Financial Literacy and Financial Performance of SMEs in Zamfara State, Nigeria

Bamidele Vincent Olawale, [1*] Ani Chibuike Francis [2] & Murtala Muhammad Yusuf [3]

Department of Accounting Education,
Federal College of Education (Technical). Gusau, Zamfara State. [1, 2, 3]
E-mail: vincentolawale@gmail.com,[1] chibuikeluv@gmail.com[2] m.murtalayusuf5@gmail.com[3]
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Abstract

This study examined the effect of financial literacy on the financial performance of small and medium-scale enterprises in Zamfara State, Nigeria. The study specifically examined the impact of financial knowledge, financial behaviour, and financial attitude on SMEs' financial performance. The human capital theory guided the study. A descriptive-correlational method of analysis was employed in this study. A sample of 250 SMEs was used from the total population of 1236 registered SMEs in Zamfara State, Nigeria. An inferential statistical tool, such as regression analysis, was employed to test the relationship between the variables. The study found that financial knowledge has a positive coefficient value of 0.916 with a t-statistical value of 5.674 at a p-value of 0.000 (P = 0.000<0.05), financial behaviour has a positive coefficient value of 0.599 with a t-statistical value of 5.823 at a p-value of 0.000 (P = 0.000<0.05), and financial attitude also has a positive coefficient value of 0.631 with a t-statistical value of 9.518 at a p-value of 0.000, which is less than the critical value of 5% (P = 0.000<0.05). The null hypotheses were rejected based on the results of the analysis. The study established a positive and significant relationship between financial literacy and the financial performance of SMEs. According to the study, business owners with excellent education qualifications, particularly in financial-related courses, make better use of their resources to have a robust return on assets in their businesses. The study also concludes that business owners with good financial behaviour and financial well-being make better financial decisions that improve their businesses' return on assets and profitability. The study recommends, among others, that business owners should improve their financial behaviour by keeping an eye on how their business is progressing on a frequent basis.

Keywords: *Financial Literacy, Financial Performance, Financial Knowledge, Financial Behaviour, Financial Attitude*

1.0. Introduction

Several academics have stressed how important financial literacy is for small and medium-sized enterprises. The mastery of a certain body of knowledge, attitudes, and behaviours is known as financial literacy. According to Nkundabanyanga and Kasozi (2014), it is the capacity of an individual to exercise sound judgement and make wise choices about how to use and manage money and other resources. They also said that the individual in question has a facilitative attitude towards the responsible and efficient handling of financial issues. This includes the capacity to assess, evaluate, manage, and explain one's own financial circumstances as they relate to one's well-being. It also entails the capacity to make sound financial decisions and have uncomfortable conversations about money and financial matters.

Small and medium-scale enterprises are an important sector for the majority of people who have low capital and skills to work together in a form of association. In order to ease access to job opportunities, the sector was also utilised as a link between various levels of segmentation. In order to improve their living conditions and obtain employment opportunities, a large number of operators have entered this industry (Shiferaw, 2013). While medium-sized firms are crucial for steady and fair economic growth in any nation, they are particularly critical in developing nations since many businesses face several challenges and their contribution is not as significant as in wealthy nations (Kamunge et al., 2014). Insufficient financial literacy and weak business vision are the main causes of failure for many organisations, according to Bosma and Harding (2006).

Therefore, there should be more attention paid to increasing the level of financial literacy, as this would help organisations achieve many objectives (Mandell, 2008). Because the owners, who lack financial literacy, might not be aware of the risk they are taking. According to Miller et al. (2009), financial literacy is essential for fostering environments and incentives that support desired financial behaviours, including budgeting, saving, and responsible credit use. As a result, a major barrier to the performance growth of sustainable medium-sized businesses across the developing world is a lack of awareness, knowledge, and abilities to effectively and transparently manage and steer the organisation's finances (Adomako & Danso, 2014). Ethiopian company owners face financial literacy challenges in operating their enterprises, much like those in other developing nations (Abebe et al., 2016).

1.1. Statement of the problem

Research on the impact of financial literacy on SMEs' profitability and growth has revealed that a low level of financial literacy among the global populace is a major factor in business failures (Niwaha et al. 2016). Most financial literacy research focuses on personal finance, often neglecting its relationship to corporate management. They frequently consider things like banking service literacy, bookkeeping literacy, and ratio analysis of personal and household finances. Unfortunately, no attempt was made to determine how the literacy levels of these individuals affected the operation of their enterprises; instead, the focus of this research was on the numeracy skills of individuals and how these skills affected their financial decisions. Unlike the previous studies, this study focused on various components of financial knowledge, financial behaviour, and financial attitude and how they affect the performance of SMEs in Zamfara State, Nigeria. The general objective of the study was to investigate the effect of financial literacy on the performance of small and medium-scale enterprises (SMEs) in Zamfara State, Nigeria.

According to Kotze and Smit (2008), if owners and managers lack financial literacy, their companies' financial literacy will also be lacking. This will result in a decrease in innovation, which can become a competitive advantage. Additionally, because they won't be aware of this, they won't be able to access various sources of financing, which could lead to business failure. Hence, this study focused on financial literacy and its implications for the financial performance of small and medium-scale enterprises.

1.2.Objectives of the study

The specific objective of this study is to;

i. Examine the effect of financial knowledge on the financial performance of SMEs
ii. Analyse the effect of financial behaviour on the financial performance of SMEs
iii. Analyse the effect of financial attitude on the financial performance of SMEs

1.3.Hypotheses of the study

The research objectives are hypothesized as follow

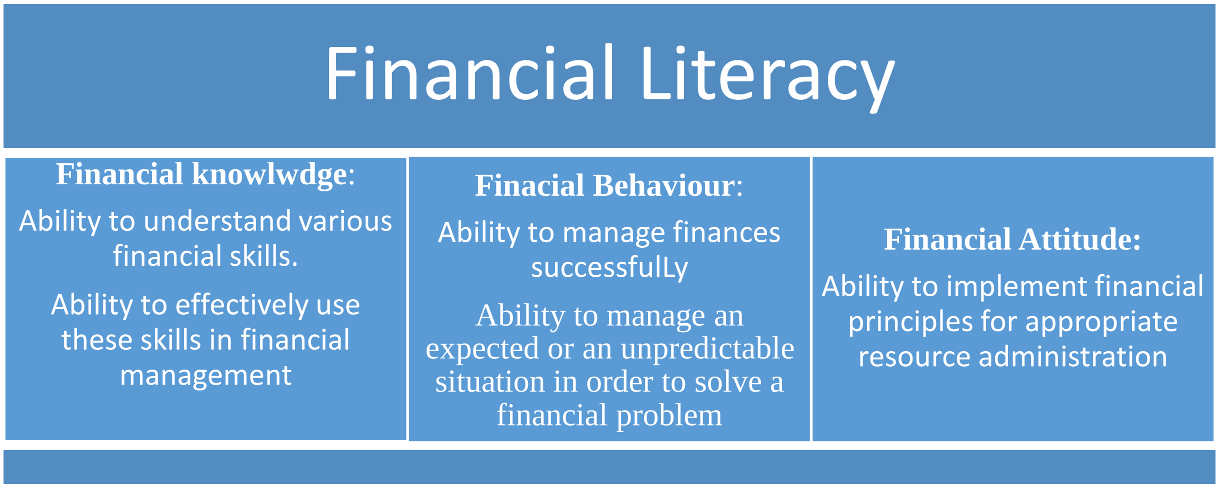
i. Financial knowledge has no significant effect on the financial performance of SMEs
ii. Financial behaviour has no significant effect on the financial performance of SMEs
iii. Financial attitude has no significant effect on the financial performance of SMEs

2.0. Literature Review

2.1. Conceptual Framework

Financial literacy: According to Abdeldayem (2016), financial literacy is the capacity to apply knowledge and skills to successfully manage financial assets for the survival of a successful organization. It helps people make efficient use of their resources. In the corporate world, making the correct financial decisions has long-term financial ramifications. The work of managing a company's finances is challenging, and businesses must select from a wide range of financial requirements, many of which have intricate features (Patrick, 2015).

Figure 2.1. Conceptual Framework of Financial Literacy



Source: Authors' Conceptualization (2024).

Financial knowledge: Business owners gain financial knowledge that helps them understand financial operations and concepts, which they can then use to solve financial issues and optimize profitability. It is an understanding of how to handle money in various contexts and make decisions that are appropriate for the demands of "financial literate" individuals.

According to Huston (2017), financial knowledge is the understanding of important financial words and concepts required for day-to-day functioning. According to Potrich et al. (2016), it is a specific type of capital obtained by having the capacity to safely manage income, expenses, and savings. Financial literacy is the capacity to handle income, expenses, and savings in a prudent manner (Lusardi and Mitchell, 2008). A variety of "best practice" financial behaviours are linked to having financial literacy, such as keeping an eye on credit reports, keeping an adequate emergency fund, avoiding overdrafts on checking accounts, avoiding revolving debt, having a dedicated retirement account, and being insured (Robb, 2014).

Financial behavior: According to Zeynep (2015), financial behaviour is the capacity to see the overall effects of financial decisions on one's situations and to make the best choices for cash management, safety measures, and budget planning opportunities. Studies have demonstrated that measurements of an individual's financial conduct are consistently predicted by their level of financial literacy (Hung et al., 2009). Sucuahi (2013) emphasised that sound financial behaviour entails the capacity to make choices that augment wealth and avert uncertainty for both individuals and enterprises.

Financial Attitude: According to Latif et al. (2011), financial attitude is defined as the application of financial principles to decision-making and appropriate resource management in order to produce and preserve value. The financial mindset is one of the elements that significantly affects financial management practice. Eagly and Chaiken (1993) define it as a psychological propensity that manifests as a degree of favouritism or disfavour towards a specific entity. That is, one's psychological inclination to approve or disapprove of particular money management techniques. Financial attitude was described by Latif et al. (2011) as the application of financial principles to create value in decision-making and resource management. Acquiring sufficient information improves one's financial attitude (Abiodun, 2016).

Financial performance

Financial performance is a key component of finance risk management and, in a broader sense, refers to the extent to which financial objectives are being or have been fulfilled. It is the process of putting a firm's operations and policies into monetary terms. It is used to assess a company's overall financial health over a certain time period and can also be used to aggregately compare different industries or sectors or to compare similar companies within the same industry.

Micro, Small and Medium Enterprises (MSMEs)

SMEs are defined as companies with less than 10 employees and an annual revenue of less than 5 million naira, according to Oyelaran-Oyeyinka (2020). The small and medium-scale sectors cover the entire range of economic activity and are very heterogeneous groups. They include a wide variety of firms, restaurants, bakeries, poultry farming, hairdressing, and barbershops, just to mention a few, according to Bamidele et al. (2019). Businesses are divided into micro, small, and medium-sized enterprises (MSMEs) by SMEDAN. Land and buildings are not included in the classification, which is based solely on the value of their personnel and assets. Here are some of their distinctive qualities:

(i) Micro enterprise has an asset base of less than 5 million naira with fewer than 10 employees.
(ii) Small Enterprise has an asset base ranging from 5 to 50million naira with its employees ranging between 10 and 49.
(iii) Medium Enterprise has an employee base that lies between 50 and 199 personnel with an asset base of between 50 and 500 million naira.

Effect of Financial Literary Programs on Financial Performance of SMEs

A financial literacy programme is a structured framework that aims to support people's understanding and effective use of a range of financial skills, including budgeting, saving, and personal financial management, according to Bassey et al. (2017). When someone is financially literate, they can become independent and secure with their money.

Furthermore, Godgift et al. (2018) stated that financial literacy initiatives require participants to be conversant with concepts and principles related to money management, debt management, compound interest, budgeting, efficient investing strategies, and the value of money over time. Programs like financial counseling are one example of this. Financial inclusion's supply and demand sides are just two sides of the same coin. The demand side consists of financial literacy programs that include elements such as credit counseling, product comprehension, and credit absorption capacity. The needs are met by the supply side (Odero & Ibrahim, 2018). Banks employ a variety of strategies to meet demand, including improving their existing loan distribution processes, increasing their capacity for credit absorption, and creating new models for efficient reach (Nathalie, 2019).

2.2. Empirical Review.

A substantial positive correlation has been observed between financial performance and financial literacy, according to several studies that have empirically linked the two (Kimunduu et al., 2016; Usama & Yusoff, 2018; Eresia-Eke & Raath, 2013).

The level of financial literacy among South African SMEs' owners was investigated by Fatoki (2014). A combination of Likert scales and dichotomous items were utilised in the survey. Data interpretation has made use of descriptive figures. The findings imply that the performance of new SMEs' owners was adversely impacted by their financial understanding. The author also discovered that, as a result of their ignorance of accounting and finance, the majority of SMEs do not maintain books of records that would enable them to get important accounting information. On the other hand, a recent study by Dinesha (2018) found that having financial knowledge enhances one's access to funds because it generates incentives and atmospheres that not only encourage appropriate financial behavior but also enable people to embark on economic ventures that improve business performance.

Sucuahi (2013) claimed in his study that the success of micro and small businesses is heavily influenced by the owners' financial decisions, which range from financing to working capital management and saving decisions. Given the importance of micro and small businesses in most countries' economic activities, a lack of financial skills or poor financial behaviour may have a negative impact on the business's future.

Njoroge (2013) investigated the association between financial literacy and business performance in Nairobi County, Kenya, by interviewing 79 registered and operating entrepreneurs. The samples were drawn at random from a population of 27,485 SMEs, and questions about financial literacy and small business success were asked. The obtained data was then evaluated to determine the link between financial literacy and SMEs' success. The study's findings revealed that highly successful entrepreneurs had high financial literacy and displayed a strong understanding of finance. The study discovered a link between financial literacy and entrepreneurial success in Nairobi County.

Similarly, Ahmed et al. (2015) discovered in their study that managers with superior education, skill, knowledge, and experience have a significant impact on the company's financial reporting methods. Plakalovi (2015) went on to say that increased levels of financial literacy, particularly financial awareness among managers, will allow them to better employ the company's resources. They will be more engaged in making optimal decisions by weighing the cost, benefit, and risk of prospective funding (Mabula & Ping, 2018).

According to Robb (2014), financial knowledge is an essential component of every decision-making process, regardless of the topic matter, because it is argued to result in a more successful decision. It impacts critical outcomes such as borrowing, saving, investing, and even future retirement income projections (Lusardi and Mitchell, 2014). In 2006, Lusardi and Michell proposed that financial literacy is necessary to develop a measure of financial competence in terms of financial market participation and financial management abilities.

2.2. Theoretical Review

The study is underpinned by Human Capital Theory which is known to be a widely used theory in the financial literacy literature. The theories is discussed and attempt is made to connect the theory to the subject under study**.**

Human Capital Theory

Human resource theory includes small business owners' expertise and experience. The main concept is that the founder's human capital improves the chances of small business survival (Bruederl et al., 1992). Human capital serves as a resource. However, human resource theory studies often conclude that experience is transformed into expertise and skills. Human capital is defined by Bruederl et al. (1992) as "individuals' knowledge, skills, and capabilities that have economic value to an organization." Human capital, according to Dess et al. (1999), is "capabilities, knowledge, skills, and experience, all of them embodied in and inseparable from the individual." According to human capital theory, education or training provides useful information and skills to the workforce, which increases production and income (Becker, 2002).

3.0. Methodology

The study used a quantitative research design. The reason for using this type of research design is that the study entails collecting data to describe current phenomena such as financial knowledge, financial behaviour, financial attitude, and financial performance of SMEs in Zamfara State. This study's population included all registered SMEs in 14 local governments in Zamfara State, Nigeria. According to the SMEDAN national survey (2017), Zamfara State has 1236 SMEs spread over 14 local government areas. The Yamane model (1967) was used to calculate the sample size for this study, as presented below:

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

Where: n = Sample size

N = The population size

e = Level of significance

Therefore, the Sample size for this study is; $n = \frac{1236}{1+1236(0.05)^2} = \frac{1236}{1+1236(0.0025)} = 302.20 \approx 302$

As a result, the study's sample size consisted of 302 SMEs from 14 local governments. The study used a multi-stage sampling approach. The first stage entailed using random sample procedures to choose six (6) local governments: Gusau, Talata Mafara, Kaura Namoda, Bungudu, Maru, and Tsafe local governments. The second step employs convenience sampling techniques to choose 302 SME owners from six local governments. Data was gathered from respondents via a questionnaire. Out of the 302 questionnaires provided to respondents, 250 were properly completed and returned. Therefore, the response rate is 82.78%.

3.1. Model Specification

This study adapted Sunu et al.'s (2020) model, The Effect of Financial Literacy on the Financial Performance of Small and Medium-Sized Enterprises, which expressed financial performance as a function of financial behaviour, financial experience, and knowledge. Thus, the model is specified as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E} \quad \ldots\ldots \quad 3.1$$

Where,

Dependent Variable Y = Financial Performance (ROA)

Independent Variables X1 = Financial Behaviour, X2 = Financial Experience and X3 = Financial Knowledge

This study, however, modified the approach by focusing on financial attitude rather than financial experience. Return on assets was used as a financial performance measure. Additionally, financial knowledge and financial behaviour were retained as proxies for financial literacy. Thus, the model for this investigation is described as follows:

$$ROA_{it} = \beta_{0it} + \beta_1 FIK_{it} + \beta_2 FIB_{it} + \beta_3 FIA_{it} + \mathcal{E}_{it} \quad \ldots\ldots 3.2$$

Where

ROA = Return on Assets (Proxy for financial performance)

FIK = Financial Knowledge

FIB = Financial Behaviour

FIA = Financial Attitude

Ɛ = Error term.

4.0. Data analysis and Discussion of Result

The data in this study was analyzed using descriptive-correlational statistics. Descriptive-correlational analysis is the collection of data to determine the relationship and degree of relationship between two or more variables.

Table 4.1 Demographic Distribution of respondents

	Frequency	Percentage
Gender:		
Male	187	74.8
Female	63	25.2
Total	250	100
Marital Status		
Single	61	24.4
Married	137	54.8
Divorced	52	20.8
Total	250	100
Age		
Below 20 Years	28	11.2
21 - 30 Years	67	26.8
31 - 40 Years	78	31.2
41 Years and Above	77	30.8
Total	250	100

Academic Qualification		
O' LEVEL	13	5.2%
NCE/OND	134	53.6
BSC/HND	94	37.6
M.sc	9	3.6
P.hd	0	0
Total	250	100

Source: Authors' Computation (2024)

The distribution of genders in Table 4.1 revealed that 187 (74.8%) of the respondents were male, while 63 (25.2%) were female. This implies that males outnumber females in the SME sector in Zamfara State. The data also showed that 61 (24.4%), 137 (54.8%), and 52 (20.8%) of the respondents were single, married, and divorced, respectively. The research in the table also revealed that 28 (11.2%) of the respondents were under the age of 20, 61 (26.8%) were between the ages of 21 and 30, 78 (31.2%) were between the ages of 31 and 40, and the remaining 77 (30.8%) were over the age of 40. The findings of this study also revealed that the majority of the respondents were NCE/OND holders (53.6%), while the lowest category were those with a P.hd. certificate (0%). This implied that the majority of business owners in the area of study were NCE and diploma holders.

4.1. Regression analysis

Analysis of the effect of financial literacy variables (Financial Knowledge, Financial Behaviour and Financial Attitude) on the financial performance variable (ROA)

Table 4.2. Multiple regression analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.788	0.097	3.718	0.000
FIK	0.916	0.249	5.674	0.000
FIB	0.599	0.069	5.823	0.000
FIA	0.631	0.066	9.518	0.000
Summary of the Model				
R^a	0.602			
R-squared	0.325			
Adjusted R-squared	0.216			
F-statistic	24.148			
Pro. (F-statistic)	0.000			

Source: Authors Computation (2024)

The R value of 0.602 in Table 4.2 represents the simple correlation, indicating a reasonable degree of correlation between the variables of financial literacy (FIK, FIB, and FIA) and the ROA of the selected SMEs. This indicated a positive relationship between financial literacy and the financial performance of the selected firms. The R-squared shows how much of the variance in the independent variables can be used to explain the entire variance in the dependent variable. According to the results in this table presented above, the R-squared value of 0.216 indicates that 21.6% of the return on assets may be attributed to the level of financial knowledge of the business owners. The adjusted R2 value of 0.216 (21.6%) indicated that the regression model is fit to be used for this study.

The table indicated that there is a positive and significant relationship between financial knowledge and SME's financial performance. This is based on the result in Table 4.2, which indicated that FIK has a positive coefficient value of 0.916, a t-statistical value of 5.674, and a p-value of 0.0000, which is less than the critical value of 5% (P = 0.0000<0.05). The results showed a positive relationship between financial knowledge and SMEs' financial performance. This implies that business owners with excellent educational qualifications, particularly in financial-related courses, make better use of their resources to have a strong return on assets in their businesses.

The table also indicated that there is a positive and significant relationship between financial behaviour and the SME's financial performance. This is based on the result in Table 4.2, which indicated that FIB has a positive coefficient value of 0.599, a t-statistical value of 5.823, and a p-value of 0.000, which is less than the critical value of 5% (P = 0.000<0.05). The results revealed a positive relationship between financial behavior and SMEs' financial performance. This implies that business owners with good financial behaviour and financial well-being make better financial decisions, which will improve their businesses' return on assets and profitability.

The table further indicated that there is a positive and significant relationship between financial attitude and SME's financial performance. This is based on the outcome of the analysis in Table 4.2, which indicated that FIA has a positive coefficient value of 0.631 with a t-statistical value of 9.518 at a p-value of 0.000, which is less than the critical value of 5% (P = 0.000<0.05). The results demonstrate a positive relationship between financial attitude and SMEs' financial performance. This implies that a business owner's attitude towards financial training on financial practices and programmes may influence effective bookkeeping and the financial performance of such businesses. Bamidele et al. (2018) found that standard accounting practices and effective bookkeeping are lubricants for the success of any small or medium-sized business. Carlin and Robinson (2010) also posited that people who went through training were somewhat better at making current-cost and current-benefit tradeoff decisions compared to those who did not.

4.2. Test of Hypotheses

Hypothesis One

Financial knowledge has no significant effect on the financial performance of SMEs

Table 4.3 Coefficient significance T-test Result (Hypothesis One)

Null Hypothesis	Coefficient	T-test Result	Probability	Decision
Coefficient is not statistically significant	0.916	5.674	0.0000	H_0 is rejected

Source: Author's Computation (2024)

Table 4.3 indicates that there is statistical evidence to reject the null hypothesis that financial knowledge has no significant effect on the financial performance of SMEs since the results revealed a positive (0.916) and significant relationship between FIK and ROA (P = 0.0000<0.05). Thus, the null hypothesis is rejected, indicating that financial knowledge (FIK) had a significant effect on the financial performance of selected SMEs.

Hypothesis Two

Financial behaviour has no significant effect on the financial performance of SMEs

Table 4.4 Coefficient significance T-test Result (Hypothesis Two)

Null Hypothesis	Coefficient	T-test Result	Probability	Decision
Coefficient is not statistically significant	0.599	5.823	0.0000	H_0 is rejected

Source: Author's Computation (2024)

Table 4.4 indicates that there is statistical evidence to reject the null hypothesis that financial behavior has no significant effect on the financial performance of SMEs since the results revealed a positive (0.599) and significant relationship between FIB and ROA (P = 0.0000<0.05). Thus, the null hypothesis is rejected, indicating that financial behavior (FIB) had a significant effect on the financial performance of selected SMEs.

Hypothesis Three

Financial attitude has no significant effect on the financial performance of SMEs

Table 4.5 Coefficient significance T-test Result (Hypothesis Three)

Null Hypothesis	Coefficient	T-test Result	Probability	Decision
Coefficient is not statistically significant	0.631	9.518	0.0000	H_0 is rejected

Source: Author's Computation (2024)

Table 4.5 indicates that there is statistical evidence to reject the null hypothesis that financial attitude has no significant effect on the financial performance of SMEs since the results revealed a positive (0.631) and significant relationship between FIA and ROA (P = 0.0000<0.05). Thus, the null hypothesis is rejected, indicating that the financial attitude (FIA) had a significant effect on the financial performance of selected SMEs.

5.0. Conclusions

The conclusion of this study was drawn based on the objective of the study.

The results of this study established a positive relationship between financial knowledge and the financial performance of SMEs in Zamfara State, and it is safe to infer that business owners with excellent educational qualifications, especially in financial-related courses, make better use of their resources to have a robust return on assets in their businesses. Furthermore, most SME owners are knowledgeable about basic financial concepts because a higher percentage of respondents obtained an ordinary national diploma, allowing them to correctly respond to questions about financial knowledge, financial behaviour, and financial attitude.

This study also revealed a positive relationship between financial behaviour and SMEs' financial performance. This study concludes that business owners with positive financial behaviour and financial well-being make better financial decisions that improve their businesses' return on assets and profitability.

Finally, the study posited that a business owner's attitude towards financial training and programs might influence the financial performance of such businesses.

Recommendations

- The study recommends that business owners should improve their financial behaviour by keeping an eye on how their business is progressing on a frequent basis. They should be aware of their stock levels, sales volume, and bank account balance on a daily basis. Monthly reviews of their status in relation to the goals outlined in the business plan are also recommended.
- The study recommends that SME owners should endeavour to always equip and re-equip themselves by attending financial training and programmes that will improve their financial literacy so as to be able to make better financial decisions, which might in turn cause an improvement in their financial performance.
- The study also recommends that business owners should obtain sufficient knowledge for an improved financial attitude. The appropriate financial attitude, including risk appetite, training, and time orientation, among others, can improve financial literacy and aid decision-making.

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