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FINANCIAL KNOWLEDGE, ATTITUDE AND MANAGEMENT PRACTICES AMONG SMALL BUSINESS ENTREPRENEURS IN NIGERIA

A good level of literacy in financial management has been viewed as crucial to enhancing the growth of small business. However, the level of knowledge and attitude of managers of these businesses remains unclear. This study determines the level of financial literacy among small business managers. Using a survey research design, the study covers small business enterprises in Ogun State, Nigeria. Primary data obtained through questionnaire were analysed. The results show that the overall level of attitude of small business owners to insurance and savings are low. Similarly, based on financial knowledge relating to financing sources and interest estimation are also low. The overall financial management practices among the owners are also not encouraging. The findings suggest a need for an improved level of financial literacy among business enterprises to sustain the growth of the sector.

Keywords: management, financial literacy, financial attitude, financial knowledge, small business.

1. INTRODUCTION

The world over, small enterprises failure is known to be high and worrisome. Alese (2017) notes that "Financial Intelligence in 2013 showed that rate of SMEs failure in Nigeria stood at 70% within twenty years. In the US, National Business Incubator Association (2013) reports that within five years, about 80% SMEs close shop after their start-ups. While New Zealand SMEs rate of failure appear to be less than that of Nigeria and the US with 53% within 3 years, the US Small Business Administration (SMA) world report in 2013 indicated that the world aggregate of SME failure is about 33% within 3 years". To address this problem and foster development of the SME sector in order to harness its potentials for economic development in Nigeria, government over the years have planned different intervention programmes for the sector. Most of the interventions however bother on granting soft loans since it is believed that finance is the bane of SME development.

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An enterprise has to make different decisions ranging from production to marketing, human resource and finance decisions. Therefore, it is important for the managers to have requisite knowledge to handle decisions in these various functional areas of an enterprise. Since SMEs are owner-managed and that finance can be central to these other organisational decisions, it is important that SMEs owners have requisite financial literacy level to make correct finance decisions for their firms. Accessibility of financial resources can be a major obstacle to the development of SMEs, as it prevents investments in new technology and expansion that would make them more productive and more competitive. Agyapong and Attram (2019) observed however that past studies (Hossain, Yoshino, Taghizadeh-Hesary, 2018; Amornkitvikai, Harvie, 2018) continue to focus on the availability or otherwise of finance with little attention to the literacy of the SME operators in terms of financial knowledge and know-how.

Possessing the right knowledge, skills, and understanding on the use of money and how money works is an important skill required of small business owners. Refera, Dhaliwal and Kaur (2016) observed that recent trend in finance and economics has made financial knowledge not just a luxury, but an essential survival tool as lack of financial knowledge leads to poor financial choices and decisions, which could in turn result in undesired financial and economic consequences. The authors also underscored the increasing importance and attention to financial literacy given the increasing cost of living (McCarthy, 2011), complexity of financial markets (Lusardi, Mitchell, 2013; Nalini, 2011; Miller, Godfrey, Levesque, Stark, 2009) among others. Nowhere is financial literacy more important, according to Eniola and Entebang (2017) than in MSME sector since they constitute the backbone of most economies; generating about 70% of employment (Kauffmann, 2005).

Even though, education has been found to explain level of financial literacy among people (Atakora, 2013), rural small business owners are particularly more susceptible to wrong or poor financial decisions since their educational status is low. Past studies have so far indicated that financial literacy is low among youths (Lusardi, Mitchell, Curto, 2010; Atakora, 2013), yet many MSME sector are youth driven. However, most of these studies were conducted in the developed world particularly among the OECD countries. However, it appears that the subject is beginning to gain attention among researchers in developing African countries.

The study of the Department for International Development's (DFID, 2008) revealed that financial literacy level is low in African nations when compared to other countries. The survey reported that only about half of the adult population in seven African countries have knowledge of basic financial products even as about 50% did not use neither formal nor informal financial products. According to Central Bank of Nigeria (2012), a large percentage of Nigerians lack financial literacy, and more than 46.3% do not have access to financial services and queue behind some developed and even developing countries. This has been one of the major challenges faced by SME in the country given that poor financial literacy causes ill-informed financial decisions which, in turn, have tremendous negative spillovers (OECD, 2013).

This study examines the level of financial literacy among small business owners. Specifically, it focuses on the level of financial knowledge, attitude and management practices among the entrepreneurs in the small business sector. A good financial knowledge and attitude in a growing business are expected to results in efficient business management and overall positive outcome.

2. LITERATURE REVIEW

Huston (2010) accentuates the position that there is no one-size-fits all definition of financial literacy. Thus, he describes financial literacy as how well an individual understands and makes use of personal finance-related information. The Organisation for Economic Cooperation and Development (2005) defines financial education as the process by which investors improve their understanding of financial products and, through instruction, and objective advice, develop confidence to become more aware of financial risks and opportunities in order to make informed choices, to improve their financial wellbeing. Lusardi and Mitchell (2013) suggested that financial literacy is ability to process financial information and make appropriate decisions about wealth accumulation, debt, financial planning and pensions to enable individual and household to cope with the complexity of products in financial market. In Nigeria, the Central Bank of Nigeria, CBN (2015) defines it as having knowledge and skill to manage their financial resources effectively and enhance personal economic well-being.

Fernandes, Lynch and Netemeyer (2013) in their study operationalised financial literacy as the knowledge of basic concepts of personal finance which concerns borrowing/debt on one hand and saving/investments on the other hand which lead to enhanced lifetime financial decision-making. Their definition supposes that financial literacy is a single dimension reflecting objective knowledge in the domains of personal finance covering borrowing/debt and savings/investments. The United States Financial Literacy and Education Commission (2007) describe financial literacy as effective management of financial resources with use knowledge and skills for a lifetime of financial well-being. ANZ (2008) defines financial literacy as the ability to make informed judgments and to take effective decisions regarding the use and management of money.

Financial literacy according to ANZ (2011) survey consists of five things. They are staying informed, planning ahead, financial control, choosing financial products and keeping track of finances. Bosma and Harding (2006) argue that many SMEs fail due to lack of financial literacy and insufficient business insight which subsequently undermines entrepreneurial activity. Glaser and Walther (2013) and Miller et al. (2009) contend that financial literacy can be very important for many reasons. Not only does it help to prepare businesses and consumers alike for hard financial periods, through promotion strategies such as such as diversifying assets, accumulating savings and obtaining insurance capable of mitigating risks; such behaviours as over-indebtedness, money illusion and poor savings can be mitigated when an individual is financially literate. Similarly, financial literacy helps people in making improved financial decisions and manage risk. Kotzè and Smit (2008) suggest that lack of personal financial literacy may adversely affect effective financial management of start-ups and hence possible failures. A good level of financial literacy can increase access to finance (Wise, 2013), while reducing the likelihood of loan default (Kotzè, Smit, 2008).

2.1. Measures of financial literacy

Different authors and researchers have employed different constructs to proxy and measure financial literacy. Common among the measures are computer literacy, financial attitude, financial knowledge, financial behaviour and mathematical literacy (Oseifuah, 2010; Wise, 2013). On his part, Sucuahi (2013) used financial skills, record-keeping, budgeting and savings as measures of financial literacy. While financial attitude according to Mandell and Klein (2009) is the ability to assess novel and sophisticated financial instruments, analyse these instruments and utilize them in their own best long-term interests, financial awareness refers to individual's ability to comprehend and manage different financial strategies; and be aware of external service providers. Furthermore, it refers to the conceptual knowledge of financial product offerings by financial institutions and the ability to make informed decisions capable of facilitating achievement of the individual financial goal.

In terms of methodology, different researchers have used varying methods to study financial knowledge, measured by its different dimensions mentioned above and its effect on different outcomes. For instance, Eniola and Entebang (2017) used structural equation model (SEM) to analyse the influence of financial literacy of some SME business owners-managers' on firm performance in three states in the southwest Nigeria. Surprisingly, the authors found that financial knowledge and awareness of SME owner-managers evidently cannot be condition for the performance of SMEs.

Drawing on a tripartite theories knowledge-based perspective, peaking order and dual process theories, Ye and Kulathungawe (2019) examined the impact of financial literacy, access to finance and financial risk attitude on SMEs' sustainability in Sri-Lanka. Analysis of data obtained from 291 chief financial officers (CFOs) of SMEs using structural equation modelling revealed direct positive influence of three constructs on SME sustainability. Interestingly, the study reported that financial literacy is a predictor of access to finance and financial risk attitude. Moreover, access to finance and financial risk attitude partially moderated the relationship between financial literacy and SMEs' sustainability. Similarly, Agyapong and Attram (2019) had recommended policy makers should undertake efforts to enhance the financial literacy of owner-managers of SMEs based on the findings of their study on effect of financial literacy of small business performance in Ghana having found positive relationship between financial literacy and the firms' financial performance.

In their study, Bruhn and Zia (2013) analysed the effect of financial literacy program on corporate outcomes of some young entrepreneurs in Bosnia and Herzegovina. The results suggest that entrepreneurs who have higher levels of financial literacy recorded better business performance as well as sales. Andoh and Nunoo (2011) reported that poor financial literacy can inhibit SMEs from assessing financial products from financial institutions and thus concluded that the financial literacy of owners of SMEs is a critical factor which explains utilization of financial services by SMEs. Interestingly, Cole, Sampson and Zia (2008) noted that rural residents tend to have least level of financial knowledge.

Despite the growing body of knowledge on financial literacy, it appears researchers are not agreed on the measurement of the construct. Oseifuah (2010) had used financial knowledge, financial attitude and financial behaviour as measurement of financial literacy. Conversely, Fatoki (2014) employed more constructs comprising of insurance, analysis and control, understanding of funding sources, financial planning, bookkeeping, technology, business terminology, finance and information skills to indicate financial literacy among new micro-enterprises. Yet, Nigeria Deposit Insurance Corporation (NDIC, 2012) measured the concept with financial planning, money management, and personal financial behaviour. Similarly, Ebiringa and Okorafor (2010) adopted financial skills, financial knowledge and financial concepts and terms. Review of extant literature revealed that studies that empirically measured financial literacy in such areas as knowledge, awareness and attitude of the SME managers in Nigeria are scarce. It is against this backdrop that this present study surveys the financial literacy levels among micro and small enterprises in rural areas in Ogun state, south-west, Nigeria.

3. METHODS

The survey was conducted in three local government areas that enjoyed proximity but highly commercial in Ogun state, South-West, Nigeria. We obtained primary data via questionnaire in a survey with the help of our postgraduate students who served as field research assistants. We used only SMEs with total number of full-time employees equal or less than 100 to avoid problem of SME classification and in agreement with National Association of Small Scale Industrialists (NASME) classification. Because it was difficult to ascertain the actual population of the study in the study area as no reliable data exists to the effect, we used purposive sampling method to select a sample of seventy-nine (79) MSMEs owner-managers. We filtered only businesses that have been in existence for three years minimum which is believed to allow for stability as suggested by Fatoki (2014). More so, it has been noted that the world over, 33% of SMEs close shops within 3 years (US Small Business Administration, 2013). We believe that a three years threshold allows us to test financial literacy, attitude and knowledge among the SME owners' hands-on experience on their businesses. In addition, we focused on SMEs with capacity to take advantage of limited financial instruments in the country. Ability to take advantage of these financial windows are crucial to the overall financial literacy and attitude of the SMEs. This is based on the importance of financial literacy and attitude as an effective decision-making factor regrading financial management of small businesses (Nohong et al., 2019; Mashizha, Sibanda, Maumbe, 2019). Similar approach had been used in earlier studies such as Arko--Achemfuor (2012) and Fatoki (2014). We carried out a pilot study of nine small business owners (three each from the local governments) to further confirm the usability of the instrument. The instrument in all had only eleven items considered brief enough to inspire participation in the survey. In line with the objective of the study, we employed descriptive statistics to analyse the data. Financial literacy was measured with constructs on financial attitude, financial knowledge and financial management practices.

4. RESULTS AND DISCUSSIONS

4.1. Characteristics of respondents

The demographics of the respondents are presented in Table 1. Males dominated the respondents with 79.74%. The analysis of age distribution of the respondents show that younger people are largely involved in small business enterprises. This distribution is expected to have effect on their financial orientation in business management. The statistics of age distribution show that 22.78% are below 30 years of age; 30.40% are in the age bracket of 31 and 40 years of age; 32.91% are within 41 and 50 years bracket. The level of education is also relatively high as 69.62% have Bachelor Degrees in various disciplines of management.

Table 1. Socio-economic distribution of the respondents

		Frequency	Percentage
Gender	Male	63	79.74
	Female	16	20.25
Age	Below 30	18	22.78
	31–40	24	30.40
	41–50	26	32.91
	51 and above	11	13.92
Qualifications	Diploma	16	20.25
	Bachelors	55	69.62
	Masters	8	10.13
Experience in Business	3–5 years	19	24.05
	6 to 10 years	44	55.70
	Above 10 years	16	20.25
Membership of Cooperative Societies	Yes	58	73.42
	No	21	26.58

Source: Authors own research.

4.2. Level of financial knowledge, attitude and management of small business owners

The analysis of financial information regarding small business owners is presented in this sub section. First, the criteria for the evaluation of the attitude, literacy and financial management of the business owners are presented in Table 2.

4.2.1. Criteria for evaluating level of financial literacy among business owners

The level of financial literacy among small business owners was evaluated based on the criteria suggested by Guliman (2005). Financial literacy is considered to be low if mean score is below 60% on percentage scale. The level is considered average if the level of financial literacy ranges between 60 and 80. However, the level of financial literacy is high if the percentage score is greater than 80 (Table 2).

Table 2. Criteria for evaluating level of financial literacy among business owners

Percentage score (mean)	Level
< 60	Low
60-80	Average
> 80	High

Source: Authors own research.

4.2.2. Level of financial literacy of small business owners

Results in Table 3 show the level of financial literacy among small enterprises in the study area. The result indicates a low level of financial literacy among the respondents. The overall percentage score of financial attitudes of the firms is 34.87% which is below 60% on the scale of Guliman (2005). Hence, the literacy level is ranked low. Although, the budgeting component of the financial attitude is average, having reach an average score of 63%, the score of attitudes to insurance and savings are respectively 19.0% and 22.5%. Similarly, financial knowledge components of the firms are all below 60% with a total average of 44.65%. Consequently, the financial knowledge of the firms is also low. The overall financial management practices of the firms is 42.31%, indicating that the financial management practices of the firms is low on the scale of financial literacy.

Table 3. Financial attitude, knowledge and management practices of small business owners

	Percentage score (mean)	**Remark (Literacy level)**
Financial attitude		
Budgeting	63.0	Average
Insurance	19.0	Low
Savings	22.6	Low
Total	*34.87*	*Low*
Financial knowledge		
Knowledge of compound interest	33.3%	Low
Knowledge of sources of finance	56.0%	Low
Total	*44.65%*	
Financial management practices		
Record of all stock	39.74%	Low
Records of drawings from the venture	43.59%	Low
Documented business plan	29.49%	Low
Existence of feasibility study for the business	53.85%	Low
Total	**42.31**	**Low**

Source: Authors own research.

5. CONCLUSION

Although being financially literate can help individual and business units to make important financial decisions that will help them get the best benefits from their finances, financial literacy level remain low in Nigeria and Ogun state in particular. Although it is common to argue that the bane of SME development particularly in Nigeria is availability of finance. While the truism of this position before now was not in doubt, analysis of the findings of this study, like others, may begin to cast aspersion on this long held position. Government over the time through various intervention programmes provides funds that can be accessed by SMEs for development. But where the intended beneficiaries are not aware of such opportunities, or cannot make the best out of such funds even when they can access them since they know little about the working of money, the lofty goal of helping SMEs grow may be far from being achieved. This supports the findings of Ye and Kulathunga (2019) had suggested that financial literacy in the first instance is likely to affect access to finance.

Sequel to above, it is important that concerned government agencies look beyond providing funds for SMEs development and begin to pay attention to financial education for SMEs especially micro and small business owners/operators as this does not only equip them with knowledge of how to access finance but also use the funds thereby enhancing their survival. Non-governmental organisations as well as universities and other educational institutions can develop education programmes to assist this important sector of the economy in order to better their lot financially.

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