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EXPLORING THE NEXUS BETWEEN FINANCIAL LITERACY AND SMEs PERFORMANCE

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Abstract
This study explored the nexus between financial literacy and performance of small and medium enterprises (SMEs) in Anambra State, Nigeria. The study was anchored on Human Capital Theory. The study used the cross-sectional research design to plan the study. The study conducted a census of all the one hundred and seventy one (171) business owner and managers of the selected SMEs from the target population. Complete enumeration was adopted and so there was no need for sampling as all the selected SMEs were used. Data were collected using structured questionnaire from the random sampled business owners and managers of the selected SMEs in Anambra State. The structured questionnaire was validated using face and content validity. The reliability of the measuring instrument was tested using Cronbach Alpha. Formulated hypotheses was analyzed using correlation analysis. The findings of the study revealed that there is significant and positive relationship between financial literacy and performance of SMEs. The study recommended that SMEs owners and managers need to undergo training programs on bookkeeping in order to improve their financial management practices and also SMEs need to encourage the adoption of effective capital budgeting strategies for optimal investment decisions.

Key Words: *Bookkeeping, Capital Budgeting, Financial Literacy, Financial Risk Management, Small and Medium Enterprises.*

Introduction
Small and Medium Enterprises (SMEs) are the primary catalysts for economic expansion and employment generation globally (Okoli, et al, 2023). Tarfasa, et al, (2016) opine that SMEs are facilitators for broad-based growth in competition, entrepreneurship and offer economy-wide benefits such as innovation and aggregate productivity growth. SMEs in most developing nations face significant hurdles when it comes to obtaining financial support. These hurdles encompass difficulties in adopting technology, limited productivity, lacking managerial expertise, and the weight of government regulations in their business landscape. One approach to address these issues is to promote financial literacy, which equips entrepreneurs with the knowledge and competencies necessary to reshape their perspectives and attract a broader audience for financial assistance.

Financial literacy is concern with having a firm grip of fundamental financial principles and concepts, enabling individuals or businesses to take decisions concerning their finances. Aribawa (2016) explains that financial literacy is knowledge of financial concepts, abilities, and skills related to financial concepts, skills in business management, the ability to make strategic business decisions, relatively precise and fast in certain situations. Financial literacy act as the catalyst, providing the motivation and confidence needed by business professionals to apply their knowledge and understanding in making strategic decisions across various financial aspects, ultimately improving their business's financial health. Mutegi and Phelister (2015) opine that financial literacy encourages the decision-making processes, including timely payment of bills, proper debt management which facilitates the credit worthiness of potential borrowers to support livelihoods, economic growth, healthy financial systems, and poverty reduction. Nevertheless, these SMEs encounter significant obstacles, including financial difficulties, discrimination, government regulations like taxes and levies, limited access to legal support, and a lack of education. These challenges hinder SMEs from achieving their desired economic growth. Usama and Yusoff (2019) reiterated that lack of financial literacy in businesses has been portrayed in several different ways, including mixing personal and business finance together, poor investment choices and lack of budgeting in business among others. Other distinctive challenges SMEs face include; a deficiency in financial data and subpar business record-keeping, primarily attributed to insufficient financial education and a lack of access to comprehensive information on record-keeping practices. However, lack of financial literacy makes it difficult for SMEs in Nigeria to achieve their performance in term of liquidity, long term solvency and profitability, therefore leading to lost business opportunities, and failure to grow in terms of size and financial resources (Bishop, 2016). Although, a reasonable number of studies have mentioned lack of business information and records as the major problems in SMEs, the available literature dealing with this area indicates there is a considerably amount of gap in knowledge of the influence of financial literacy on performance of SMEs.

The objective of the study is to explore the influence of financial literacy on the financial performances of Small and Medium Enterprises in Nigeria. Specifically, it intends to:

1. ascertain the extent of influence that bookkeeping practices has on SMEs Performance in Awka Anambra State.
2. Explore the influence of capital budgeting on SMEs performance in Awka, Anambra State.
3. determine the extent of influence of financial risk management on SMEs performance in Awka Anambra State.

The question that this study is aimed at answering is:

a. What are the influences of financial literacy variables on performance of small-scale enterprises in Nigeria?

In view of the above research questions, the following hypotheses were formulated:

H_o: Bookkeeping has no significant influence on SMEs Performance in Awka Anambra State.

H_o: There is no significant influence of capital budgeting on SMEs performance in Awka Anambra State.

H_o: There is no significant influence of financial risk management on SMEs performance in Awka Anambra State.

Literature Review

Conceptual Review

Financial Literacy

Financial literacy is one of the most critical strategic tools for the optimal allocation of financial resources and the attainment of substantial financial strength. Financial literacy is concern with the capacity to effectively manage financial resources across the entire life cycle and to engage with various financial products and services. It involves a discerning ability to make informed and prudent financial decisions Gavigan (2013). Jacobs (2021) states that financial literacy is a combination of skills, attitudes, and experience to achieve diverse objectives, such as ensuring a firm's survival, maximizing profits, increasing sales, capturing specific market shares, minimizing staff turnover and internal conflicts, and ultimately maximizing wealth. It plays a pivotal role in shaping SMEs destiny, from its very survival to maximizing profits and market share. Financially literate managers seem better equipped to evaluate the risks and rewards associated with various financial choices as those managers can critically assess the impact of different financing strategies, foresee potential pitfalls, and optimize their financial resources for long-term growth. Remund (2019) reiterated that it is imperative for business managers, both at the organizational and individual levels, to possess a reasonable level of knowledge about the available information to make sound decisions. Financial literacy is not merely a matter of knowledge; it also encompasses attitude and experience; having the right mindset, characterized by prudence, responsibility, and a commitment to financial well-being, is essential.

Record Keeping

Record keeping is a fundamental aspect of effective business management, a practice deeply rooted in the principles of accountability. The International Federation of Accountants (IFAC, 2017) emphasizes that maintaining comprehensive records is fundamental to ensuring transparency, accountability, and good governance in organizations. Record keeping involves the systematic and organized documentation of various transactions, activities, and information in a structured manner for future reference, analysis, and compliance purposes. Financial control becomes the basic rationale for record keeping. Accurate financial records are indispensable for businesses to manage their finances effectively. Beverly, et al. (2003) explains that financial records, such as income statements and balance sheets, provide a snapshot of a company's financial health, enabling decision-makers to make informed choices based on real data. These records serve as the foundation for budgeting and financial planning, allowing businesses to set clear financial objectives and evaluate their progress towards achieving them. Record keeping is closely linked to financial literacy and accountability within an organization. Maintaining a clear record of transactions and actions is a way to attribute responsibility. Transparency fosters accountability, as employees are aware that their actions are documented and can be traced back to them. This sense of responsibility can lead to more conscientious and ethical behavior within the organization (Duska, 2017).

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Capital Budgeting

Capital budgeting is the cornerstone and a critical financial process that wields substantial influence over the long-term success and sustainability of firms. It constitutes a structured approach to decision-making regarding the allocation of financial resources to a range of investment projects. Capital budgeting represents a commitment to responsible financial management, one that transcends the daily financial transactions and operational activities of a business (Brealey, et al., 2017). Capital budgeting decisions are inherently forward-looking and strategic in nature. These decisions involve the evaluation of potential investment projects over an extended time horizon, often spanning several years or even decades. This long-term perspective sets capital budgeting apart from routine financial management tasks, such as budgeting or accounting, which are typically focused on shorter time frames. Capital budgeting empowers organizations to make investments that will maximize value creation and contribute to their long-term sustainability (Begonja, et al. 2016). A fundamental element of capital budgeting is the careful assessment of the expected cash flows associated with each investment project. Proper capital budgeting enables organizations to allocate their resources efficiently, select projects that align with their strategic objectives, and ultimately enhance their long-term financial performance. It is a tool for maximizing the value of a firm and ensuring its continued growth and competitiveness (Brealey, et al., 2017).

Financial Risk Management

Financial risk management is an indispensable process that focuses on the proactive identification, comprehensive assessment, and strategic mitigation of risks intrinsically linked to financial activities. These risks encompass a wide range of variables and external factors, including exposure to market fluctuations, credit uncertainties, interest rate changes, and liquidity challenges, all of which can potentially disrupt an organization's financial stability and jeopardize its long-term success (Berk and Berk, 2018). Financial risk management seeks to preserve the financial well-being of the business, protecting it from potential adversities that can stem from various financial exposures. By identifying and addressing these risks systematically, organizations aim to safeguard their assets, cash flows, and financial health, which are all critical to sustaining long-term viability. One of the primary reasons for the unwavering emphasis on financial risk management is its critical role in protecting the financial interests of stakeholders. It is a means of fortifying the financial foundation of the organization, ensuring that investments and assets remain secure, and wealth preservation for shareholders is upheld. In corporate finance, firms use strategies like currency hedging to mitigate exchange rate risk when operating in international markets (Saunders, et al. 2016).

Small and Medium-sized Enterprises (SMEs) Performance

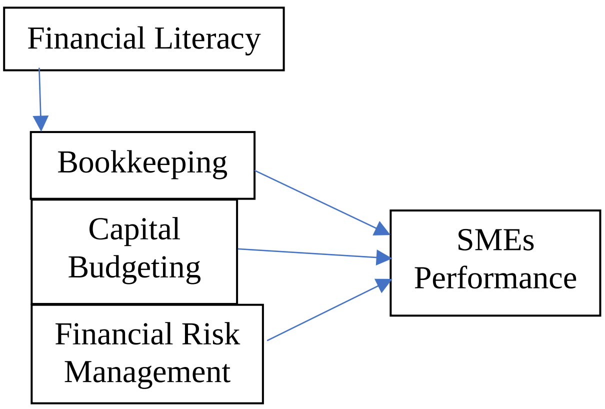
Small and Medium-sized Enterprises (SMEs) occupy a central role in the economy of countries across the globe. Their performance is not merely a reflection of their individual achievements but rather a driving force that exerts a profound and far-reaching impact on overall economic stability and growth (Beck & Demirguc-Kunt, 2006). SMEs performance is a dynamic force that holds the potential to catalyze economic growth, enhance societal well-being, and bolster the resilience of nations. The health and vitality of SMEs directly correlate with a nation's overall economic stability and growth trajectory. These enterprises operate as microcosms of the broader economic landscape, where their successes and setbacks provide critical insights into the state of the economy (Lindholt, 2017). One of the most notable contributions of SMEs to the economy lies in their role as prolific job creators. The performance of SMEs translates into real employment opportunities for a substantial portion of the workforce, thereby playing an indispensable role in addressing unemployment and underemployment issues (Eresia-Eke and Raath, 2013).

SMEs also possess the capacity to stimulate economic growth by contributing to a nation's Gross Domestic Product (GDP). SMEs willingness to experiment and embrace risk, positions them as engines of creative and technological progress. The aggregate performance of SMEs directly influences the economic output of a country. As SMEs expand, generate revenue, and engage in domestic and international business, they become significant drivers of economic prosperity, fostering GDP growth and a higher standard of living for citizens (Eresia-Eke and Raath, 2013). SMEs hold a unique capacity to facilitate regional development. Their ability to operate effectively in diverse geographical locations means they can promote economic activities in regions that might not have been the focus of larger corporations. This not only helps reduce urbanization pressure but also disperses wealth and economic opportunities more evenly across the country. It bolsters the resilience of local communities and encourages a more balanced distribution of resources and opportunities.

Conceptual Framework

The framework for this study is presented in Figure 1 below that shows the relationship between dependent variable and independent variables.

Fig. 1: Conceptualizing Financial literacy and SMEs performance



Source: Researcher’s concept (2023)

Theoretical Framework

Human Capital Theory

This study is anchored on Human Capital Theory. The theory emphasizes that by acquiring knowledge, skills, experience, and education, individuals enhance their intrinsic value and increase their economic productivity. It asserts that human capital is akin to financial capital in that it can be accumulated and appreciated over time. As individuals build on their education and skills, their human capital appreciates, leading to greater earning potential and enhanced productivity.

This theory underscores the strong connection between education and an individual's productivity. The acquisition of enhanced skills and knowledge allows individuals to perform tasks more efficiently, resulting in higher wages and expanded career opportunities. Human Capital Theory suggests that individuals who invest in their education and skill development over their lifetime will earn more than those with lower levels of human capital. This is encapsulated in the "human capital earnings function," which illustrates the positive relationship between education and earnings. On a broader societal scale, the accumulation of human capital is linked to economic growth and development. A skilled and educated workforce contributes to a country's productivity and innovation, fostering economic prosperity. It is also acknowledged that education and training serve as signals to employers, helping them in their hiring and screening processes. Lastly, investments in human capital can produce positive externalities for society, such as improved public health, reduced crime rates, and increased civic engagement. Human Capital Theory has profound implications in various fields, including education, labor economics, workforce development, and public policy. It underscores the significance of accessible and high-quality education and training opportunities and the role of governments and institutions in fostering human capital development. The theory informs labor market dynamics, wage disparities, and the factors influencing an individual's career choices and mobility. In summary, Human Capital Theory underscores the pivotal role of investing in people, both at the individual and societal levels, in achieving personal success, enhancing organizational competitiveness, and promoting overall societal progress.

Empirical Review

Agyapong and Attram (2019) explores the financial literacy of owner-managers of SMEs in the Cape Coast Metropolis and how such literacy influences the performance of their businesses. The study population were owner-managers of registered SMEs in the Cape Coast Metropolis from the National Board for Small and Medium Enterprise, out of which a sample of 132 was selected through the simple random sampling technique. The data was analyzed using Structural Equation Model. The results showed a positive relationship between financial literacy and the firm’s financial performance ($t = 35.631$, $p < .00$). The study recommended that policy makers should specifically design a program and platform targeted at further enhancing the financial literacy level of these owner-managers to help improve the performance of their firms.

Kizza (2019) investigated the relationship between Financial Literacy and Financial Performance of Small and Medium Enterprises (SMEs) using Kikuubo Shopping Centre

–Kampala as a case study. The study employed a co relational study design and a total of 160 respondents from SMEs owners and employees took part in the study. Data were collected using questionnaires and interview guides and both descriptive and inferential statistics were applied to the collected data. The study established a positive moderate and significant relationship exists ($r=0.4799$, $p<0.05$) between financial Knowledge and financial performance of SMEs; a positive strong and significant relationship exists ($r=0.6663$, $p<0.05$) between financial skills and financial performance of SMEs and a positive strong and significant relationship exists ($r=0.6508, p<0.05$) between financial experience and financial performance of SMEs. It was thus concluded that financial literacy is very key in promoting the financial performance of SMEs. The study recommends that financial literacy programs be incorporated in the various engagements of stakeholders through workshops and seminars with SMEs owners; and encouraging partnerships with financial institutions to provide customized financial literacy education to SMEs.

Kumari, et al. (2021) examined the level of financial literacy based on demographic factors and identifying the impact of Financial Literacy on Business Performance of Small and Medium Enterprises (SMEs) in the Kegalle district of Sri Lanka. Thus, a quantitative study has been conducted based on Prospect Theory, and Exchange theory. There is a dearth of studies related to these variables within Sri Lanka. The sample size was 100 SMEs in the Kegalle district and the representative purposive sampling method used to collect the required information. This study has been used primary data through questionnaires after conducting factor analysis, reliability and validity test. The objectives have been achieved through descriptive analysis, correlation, and regression analysis since the past empirical review suggested using this analysis to examine the relationship. The findings of the study revealed that there is a positive relationship between financial literacy and business performance. Accordingly, independent variables such as technical financial knowledge, financial market knowledge & financial management skills have an effect on the business performance of SMEs and among these variables, technical financial knowledge and financial management skills are the most influential factors which affect the business performance. This study also concluded that there should have good financial knowledge among owners to make decisions. This study also concluded that owners or employees should have higher education level.

Priyantoro, et al. (2023) examined and analyze the influence of financial literacy levels on business performance, with financial access and financial risk attitudes as mediating variables. Sampling in this research used a purposive sampling technique among tofu processing industry players in Kediri City. The sample was determined using the Slovin method and a sample of 400 respondents was obtained. The method used in this research uses Structural Equation Model (SEM) Partial Least Square (PLS) analysis through the SmartPLS data processing program version 3. The results of this research show that all hypotheses are accepted. Financial literacy, access to finance and financial risk attitudes have a positive and significant effect on business performance. Financial access is able to mediate the relationship between financial literacy and financial risk attitudes, and financial risk attitudes are also able to mediate the relationship between financial literacy and business performance in the Kediri City tofu processing industry.

UBSJBEP Volume 2 Issue 4
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Tumba, et al. (2022) examined the effect of financial literacy on business performance among female micro-entrepreneurs. Using the survey research design, data were collected from 247 female entrepreneurs from six states in the North-Eastern region of Nigeria. The hypotheses developed for the study were tested using path modeling-structural equation modeling with the aid of SmartPLS software version 3.2.7. The result revealed that all proxies of financial literacy (financial education, cash forecasting, and bookkeeping have significant effects on business performance of female entrepreneurs. Additionally, the study revealed that financial education contributed more to the variance in business performance of the female micro-entrepreneurs, this was followed by bookkeeping practices, while cash-forecasting has the least effect on the variance in business performance. This implies that financial education is essential for the success of female micro-entrepreneurs. Thus, this study advocates the need for continuing trainings and workshops for female micro-entrepreneurs on financial concepts such as bookkeeping, cash forecasting, and market volatilities.

Cherugong (2013) examined the effect of financial literacy on performance of small and medium enterprises in Trans Nzoia County, Kenya. The researcher used a descriptive research design. A sample of 85 SMEs was selected using stratified random sampling technique. The study population was stratified as hardware businessmen, clothes dealers, general retail traders and others. The study employed questionnaires to collect data from the field. Data collected were analyzed with the aid of Statistical Package for Social Sciences (SPSS 20). Data was then tabulated and presented using descriptive statistics. The researcher established that there was a positive strong effect of financial literacy on SMEs performance. The study recommended the providers of various financial literacy programs to consider implementing a program which fits the culture and traditions of the context targeted and avoid one size fits all because different SMEs have different experiences.

Chepkemoi (2017) examined the effects of financial literacy training on business profitability of SMEs in Coastal region Kenya using Kwale Country as a case study. The study used a sample of74 SMEs drawn from the 3 sub-countries of Kwale which included Kinang, Matuga and Msanbweni. The research design used was descriptive survey methods which involve the use of questionnaires and interviews. The population of the study included SMEs who benefited from the training offered by World Bank through the Kenya Coastal Development Project in Kwale country. Simple random sampling method was used to determine the sample size. The finding of the study established that financial literacy training positively influenced the performance of SMEs and profitability. The study concluded that financial literacy affected profitability or SMEs and it recommended that financial institutions should provide training to the SMEs to build their capacity on the available financial products and how to access them. The study used both questionnaire and interview as data collection instrument however this present study used questionnaire only to collect data from the respondents.

Tuyisenge, et al. (2015) investigated the role of financial literacy on loan repayment among small and medium entrepreneurs in Rwanda using Urwego Opportunity Bank as

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the case study. The research focused on 109 small and medium entrepreneurs in Urwego Opportunity Bank. A descriptive survey design was adopted in the study and questionnaire was used as the instrument of data collection. Regression analysis was used for test of hypotheses and findings of the study revealed that the quality of financial information available for financing institutions is rather poor. It also indicated that credits decisions become difficult and collateral requirements as well as interest rates are high, substantially aggravating access to credit and controlling the loan book was equally difficult. It concluded that the combinations of smaller enterprises without access to cash to grow their business and banks, which are increasingly reluctant to lend to smaller clients, hamper much needed economic and social development.

Materials and Methods

The research adopted cross sectional design within the framework of a quantitative approach. The population study targeted small and medium enterprises (SMEs) in Awka Anambra State, Nigeria. The study conducted a census of all the one hundred and seventy one (171) business owner and managers of the selected SMEs from the target population. Complete enumeration was adopted and so there was no need for sampling as all the selected SMEs were used. Primary data was used and was collected using structured questionnaires. The structured questionnaire was validated using face and content validity. Reliability analysis run with Cronbach Alpha indicates high internal consistency. Quantitative data was analyzed using correlation analysis.

Results and Discussion

Test of Hypotheses

Hypothesis One

H_o: Bookkeeping has no significant influence on SMEs Performance in Awka Anambra State.

Table 1: Pearson Correlation: bookkeeping and SMEs performance

		Bookkeeping	SMEs Performance
Bookkeeping	Pearson Correlation	1	0.641**
	Sig. (2-tailed)		0.021
	N	171	171
SMEs Performance	Pearson Correlation	0.641**	1
	Sig. (2-tailed)	0.021	
	N	171	171

Correlation is significant at the 0.05 level (2-tailed).

The Pearson Correlation analysis in Table 1 explores the relationship between bookkeeping and the SMEs performance in Awka Anambra State. The correlation coefficient of 0.641 indicates a statistically significant and strong positive correlation between the two variables. The positive sign suggests that as the implementation of bookkeeping practices increases, there is a notable increase in the SMEs performance. The correlation is deemed significant at the 0.05 level (2-tailed), implying that the likelihood of this correlation occurring by random chance is low. The null hypothesis is therefore rejected. Therefore, there is significant effect of bookkeeping on the performance of small and medium scale enterprises (SMEs) in Awka Anambra State. This finding is consistent with the belief among participants that bookkeeping practices significantly contribute to financial performance; a study conducted by Tumba, et al. (2022) and Rauf, (2016) found a direct link between meticulous bookkeeping practices and improved financial performance in SMEs.

Hypothesis Two

H_o: There is no significant influence of capital budgeting on SMEs performance in Awka Anambra State.

Table 2: Pearson Correlation: Capital budgeting and SMEs performance

		Capital Budgeting	SMEs Performance
Capital Budgeting	Pearson Correlation	1	0.852**
	Sig. (2-tailed)		0.031
	N	171	171
SMEs Performance	Pearson Correlation	0.852	1
	Sig. (2-tailed)	0.031	
	N	171	171

Correlation is significant at the 0.05 level (2-tailed).

The Pearson Correlation analysis in Table 2 investigates the relationship between capital budgeting and the performance of small and medium scale enterprises (SMEs) in Awka Anambra State. The correlation coefficient of 0.852** indicates a statistically significant and very strong positive correlation between the two variables. The positive sign suggests that as the effectiveness of capital budgeting decisions increases, there is a substantial increase in the performance of SMEs. The correlation is considered significant at the 0.05 level (2-tailed), implying a low likelihood of this correlation occurring by random chance. The null hypothesis is therefore rejected. Therefore, there is a significant influence of capital budgeting on the performance of SMEs in Awka Anambra State. This result lend support to Priyantoro, et al. (2023), and Begonja, et al., 2016) findings, that capital budgeting decisions have a direct impact on a firm's ability to generate returns and maximize shareholder wealth. The proper identification and selection of investment opportunities can significantly influence the performance SMEs.

Hypothesis Three

H_o: There is no significant influence of financial risk management on SMEs performance in Awka Anambra State.

Table 3: Pearson Correlation: financial risk management and SMEs performance

		Financial Risk Management	SMEs Performance
Financial Risk Management	Pearson Correlation	1	0.742**
	Sig. (2-tailed)		0.040
	N	171	171
SMEs Performance	Pearson Correlation	0.742**	1
	Sig. (2-tailed)	0.040	

N	171	171

Correlation is significant at the 0.05 level (2-tailed).

The Pearson correlation analysis in Table 3 examines the relationship between financial risk management and performance SMEs in Awka Anambra State. The correlation coefficient of 0.742 signifies a statistically significant and strong positive relationship, indicating that as SMEs implement effective financial risk management practices, there is a substantial tendency for higher levels of performance. The p-value of 0.040, below the 0.05 significance threshold, suggests that this observed correlation is unlikely due to chance. The null hypothesis is therefore rejected. This means that there is a significant influence of financial risk management on SMEs performance in Awka Anambra State. The prudent management of financial risks not only safeguards the firm from potential threats but also plays a significant role in shaping the working capital dynamics, this is in line with research by Chepngetich, (2016) and Kumari, et al. (2021) who explained that SMEs engaged in international trade are particularly susceptible to currency risks.

Conclusion and Recommendations

This study delved on influence of financial literacy on performance of Small and Medium-sized Enterprises (SMEs) in Awka Anambra State. The findings concludes that there is significant and positive relationships between bookkeeping practices, capital budgeting decisions, financial risk management, on performance of SMEs. These insights contribute to the growing body of knowledge on financial literacy and management practices, providing valuable implications for SMEs, policymakers, and researchers alike in their pursuit of sustainable growth and financial success.

Based on the findings of this study, the following recommendations are proffered:

1. There is need to increase emphasis on bookkeeping training programs for SME owners and managers. This can help improve financial record-keeping practices and contribute to better financial management.
2. There is need to promote awareness and education on capital budgeting practices. SMEs should be encouraged to adopt effective capital budgeting strategies to optimize their investment decisions and enhance overall performance.
3. There is need for businesses to strengthen their financial risk management practices. This may involve implementing risk assessment processes, adopting suitable risk mitigation strategies, and staying informed about potential financial threats.

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