



# The Journal of **ARSYM**

*A Publication of Students' Research of the*  
**Annual Research Symposium in Management**

*Published by*  
**Faculty of Business Studies and Finance**  
Wayamba University of Sri Lanka

## **The Journal of ARSYM**

*A Publication of Students' Research of the  
Annual Research Symposium in Management*

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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The aim of the JARSYM is to disseminate high-quality research findings on a variety of timely topics generated by the undergraduate and postgraduate researchers in the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within the Wayamba University. All research articles submitted are double blind reviewed prior to publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka or the Editorial Board.

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## **Aims and Scope**

The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

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- Publication in the Journal of ARSYM is based upon the editorial criteria cited and the evaluation of the reviewers (each manuscript will be sent two reviewers).
- Priority is given for novelty, originality, and to the extent of contribution that would make to the particular field.

The journal welcomes and publishes original articles, literature review articles and perspectives and book reviews describing original research in the fields of business studies and finance. The core focus areas of the journal include;

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- Economics
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## THE EFFECT OF FINANCIAL LITERACY ON MICRO, SMALL AND MEDIUM ENTERPRISES ENTREPRENEURIAL PERFORMANCE

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### ABSTRACT

Entrepreneur financial literacy has been identified as one of the major competencies required for the establishment and management of MSME. However, empirical studies on the relationship between the financial literacy and the entrepreneurial performance have produced contradictory and inconsistent results and conclusions, highlighting the need for further research in this particular context. This study sought to identify the effect of financial literacy on the entrepreneurial performance of MSME in Gampaha district. The study approach was the inductive approach. The study was guided by five objectives. To achieve these objectives, five research hypotheses were formulated. The target population comprised of all the entrepreneurial MSME in Gampaha district, from which a representative sample of 100 was drawn. The main study instrument was a questionnaire. The collected data were analyzed using both descriptive and inferential statistics. Hypothesis testing was done using the regression and correlation analysis. The findings of the study indicated that the financial literacy had a statistically significant influence on the entrepreneurial performance, therefore the hypothesis that the financial literacy influences on the entrepreneurial performance was supported. The study also established that the financial attitudes had a statistically significant influence on the entrepreneurial performance and it was supported. The study also revealed that the financial attitudes had a significant influence on the entrepreneurial performance and further, the results revealed that the financial knowledge, financial influence and financial behavior had a statistically significant influence on the entrepreneurial performance. As the recommendations, the study suggests that to use a stratified sample method in order to obtain more precise results and wider conclusion.

**Keywords:** *Financial Literacy, Financial Attitudes, Financial Behavior, Financial Knowledge, Financial Influence and Entrepreneurial Performance*

## **1. INTRODUCTION**

Sri Lanka has a small, but openly developing economy. Only 7% of the Sri Lanka's labor force are entrepreneurs, whereas the global standard is about 30% (Echelon, 2017). The financial literacy rate in Sri Lanka is 35% compared to an average of 65% in more developed economies (Echelon, 2017). Evidence clearly shows that the low financial literacy in Sri Lanka is not confined to the poor but common among professionals (Echelon, 2017).

Over the last two decades, scholars and policy makers in both developed and developing countries have recognized that the entrepreneur financial literacy is critical for the establishment and survival of small businesses. Entrepreneurs operate in dynamic environments and as the financial markets become more competitive and the financial portfolios more complex, entrepreneurs become vulnerable to information asymmetries if the complexity in financial markets is not matched by a commensurate growth in entrepreneur financial literacy (Barte, 2012). At macroeconomic level, small businesses are the backbone of many economies and when the financial literacy skills among entrepreneurs are not sufficient to operate successful enterprises, the whole economy is at risk (Dahmen, 2014).

### **1.3 Financial Literacy**

For many centuries, financial literacy does not have an undisputed definition in the literature. Several researchers have defined financial literacy in many studies in the area of personal finance and most of the time it has failed to capture the entrepreneurial manager and the business persons.

Financial literacy is listed as one of the critical managerial competencies in the entrepreneurial business performance and growth (Eniola, 2016). Financial literacy is termed as the understanding and knowledge of the financial principles needed to make informed financial decisions and products which impact one's financial wellbeing (Basu, 2005). It contains the ability to make informed judgments and to take an effective decision regarding financial matters (Worthington, 2005).

### **1.4 Entrepreneurial Performance**

Entrepreneurial performance refers to the firm performance (Richard, 2009). Performance incorporates various meanings, comprising growth, survival, profitability, innovation and competition (Eniola, 2016). All firms, including microenterprises, are established to achieve certain goals. Firm performance is therefore defined as a firm's ability to achieve planned results as measured against its intended outputs and encompasses outcomes related to financial performance, market performance and shareholder return. Firm performance is a common construct in strategic management research and is frequently used as a dependent variable.

Despite this, research into firm performance suffers from problems such as lack of consensus, selection of indicators based on convenience and little consideration of its dimensionality (Richard, 2009).

### **1.5 Micro, Small and Medium Enterprise sector in Sri Lanka**

MSME are the backbone of the Sri Lankan economy. The term MSME is used to denote micro, small and medium enterprises. Different countries use different definitions for MSME based on their level of development. The commonly used yardsticks are the total number of employees, annual turnover and total investments. In the Sri Lankan context, the MSME policy framework defines MSME based on the number of employees and the annual turnover (Secretariat for Senior Ministers, 2012). MSME sector is envisaged to contribute to transforming lagging regions into emerging regions of prosperity. The Government of Sri Lanka recognizes MSME as the backbone of the economy, as it accounts for more than 75% of the total number of enterprises, provides 45% of the employment and contributes to 52% of the Gross Domestic Production (GDP) (National Policy Framework, 2014).

**Table 4: Classification for Micro, Small and Medium Enterprises**

Sector	Criteria	Medium	Small	Micro
Manufacturing sector	Annual Turnover Rs. Mn	251 - 750	16- 250	Less than 15
	Number of Employees	51- 300	11- 50	Less than 10
Service sector	Annual Turnover Rs. Mn	251 - 750	16- 250	Less than 15
	Number of Employees	51- 200	11- 50	Less than 10

*Source: National Policy Framework for MSME Development*

### **1.4 Research Problem**

The need of financial skills to successful entrepreneurship remains subjected for discussion. In a dynamic and uncertain business environment, the entrepreneurs are faced with many challenges that can be overcome by acquiring financial knowledge. Entrepreneur financial literacy is an important determinant of the performance of microenterprises. The nature of the relationship between the entrepreneur financial literacy and the microenterprise performance has been a subject of research and debate among scholars. Some scholars have argued that there is a direct linear relationship between entrepreneur financial literacy and performance of microenterprises (Menike, 2018).

Contingency theory proposes that an organization's performance is determined by the fit between its resources, structure and strategies on one hand, and the external environmental conditions on the other hand (e.g., political, economic, social, technological). A core concept in contingency theory is fit. Fitness is viewed as a match between the organization's characteristics and characteristics of the environments around them. Entrepreneurship researchers have found support for contingency theory in new ventures too. (Contingency Thoery, 2017). Therefore, a gap was identified by the researcher.

Thus, it is interesting to investigate whether the financial literacy has an impact on the MSME performance. Therefore, research problem was developed as follows,

**“Examine how Financial literacy influence on the Entrepreneurial performance relative to MSME.”**

### **1.5 Research Objectives**

The key objective of the study is to examine “The effect of financial literacy on the entrepreneurial performance with reference to small and medium enterprises in Gampaha district”.

Specific objectives are mentioned as follows;

- i. To assess the relationship between the financial attitudes and the entrepreneurial performance.
- ii. To determine the effect of the financial behavior on the entrepreneurial performance.
- iii. To analyze the impact of the financial knowledge on the entrepreneurial performance.
- iv. To identify the relationship between the financial influence and the entrepreneurial performance.

## **6. LITERATURE REVIEW**

### **2.1 Theoretical Review**

#### ***2.1.1 Resource Based Theory***

Entrepreneurial ambition is the motivation of the owner towards growth. Entrepreneurial judgment refers to the quality of decision making of the owner. Some people make more mistakes than others in business decision making, therefore, quality business decisions are made by the owner managers with a strong inclination in common sense, self-confidence, and have the ability to gather information, use consultants and decide when and how to act (Lusimbo, 2016). The Resource based view theory therefore proposed that it is the entrepreneur's view of the future and its

possible opportunities that most determine the shape of the company over time and that MSME growth depends on how well the owner manager is equipped with the right information to make sound decisions in the business, is able to seize and pursue opportunities and can create trust in others and convince them to invest in his venture. This theory posits that financial decisions can be driven by both intuitive and cognitive processes which mean that financial literacy may not always yield optimal financial decisions. Therefore, according to the resource based theory, there is no such significant impact of financial literacy on the entrepreneurial performance.

### ***2.1.2 Contingency Theory of Entrepreneurship***

The contingency theory attempts to relate organizational performance to many management variables and emphasizes the importance of situational influences on the management of organizations. The business environment is the source of constraints, contingencies, problems, and opportunities that effect the terms on which an organization transacts business (Khandwalla, 1972). Contingency theory holds that the relationship between two variables depends on the interaction with a third variable and therefore performance can be improved when key variables are correctly aligned. Therefore, the performance of an enterprise should not be measured in terms of one organizational attribute but through the interplay of attributes within a given environment (Khandwalla, 1972). The study attempts to measure the effect of financial literacy on entrepreneurial performance. However, relating to the study, according to the contingency theory, financial literacy is not directly related to the firm performance.

### ***2.1.3 Dual Process Theory***

Dual process theories imply that the individuals who are high on cognition, will seek out for information and are more likely to be influenced by a relevant message. This means that their decision making skills can be boosted by the financial literacy training using simple easy to understand methodologies. Moreover, the use of intuition may be reduced by the provision of relevant information to support decision making through financial education since individuals tend to rely on intuition where relevant information is lacking. However, optimal results may not be achieved where individuals trust their intuitions in decision making (Lusimbo, 2016).

### ***2.1.4 Theoretical Gap Identification***

For the theoretical review, the researcher equipped three theories namely Resource based theory, Contingency theory and Dual Process theory. Even though, the Resource based theory states that the MSME growth depends on the owner's financial literacy, the theory posits that financial decisions can be driven by both intuitive and cognitive processes which mean that the financial literacy may not always yield

optimal financial decisions. According to the contingency theory, the relationship between two variable depends on interaction with a third variable. Relating to the present study, according to the contingency theory, financial literacy is not directly related to the firm performance. Dual process theory suggests that even though entrepreneur is financially literate, the decisions can be changed due to cognition and intuition.

Therefore, the Resource based theory and Contingency theory present that there is no significant relationship between financial literacy and entrepreneurial performance. However, the dual process theory states that there is a linkage between the finance literacy and the firm performance but it can be changed due to intuition. Therefore, this theoretical gap was identified by the researcher.

## **2.2 Empirical Review**

Many studies have been conducted on the financial literacy and its influence on MSME performance in the developed and developing countries. Positive relationships between the financial literacy and performance have been found by several scholars.

Financial literacy of the owners regarding the budgeting skills and planning assist in reducing the MSMEs running costs while increasing the profits thereby enable them to proper planning on loan repayment. Financial literacy facilitates accumulating savings, diversifying assets, and purchasing insurance, decision making processes such as payment of bills on time, proper debt management which improves the creditworthiness of potential borrowers to support livelihoods, economic growth, poverty reduction, growth, and expansion. It can be concluded that the financially literate MSME tend to be more successful than those with a low level of financial knowledge (Menike, 2018).

(Lusimbo, 2016) states that a positive relationship exist between the enterprise growth and financial literacy. Increases in financial literacy lead to more frequent production of financial statements. An increase in the financial literacy of the young entrepreneurs was found to increase the probability of loan repayment amongst new ventures (Wise, 2013). The performance of MSME leads to some critical issues and many studies dealt with the subject matter from many angles. Current study discusses one of the important issues: financial literacy is a particular problem of small and medium enterprises (MSME), company tend to have much higher rates of job growth, but also are more likely to go out of business or remain stunted due to institutional and financial literacy problems (Eniola, 2016).

(Barte, 2012), on a study on financial literacy in MSME, found that financial literacy was directly linked to performance. The study found that Entrepreneurs had low

levels of financial literacy as demonstrated lack of financial records, lack of monitoring of profit and losses and lack of cash management practices. The vendors were also confined to high-interest loan. The study, however, did not show the exact influence of financial literacy on these MSME. (Sabana, 2014), Studied the relationship between entrepreneur financial literacy, financial access, transaction costs and performance of microenterprises. According to the findings, the relationship between entrepreneur financial literacy and performance of microenterprises confirms that entrepreneur financial literacy has a significant influence on the performance of microenterprises.

## **2.3 Literature Gap Identification**

The above detail literature review highlights that empirical studies have been conducted on the influence of financial literacy on the financial performance of MSME in developed and emerging markets as well. These studies have produced mixed results. However, a considerable number of researchers have studied the effect of business knowledge on entrepreneurship, but the studies on financial literacy and MSME performance are very rare. Many scholars have only concentrated on entrepreneurs as a concept. Some studies have established that there are relationships among the financial literacy variables while other studies failed to establish any relationship between them. Therefore, this study fills this gap in the MSME finance literature and brings a novelty. Reviewed literature reveal that many studies state that there is a positive relationship between the financial literacy and the entrepreneurial performance and some scholars state that entrepreneur's financial literacy is not directly related to the firm performance. Therefore, a gap was identified by the researcher. *The present study is conducted to fill that gap.*

## **2.4 Conceptualization of the Research Model**

In the past few years, scholars have increased their efforts in conducting research related to financial literacy and also documented the relationship between financial literacy and business performance (Lusardi, 2011) (Lusimbo, 2016), (Wise, 2013), (Sabana, 2014) and (Eniola, 2016).

### **2.6.1 Financial Knowledge**

The MSME owners' financial knowledge on the advanced category is positively statistically significant on the performance of firms. It further, reveals that they are aware of how to calculate the profit of a business, purposes of preparing each component of a financial statement (Menike, 2018). (Lusardi, 2011) has revealed that there is a link between the financial literacy and the low-cost borrowers, highest cost borrowers show very low levels of financial literacy, lack knowledge of basic financial concepts, which affect their business performance level.



### **2.6.2 Financial Attitude**

Financial attitude is one of the most important factors affecting the financial literacy and thereby the wellbeing of the MSME. All factors of financial attitude are somehow true for them and they are at a satisfactory level. (Menike, 2018)

### **2.6.3 Financial Behavior**

Spending habit, maintaining records, use of saving, managing money in a problem, financial services taken, planning of income and expenditure, searching of competitors' prices, gathering of information on financial knowledge and use of additional income are major aspects of financial behavior pillar. Notwithstanding the different levels of the MSME owners' financial knowledge, most of the owners are economical, maintain minimal records, deposit their savings into bank account, use their savings at the time of low income, plan for future, alert on competitors' prices, collect information to improve financial knowledge and prefer to deposit into fixed account when they have excess money (Menike, 2018).

Conversely, a good financial behavior enables the entrepreneur to have an understanding on the overall impacts of the financial decisions on business performance and also to make the right decisions related to the cash management, insurance, saving, business planning and book keeping (Oseifuah, 2010).

### **2.6.4 Financial Influence**

Financial influence covers areas of cash management, learning of forecasting, record keeping, tax, investment alternatives, savings, insurance and the control of finance function. All the influential variables affect somehow in the firm performance of MSME. However, they follow parent's guidance, their life experience and what they have learned on record keeping mostly for the better performance of their businesses. Moreover, friends, media and internet are the least influential factors. Most owners learn about saving and budgeting while the least number of respondents learn about taxes and insurance at home (Menike, 2018). However, researchers agreed that there is no established instrument applied to measure financial literacy and that financial literacy cannot be measured directly (Eniola, 2016), suggested that knowledge, attitude, awareness are the key variables that determine the financial literacy.

## **7. METHODOLOGY**

### **3.1 Study Design**

The study adopted a descriptive research design and used information concerning the various status of the phenomena to describe opinions, behaviors, and attitudes with respect to variables or events in a situation. This type of research design is best matched with this study as it involved the respondents' opinion on various scenarios

by means of the survey method. Thus, it encompasses the selection or development of instruments for collecting information, identification of target population and determination of sampling procedure and the design of procedure for information collection. This study design allowed the researcher to integrate literature, interviews, and the actual survey as main procedures to gather data. The cross-sectional design was also appropriate for this study as it enabled the researcher to explore the prevalence of the study variables in a cross section of the study population at a given point in time.

### **3.2 Target Population**

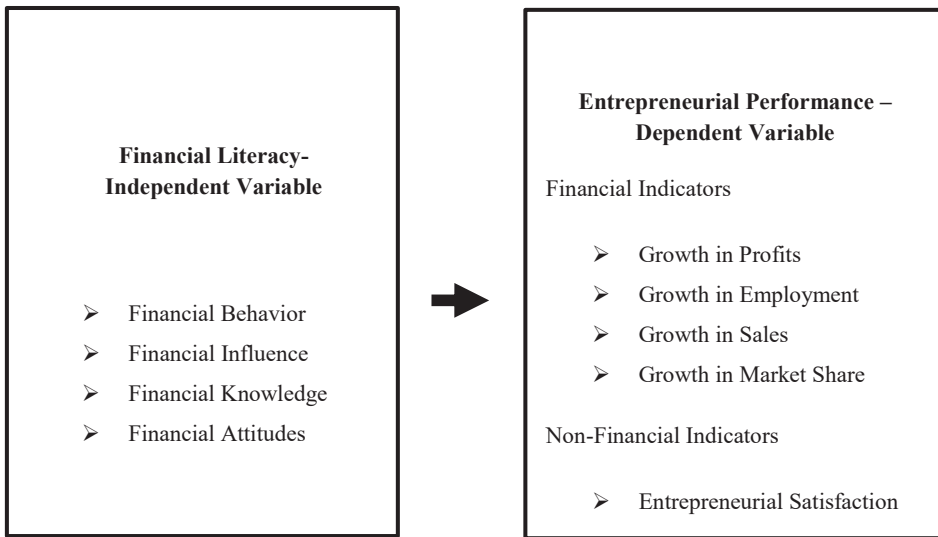
The target population for the study comprised of all the entrepreneurial micro, small and medium enterprises in Gampaha district. According to Department of Census and Statistics 2013/2014 report, the number of establishments of total registered micro, small and medium enterprises are 1,019,681. The target population for this study comprised of all the entrepreneurial micro, small and medium enterprises, established in Gampaha district, that is 127,734.

### **3.3 Sample and Sampling Technique**

According to the Morgan model, the sample size should be 384 firms. Due to the availability of limited time, ease of access to respondent, convenience to the researcher, the researcher used the non-probability sampling method. The researcher employed the non-probability sampling technique which relies on the personal judgment of the researcher rather than chance to select sample element. In this study, the researcher arbitrarily or consciously decided what element to include in the sample. Sample size for this study consisted of 100 entrepreneurial MSME subject to retail, wholesale, manufacturing and service.

### **3.4 Conceptualization Framework**

Based on the literature review, the researcher developed the following conceptual model for the study. Accordingly, the dimensions of the independent variable, financial literacy are financial attitude, financial knowledge, financial behavior and financial influence. The main dimensions of the dependent variable, entrepreneurial performance is Growth in profits, Growth in employment, Growth in sales, Growth in market share and entrepreneurial satisfaction.



**Figure 1: Conceptual Framework**

Source: (Sabana, 2014), (Menike, 2018)

### 3.5 Hypothesis

The study sought to address one broad research objective namely to examine the effect of financial literacy on the entrepreneurial performance with reference to small and medium enterprises. Therefore, the hypotheses have been developed to examine whether there is an impact between the financial literacy and the entrepreneurial performance. Above mentioned conceptual framework is taken as a basic to develop hypothesis for the study by the researcher. Mainly, it focused on five dimension which have mainly been identified by the researcher. Based on these dimensions, four hypotheses corresponding to each research objective were formulated and stated as follows:

Main hypothesis-

**H1:** Financial Literacy has significant impact on entrepreneurial performance.

**H1a:** Financial Attitudes has a significant impact on entrepreneurial performance

**H2b:** Financial Behavior has a significant impact on entrepreneurial performance.

**H3c:** Financial Knowledge has a significant impact on entrepreneurial performance.

**H4d:** Financial Influence has a significant impact on entrepreneurial performance.

### **3.6 Data Collection**

Finally, the collected data were entered to SPSS 26.0 software (Statistical Package for Social Science) and basically descriptive analysis method was used to analyze data and calculated frequencies of the collected data. Data were collected from respondents in Gampaha district by visiting their working places and through online. 100 questionnaires were distributed among the selected sample of this study. The questionnaire was developed based on the previous research questionnaires of (Menike, 2018) (Sabana, 2014). This study used primary data and in order to collect data, a semi-structured questionnaire was constructed covering six areas namely: personal information of the respondents, financial behavior, financial influence, financial attitude, financial knowledge, and the financial performance. Along with demographic information, the survey participants were asked questions and opinions of different aspects of financial literacy. Proper care has been taken to ensure that the facts needed a match with the objectives, which in line with the data collected through the questionnaire. Moreover, attention was paid in designing the questionnaire using simple and clear words, the logical and sequential arrangement of questions with regards to four pillars of financial literacy.

### **3.7 Data Analysis and Presentation**

Here, the mean value and the standard deviation were used to identify the central tendency and the main average of the responses. Quantitative data were analyzed and summarized using means, standard error of mean, frequencies and percentages. At first, the collected questionnaires were cleaned by removing incomplete ones. Then, a series of statistical techniques were used to achieve the objectives of the research including Cronbach Alpha test, correlation analysis and regression technique. The analyzed data were then presented in tables which statistical inferences as well as necessary recommendations were made. The tests were done at 95% level of significance.

## **8. RESULTS AND DISCUSSION**

### **4.1 Analysis of Demographic Characteristics**

The respondent's demographic characteristics included their gender, age distribution and the highest level of education attained. The target respondents for this study were the entrepreneurs who owns micro, small and medium entrepreneurs.

**Table 4.1: Results of Demographic Characteristics**

Gender	Frequency	Percentage (%)
Male	65	65
Female	35	35
Total	100	100
Age		
19 to 25 years	18	18
26 to 35 years	40	40
36 to 45 years	27	27
46 to 55 years	13	13
Above 55 years	2	2
Total	100	100
Level of Education		
Up to O/L	16	16
Up to A/L	48	48
Diploma/ Certificate course	18	18
Degree / Professional qualification	18	18
Total	100	100

The study findings revealed that the majority (65%) were male respondents with (35%) being female respondents. This implies that there were more males than females represented in the sample. Further, from the findings in table 4.1, the majority 40% indicated that their ages ranged between 26 to 35 years, followed by 27% who were aged between 36 to 45 years old with few 18%, 13% and 2% indicating that their ages ranged between 19 to 25 years, 46 to 55 years and above 55 years respectively. The results revealed that the majority of the Entrepreneurs were relatively young.

The results also indicated that the respondents were relatively well educated 18% and 18% holding a Degree / Professional qualification and Diploma/ Certificate course respectively, while 48 % were educated up to A/L. All findings on the Demographic characteristics of the entrepreneurs showed a diverse range of groups involved in the MSME.

## **4.2 Analysis of Organizational Characteristics**

### **4.2.1 Type of Business**

As results shown in Table 4.2.1 about the type of business, the results indicated that the majority 29% run wholesale enterprises, 29% operate retail enterprises, 22% and 18% indicating that they operate manufacturing and service enterprises respectively. This implied that a majority of the enterprises fall under wholesale and retail.

**Table 4.2.1 Results of Type of Business**

Types of Business	Frequency	Percentage (%)
Retail	29	29
Wholesale	31	31
Manufacturing	22	22
Service	18	18
Total	100	100

### **4.2.2 Duration in Business**

The analysis revealed that a majority (48%) of the businesses have been in existence for 4 to 6 years, 38.3%, for 7 to 10 years 22%, for 11-15 years, 23% for 1 to 3 years and only 07% for over 10 years. This implied a low rate of transition of these MSME to the next level of growth as shown in table where only a few are able to survive beyond ten years.

**Table 4.2.2: Results of Duration in Business**

Duration in Business	Frequency	Percentage (%)
1 to 3 years	23	23
4 to 6 years	48	48
7 to 10 years	22	22
Over 10 years	07	07
Total	100	100

## **4.3 Correlation Analysis**

Correlation analysis was conducted to determine the strength and direction of the relationship between the dimensions of financial literacy and entrepreneurial performance. The results of the relationship are summarized in the Table.

**Table 4.3: Results of Correlation Between Financial Literacy Dimension and Entrepreneurial Performance**

Variable	Financial Attitudes	Financial Behavior	Financial Knowledge	Financial Influence	Entrepreneurial Performance
Financial Attitudes	1				
Financial Behavior	.950	1			
Financial Knowledge	.906	.936	1		
Financial Influence	.909	.954	.956	1	
Entrepreneurial Performance	.913	.941	.929	.943	1

The results indicated that the relationship between financial attitudes and entrepreneurial performance is good, positive and statistically significant ( $R=.913$ ,  $p\text{-value} < .001$ ). Similarly, the relationship between the financial behavior and the entrepreneurial performance is good, positive and statistically significant ( $R=.941$ ,  $p\text{-value} < .001$ ). The relationship between the entrepreneurial performance and the financial knowledge and financial influence is also significant and good ( $R=.929$ ,  $p\text{-value} < .001$ ) and ( $R=.943$ ,  $p\text{-value} < .001$ ) respectively. All the dimension of financial literacy has good, positive and significant relationship between entrepreneurial performances.

This implied that the financial literacy dimensions of financial attitudes, financial behavior, financial knowledge and financial influence play a critical role of influencing entrepreneurial performance with reference to MSME in the Gampaha district. The best relationship was between financial influence and entrepreneurial performance ( $R=.943$ ,  $p\text{-value} < .000$ ) and financial behavior and entrepreneurial performance ( $R=.941$ ,  $p\text{-value} < .000$ ).

#### 4.4 Test of Hypothesis

Hypothesis testing involved testing the influence of the predictor variable on the predicted variable namely; the influence of the financial behavior on entrepreneurial performance; the effect of Financial Knowledge on the Entrepreneurial Performance; the effect of Financial Influence on the Entrepreneurial Performance the and finally the overall influence of entrepreneur Financial literacy on Entrepreneurial

performance. These relationships were tested using inferential statistics namely simple and multiple regression analyses.

Here, the regression analysis results generated two main aspects namely Model Summary and Coefficient. Model summary table presented R, R<sup>2</sup>, adjusted R<sup>2</sup> and Standard Error of the Estimate. Coefficient table illustrated the Un-standardized coefficients, Standardized coefficients, t- value and Significance p – value.

**Table 4.4.1: Results of Simple Regression Analysis**

	Model Summary				Coefficients				
	R	R <sup>2</sup>	Adjusted R Square	Std. Error of the Estimate	Un-standardized coefficients		Standardized coefficients	t-value	p-value
					B	Std. Error			
H1	.913	.834	.832	.38795	.912	.041	.913	22.204	.000
H2	.941	.885	.884	.32250	.951	.035	.941	27.519	.000
H3	.929	.864	.862	.35165	.933	.037	.929	24.927	.000
H4	.943	.889	.888	.31707	.912	.033	.943	28.050	.000

The results confirmed that each variable had a statistically significant influence on entrepreneurial performance as it explained more than 80 percent of its variation. This suggests that each variable has a strong relationship with entrepreneurial performance. Therefore, all four sub hypothesis *H1a*, *H2b*, *H3c*, *H4d* were accepted and four specific objectives were achieved.

**Table 4.4.2: Results of Multiple Regression Analysis**

Model Summary and Coefficients			
Model Summary			
R	R <sup>2</sup>	Adjusted R Square	Std. Error of the Estimate
.956	.914	.911	.28351
Coefficients			
Model	Un-standardized coefficients	Standardized coefficients	



	B	Std. Error	Beta	t- value	Significance p - value
(Constant)	.162	.132		1.227	.003
Financial Attitudes	.158	.098	.159	1.624	.000
Financial Behavior	.268	.136	.266	1.972	.000
Financial Knowledge	.183	.109	.182	1.686	.000
Financial Influence	.359	.122	.371	2.943	.004
Predictors: (constant), Financial Attitudes, Financial Behavior, Financial Knowledge, Financial Influence					
Dependent variable – Entrepreneurial Performance					

The results in table 4.4.2 reveals that the dimensions of financial literacy (financial attitudes, financial behavior, financial knowledge and financial influence) explained 91.4% of the variation in entrepreneurial performance ( $R^2 = .914$ ). This implies that the financial literacy has a strong relationship with entrepreneurial performance. The overall model reveals a statistically significant relationship between predictor variables and the dependent variable ( $p\text{-value} < .001$ ). This implies that there is a significant relationship between the predictor variables (financial attitudes, financial behavior, financial knowledge and financial influence) and entrepreneurial performance.

The unstandardized regression coefficient ( $\beta$ ) value of the computed (composite index) scores of dimensions of financial literacy was 0.158, 0.268, 0.183, and 0.359 with a t-test of 1.624, 1.972, 1.686, 2.943 respectively and significance level of  $p\text{ value} < .001$ . The results achieved objective one of the study and confirmed that financial literacy has a statistically significant influence on entrepreneurial performance as it explained 91.4% of its variation ( $R^2 = .914$ ). Findings showed entrepreneurial performance was explained as 88.8% by financial literacy. Having achieved the main objective, the study accepts the main hypothesis that financial literacy influences entrepreneurial performance. The regression equation to estimate the entrepreneurial performance was stated as:

$$Y = B_0 + B_1 \text{ Financial Attitudes} + B_2 \text{ Financial Behavior} + B_3 \text{ Financial Knowledge} + B_4 \text{ Financial Influence}$$

$$Y = 0.162 + 0.158 X_1 + 0.268 X_2 - 0.183 X_3 + 0.359 X_4$$

## **9. CONCLUSION**

This study analyzed the impact financial literacy on MSME' entrepreneurial performance. A questionnaire was surveyed among 100 respondents in Gampaha district. The collected data were described by frequency, descriptive analysis, correlation analysis and regression analysis. The study found out that the MSME entrepreneurs are more knowledgeable in basic finance concepts while they less agree with the statement of "thinking about where business will be financially in 5 or 10 years in the future is essential for financial success"

The study concludes that there is a strong positive effect of four pillars of financial literacy on the entrepreneurial performance with reference to MSME. Financial attitudes, financial knowledge, financial influence, and financial behavior has a positive influence while financial behavior and financial influence has the highest positive strong influence on entrepreneurial performance than financial attitudes and financial knowledge. Therefore, the most significant variable of financial literacy is the financial influence and the least significant variable is the financial attitudes. The results reveals that MSME that are more successful, are run by the entrepreneurs who are financially literate and understand key financial concepts that include debt management, record keeping, and budgetary skills. Financial literacy of the owners regarding the budgeting skills and planning assist in reducing the MSME running costs while increasing the profits thereby enable them to proper planning on loan repayment. In addition, the direction by the parents on financial matters empowers them to improve their financial literacy skills that the ability to read, analyze, manage and write about financial conditions of the firm to do better cash management to ensure a proper channeling of resources towards credit management. Financial literacy facilitates accumulating savings, diversifying assets, and purchasing insurance, decision making processes such as payment of bills on time, proper debt management which improves the creditworthiness of potential borrowers to support livelihoods, economic growth, poverty reduction, growth, and expansion. It can be concluded that the financially literate entrepreneurial MSME tend to be more successful than those with a low level of financial literacy.

### **5.1 Implications of the Research Findings**

At the policy level, the Government of Sri Lanka can recognize that MSME are the key drivers of economic growth and can formulate policies focusing on the combined roles of financial literacy and financial access and transaction costs on improving the performance of MSME. Further, the government can take steps to include basic financial education course units into curricular at school levels so that potential entrepreneurs can understand financial literacy early in life and can implement special training programs on financial education having understood the significance of

business education to succeed in business. The private sector especially, the financial institutions along with a favorable institutional framework can achieve a great deal into financial literacy by offering training connected to the products they offer to the market. The financial institutions may educate MSME in the informal sector on the basic financial concepts and can play a key role in financial literacy giving frequent interactions with MSME in financial matters. Entrepreneurs need to create a positive attitude towards entrepreneurship and training taking greater responsibility for their own learning. They should attend training programs organized by universities and other institutes in managing finance and running the business for a smooth and proper functioning of their businesses.

## **5.2 Recommendations**

The present research investigated the effect of the financial literacy on the entrepreneurial performance with reference to MSME in Gampaha district with 100 sample respondents. But, for obtaining more precise results and wider conclusion, a stratified sample method was recommended with a wider number of samples as the entrepreneurs are increasing in Sri Lanka. The samples of individuals were taken only from Gampaha district. Therefore, accuracy can be increased if data was obtained from all over the country with different demographic, geographic, psychographic and behavioral factors. The research with considerable number of respondents from all the areas in the country will make the findings more accurate. The findings add to the existing conceptual and empirical evidence that financial literacy influences entrepreneurial performance. In addition, the findings add to the existing conceptual and empirical evidence that this relationship is moderated by other extraneous variables such as the transaction cost and intervening effect of the financial access on the financial literacy and entrepreneurial performances relationship.

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