

# Imparative of Financial Proficiency on Performance of Small and Medium Enterprises (SME) in Nigeria, Using Bayelsa State as Case Study

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## ABSTRACT

This research is carried out to examine the imperative of financial proficiency and performance of small and medium enterprises (SME) in Nigeria, using bayelsa state as case study. Sample of small scale enterprises in Yenagoa city of Bayelsa state was taken, Linear Regression with Ordinary Least Square was used to test the hypotheses with the aid of SPSS version 20.0. The findings of the study revealed that there is a significant relationship between financial literacy reporting and profitability of small scale enterprises. The study recommended that it is evident that financial behavior is an important contributor to performance of SME's, and that a statewide financial literacy week campaign be instituted by ministries and agencies in collaboration with SME and well targeted at business owners in rural areas, financial institutions should observe thoroughly the type of businesses, knowledge in the type of businesses etc. before granting loans to small scale enterprises, access to finance is not necessarily a route to success for small scale enterprises but crucially, they need mentorship and business skills transfer to make the transition to becoming established in the formal sector and, in addition to other recommendations, SMEs must hire financial experts to help them manage their businesses as well as to deal with the issue of financial record keeping.

**KEYWORDS:** *financial proficiency, Medium Enterprises, reporting, mentorship*

## INTRODUCTION

In a dynamic and uncertain business environment, entrepreneurs are faced with many challenges that can be overcome by acquiring financial knowledge. As the adage goes "knowledge is power" and so financial literacy is power. Ideally business education would give an entrepreneur an upper hand in making financial or investment decisions when compared to a counterpart with no basic financial education. In fact majority of SMEs in informal sector are financially illiterate and with little or no basic education. Most SMEs in Nigeria die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive, thrive and grow to maturity (Aremu and Adeyemi 2020). Many factors have been identified contributing to this premature death of SMEs. Key among them include insufficient capital, irregular power supply, infrastructural inadequacies

(water, roads etc.), lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition Basil (2016).

Many entrepreneurs keep no books of account or any record at all and do not know the difference between income and profit. Many studies have mainly dwelt on importance of financial literacy and its effects on household or personal financial behavior with little or no theoretical and empirical study on financial

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literacy reporting and profitability of SMEs. Studies have been conducted on the importance of financial proficiency on performance in terms of profitability and growth of MSE's and have shown that lack of financial proficiency level among people around the world has caused business failures and even considered as one of the factors that contributed to the worldwide economic crisis of 2008 (Niwaha, Schmidt, & Tumuramy, 2016). A study on the role of financial literacy on the profitability of women owned enterprises in Kenya suggested that budgeting, cash management, savings and record keeping are significant in the profitability of women owned businesses (Kalekye & Memba, 2015). It emphasized the importance of financial training in enhancing capabilities and day to day running of businesses. Another study by Lusimbo & Muturi, (2016) that focused on the importance of financial literacy on small enterprises growth found that although MSE managers had fair knowledge of debt management literacy, majority do not understand the effect of inflation and interest rates on what they borrow in terms of matching assets and liability. They added that the managers exhibit low book keeping literacy and in turn recorded minimal or no growth. In Kenya, Kalekye & Memba, (2015) studied the effects of working capital management practices on financial performance of small scale enterprises in Kisii South district. In his study, he established that majority of business operators did not have business management knowledge and further suggested a study to unravel the impact of training on performance of business. Entrepreneurs with training on business skills were found to perform better than their counterparts with no business management knowledge.

A significant obstacle to sustainable profitability of small and medium scale enterprises (SMEs) throughout the developing world is a lack of knowledge, skills, attitude and awareness to cope and direct the finances of their organization in a hardy, transparent, and professional way. The problem associated with small scale enterprises lack of financial literacy reporting is evident in their inability to keep complete accounting records. This invariably has resulted into a situation where SMEs operating in Nigeria cannot capture adequately the business profit. This is because in the process of calculating profit, financial data are not assembled in a way that can help make informed judgment and take decisions about the business. These financial data cannot be assembled without adequate financial literacy. This problem has ultimately affected the profitability of small scale businesses. Most SMEs have not appointed financial managers/accountants to be in charge of financial reporting and management of the

company. Usually, the owner-managers with the assistance of the chief-accountant control financial matters of the company. However, most owner-managers have no formal training in management skills, especially financial proficiency. Lack of knowledge of financial management combined with the uncertainty of the business environment often leads SMEs to serious problems regarding profitability. Regardless of whether owner-manager or hired-manager, if the financial decisions are wrong, of the company will be adversely affected. Moreover, undercapitalization and uncertainty of the business environment cause SMEs to rely excessively on equity and maintain high liquidity and these financial characteristics probably affect SMB profitability (Vuong, 2019). The problem is further compounded by scanty empirical studies reviewing the relationship between financial proficiency reporting and SME performance. It has however been worrisome that despite the incentives, policies, programmes and support aimed at revamping the SMEs, they have performed rather below expectation in Nigeria. Different people, organizations, and operators have advanced various reasons as to why SMEs have not been able to live up to their billing. While an average operator would always hinge his failure on lack of access to finance, some others think otherwise arguing that inappropriate management skills, difficulty in accessing global market, lack of entrepreneurial skills and know how, poor infrastructure etc, are largely responsible. It is therefore interesting to find out whether financial proficiency as we know it has impact on SMEs success.

According to Agwu and Emeti (2019), as a means of reducing the incidence of poverty and unemployment in the country after Nigeria's independence in 1960, much emphasis has been laid on the growth of small and medium scale industries. The adoption of the economic reform program in 1986 has since been a decisive shift from magnificent, capital intensive and large scale industrial projects based on import substitution to small scale industries with immense potentials for developing domestic linkages for sustainable industrial development. Apart from SMEs potential for self-reliant industrialization using local raw materials, they are in a better position to boost employment, guarantee even distribution of industrial development and facilitate the growth of non-oil exports. Fissaeha (2019), states that, in developing countries, SMEs employ 22% of the adult population while Fabayo (2018) cited in Agwu and Emeti (2019) observed that small firms are major source of employment opportunities for a wide cross-section of the workforce, the young, old, part-time workers and

the cyclically unemployed. Kombo (2021) submitted that SMEs provides a source of livelihood for the majority of low income households in Kenya and have contributed greatly to the growth of the economy, accounting for 12-14% of GDP. Through creating employment opportunities, training entrepreneurs, generating income. Hence, promotion of such enterprises in developing economies like Nigeria will bring about, among host of other positive economic uplifting factors, economic self-dependence, great distribution of income and wealth and entrepreneurial development and a host of other positive economic uplifting factors (Aremu, 2020). SMEs are regarded as veritable engines for its attainment of national objective in terms of employment generation. They reduce the flow of people from rural to urban areas and can easily be established with minimal skill.

Sharma (2017) explained that the predominant reasons made by scholars for conducting research on family-owned businesses has been the realization of the magnitude and dominance of these businesses in the global economic landscape. Hence, family-owned businesses, in particular the small-to-medium sized, are the grassroots of the global economy, and are clearly the majority of all the businesses in the world Heck and Trent (2019), and are as old as civilization (Aronoff, 2015). Even though family businesses are fundamentally the keystone of sustaining our economy and society, their pervasiveness often goes unnoticed. Despite the numerous benefits of SMEs worldwide, these enterprises are reported to have a high death rate and at the same time high birth rate (Fatoki, 2017; Oluoch, 2019). Low financial literacy which results to poor planning. limited access to finance and poor financial management has also been attributed to the high -failure rate of SMEs (Oluoch, 2019). Fatoki (2017) concurs with these assertions and also adds that a contributing factor could also be the difficult financial decisions that entrepreneurs make in their personal or business finances Mounting evidence reveals that apart from an enabling environment and access to capital, the success of SMEs largely depends on the financial management skills of the managers. Individuals or entrepreneurs with financial proficiency skills tend to make better financial decisions with fewer management mistakes than their counterparts who are financially illiterate (Fatoki, 2017) A financially literate individual is a better planner and prudent resource allocator than the illiterate counterpart when faced with scarce resources and multiple competing wants This is supported by Greenspan (2022) who argues that financial literacy equips individuals with the financial knowledge necessary to make strategic investment

decisions, create household budgets, and initiate saving plans.

Financial proficiency is the mastery of a set of knowledge, attitudes and behaviors. It was defined by Nkundabanyanga and Kasozi (2018) as the ability of an individual to make informed judgment and take effective decisions regarding the use and management of money. They added that such person also possesses a facilitating attitude to the effective and responsible management of financial affairs. That is the ability to read, analyze, manage and communicate personal financial conditions that affect well-being and the ability to distinguish financial choices, discuss money and financial issues without discomfort. It has assumed the role in allowing people to make responsible decisions as they strive to attain financial wellbeing (Ani, Kelmara, & Wesley, 2016). Financial proficiency has become essential in the running of businesses and operations of organizations in the complex and dynamic environment today. Atkinson and Messy (2018), added that governments around the world are interested in finding effective approaches of improving financial proficiency of their populations through developing strategies for finding out with the main aim of providing various learning opportunities Financial education as defined by Anz (2016), in a process of developing abilities of people to facilitate making decisions that are correct and to manage finances successfully Therefore, it is right to conclude that financial education in knowledge which is among other factors involved in financial literacy. Financial literacy has got an increasing interest in developed countries because of the increasing complexity of financial markets, increasing cost of life, the shift of retirement responsibility from government to individuals, which all demand personal financial management capability in individual and households (Refers, Dhaliwal, & Kaur, 2016). They added that studies revealed recent modest recognition of financial proficiency in developing countries, which showed promising outcomes of financial education and other interventions that are being implemented. However, there is no much information about financial proficiency level and financial education programs in least developing countries in Africa. According to Xu and Zia (2019) on their paper, review of financial proficiency across the globe, the survey results in sub-Saharan Africa indicated that, a large proportion of population in some countries like Mozambique, Malawi, and Nigeria lack awareness of basic financial products and concepts such as saving accounts, interest on savings, insurance. and loans. This shows that the low level of financial proficiency is correlated with low level of financial inclusion in Africa.



A significant obstacle to sustainable performance of small and medium scale enterprises (SMEs) throughout the developing world is a lack of knowledge, skills, attitude and awareness to cope and direct the finances of their organization in a hardy, transparent and professional way. The problem associated with small scale enterprises lack of financial proficiency is evident in their inability to keep complete accounting records. This invariably has resulted into a situation where SMES operating in Nigeria cannot capture adequately the business profit. This is because in the process of calculating profit, financial data are not assembled in a way that can help make informed judgment and take decisions about the business. These financial data cannot be assembled without adequate financial proficiency. This problem has ultimately affected the profitability of small scale businesses. Most SMEs have not appointed financial managers/accountants to be in charge of financial reporting and management of the company. Usually, the owner-managers with the assistance of the chief-accountant control financial matters of the company. However, most owner-managers have no formal training in management skills. Lack of knowledge of financial management combined with the uncertainty of the business environment often leads SMEs to serious problems regarding performance. Regardless of whether owner-manager or hired-manager, if the financial decisions are wrong, of the company will be adversely affected. Moreover, undercapitalization and uncertainty of the business environment cause SMEs to rely excessively on equity and maintain high liquidity and these financial characteristics probably affect SME profitability (Vuong, 2018).

### **Aim and Objectives of the Study**

The aim of this study is to examine the imperative of financial proficiency and performance of small and medium enterprises (SME) in Nigeria, using bayelsa state as case study. The specific objectives are to:

Ascertain the effect of financial behaviour on net profit of SMEs in Bayelsa state.

Evaluate the effect of financial behaviour on Return on Investment of SMEs in Bayelsa state.

In line with the aim and objectives of the study stated above, the following questions are asked

To what extent do financial behaviour impact on net profit of SMEs in Bayelsa state?

What is the effect of financial behaviour on Return on Investment of SMEs in Bayelsa state?

The study is guided by the following hypotheses and stated in null form,

Ho1: Financial behaviour do not significantly relate to net profit of SMEs in Bayelsa state.

Ho2: There is no significant relationship between financial behaviour and Return on Investment of SMEs in Bayelsa state.

### **LITERATURE REVIEW**

This section introduces the conceptual framework of the study, displays the theoretical framework and provides an empirical review, focusing on financial proficiency and the performance of SMEs.

#### **Conceptual Framework**

##### **Financial proficiency and Small Enterprise Performance**

A small enterprise owner must be able to evaluate the information needed to make decisions that have financial ramifications or consequences on the business. According to Brown, (2018), financial literacy reporting for small business owners must contemplate the ability to read and understand fundamental financial statements, as well as, the ability with numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money. A recent work from two authors describes financial proficiency as "the ability to understand, compute and use business financial statements to generate key financial ratios to evaluate and manage a business." - (Pear and Eileen, 2021). The definition of financial proficiency regarding small business is much more demanding, not only, for financial knowledge, which must contemplate the capability of read and understand financial statements information, but also in financial behavior, with the habits concerned with the analysis of financial information, and financial preferences or attitudes, which must be positively correlated with financial knowledge and behavior, in the moment of taking the daily management decisions.

##### **Financial Behaviour**

Research has shown that financial proficiency consistently predicts measures of financial behavior of individuals, (Hung, Parker & Yoong, 2019) came up with various models that could be used to measure financial literacy indicated that financial knowledge and financial attitude have positive impacts on financial behavior. Sucuahi (2017), highlighted that a good financial behavior involves the ability to make financial decisions that increase wealth and prevent uncertainties of businesses and individuals. These activities generate more financial assets, prevent over-indebtedness, finance retirement, and insure against major life contingencies. Good financial behavior is the ability to diversify assets across multiple types of investment as different investment types are affected by its own specific risk profile.

### Financial proficiency and Behavior

Several studies showed that financial proficiency is positively related to self-beneficial financial behavior. Hilgert, Hogarth, and Beverly (2016) added financial behavior and financial literacy questions to the nationwide Survey of Consumer Finances. They formed a Financial Practices Index based upon behavior in four variables: cash-flow management, credit management, savings, and investment practices. Comparing the results of this index with scores on the financial literacy quiz, they found that those who were more financially proficiency had higher Financial Practices Index scores, indicating that financial knowledge is related to financial behavior. In a study of Dutch adults, Van Rooij, Lustirdi, and Alessie (2017) found that those with low financial literacy are more likely than others to base their behavior on financial advice from friends and are less likely to invest in stocks. Mandell (2016) found that high school seniors with higher financial proficiency scores were less likely than others to bounce a cheque and more likely to balance their cheque books. Sometimes, knowing when to ask for help can be the hardest part of any endeavor. No matter how good your financial proficiency may be, many small business owners don't have the time and energy they need to devote to good bookkeeping and still have time and energy left over to actually run their business. Sometimes the best expression of financial proficiency is knowing when to turn to the professionals for some assistance. While financial proficiency applies to everyone from individuals and families to multinational corporations, it is perhaps most important for small to mid-size business owners.

### Budgeting and planning

A budget is an important aspect of business planning. Budgeting refers to the expenditure planning and cash flow analysis. Uddin, Chowdhury and Zakir (2019) asserts, is very important to the success of the business operation and processes. Budgeting income and expenditure is the most important factor of business financial finance management and for it to be done correctly financial proficiency and knowledge is vital. Not budgeting money leads to lower saving and investment rates, lowers the possibility of having retirement plans. Organizations prepare budgets for the process of planning to allocate resources that are limited human, physical, and financial resources. Budgets often use historical data to be formulated and as the firm grows, the accuracy of its budget becomes almost perfect because of the many historical data to draw from (Jims, 2018). Although a budget may not be 100 percent accurate, budgeting aid to better management of an enterprise and helps to achieve higher profits and minimize

losses. Budget is a comprehensive, formal plan that estimates the probable expenditure for an Entrepreneur over a specific period). This has been an important subject in the literature of accounting for a long time and one of the basic significance of the performance of business firms (Eker, 2016). The activities of business organization to be financed through the budget are usually many and diverse. In total, they affect the profitability and ability of business organization to achieve its stated objectives. Budgeting is a contributing factor to the success of a business's operations, however, most-small business owners focus more on cash flows instead (Sucuahi, 2017). Sucuahi found that managers of Micro enterprises used budgeting for monitoring performance but they were not able to prepare these budgets on a regular basis. Most scholars argue that financial planning should not be integrated into the equation of financial proficiency. Like (David, 2019), who pointed that financial literacy only involves understanding about investing and financial planning rather than the actual planning process. He added that an alternative view of incorporating planning in the financial proficiency equation is by looking at it as a long-term financial management decision making process. The argument of Okafor (2022) that distinction between successful and failed entrepreneur lie in their ability to manage the pre-existing fund through effective budgeting and budgetary control calls for more empirical approach to measure budgeting impact on small business profitability. The influence of budgeting on entrepreneurial performance has not been greatly explored in Nigeria. Lack of skills has been a major challenge to the SMES and skills acquisition through training can provide a long lasting solution to the survival battle of the SMEs. Due to various reasons, some SMEs end up closing down business at an early stage. This could result from the view that the entrepreneur miscalculated the opportunity, and unforeseen threats that are too big for the business to overturn, lack of essential information on running the business and lack of proper funding of the business. Kalekye and Memba (2019) in their research on the role of financial literacy on profitability of women owned business found that although budgeting is very important in increasing profits and minimizing losses of business enterprises, women were not consistent in financial planning. Small businesses don't have a lot of wiggle room in their budgets and the difference between a small business that's run by someone with financial literacy and one that isn't can be the difference between a business that succeeds and one that fails. Businesses have to manage debts, accounts receivable, and cash flow. Cash flow has been called

the lifeblood of any business and that's a pretty accurate assessment. You have to spend money on payroll, equipment, inventory, and raw materials in order to run your business, but you also have to know what money is coming in before you can spend it. By keeping your books clean and orderly, you'll have a better understanding of what money you have available and can plan for the future of your business more accurately. One of the most important, but most often overlooked, parts of running a successful business is making a good budget and sticking to it. Knowing how much you can afford to spend, how much the daily operations of your business will cost, and how much you'll actually profit, can be the difference between seeing your business succeed and running it into the ground. And making a good budget is often a function of having good financial literacy (Akanke & Yinus, 2017).

### **Debt management**

Debt management is the ability to perform activities of a business within a budget. A plan is usually created to help people manage their debts especially those with too much debt, often referred to as debt management plan. Sucuahi, (2017) emphasized that debt management skill is a necessary financial literacy measure that gives the ability to obtain capital at a minimum cost. Researches have shown that most Micro and Small entrepreneurs are not financially literate when it comes to the aspect of obtaining finance for their business (Assibey, 2020). However, the findings suggested that micro entrepreneurs are very much aware of the consequences and penalties that comes with poor debt management. One of the challenges of micro and small entrepreneurs encounter in debt management is the inability to perform accurate calculations and lack the level of numeracy skills especially for the elderly, female and less educated population (Plakalovi, 2015). He highlighted in his publication that the less financially literate persons cannot be able to properly estimate their debt burden and they borrow at inflated costs, therefore, they finish up with excessive borrowing and many non-performing loans. Acquiring debt management skills is henceforth very important for SME managers for greater performance.

### **SMEs Performance**

Most SMEs in Yenagoa city operate as family/sole proprietorship business and are generally classified into commercial, industrial and agricultural categories depending on their activities though commercial SMEs constitute more than 90% of the entire number. Because, SMES can be established with minimal capital/registration/managerial skill, they are in the most vantage position for employment generation and

promotion of entrepreneurial capacity at the local level. Despite the presence of many SMEs in Nigeria, the high rate of unemployment (14.2%) in the last quarter of 2019, and in an estimated population of 186.0 million persons suggests that these SMEs are experiencing some major challenges that are hindering their performance. In both developed and emerging economies, promoting a favorable environment for the development of small and medium scale enterprises (SMEs) is seen as critical. SMEs are a primary driver for job creation and GDP growth. They greatly contribute to economic diversification and social stability and also play an important role for private sector development. It is well known that small and medium-sized enterprises are facing increasingly more financing constraints and this affects the profitability of the firms. It is a great challenge for SME to access loans or to attract investment which slows their growth and therefore SMEs must use other methods to assure their profitability. In our country these processes are hampered due to the characteristics of SMEs, over 99% have less than 10 employees (Nicolescu, 2019) and are therefore less attractive for the investors. A lot has been said and written about SMEs the world over. It has also formed the subject of discussions in so many seminars and workshops both locally and internationally. In the same token, governments at various levels (local, state and Federal levels) have in one way or the other focused on the Small and Medium Enterprises. While some governments had formulated policies aimed at facilitating and empowering the growth and development and performance of the SMEs, others had focused on assisting the SMEs to grow through soft loans and other fiscal incentives. A key challenge for most SMES is the problem of financing. The 2019 Enterprise Baseline Survey revealed that there are 17 million Small and Medium Scale Enterprises in Nigeria, employing 32.41 million persons and makes a contribution of about 46.54 per cent to the nation's Gross Domestic Product in nominal terms. The survey conducted by the Pro-Poor Growth and Promotion of Employment Programme in collaboration with Small and Medium Enterprises Development Agency of Nigeria, SMEDAN, with support from the German Development Agency was aimed at establishing a clear data-driven basis for policy to support the SMEs segment of the economy.

### **Characteristics of SMES in Nigeria**

A major characteristic of Nigeria's SMEs relates to ownership structure or base, which largely revolves around a key man or family. Hence, a preponderance of the SMEs is either sole proprietorships or partnerships. Even where the registration status is



thus that of a limited liability company, the true ownership structure is that of a one-man, family or partnership business. Other common features of Nigeria's SMEs include the following among others. Labour-intensive production processes, Concentration of management on the key man, Limited access to long term funds, High cost of funds as a result of high interest rates and bank charges, High mortality rate especially within their first two years, Poor managerial skills due to their inability to pay for skilled labour, Poor product quality output, Absence of Research and Development, Little or no training and development for their staff, Poor documentations of policy, strategy, financials, plans, info, systems, Low entrepreneurial skills, inadequate educational or technical background, Lack of adequate financial record keeping, Poor Capital structure, i.e. low capitalization, Poor management of financial resources and inability to distinguish between personal and business finance, High production costs due to inadequate infrastructure and wastages, and Poor access to vital information.

### **Challenges of the SMES**

Most SMEs die within their first five years of existence. Another smaller percentage goes into extinction between the sixth and tenth year thus only about five to ten percent of young companies survive, thrive and grow to maturity. Many factors have been identified as to the possible causes or contributing factors to the premature death. Key among this include insufficient capital, lack of focus, inadequate market research, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, lack of planning, uneasy access to funding, poor policy implementation, restricted market access, problems of inter-sectoral linkages given that most large scale firms source some of their raw material outside instead of sub-contracting to SMEs, lack of requisite skill and experience, thin management, unfavorable monetary policies, lack of entrepreneurial spirit, poor capital structuring as well as poor management of financial, human and other resources. Their characteristics and the attendant challenges notwithstanding, it is the consensus that SMEs, which globally are regarded as the strategic and essential fulcrum for any nation's economic development and growth, have performed rather poorly in Nigeria. The reason for this all- important sector's dismal performance have been varied and complicated depending on who is commenting or whose view is

being sought. While many attribute the relatively poor performance of SMEs in Nigeria when compared with the significant roles which SMEs have played in developed economies such as the United Kingdom, Germany and the United States and even developing countries of the world like India to the challenges outlined above, some others hinge the reasons on the fair share of neglect on the sector by the government. The latter group argues that government's appreciation of the SMEs in capacity building has always been restricted to the pages of the budget presentations and submissions at various fora. Essentially, they argue that poor budget implementations over the year's account for the unpleasant impacts of SMEs on the Nigerian economy, which has had a record sluggish growth and declining future as measured by the population of Nigerians becoming literate, having more access to better health care, shelter, food, and other necessities of life such as access to more and better paying jobs as well as declining per capita income.

### **Debt Management and Performance of Small Scale Enterprises**

Small scale enterprises just like other organizations need capital to run their operations. As earlier alluded to, generating capital through credit systems has become a necessity for the growth of small scale enterprises. This creates debt for such businesses. Aspen Law and Business (2004) defines debt as an amount owed to a person or organization for funds borrowed. For the purposes of this study, debt is defined as any amount due to any authority for which payment has not been effected. (Kalekye & Memba, 2015) argues that debt management is any approach that is adopted to guide an individual or business organisation to manage its debt. This definition includes debt settlement, bankruptcy, debt consolidation, personal loans as well as other techniques that assist businesses to service outstanding debts. Root (2019) contends that, debt management is an act of trying to get one's debt under control and become responsible for repaying associated obligations. It can therefore be inferred that debt management is a conscious measure taken by a debtor or agents hired on their behalf to reduce the debt burden or strategize to eliminate the debt through acceptable payment terms. Cecchetti (2017) observe that a reasonable debt level improves welfare and enhances growth but high level debts can lead to a decline in growth of a firm. Reinhart (2019) reinforces this assertion by arguing that debt impacts positively to the growth of a firm only when it is within certain levels. Accumulating high levels of debt by a small scale enterprise will constrain its ability to undertake project that are likely to be

profitable. This is because it would not be able to attract new debt from financial institutions. Specifically, on the relationship between debt management and profitability of small scale enterprises, the findings from the literature analysis show that debt management plays an important role in any business particularly small scale enterprises. Thus prudent debt management ensures that small scale enterprises are able to honor their debt obligations. However, as revealed by Ross (2019) the obligations of businesses are numerous including purchases, payment of wages and salaries and taxes. Therefore, the basic objective of debt management is to keep the investment in debt as low as possible while still operating the firm's activities efficiently and effectively. This is crucial for smooth and reliable business operations. Ross (1996) further assert that an enterprise can also increase its net debt flow by slowing down disbursements. The importance of keeping debt balances by micro and small scale enterprises cannot be taken for granted. Moyer (2001) argue that effective debt management is particularly important for small scale enterprises.

Those who have greater financial knowledge are more likely to accumulate higher amounts of wealth. Higher levels of financial literacy have been found to be related not only to asset building but also to debt and debt management, with more financially literate individuals opting for less costly mortgages and avoiding high interest payments and additional fees (Gerardi, 2019). Accessing finance has been identified as a key element for small and medium enterprises to succeed in their drive to build productive capacity, to compete, to create jobs and to contribute to poverty alleviation in developing countries. Small business especially in Africa can rarely meet the conditions set by financial institutions, which see small and medium enterprises as a risk because of poor guarantees and lack of information about their ability to repay loans Idowu (2020). Without finance, small and medium enterprises cannot acquire or absorb new technologies nor can they expand to compete in global markets or even strike business linkages with larger firms. Poor management and accounting practices are hampering the ability of smaller enterprises to raise finance. Debt finance or using existing funds also enables owners to maintain control over their business rather than having to give a percentage of ownership to an investor.

### **Saving**

Saving behavior is said to be a very significant component of financial literacy, security and reduction of credit reliance. It pays attention to the

saving habit of people. Saving was defined by (Sucuahi, 2013) as an economic security and accumulation of wealth for enhanced living standard. It involves putting aside some part of income for use in the future. It was found by (Kalekye & Memba, 2015), that most women involve in informal type of saving that accumulated no interest. Also, they highlighted low income earners like to save their surplus money rather than use it for investments purpose. A study on the financial behavior of rural residents in Latin America's findings show that most people use their surpluses for investment rather than in financial form (Jacqueline, 2021). The argument behind their strategy was that having "nonworking" funds are a poor money management strategy and those rural residents with static savings only keep it for emergencies. Saving is a necessary skill for micro entrepreneurs that want to advance their business skills. (Behrman, Mitchell, Soo, & Bravo, 2022), cited that individuals are said to be financially illiterate 33if they are unable to save. However, it was argued by (Mandell & Klein, 2019) that financial literacy does not necessarily mean one is savings-oriented and does not give better financial behavior

### **Record keeping**

Record keeping also known as book keeping is an important accounting process that involves recording of all business transactions for sustaining and expanding a business. These includes the process of collecting, organizing, storing and analyzing the financial information of an entity to facilitate its day to day operations and preparations of statements, tax returns and internal reports. Despite the increased number of small business in Nigeria the rate of business failure is alarming. -Study revealed that poor record keeping of their financial performance and lack of basic business management experience and skills are major contributors to failure of small business. Rutherford, McMullen and Oswald (2019) in Phelomenah and Florence (2018) explained that it is possible that the small business owners keep records, but not in a formal manner. In addition, separation of business records from personal records was slightly observed. The separation of these two records will help the business owners split business profit from personal profit. On the other hand, majority of respondent did not summarize their records. This task helps them be aware of the result of their business transaction. Many new business owners are intimidated by the mere idea of bookkeeping and accounting. But in reality, both are pretty simple. Bookkeeping and accounting share two basic goals: to keep track of income and expenses, this improves chances of making a profit, and to collect the financial information necessary for filing various tax



returns. Enterprises require records to be used by managers as guides for routine action, decision making, formulation of policies and maintaining relationships with stakeholders (Lusimbo & Muturi, 2016). According to (Sucuahi, 2017), it is an important skill for business owners because it provides vital information for decision-making. Sucuahi's research showed that most small business owners use notebooks to record transactions rather than journals and ledgers, (Kalekye & Memba, 2015) found that most small business owners did not summarize records and they keep records in an informal manner. The findings of (Lusimbo & Muturi, 2016) revealed that most MSE managers are not practicing bookkeeping in their business because of lack of appropriate skills and knowledge of how it is done. Research has shown that most MSE owners recruit unskilled personnel for clerical and accounting management and in turn they are not able to keep reliable accounting records, hence inability to determine profits or loss of the firm (Everlyn, 2016). Several factors including record keeping have frequently been cited as the drivers of business profitability in SMEs. Keeping proper records has been noted to be one of the important factors influencing the performance of a business. Peacock (2018) found that the inefficient and/or lack of accounting records have led to the failure of many SMEs. Along similar lines, McCannon (2019) argues that many SMEs fail because owners could not make timely and key managerial decisions resulting from the lack of adequate records. Given the benefits of record keeping, one would therefore wonder why some owners of SMEs fail to maintain books of accounts. It appears many SME operatives are unaware of the contributions of record keeping to the bottom line. Indeed, many have not seen the relevance, McMahan (2018) for instance argues that even the basic form of record keeping deters many owners because to them, keeping records do not provide a trend of their current operations and thus impact less on performance.

Okoli (2021) links proper record keeping to profitability of small scale enterprises in Nigeria and argues that the lack of proper record keeping makes it impossible for owners of small businesses to do a critical assessment of their performance. He thus calls for the maintenance of proper recordkeeping in enhancing their profitability and performance. To this end, Mairura (2021) assessed the "relationship between record keeping and performance of small businesses in Nairobi City of Kenya and found that level of education, type of business ownership, number of employees and age of business were the drivers of record keeping. Mairura (2021) however

failed to empirically establish the correlation between record keeping and business performance. Using a more formal approach, Akande and Yenus, (2019) examined the accounting skill as a performance factor for small business in Nigeria by invoking chi-square test statistic. Results from his study show that possession of a proper accounting skill by business owners significantly improves business performance. In spite of the fact that evidence abound on the role of record keeping in business performance, many owners of SMEs do not keep records, with many of them even suggesting that record keeping is time consuming. In effect, many of them remain unconvinced about the role of record keeping in business growth, performance and profitability.

### **Theoretical Framework**

**Social Learning Theory:** Social learning theory illustrates how social factors (such as sources of information and financial advice) influences the shaping of a person's behavior. The financial attitudes and values people have about money come from their environment. The effects of social interactions on individual behavior have been modeled, tested and applied to a wide variety of situations (Glaeser & Scheinkman, 2018). Social interaction may affect financial decisions as people receive and process information through interacting with others. In a US 401(k) pension plan participation study, Duflo and Saez (2017) found that peer influence affects retirement savings decisions because many people had not critically thought through the advantages and disadvantages of particular plans for themselves. Information from peers are used by many employees for making sound retirement investment decisions when deciding on participation as they may lack their own reasoned information. Due to a desire to behave similarly to those in their social group, beliefs about social norms will also influence employee decisions (Berkowitz, 2003). Some entrepreneurs got financial advice from peers, friends, or colleagues who are ignorant of financial dealings thereby influencing their decisions on proper record keeping.

**The Knowledge Spillover Theory:** In this theory the creation of new knowledge expands the set of technological opportunity. Entrepreneurial activity does not involve simply the arbitrage of opportunities, but also the exploitation of intra-temporal knowledge spillovers not appropriated by incumbent firms. The theory focuses on individual agents with endowments of new economic knowledge as the unit of analysis in a model of economic growth, rather than exogenously assumed firms. Agents with new knowledge endogenously pursue the exploitation of knowledge. This suggests that knowledge spillovers come from the stock of knowledge, and there is a strong

relationship between such spillovers and entrepreneurial activity. If incumbent firms appropriated all the rents of R&D, there would be no intra-temporal knowledge spillovers (Njoroge, 2019). This theory will help in determining whether the knowledge spillover affects entrepreneurs' success in Nigeria. It will also help us understand the distinction between financial literacy and economic knowledge.

**Goal Setting Theory:** More recently, expectancy theory has been integrated with goal setting theory. Goal setting theory is grounded in the belief that conscious goals and intentions drive results. Based on the goal setting theory of motivation, Locke (1986), cited in Cherugong (2018) find that individual goals are likely to determine how well they perform on related tasks. Specifically, clearly defined and more challenging goals yield higher performance than vague, easy or do-your best goals. To be effective, goal setting theory assumes that individuals must be committed to the goal, must go for feedback and must have the ability to perform the task. This means that financial literacy program should be more effective when they are motivated by perceptions and concerns about financial well-being later in life. Motivational theory suggests that measures of financial literacy should be related to financial behavior that is in the consumers' best interests. Hilgert, Hogarth and Beverly (2016) formed a Financial Practices Index based upon (self-benefiting) behavior in cash flow management, credit management, saving and investment practices. When they compared the results of this index with scores on financial literacy quiz, they found a positive correlation between financial literacy scores and Financial Practices Index Scores. Their results suggest that financial knowledge is related to financial practices.

### **Empirical Review**

Njoroge (2019) sought to find out the relationship between financial literacy and SMEs success in Nairobi County. The study found a positive relationship between financial literacy and entrepreneurial success. However, respondents were drawn from SMEs with at least 3 employees, at least five years of operation with a turnover of 5 million. This left out micro enterprises with a lower turnover yet they form the bulk of traders in this sector. Siekei (2019) looked at the role of financial literacy on performance of SMEs whose managers had undergone the Equity foundation financial literacy training. The findings revealed a positive relationship between the financial literacy training and the performance of the SMEs whose managers had been trained. However, for a conclusive picture, it's necessary to measure the level of literacy of all SMEs so that those that have not been reached by financial

education training can be prioritized by future efforts. Maseko and Manyani (2018) reported a study of one hundred registered small scale enterprises in Bindura, Zimbabwe. The research objectives inquired into their financial literacy reporting as regards adequate record keeping and profitability measurement. It was found out that 72% of businesses use cash basis of accounting in financial reporting, 62% lacked accounting knowledge and 84% suggested book-keeping training for all small scale enterprises in Zimbabwe. It was concluded that SSES in Zimbabwe do not keep complete accounting records because of lack of accounting knowledge.

William-Harold and Smith (2019) reported a survey of 500 small businesses about savings, investing and record keeping. About 60% of them had savings account, 11% owned equities and about 40% keep proper financial records. Even though 56% of them had taken a money-management course, only 31% reported being able to manage a bank account, 12% were confident of their ability to decide among various bank accounts. Chatzy (2022), when commenting on the personal financial literacy education of American adults, agreed that majority are not getting such education, but even those that are being exposed to money matters do not appear to retain much of the content. She relied on the evidence that the average adult was able to answer 50% of 31 financial literacy multi-choice questions correctly. After investigating what may have gone wrong, she suggested that financial literacy education should have a home in US schools and high school. She argued that financial education is more effective before people start to practice. Huddleston and Danes (2019) examined the impact of a high school financial literacy program on a national sample of students in the USA after graduation. They found out that teaching personal financial literacy in high schools can increase financial knowledge and have a positive impact on both teenage financial behaviors and subsequent behavior as adults. Further, they agreed that personal financial literacy should become a mandatory component of consumer education in schools. Okoli (2021) carried out an investigative study of record keeping and its impact on profitability of small scale enterprises in Enugu state. A sample size of 168 small scale enterprises was studied. Based on his findings, it was concluded that as a result of the simplicity of single entry, small scale enterprises are more inclined to adopt the system. That due to inadequate record keeping, most small scale enterprises have failed and there is a correlation between financial literacy and profitability of small scale enterprises.

**METHODOLOGY**

This study adopts the cross-sectional field survey of quasi-experimental research design. The survey design was adopted because of the need to gather enough discriminative data across a wide range of the study subjects that further enhanced the generation of our finding. Data used in this study will be mainly collected from primary and secondary sources. The statistical and mathematical tools to be used include percentages, frequencies, tabulation and descriptive statistics while multiple regression analysis will be used to test the question generated in this work in the introduction section. The multiple regression model will be guided by a linear model.

Model specification

Functional form of the model is

$$Y = f(x)$$

Where

Y = Performance (P)

X= Financial proficiency (FP)

The independent variables is proxies by

FB- Financial Behaviour

The Dependent Variables is proxies by

NP- Net Profit

**PRESENTATION OF DATA**

Regression analysis

$$NP = \beta_0 + \beta_1 QP + \beta_2 FB + \epsilon \dots \dots \dots \text{Eq. 1}$$

**Table 1: Extract of the Model specified**

	Beta	t	Sig. (2-tailed)
QP	.964	71.774	.000
FB	.953	62.463	.000

$$ROI = \beta_0 + \beta_1 QP + \beta_2 FB + \epsilon$$

QP	.957	65.126	.000
FB	.758	23.074	.000

ROI Return on Investment

Functional form becomes:

$$NP = f(QP, FB)$$

$$ROI = f(QP, FB)$$

Mathematical form is  $y = a + bx$

i.e

$$NP = a + bQP$$

$$NP = a + bFB$$

$$ROI = a + bQP$$

$$ROI = a + bFB$$

By introducing estimation Parameter,

The Economic form of the model when introducing estimation parameter is:

$$NP = a + B_1QP + B_2FB + \epsilon \dots$$

$$ROI = a + B_1QP + B_2FB + \epsilon \dots \dots \dots \text{Eq. 1.11}$$

Where

b= Coefficient of x

a= Constant

B1 B2= slope of the regression

E= error term

ROI= Return on Investment

FB= Financial Behaviour

NP= net profit

Test of Hypotheses

Hypothesis one

Hypothesis one states "There is no significant relationship between financial behavior and net profit of SMEs."

**Table 2 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.964 <sup>a</sup>	.929	.929	.34279

Predictors: (Constant), financial behavior

**Table 3 ANOVA<sup>a</sup>**

Model	Sum of Square	Df	Mean Square	F	Sig
Regression	605.308	1	605.308	5151.444	.000 <sup>b</sup>
Residual	46.296	394	.118		
Total	651.604	395			

Dependent: Variable Net profit

Predictors: (Constant) financial behavior



**Table 4 Coefficient<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.077	.036		2.130	.034
qualified personnel	.925	.013	.964	71.774	.000

Dependent Variable: Net Profits

**Table 5 Coefficient<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.069	.050		1.382	.168
Financial behaviour	.952	.015	.953	62.463	.000

Dependent Variable: Net Profits

The regression result revealed that financial behavior has a positive and significant (beta=.964 -71.774 sig. =.000) relationship with net profit of SMEs. This is because the significant level of .000 is less than 0.05%. The null hypothesis was rejected. The study concluded that there is significant relationship between financial behavior and net profit of SMES.

Hypothesis two

Hypothesis two posits thus "Financial Behavior does not significantly affect return on investment of SMEs."

**Table 6 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.957 <sup>a</sup>	.915	.915	.40484

Predictors: (Constant), financial behavior

**Table 7 ANOVA<sup>a</sup>**

Model	Sum of Square	Df	Mean Square	F	Sig
Regression	695.151	1	695.151	4241.362	.000 <sup>b</sup>
Residual	64.576	394	.164		
Total	759.727	395			

Dependent: Variable Return on investment

Predictors: (Constant) financial behavior

**Table 8 Coefficient<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.159	.043		3.740	.000
qualified personnel	.991	.015	.957	65.126	.000

Dependent Variable: Return on investment

**Table 9 Coefficient<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
(constant)	.445	.095		4.674	.000
Financial behaviour	.668	.029	.758	23.074	.000

Dependent Variable: Return on investment

The result from table 1 above shows that financial behavior (beta- 957 = 65.126 sig. = .000) has a positive and significant effect on return on investment of SMEs. The significant level of .000 is less that 0.05%. The null hypothesis was rejected. The study concluded that financial behavior does significantly affect Return on Investment of SMEs.

## CONCLUSION

In accordance with the analysis and testing of the hypotheses stated to examine the imperative of financial proficiency on the performance of small scale enterprises. The study concludes that: financial

behavior is a significant predictor of performance for micro and small enterprises. SMEs however, are not very conversant with the application of good financial behaviors in their businesses. They apply little or no budgeting and planning, debt management, saving,

record keeping and retirement planning in their business activities and that financial knowledge is important for personnel but it requires application of the knowledge to turn into profits. The benefits of improved financial proficiency may be great. SMEs will save more, and better manage risk, by having access to funds from financial services sector and government agencies. This in turn could facilitate competition in the SMES, and ultimately more efficient allocation of capital within society. The study also showed that the small businesses sampled showed signs of growth; particularly along financial and strategic dimension of evens if the extent of the suggested growth was not measured and that exposure to training and education will improves SMEs rating of competency in any specific area. Also, it was found out that financial proficiency has a role to play in the performance of businesses. This is because the level of financial proficiency influenced how businesses were managed and hence the performance of businesses. Financially proficient person had ways of managing cash for the business, prepared budgets and saved the surplus cash. The study showed that with the exception of microfinance group of small scale enterprises, most of the small scale enterprises lack in-depth knowledge on the issue of debt management. It was also revealed that most small scale enterprises used as their capital base loans from banks and other financial institutions. The study uncovered that the major cause of debts among small scale enterprises were lack of advice on the business type and finances, lack of knowledge on the type of business and poor methods of keeping financial records. However, the study revealed that almost all small scale enterprises took to borrowing to augment their funds when in time of need; with financial institutions considering factors such as collateral, financial records and accounts, professionalism etc. before granting loans. Thus an inappropriate debt management practices put these businesses at risk of liquidity and hence affect their performance. The study further found that debt management impacts on firm profitability with majority of the respondents holding the view that appropriate debt management practices leads to the success of their businesses.

In view of the above finding the following recommendations could be useful: As reflected from the study, it is evident that financial behavior is an important contributor to performance of SME's. This therefore, reflects the need for training programs on Budgeting and planning, debt management, record keeping, saving and retirement planning in schools and other institutions that seek to promote financial proficiency and practice. For SMEs to be sustained (both technically and financially) there is the need to

step up financial education in Bayelsa state especially among SMEs. The researcher therefore recommends that a statewide financial literacy week campaign be instituted by the Ministry of Finance in collaboration with SME should be intensified and well targeted at business owners. Since SMEs in the rural areas are less likely to utilize financial service, the researcher suggest that financial proficiency education should be target more at those in the rural areas which will go a long way to reduce rural-urban migration. From the discussions and findings, small scale enterprises must hire financial experts to help them manage their businesses as well as to deal with the issue of financial record keeping. Moreover, 'small scale enterprises should work within their budgetary limits in order to avoid higher expenditure and subsequent incurring of debts which could be detrimental to the performance of their businesses.

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