African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 3, Issue 1, 2020 (pp. 44-52)
www.abjournals.org

IMPACT OF FINANCIAL LITERACY ON PROFITABILITY OF SMALL SCALE ENTERPRISES IN NIGERIA

Mohammed Ndaliman Abubakar

Department of Business Administration & Management, The Federal Polytechnic Bida, Niger State – Nigeria.

ABSTRACT: *This research work examined the impact of financial literacy on profitability of small-scale enterprises in Karu, Abuja. The study aimed to analyze whether the level of adoption of financial literacy in record keeping of small-scale enterprises (SSEs) has significant impact on financial performance. A review of related literature was carried out to examine the extent of work done in the field. A carefully structured questionnaire was used to collect data on the level of adoption of financial literacy and also a financial literacy test. A sample of one hundred and fourty eight (148) respondents was used to carry out the study, which encompasses the different strata frequency and percentages used to analyzed data while one-way analysis of variance (ANOVA at 5% level of significance was used in the analysis of the research data. The result shows that the level of adoption of financial literacy by small scale enterprises in Karu is low and that utilization of financial records significantly influences their profitability. It however, found that there is statistically significant relationship between financial literacy and profitability of SSEs in Karu due to the relevance of this study to economic and national development. The study recommends that SSEs should adopt financial literacy in order to improve their profits.*

KEYWORDS: Financial Literacy, Profitability, Small Scale Enterprises, Nigeria

INTRODUCTION

The role of small-scale enterprise (SSEs) in the national economy cannot be underestimated. Though, these kinds of enterprises are given increasing policy attention in recent years, particularly in third world countries because of growing disappointment with results of their development strategies. Studies show that the impact of SSEs are felt in employment generation, encouragement of rural development, development of entrepreneurship, mobilization of local savings, linkages with bigger industries, and provision of regional balance by spreading investments more evenly. In many centuries of the world, small scale enterprises are the engine of growth specifically in countries such as Malaysia, Thailand, China, and India, SSEs have been responsible for more than 70 percent of exports and this is why these countries have been growing in leaps and bounds (Duro, 2013). In Nigeria, SSEs are beset with a myriad of challenges which are in no small measure affecting their growth and development.

Several researchers have shown that SSEs form the bedrock of industrialization in most developing countries of the world. Globally, small scale enterprises have contributed enormously in improving the standard of living of the people by providing jobs to relieve the society of social embarrassment, stimulating indigenous entrepreneurship and utilizing scarce resources. Financial literacy as the name implies occupies a centre-stage in the quest to achieve an overall degree of success in an organization, (Bernheim, 2008). It also enhances to a reasonable degree, a business goal of financial profit. Thus, financial literacy has played a key role in the success and failure of our nation business for the past centuries. Companies and businesses have therefore been charged with ensuring that adequate and proper books of accounts are kept so as to ensure reliability of their financial statements. This will in the long run help improve their level of profitability.

Furthermore, profit can analogously be viewed as the life-blood of a business and hence the accounting bases, concepts and principles adopted ought to capture and report all the relevant information to ensure reliability in its measurement (Nelson & Onias, 2011). Also, Enikanselu & Oyende (2009) made it clear that no business can run effectively without being financially literate and also having one form of accounting records or the other. It can therefore be deduced that appropriate financial literacy is important for a successful management of any business, whether big or small. Furthermore, financial literacy is being encouraged among small scale enterprises so as to enable them be able to supply complete and relevant financial information needed to improve on decisions made by them, and to also enhance their profitability. Despite all above, most small-scale enterprises in Nigeria have not performed creditably well and they have not played expected significant role in spite of the fact that they have been regarded as the bulwark for employment generation and technological development. The foremost problem associated with small scale enterprises in Nigeria are poor financial literacy which is evident of their inability to keep complete accounting records. This invariably has resulted into a situation where SSEs operating in the state cannot capture adequately the business profit. Again, it makes difficult to calculate financial data without adequate financial literacy. This problem has ultimately affected the profitability of small-scale businesses. Secondly, poor awareness of financial risk and opportunities, reckless expenditure, use of business funds for personal transactions, limited access to bank credit facilities and insurance policies. Hence, the need for these researches to examines how financial literacy impact on profitability of small-scale enterprises in Karu local government area of Abuja - Nigeria.

LITERATURE REVIEW

Generally, literacy refers to a person's ability to read and write. The standard definition of literacy developed by the Literacy Definition Committee is "using printed and written information to function in the society, to achieve one's goals and to develop one's knowledge and potential" (Kirsch, et al. 2001). When operationalized, this definition covers three broad areas - prose (written information), document (tabular/graphical information) and quantitative (arithmetic and numerical information). Literacy in its broadest sense consists of understanding (i.e. knowledge of words, symbols, and arithmetical operations) and use (ability to read, write and calculate) of materials related to prose, documents and quantitative information. The idea of literacy has been expanded to the study of particular skill sets, for example computer literacy, statistical literacy, health literacy. Each type of literacy, measures how well an individual can understand and use information. For example, health literacy measures how well an individual can understand and use health-related information (Baker, 2006). Like general or health literacy, financial literacy could be conceptualized as having two dimensions - understanding (personal financial knowledge) and use (personal financial application), (Houston, 2009). This definition also is in line with one of the most authoritative definitions as provided by the President's Advisory Council on Financial Literacy, (2008). To them financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial wellbeing. These definition stress knowledge and skills as key components of financial literacy while other definitions by other institutions and scholars give more emphasis to just some elements, or have a slightly different form.

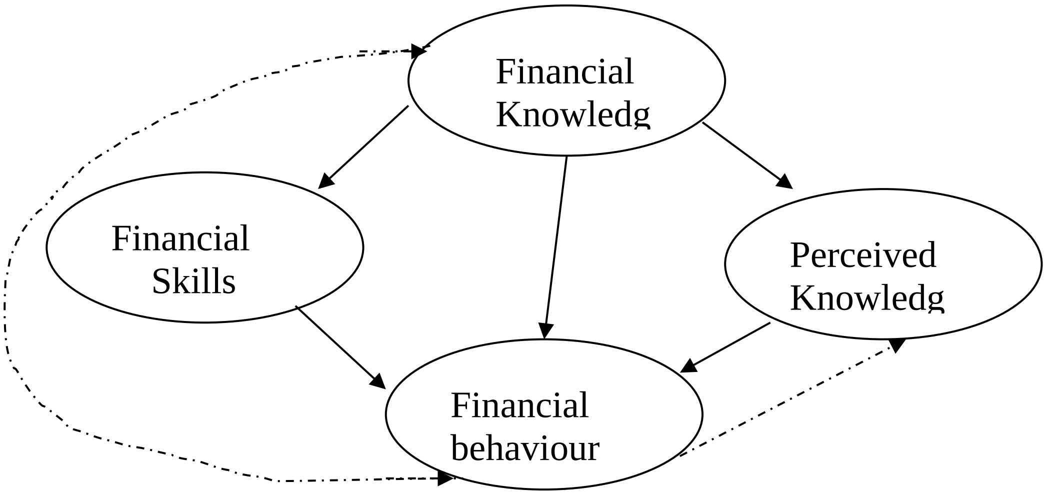

Figure 1: Conceptual Model of Financial Literacy

Source: Houston, (2009) Financial Literacy and Knowledge in Small Businesses Reviews

According to Itodo, (2015) SSEs make up the largest business sector in every world economy and contribute to the development of the society through the redistribution of political power arising from the ownership of small-scale businesses by more people in a country. In addition, these classes of enterprises offer consumers a greater opportunity for choice by operating in fragmented or niche markets which larger firms either cannot economically enter or are reluctant to enter because of unattractive risk-return consideration. The extant literature demonstrates a strong association between financial literacy and household wealth creation. In recent years, the results of various research studies have shown that households which demonstrate low levels of financial literacy do not plan for retirement (Lusardi and Mitchell, 2007), borrow at high-interest rates (Stango and Zinman, 2008), and acquire fewer assets (Lusardi and Mitchell, 2007). Consequently, policy makers in both developed and developing nations have been implementing financial literacy programmes to facilitate household savings and financial market participation, with the ultimate goal of reducing poverty and improving welfare.Researches carried out mainly in developed countries have shown that financial literacy is an important component of sound financial decision making and can have important implications for financial behaviour. For example, people with low-financial literacy are more likely to have problems with debt (Lusardi and Tufano, 2008). They are also less likely to participate in the stock market (van Rooij et al., 2007), and less likely to choose investment products with lower fees (Hastings and Tejeda-Ashton, 2008).

The financially illiterate person is less likely to accumulate wealth and manage wealth effectively (Hilgert et al., 2003; Stango and Zinman, 2007), and less likely to plan for retirement (Lusardi and Mitchell, 2006, 2007; Lusardi et al., 2009). It goes without saying that understanding financial literacy among the youth is of critical importance for policymakers in our modern society. Cole and Fernando (2008) noted that research on levels of financial literacy in developing countries remains comparatively low. However, a small number of studies show even lower levels of financial literacy. The Department for International Development conducted a study in Zambia and found that only half the adult population knew how to use basic financial products. The same study revealed that that in seven African countries only 29 per cent of adults had a bank account and that approximately 50 per cent use no financial products whatsoever, not even informal financial products (DFID, 2008). It is interesting to note that in Asia, an Indian survey found that a majority of labourers surveyed saved by storing cash at home in spite of the fact that they held loans from money lenders at very high interest rates (Financial Express, 2008).

Cude et al. (2006) examined US college students' overall financial management practices using quantitative and qualitative data from a multi-state research project. The study investigated how college students acquire financial knowledge and behaviours and the factors that place some students at greater financial risk than others. The findings show that parents play a key role in their children's financial management practices. The authors concluded that the results provide important insight into financial education opportunities for students, parents, college administrators, and financial professionals and educators. Schagen and Lines (1996) conducted a financial literacy survey of the general UK population but with a particular focus on four groups: young people in work or training, students in higher education living away from home, single parents and families living in subsidised housing. The survey results indicated that most participants were confident in their financial dealings. The notable exceptions were single parents and students, which is particularly significant in the light of the rising debt levels of university students in the UK (Graduate Prospects, 2005). Haiyang and Volpe (2002) conducted a survey of financial literacy among college students in the USA. Their findings show that women generally have less knowledge about personal finance topics. The same study revealed that gender differences remain statistically significant after controlling for other factors such as participants' majors, class rank, work experience, and age. The authors, however, found that education and experience can have a significant impact on the financial literacy of both men and women. They observed further that women generally have less enthusiasm and the willingness to learn about personal finance topics than men do.

It goes without saying that financial literacy means different things to different people and this is reflected most clearly in the many definitions used in the literature. For some it is quite a broad concept, encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, it focuses quite narrowly on basic money management: budgeting, saving, investing and insuring (Hogarth 2002). Likewise, financial literacy can be absolute, comprising some standard of knowledge assumed common or desirable for all consumers, or relative, where the standard varies according to personal skills, needs and experiences. In this case, the benchmark of financial literacy changes according to the degree of current and possible interaction with financial services markets. Of course, any definition of 'personal' financial literacy used here plainly differs from the 'professional' financial literacy expected of directors and audit committee members, where financial literates are typically regarded as having an understanding of financial statements, cash flows and management compensation, internal control mechanisms and corporate governance McDaniel et al. (2002).

METHODOLOGY

This study employs a quantitative method. The researcher collect data from a total of one hundred and fourty eight SSEs in Karu, Abuja. The data sought from the respondents were used to examine their level of financial literacy record keeping. Using a stratified sampling method, the questionnaire was distributed to cover about thirtheen (13) sector of SSEs after grouping the respondents into strata, then a simple random sampling technique was used draw each sample of respondents. The survey questionnaire uses four (4) point likert scale with (1= Strongly agree, 2= agree, 3 = disagree, 4= strongly disagree) for respondent to select from. The study data was analysed using standard deviation and ANOVA analysis of variance to address the research hypothesis formulated.

FINDINGS

Table 1: Problems Hindering Utilization of Financial Literacy Records Keeping by SSEs

S/N	Variables	SA	A	D	SD	$\overline{X}$	SD	RMKs
1	Keeping proper accounting record is time consuming	86	40	15	7	**3.39**	**0.85**	**Agree**
2	Keeping proper accounting record is expensive	10	16	32	90	**1.64**	**0.93**	**Disagree**
3	Keeping proper accounting record requires being financially literate	106	30	9	3	**3.61**	**0.69**	**Agree**
4	Keeping proper accounting record requires more staff	10	22	36	80	**1.74**	**0.95**	**Disagree**
5	It is difficult to maintain the books of accounts	82	49	10	7	**3.39**	**0.81**	**Agree**
6	Keeping proper accounting record exposes your financial position	88	40	11	9	**3.39**	**0.81**	**Agree**
7	Keeping proper accounting records makes your enterprise to pay more tax	96	29	15	8	**3.44**	**0.88**	**Agree**

Source: Field Survey, 2019.

Table 1 above, analyzed the problems that hinder the utilization of accounting records by small scale enterprises. The results from the data analysis shows that the respondents agreed that the problems that hinder the proper keeping of accounting records were as follows: it is time consuming, it requires financial literacy, it is difficult to maintain the books, keeping of accounting records exposes the financial position of the enterprise and it makes the enterprise to pay more tax. The items had the following means: 3.39, 3.61, 3.39, and 3.44 with standard deviations of 0.85, 0.69, 0.81 and 0.88 respectively. They disagreed the fact that keeping accounting records is expensive and that it requires more staff with means of 1.61, 1.74 and standard deviations of 0.93 and 0.95 respectively.

African Journal of Accounting and Financial Research
ISSN: 2682-6690
Volume 3, Issue 1, 2020 (pp. 44-52)
www.abjournals.org

Table 2: Result of Analysis of Variance (ANOVA)

VARIABLE	$\overline{N}$	X(MEAN)	SD (STD. DEVIATION)
HFL	25	24.72	8.70
MFL	43	25.67	7.03
LFL	80	26.69	7.06
Total	**148**	**26.06**	**7.33**

VARIABLE	SOURCES OF VARIATION	SUM OF SQUARES	DEGREE OF FREEDOM (DF)	MEAN SQUARE	F-RATIO
Financial Literacy	Between Groups Within Groups	82.78 7825.67	2 145	41.39 53.97	**0.767**
Total		**7908.45**	**147**		

∗ Significant at .05 level (critical $F_{2,145}$= 3.00)

Decision Rule is as follows:

Accept Ho: Reject H_1: If calculated f-ratio > critical f-value

Reject Ho: Accept H_1: If calculated f-ratio < critical f-value

The result shows that the critical F-value at 0.05 level of significant is 3.00 while the calculated F-ratio is 0.767. Since the critical F-value is greater than the calculated F-ratio, the researcher concludes that financial literacy has significant impact on profitability of small-scale enterprises. The findings revealed that the utilization of financial records by small scale enterprise have significant impact on their profitability. This is because the null hypothesis was rejected and alternative accepted. This finding is also in consonance with Millichamp, (1987) who posited that utilization of accounting system has significant impact on profitability of small-scale enterprises.

CONCLUSION & RECOMMENDATION

The issue of financial literacy has recently continiued to gained relevance nationwide and even in developed countries of the world. Thus, the explosive draft of financial literacy framework in Nigeria propose by the Central Bank of Nigeria (CBN), is placing increasing responsibility on small scale enterprises improving their financial literacy level and also for an overall financial inclusive strategy for small scale enterprises. This however propelled the researcher to critically examine the financial literacy among small scale enterprises with which trend shows low level of adoption and poor financial record keeping. Based on the findings made and conclusions drawn from the study, the following recommendations were made: -

1. There should be proper record keeping in SSEs and be made mandatory so as to improve their accounting practices and increase chances of them formalizing their business operations.

2. The Central Bank of Nigeria should take drastic steps in implementing its financial literacy framework for SSEs in Nigeria.

3. Since financial literacy enhances profitability of small-scale enterprises, there is need for the Institute of Chartered Accountants of Nigeria (ICAN) as well as the Association of National Accountants of Nigeria (ANAN) to organize seminars for small scale proprietors for better management and profitability of their business.

REFERENCES

Baker, D. W. (2006). The meaning and measure of health literacy. *Journal of General Internal Medicine*, 21(8), 878-803.

Baumback, C. M. (1989). *Basic Management.* New Jersey: Prince Hall Inc.

Bernheim, D. D. (2008). Financial literacy, education and retirement saving. In O. S. Mitchell and S. J. Schieber (Eds.). *Living with Defined Contribution Pensions,* pp.38-68. The Pension Research Council, Wharton School Pension Research Council, University of Pennsylvania.

Bernheim, D. D. and Garrett, D. M. (2003). The effects of financial education in the workplace: Evidence from a survey of household and firms. *Journal of Public Economics,* 87(8), 1487-1719.

Brynes, J. P. (2008). *Cognitive development and leaning in instructional contexts* (3rd Ed.). Boston: Boston Education Inc.

Delavande, A., Rohwedder, S., & Willis, R. J. (2008). Preparation for retirement, financial literacy and cognitive resources. *Michigan Retirement Research Centre Working Paper* No. 2008-2190.

Denga, D. I. and Ali, A. (1997). *An introduction to research methods and statistics in education and social sciences.* Calabar: Rapid Educational Publishers.

DollarSence (2005). *Test your investment literacy*. DollarSence: Winter.

Egbu, C, (2003). *Record keeping in small scale businesses. An instrument for survival.* Lagos: Business times.

Ejiofor, P. (1989). *Foundations of business administration.* Onitsha: African Publishers Ltd.

Eneh, O. C. (2007). Growth and development of micro, small and medium enterprises sector as a veritable factor for poverty reduction in developing countries. *The Journal of Development Studies,* Vol. 6(1).

Enikanselu, S. A. and Oyende, A. I. (2009). *Entrepreneurship development and management of small scale enterprises.* Lagos: Enykon Consult .

Ezejelue, A. C. (2005). Sound accounting practices and profitability. *Nigeria Accountant,* 25(2): 27.

Fenichel, O. (1945). *The psychoanalysis theory of neurosis.* New York: Norton & Company Inc.

Goldhaber, D. E. (2000). *Theories of human development: Integrated perspectives*. Mountain View: Mayfield Publishing Company.

Guiso, L. and Japelli, T. (2008). Financial literacy and portfolio diversification. *The American Economic Review,* 94(3), 526-556.

Houston, S. J. (2009). The concept and measurement of financial literacy. *Journal for Financial Services,* 20(6), 36-58.

Huddleston, C. A. and Danes, S. M. (1999). Impact evaluation of a financial literacy, program: Evidence from needed educational policy changes. *Consumer Interest Annual*, 45, pp.109-115.

Isangedighi, A. J., Joshua, M. T., Asim, A. E. & Ekuri, E. E. (2004). *Fundamentals of research and statistics in education and social sciences.* Calabar: University of Calabar press.

Kerlinger, F. N. (1986). *Fundamentals of behavioural research.* Hold: Renehart & Winston.

Kirsch, E., Irwin, O., Kentaro, Y., Norma, N., et al. (2001). *Technical report and data file users manual for the 1992 National Adult Literacy Survey.* Washington, DC: US Department of Education, National Centre for Education Statistics.

Krueger, D. W. (1986). Money, success and success phobia. In David W. Krueger (Ed.). *The last taboo. Money as symbol and reality in psychotherapy and psychoanalysis* (pp. 24-38). New York: John Wiley & Sons Inc.

Lusardi, A. & Mitchell, O. S. (2007). Planning and financial literacy: How do the minority fare? *American Economic Review,* 98(2), 413-417.

Mier, S. & Sprenger C. (2008). Discounting financial literacy. Time preferences and participation in financial education programs. *Harvard Discussion Paper* (N0. 3507).

Millichamp, A. H. (1987). *Auditing: An instructional manual for accounting students*. Hants: DP Publications Ltd.

Ndiyo, N. A. (2005). *Fundamentals of research in behavioural sciences and humanities.* Calabar: Wusen Publishers.

Nelson, M. & Onias M. (2011). Accounting practices of SMEs in Zimbabwe: An investigation study of record keeping for performance management (A case study of Bindura). *Journal of Accounting and Taxation*, 3(8), 171-181.

Nisbet, J. D. & Entwistle, N. T. (1977). *Educational research methods.* London: Oxford University Press.

Nwana, O. C. (2005). *Introduction to educational research.* Ibadan: Heinemann Educational Books (Nig.) Plc.

O'Neil, J. R. (1993). *The paradox of success: Winning at work means loosing at life. A book of renewal for leaders.* New York: Putnam's Sons.

Okoli, B. E. (2011). Evaluation of record keeping by small scale enterprises in Nigeria: The case study of Enugu-South East Nigeria. *Asian Journal of Business Management*, 3(4), 235-240.

Piaget, J. (1983). Piaget's theory. In William Kessen (Ed.). *History, theory and methods*. (4th Ed.) New York: John Wiley & Sons Inc.

Presidents Advisory Council on financial literacy (2008). *2008 annual report to the President of the United States*. The Department of the Treasury.

Rangell, L. (1969). Choice-Conflict and the decision-making function of the ego: A psychoanalytic contribution to decision theory. *International Journal of Psychoanalysis*, 50,599-602.

Schagen, S. and Lines, A. (1996). *Financial literacy in adult's life: A Report of the NatWest Group Charitable Trust*. Berkshire: National Foundation for Educational Studies.

Shokan, O. (2010). *Small scale businesses in Nigeria.* Lagos: Shove Publishers.

Skinner, B. F. (1969). *Science and human behavior.* New York: The Macmillan Company.

Spiegel, M. R. & Stephens, L. J. (2008). *Statistics* (4th Ed.). New York: McGraw-Hill Companies.

Tijani-Alawe, B. A. (2004). Contemporary lessons in African philosophy of business. *International Journal of Social and Policy Issues*, 1(1), 59-66.

ISSN: 2682-6690
Volume 3, Issue 1, 2020 (pp. 44-52)

Watson, J. B. (1913). Psychology as the behaviorist views it. *Psychological Review*, 20 (2), 248-253.

William-Harold, J. D. and Smith, B. (1999). Financial literacy and knowledge in small businesses. *European Economic Review*, 54(11), 18-38.

Copyright © 2020 The Author(s). This is an Open Access article distributed under the terms of Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0), which permits anyone to share, use, reproduce and redistribute in any medium, provided the original author and source are credited.