

# FINANCIAL LITERACY AND ENTREPRENEURSHIP PERFORMANCE

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**Abstract:** The study investigated the level of awareness of financial literacy among selected SSEs in south western Nigeria. The Study made use of primary data collected through the use of a structured questionnaire. Necessary sampling method was adopted in the study and snowballing method was used to administer both physical and electronic questionnaire. The result showed that the t-statistic probability strongly suggests that all three coefficients, Manager's Literacy (ML), Technical Competence (TC) and Firm size (FS) have a positive and significant effect on Entrepreneurship performance (EP) with P-value of 0.0226, 0.0372 and 0.0316 respectively. In conclusion the success of a company can be significantly impacted by financial literacy. Employees in businesses that are financially literate are more likely to react to changes in the market and make choices that will boost the company's performance. The necessity of money management, investing, and adhering to a budget can be made clear to Entrepreneurs, who will then be better able to contribute to the company's financial security and growth. Last but not least, financial literacy can aid workers in making wiser choices regarding their own financial health, which can boost job satisfaction and corporate loyalty.

**Keywords:** Financial Literacy, Manager's Literacy, Technical Competence, Firm size and Entrepreneurship performance.

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## 1. INTRODUCTION

As a result of the high rate of youth unemployment after graduation, entrepreneurship began to gain traction in Nigeria. Many of our youths who were unable to continue their education after secondary school are unable to find paying work in the public or private sectors. Similarly, several university graduates begin looking for available employment after completing the one-year mandatory National Youth Service. It is self evident that the government will not be able to employ all of the graduate job seekers; therefore, the only way to address this issue is to become self-sufficient and work as job employers rather than job seekers. According to Kanu and Nwaiwu (2010), the potential for private property is one of capitalism's fundamental freedoms. Entrepreneurs, managers, employers, and customers are all important groups of people who play important roles in capitalism. For proper management of their company, the entrepreneurs needed accounting and other skills.

Leadership and decision-making are needed for every company, including small businesses, to operate effectively. Unfortunately, many of our entrepreneurs struggle due to a lack of accounting knowledge. The study's issue focuses on how entrepreneurs without accounting skills can improve their results. As a result, this paper proposes a solution to the aforementioned problem.

The lack of attention to financial literacy in Small Scale Enterprises can have serious consequences. Without proper financial records, it is difficult to accurately track income and expenses, making it difficult to assess the profitability of the business, it is also difficult to obtain financing from banks or other lenders. Additionally, without proper financial knowledge, it is difficult to identify areas in which the business can improve its efficiency and profitability. In order to ensure the success of Small-Scale Enterprises, it is important for owners and managers to understand the importance of financial literacy and to implement them in their business. This includes setting up a system to track income and expenses, as well as creating a budget and financial statements. Additionally, it is important to stay up to date with accounting regulations and to ensure that all accounting records are accurate and up to date. Finally, it is important to seek professional advice when needed in order to ensure that all accounting procedures are properly implemented.

Despite its role in the success of companies, a number of Small-Scale Enterprises have not paid much attention to accounting system in relation to their business transactions. This may be due to the owners' or managers' lack of understanding of accounting procedures. It was also difficult to determine whether comprehensive accounting records were held that satisfied the laws by which it was incorporated. It was difficult to assess how much non-compliance with established accounting procedures contributed to the failure of a good accounting system to be implemented. It's difficult to say how non-recognition of the importance of accounting to a company's continued life and growth, the owners' lack of educational experience, and the hiring of unskilled accounting workers influenced the development of inaccurate accounting or financial statements, hence this study.

The main objective of the study is to examine the impact of financial literacy on Entrepreneurship Performance in Nigeria.

## 2. LITERATURE REVIEW

### Empirical Review

The word "entrepreneur" stems from the French verb "entreprendre," which meaning "to undertake." To be an entrepreneur in the business sector is to start a business. Entrepreneurs is described Mala, (2020); Oluwo, Osikoya, & Ibrinke, (2022) by as "the group of people who perceive business opportunities, possess the abilities to take advantage of them, and have the willingness to assume non-insurable risk".

Performance of business refers to the ability of business to meet the required standards, increased market share, improve facilities, ensuring returns on profitability, and total reduction and once this is achieved, a business is believed to be performing effectively (Fitzgerald et al 2006). Performance refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held accountable (Duranti and Thibodeau, 2001).

Tuffour, Amoako, & Amartey, (2022) Reseach showed that financial literacy has a considerable impact on firm success (both financial and non-financial performance). Additionally, the awareness, attitude, and knowledge aspects of financial literacy all significantly improve both financial and non-financial performance. Individual qualities, such as age, education, and experience, have no discernible impact on financial success, but taxes can be effective as a tool for small businesses to regulate themselves. Therefore, it is advised that capacity development programs be implemented to help managers and owners of small businesses become more financially literate. The study is important for Ghana's economic development as it has looked at the influence of financial literacy of small-scale enterprise managers on the performance of small-scale enterprises in a specific area of Ghana. This will not only be beneficial to the economic development of the country but will also result in job creation and sustainable economic growth. It can also be used to inform policy makers of the importance of financial literacy in improving the performance of small-scale businesses and in turn help promote economic development.

Iriobe, Akinyede, and Iriobe, (2017) recommended that financial infrastructure improvement, establishment of credit databases and enlargement of access to financial services should be sustained and increased with the help of policymakers. Furthermore, government should undertake campaigns and awareness creation, provide formal financial literacy programmes and support the delivery of digital financial services to reach out to unbanked and underserved geographies. Entrepreneurs should also strive to fully maximize the available financial services by taking capacity building initiatives, seeking independent advice and attending formal training.

Akinyede, Owolabi, & Akinola, (2019) study have practical implications for the development of design-oriented intervention in the form of financial education programmes that are likely to positively influence the knowledge, attitude and behaviour to money. The study therefore supports the adoption of financial literacy programmes in tertiary institutions as such programmes could provide the necessary tools that enable people make sound and informed financial decisions that will guarantee financial freedom and economic growth in the long run.

An accurate record of the business' financial performance is vehicle to monitor performance in specific areas. Accounting records provide a basis for complete and accurate income tax computation, a basis for sound planning for the future and basis for discussion with partners, potential investors, and lenders all these are important aspects which enhance performance of the business (Nyathi, Nyoni, Nyoni, & Bonga, (2018).

Chepngetich, (2016) provided insights into the critical role that financial literacy plays in enabling small and medium business owners to effectively manage their business operations. Results indicate that, on average, those with higher levels of financial literacy have a greater capacity for business performance. The findings suggest that increasing the level of financial literacy is beneficial to SME performance, as it helps business owners to implement strategic decisions and plan better budgeting processes. The findings also come with implications for policy and practice to support SME owners to build capacities around budgeting, borrowing, and financial management. Additionally, providing financial literacy trainings would enable business owners to make informed decisions and equip them with necessary skills for sustainable business activities.

Accounting and financial records help in determining the financial position of the business, which is essential for making decisions about the future of the business. Records also help in determining the profitability of the business, which is important for making decisions about investments and other financial matters. Proper records provide information about the assets and liabilities of the business, which is important for making decisions about the liquidity of the business.

## 2.1 Theoretical Reviews

This study is based on the profit motivation theory and the socio-economic theory of entrepreneurial development. On the other side, the profit motive theory holds that the main goal of business is to make a profit. According to this idea, the main objective of company is to maximize profits, and the only way to do this is to offer customers valuable goods and services. According to, companies should concentrate on giving their clients value because doing so will boost their revenues. The theory also suggests that businesses should strive to create value for customers, as this will result in increased profits.

### 2.1.1 Resource-based Theory (RBT)

The RBT also the one of relevance theory for this research because the three aspect will be examine as a moderating affect are positively related the accountant and SMEs under manufacturing sector. Marriott et al (2008), in SMEs environment, RBT is useful in number of studies on outsourcing of accounting functions and provide constructive basis upon which to consider the factors that determine the tendency of a firm to outsource accounting task. The factors are:

Owner / Manager knowledge: Owner and manager knowledge partially mediated the impact on firm performance and also technical competence of an accountant on SMEs performance (Kamyabi and Devi, 2011).

Technical competence: One of the objective of the RBT is to help owner / manager to realize why competences can be perceived as a firms' most valuable asset and understand how those assets can be used to improve firm performance (Caldeira and Ward, 2003).

Firm size: RBT suggest that smaller firms seek accounting services to enhance their competitiveness as the firm extends its market (Marriott et al, 2008).

## 3. METHODOLOGY

Area of Study is the South-West, Nigeria, and the population consist of Small and medium scale entrepreneurs in the region. Data Collection Method and Questionnaire Administration The study data collection method will be through primary with a well-structured questionnaire to elicit information from the respondents. The design of the questionnaire

will be adopted from the study of Simon-Oke (2020). The snowballing method of sample collection was adopted and the necessary sample size of 335 questionnaires was analysed.

The research model hypothesizes that financial Literacy as measured by Manager’s knowledge, Technical Competence and Firm size has an influence on the profitability of the entrepreneurs. A likert scale running from 1-5 (Strongly agree to strongly disagree) was used to establish the perceived firm performance in relation to profitability.

**3.1 Regression Model Specification**

The firms’ performance is expected to be influenced by Manager’s knowledge, Technical Competence and Firm size. These factors are identified on the basis of similar studies done by Mohd & Mohamed (2013).

The Regression model adopted for this study was as summarized below:

$$FP = \beta_0 + \beta_1 ML + \beta_2 TC + \beta_3 FS + e \dots\dots\dots (1)$$

Where:

B<sub>0</sub>, β<sub>1</sub>, β<sub>2</sub>, and β<sub>3</sub> are coefficients;

ML - Manager’s Literacy

TC - Technical Competence

FS - Firm size;

FP-Financial Performance indicator and

e- Error term.

**4. PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA**

**TEST OF HYPOTHESES**

H<sub>0</sub>: Accounting and financial Literacy has no significant impact on firms’ performance

**Table 1: Specific effects of financial literacy on firms’ performance**

Variable	Coefficient (βi)	t-stat	P-value	Significance
Manager’s Literacy (ML)	8.47293	3.28365	0.0226	Yes
Technical Competence (TC)	9.47254	4.23754	0.0372	Yes
Firm size (FS)	4.29374	1.29375	0.0316	Yes

**Source: Researcher’s Field Survey, 2022**

The probability associated with the t-statistic of Manager’s Literacy (ML) is less than the specified 0.05 level of significance at p-value = 0.0226 < 0.05 with regression co-efficient = 3.28. This indicated that the managers financial literacy is positive and significant to Entrepreneurship performance (EP). Subsequently, the probability associated with the t-statistic of coefficient Technical Competence (TC) is less than the specified 0.05 level of significance at p-value = 0.0372 < 0.05 with regression co-efficient 9.47. This indicated that Technical Competence (TC) is positive and significant to Entrepreneurship performance (EP). Finally The t-statistic probability of coefficient Firm size (FS) is less than the specified 0.05 level of significance at p-value = 0.0316 < 0.05 with regression co-efficient = 4.29. This translates that Firm size (FS) also have a positive and significant effect Entrepreneurship performance (EP).

**5. DISCUSSION**

The success of a company can be significantly impacted by financial literacy. Employees in businesses that are financially literate are more likely to react to changes in the market and make choices that will boost the company's performance. An enhanced capacity to foresee financial performance can result from increased financial literacy, which can also result in more effective management of financial assets and investments. Additionally, financial literacy may help businesses develop and put into practice successful financial success methods. Additionally, it can assist businesses in making wiser

tax and risk management decisions. All of these advantages boost a company's profitability and financial performance. This result revealed the remarkable effect of financial literacy on entrepreneurial success/excellence.

According to the findings Ahmad, & Shah, (2020)., risk perception completely mediates the links between the overconfidence heuristic and investment choices and performance. Financial literacy appears to moderate these relationships at the same time. The findings imply that risk perception and financial literacy might enhance the quality of investing decisions while overconfidence can degrade it. By acknowledging their prejudices and mistakes in judgment—to which we are all prone—they can enhance their performance, leading to better investment choices and a more effective market. The essay also emphasizes the significance of relying on expert information, giving it more weight than emotions and biases.

The study by Kulathunga, Ye, Sharma, & Weerathunga, (2020), 319 chief financial officers (CFOs) of SMEs in Sri Lanka were surveyed using a self-administered structured questionnaire to gather information. The findings of our study demonstrate that two endogenous constructs, namely SME performance and ERM practices, are significantly influenced by techno-finance literacy. Additionally, the ERM procedures of SMEs had a favorable impact on their performance. Additionally, it was discovered that ERM procedures partially mediate the link between financial literacy and SME success. These results serve as the foundation for theories about the relationship between techno-financial literacy and SME performance. They also have managerial ramifications for improving SME performance.

## **6. SUMMARY, CONCLUSION AND RECOMMENDATIONS**

The need for entrepreneurs to take upon themselves the task of developing and strengthening their financial literacy and skills becomes compelling given the role of finance/accounting in aiding and driving their entrepreneurial aspirations to the pinnacle of success given the importance of financial literacy and skills in entrepreneurial success. This can be achieved through attending training and other skills acquisition programmes and various sources of information such as financial and management magazines and journals, books and websites. Other sources of financial information and resources should also be explored by entrepreneurs to refine their financial literacy/skills.

### **6.1 Conclusion**

Financial literacy can play an important role in the success of a firm. Business owners that are financially literate are more likely to react to changes in the market and make choices that will boost the company's performance. Increased financial literacy can lead to more efficient management of financial resources and investments as well as an improved ability to forecast financial performance. Financial literacy can also enable firms to create and implement effective strategies for their overall financial success. Furthermore, it can help firms to make better decisions regarding taxation and risk management. All of these benefits lead to improved profitability and better financial performance for firms.

### **6.2 Recommendations**

Based on the findings of this study, the following recommendations apply:

1. It is essential that financial data and information are securely managed in line with modern security practices and backed up in an adequate manner. Additionally, businesses should set up systems to recognize important financial transactions, handle them, and guarantee that they are timely and precisely recorded. This will make it possible to quickly spot inconsistencies and fraud in financial data and information. Finally, organisations should use secure technologies and software applications to control access to financial data and information. This will protect their financial data and information from unauthorised access and use.

2. Entrepreneurs must explore and harness the power of technology, employ the best tools for their business needs, invest in customer data analytics, and use social networks to encourage customers to engage and stay loyal. establishing the right partnerships and create the right environment where ideas can foster and thrive. They should create and nurture the right business culture and devise a solid business plan offering flexible opportunities for growth and sustainability. Furthermore, having a clear vision for the business, a competitive strategy, and a great customer service are key features for entrepreneurs to stay ahead of their competitors.

### 6.3 Contribution to Knowledge

Apart from supporting the existing studies on the financial literacy SMEs, the study also provided insight into the inherent potentials and wide range of benefits available to SMEs for adopting accounting practices in the study area. This further established the fact that application of accounting meant for improved performance of businesses is not only limited to large or corporate organizations but also extended to SMEs. These among others were considered as novelty of the study.

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