 2020). Tangible resources are those resources that can be touched or seen, while the opposite is intangible resources. The organizational resources synthesis with its dynamic capabilities is seen as the right direction for the success of firms (Ramon-Jeronimo et al., 2019). Savings are a great resource for an entity. They are assets that owners of SMEs can access easily and allocate such resources to the efficiency of business operations as well as investment opportunities like the expansion of business, resulting in an entity’s improved financial performance.

Microfinance institutions provide services to SMEs, such as savings accounts, that result in the growth of SMEs (Omolabake Ahmed et al., 2024). Competent owners and managers with financial expertise are essential for the growth of SMEs since they can boost the performance of their companies. They can access internal resources such as savings to increase business efficiency and settle short-term obligations, hence better financial performance for an entity (Sedyastuti et al., 2021).

McDougall et al. (2019) argues against this view by noting that the possession of a resource would not result in the firm having a competitive advantage unless the firm can effectively exploit the internal resources at its disposal. Resource-based view does not support the cooperation of stakeholders in an entity, which is needed to ensure increased incomes and reduce the likelihood of business failure (Freeman et al., 2021). It fails to account for external factors such as government policies and external funding, which are critical in enabling a favorable environment for business growth and survival.

RBV remains relevant to the study of SMEs in Kasarani focusing on strategic intangible assets like financial literacy. Financial literacy is not merely as knowledge, but as a capability in practice in the routines and decision-making processes of the business owners. When used effectively, financial literacy enables SMEs to manage resources prudently, plan for contingencies, interpret financial data, identify and manage risks in making informed decisions about the business operations. SMEs' reliance on its internal capabilities of savings, as internal capital resources to improve business operations and financial performance in reducing the likelihood of business failure.

Empirical Review

Savings and Financial Performance among SMEs

Savings are investments that enable entities to safeguard their future operations and financial performance. They are funds set aside after deducting all expenses from the residual income. These funds are deposited into SMEs owners' savings accounts in microfinance institutions (Bosea et al., 2023). The owners of SMEs use savings as a buffer against future financial contingencies that could arise (Arthur, 2019). Yakob et al. (2021) identified a correlation that is strong and positive between financial literacy and Malaysia's SME success, highlighting the role of knowledge in savings, debt management, and insurance. Jemal (2019) further demonstrated that savings significantly predict improved business performance in Ethiopia.

Bosea et al. (2023), focusing on Ghana, confirmed that savings enabled SME owners to build financial buffers for emergencies, boosting both income generation and stability. These studies suggest that SMEs could rely on savings to withstand financial distress and enhance business operations. The positive link between savings practices and SME financial performance was supported by Kimunga (2021), who showed that access to microfinance savings and related services significantly improved business performance among SMEs operated by persons with disabilities in Uganda. Additionally, Ocwa (2022) highlighted how micro-finance provided savings and financial training enhanced SME performance in Palissa Town Council. These findings emphasize that promoting savings knowledge can foster strategic resource allocation, reduce financial strain, and enable sustained growth, especially in underrepresented SMEs.

Despite studies showing positive association between savings and the financial performance of SMEs' financial outcome, the results may not be applicable in all SMEs sectors. Yakob et al. (2021) carried out a study on Malaysia's SMEs. However, the study's findings may not be applied in all SMEs sectors due to the absence of the study's SME sector specificity, Jemal (2019) noted that savings literacy improved performance. However, the study's lack of a guiding theoretical framework weakened its conceptual clarity. Additionally, Bosea et al. (2023) used purposive sampling, which introduced potential selection bias, thus limiting the broader applicability of the savings-performance link. These observations highlight that while savings literacy is important to SMES, its effect is amplified when contextualized within sector-specific, geographical, and methodological approaches.

Savings are more effective when combined with training and advisory to SMEs owners. This was demonstrated by both Kimunga (2021) and Ocwa (2022) that savings services offered by microfinance institutions (MFIs), with training and advisory support, resulted in positive financial performance for SMEs. However, their cross-sectional study designs hinder the establishment of long-term causality. The studies suggest that financial gains may not be immediate but could accrue over time, depending on how savings literacy is translated into practice. The available empirical evidence from the studies conducted affirms that savings, when informed by strong financial knowledge, can significantly enhance SME financial performance, but contextual, temporal, and methodological factors influence the strength and consistency of this relationship. This points out the need for studies in other geographical settings such as Kenya, within the hardware sector with the observed effects to be interpreted with caution.

3.0 Research Methodology

Research Design

To analyze SMEs licensed to operate as hardware stores in Kasarani Sub-County, Kenya, the study's approach was descriptive. This type of research design was considered since surveys were used in the collection of data to characterize the views and behaviors measured during the study of a segment of SMEs that operate as licensed hardware. The goal of a descriptive research design is to characterize events and define observable attitudes, opinions, and behaviors from a given demographic, measured from a given period in an environment, by relying on a given sample (Nnabugwu, 2022). Surveys were also used due to the standardized nature of questions in the research instrument.

Target Population and Sampling

The target population for this study comprised all 2,036 licensed hardware stores registered in Kasarani Sub-County as of January 2024 (Kasarani Sub-County Business Registry, 2024). This population was selected based on the hardware's formal registration and licensed by

Kasarani Sub-County. To determine an appropriate sample size, the study utilized Yamane's formula with a 5% margin of error and a confidence level that is 95% yielding a total of 334 hardware stores. To reduce the risk of selection bias, a simple random sampling method was adopted, thus each store had an equal probability of inclusion in the study.

The 334 hardware stores are run by SMEs owners. The owners of the SMEs were used for this study since they are tasked with the overall management and financial decision-making for the hardware stores concerning savings (Widasari et al., 2024). They are a focal point in determining how the hardware enterprises generate revenue and create buffer capital through savings which would also result in expansion policies for the SMEs. Additionally, owners provide firsthand insights into financial literacy challenges, hence the reliability of data for the study (Kolapo & Oluwaleye, 2024).

Data Collection Techniques

This study employed structured, self-administered questionnaires to collect quantitative primary data from 334 licensed hardware and store owners in Kasarani Sub-County. The process included pre-collection protocols of obtaining an institutional letter of introduction and research permit from the National Commission for Science, Technology, and Innovation (NACOSTI) to ensure compliance with Kenyan research ethics.

Pre-visit phone calls to schedule appointments and minimize non-response bias were also conducted. In the questionnaire design, closed-ended Likert-scale questions (1–5 scale) measured savings and financial performance. The research tool incorporated demographic items that captured respondents' gender, age, educational background, and the workforce size within their respective organizations, and years of business operation, to contextualize the responses. The questionnaires were administered face-to-face as a way of increasing a higher response rate.

Validity of the Research Instrument

In establishing validity, relevance, clarity and completeness of the questionnaires, both construct validity and content validity were applied. Content validity was verified through expert assessment by finance specialists focusing on SMEs. Adjustments were made to align with hardware store operations and evaluation. The construct validity was undertaken to ensure that the questionnaire remained objective in measuring the intended variables. To achieve this, a pilot study was performed in Ruiru Sub-County by considering 33 hardware stores in the area. A 10% proportion was applied to determine the sample, leading to a pilot sample size of 33 hardware owners. The 33 hardware owners were omitted from the final study to ensure reliability by assessing the consistency of the research findings.

Reliability of Research Instrument

Internal consistency of the items under study will be used in determining the reliability of the questionnaires. The internal consistency of the questionnaire items was evaluated using a Cronbach's alpha coefficient. Sürücü and Maslakçi (2020) points out that a research instrument is reliable and acceptable when its alpha value ranges from 0.6 to 0.7. A reliability test on the questionnaire was performed and 0.9 obtained as the Cronbach's alpha, meaning items in the questionnaire are consistent and desirable. Therefore, items in the questionnaire with an alpha value starting from 0.7 to 0.9 were considered to confirm the reliability of the questionnaire as a tool for data collection hence no items were dropped from the study.

Operationalization of Variables

To assess impact of financial literacy on SMEs' financial outcomes, savings was adopted as the major construct of financial literacy, while profitability and ROA as the constructs of financial performance. Each construct was operationalized through practical indicators that reflect the financial decision-making capacity of the SMEs owners.

These indicators were measured through a Likert scale capturing varying levels of financial behavior and competence in the study. The table below outlines the key variables and how they relate to performance outcomes.

Table 1: Operationalization of variables

Variable	Operationalization	Measurements
Financial Performance	Profitability Return on Assets	Business growth in net profits and realizing an increase in profits on the cost of investment, measured using the Likert Scale.

Savings	Bank account Bank deposits	Business access to a bank and how often they deposit funds measured using a Likert Scale.

Data Analysis and Presentation

The study utilized SPSS version 25 for data analysis, applying descriptive statistical methods. For all items measured on a Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree), mean scores and standard deviations were computed to capture patterns of central tendency and dispersion. Inferential Statistics, through a multiple linear regression model, examined the link between the savings aspect of financial literacy and the financial performance of SMEs. The resulting regression model was expressed as $Y = 2.163 + 0.375x1+ \varepsilon$.

Ethical Considerations

The research adhered to the Kenyan and international research ethics guidelines throughout the study. Participants were made aware that their involvement in the study was entirely voluntary and that the information they provided would be used exclusively for research purposes. An introduction letter from St. Paul's University in Limuru, ERB (Ref: SPU-2024-229), and a permit from the National Commission for Science, Technology, and Innovation (NACOSTI/P/24/38944) were shown to the respondents before the start of data collection as a guarantee that a research permit was in place to conduct the study.

4.0 Results and Discussion

Table 2: Mean and Standard Deviation for Saving

Measuring Items	Mean	Std. Dev
The business maintains a bank current account	4.24	0.731
Business uses savings as a form of additional capital	4.25	0.654
The business saves money in a fixed bank account	2.92	1.119
The business deposits money weekly/monthly in a bank account	3.93	0.791

Business uses savings to undertake investment opportunities such as expansion activities	4.14	0.707
Savings ensure the business continues operating when faced with financial constraints	4.2	0.675
Aggregate mean	**3.95**	**0.80**

Source: Research Data (2025)

The findings revealed that most respondents agree that business use savings as a form of additional capital (mean=4.25, standard deviation=0.654) in influencing financial performance. The respondents agreed that business maintains a bank current account with the item recording a mean score of 4.24 with a standard deviation of 0.731. Furthermore, savings were recognized as a crucial factor in sustaining business operations during financial challenges, reflected by a mean of 4.23 and a standard deviation of 0.675. These results indicate that respondents generally agreed on the role of savings in shaping the financial performance of SMEs.

The respondents also agreed on businesses using savings to undertake investment opportunities such as expansion activities and Business deposits of money weekly/monthly in a bank account with a mean score of 4.14 (SD = 0.707) and 3.93 (SD = 0.791), indicating general agreement among participants. However, when asked about saving funds in a fixed account, respondents expressed neutrality, as reflected by a mean of 2.92 and 1.119 as the standard deviation. The overall average score of 3.95 (SD = 0.80) suggests that respondents generally acknowledged the influence of savings on SME financial performance.

Maintaining accessible reserves, reinvesting in the business, and managing funds systematically contribute to greater operational stability, improved liquidity, and reduced reliance on external financing. Therefore, savings are an essential factor in determining SMEs' financial performance.

The findings are in agreement with Enos et al.(2023), demonstrating that adoption of savings strategies by SMEs results in their improved financial performance, particularly in metrics such as return on assets. Savings function as a strategic asset for SMEs in enabling business growth and long-term sustainability.

Correlation Analysis

To explore the relationship between savings and financial performance, the study employed correlation analysis using Karl Pearson's correlation coefficient (r) as the statistical measure. The Karl Pearson correlation ranges between -1 and +1 (Liu et al., 2019). Findings from the study indicated that savings and financial performance had a Karl Pearson's correlation coefficient of 0.376 (p=0.000), indicating a positive relationship between the constructs. This suggests SMEs that prioritize structured savings, such as regular bank deposits or reinvestment practices, are better able to withstand financial shocks.

Regression Analysis

Table 3: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.376a	0.141	0.138	0.44585

a Predictor: (Constant) Savings

The findings portrayed that 14.1% variations in the financial performance of SMEs were attributed to savings. This implies that 85.9% of variations in the financial performance of SMEs are described by factors beyond those captured in the study.

Table 4: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.946	1	7.946	39.974	0.000b
	Residual	48.305	243	0.199		
	Total	56.251	244			

a. Dependent variable: Financial Performance b. Predictors: Savings

The findings revealed the model to be statistically significant with a 39.974 as the F value and a significance level (p=0.000), which is less than 0.05. This demonstrates that the predictor plays a statistically significant role in influencing financial performance, making the model fit for regression.

Table 5: Regressions of Coefficients

	Unstandardized B	**Coefficient Sig. Std. Error**	**Standardized Coefficients Beta**	**t**	
(Constant)	2.163	0.236		9.148	0.000
Savings	0.375	0.059	0.376	6.323	0.000

The findings in the table reveal a regression model used to determine the independent variable (savings) and its influence on financial performance. A linear regression model was achieved: $Y= \beta+\beta 1x1 + \varepsilon$, with a representation of Y= financial performance, β = Constant term, β1 = Savings. The complete multiple regression model was thus derived into the equation.

$Y= 2.163 + 0.375x1+ \varepsilon$

The model reveals that the financial performance of SMEs will have an intercept of 2.163 when all factors are held at a constant level. Additionally, an incremental rise in savings by one unit leads to an increment in SMEs' financial performance by 0.375, with all other factors being constant in the model.

Savings showed (t-value = 6.323, p = 0.000), 0.376, as the standardized beta indicating a statistically significant and positive influence on SME financial performance. This aligns with Yakob et al (2021) emphasizing the role of savings in buffering firms against financial shocks and supporting investment activities. The practical implication is that SMEs that actively use savings to finance operations or reinvest in growth initiatives are more likely to experience enhanced financial outcomes.

Discussion

The descriptive statistics revealed strong agreement among respondents on several saving practices, including maintaining a bank current account (mean = 4.24), using savings as additional capital (mean = 4.25), and leveraging savings to sustain operations during financial constraints (mean = 4.23). These high mean scores, coupled with relatively low standard deviations, suggest consistent and widespread adoption of these practices among SMEs. However, the neutral response regarding saving in fixed accounts (mean = 2.92, SD = 1.119) indicates a lack of preference for long-term, less liquid saving options, possibly due to the need for flexibility in accessing funds.

The aggregate mean score of 3.95 and 0.80 as SD further reinforces the view that savings are broadly perceived as beneficial to SME financial performance. The findings also align with the emphasis on the strategic value of savings in enhancing return on assets and promoting business by Enos et al. (2023). The correlation analysis showed a clear and statistically significant positive link between savings and financial performance ($r = 0.376,\ p = 0.000$). This suggests SMEs that consistently save, whether through regular deposits or reinvesting profits, tend to be better prepared to handle financial challenges and keep their operations running smoothly in the long term.

The regression model revealed that savings account for 14.1% of the variation in financial performance, with 85.9% accounting for factors outside the study. Despite this modest explanatory power, the model was statistically significant with an F Value of 39.974 and ($p < 0.05$), indicating that savings are a meaningful contributor to financial outcomes.

Drawing from these results and the principles of RBV in emphasizing the development of resources internally and capabilities as a way of competing with an advantage in the business arena, the study proposes the Structured Savings and Financial Literacy Enhancement Model (SS-FLEM). The SS-FLEM is anchored on the premise that financial literacy serves as an enabling resource, while structured savings act as a capability that strengthens financial performance.

The model conceptualizes financial literacy as a critical internal asset enabling SMEs owners to acquire and apply knowledge on financial management, budgeting, and saving discipline. When effectively applied, financial literacy fosters structured savings behavior that is characterized by consistent deposits, formal saving mechanisms, and prudent reinvestment of accumulated funds. In turn, structured savings behavior enhances financial performance by strengthening liquidity, increasing profitability, and enabling business expansion. Conceptually, the model posits financial literacy is an enabler for business owners in making informed financial decisions, resulting in structured savings behavior. This disciplined approach to saving subsequently leads to improved financial performance as businesses are better able to manage liquidity, reinvest profits, and withstand financial shocks.

Furthermore, the strength of this relationship is impacted by factors of accessing financial institutions, the business size and the level of technological adoption, which determine how effectively financial literacy and savings practices translate into measurable performance outcomes. The proposed model therefore provides a theoretical and practical framework through which hardware store owners, policymakers, and financial institutions can strengthen SME financial performance. It demonstrates that financial literacy, paired with consistent savings behavior, creates a self-reinforcing cycle of financial growth and business sustainability.

Conclusions

Savings are not only a statistically significant predictor but also a strategic financial mechanism that SMEs can rely on to improve long-term financial performance and stability. Most of the SMEs in the study used savings to scale up their businesses. Savings are vital in enhancing the financial stability and growth of SMEs. They serve as a financial buffer, enabling firms to navigate uncertainty, seize investment opportunities, and maintain operational continuity, factors that collectively enhance financial resilience.

The study reported an R^2 value of 0.141, indicating that financial literacy accounts for 14.1% variation in SMEs' financial performance in Kasarani Sub-County. This means that the remaining 85.9% of the changes in financial performance are likely influenced by other factors not captured within the study. Therefore, the study concluded that financial literacy has modest explanatory power on financial performance of hardware stores in Kasarani Sub-County. Financial literacy is important, but other factors outside the model, such as planning of budgets, cash flow management, and management of risk, can lead to measurable improvements in SMEs' profitability and business resilience.

Recommendations

The study recommends adoption and implementation of a Structured Savings and Financial Literacy Enhancement Model (SS-FLEM) among hardware stores and similar micro, small, and medium enterprises (MSMEs). The model emphasizes a dual approach that combines continuous financial literacy training with the institutionalization of disciplined savings practices through formal channels such as banks, SACCOs, or digital savings platforms. County governments, trade associations, and financial institutions should collaborate to operationalize this model by offering periodic financial literacy programs, developing SME-friendly savings products, and creating incentives that encourage consistent saving and

reinvestment. Implementation of the SS-FLEM is expected to enhance liquidity management, improve profitability and strengthen the long-term sustainability of hardware stores within Kasarani Sub-County and beyond. A longitudinal study should be carried out in other regions, focusing on hardwares to fully measure financial literacy impacts on financial performance with other financial literacy constructs.

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