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THE RELATIONSHIP BETWEEN ENTREPRENEURS' FINANCIAL LITERACY AND BUSINESS PERFORMANCE AMONG ENTREPRENEURS OF BAUCHI STATE NIGERIA

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ABSTRACT: *Financial literacy of entrepreneur has been acknowledged as an important aspect that contribute to the success of any business. Many studies have proven that entrepreneurs who possessed high level of financial literacy contribute to success of their business in term of financial and non-financial success. Despite the important of this aspect there is limited study that explore this issue in Nigeria. Therefore, this study explores the relationship between financial literacy and business performance of entrepreneurs in Bauchi State Nigeria. A survey questionnaire was sent to a random sample 500 entrepreneurs which resulted in 386 useable returned questionnaires. The result revealed a statistically significant relationship between the different dimension of financial literacy and entrepreneurial business performance. Thus, the findings prove that financial literacy plays significant role in improving business performance. Therefore, the entrepreneurs need to improve their financial literacy skill in order to enhance their business performance.*

KEYWORDS: Financial Literacy, Business Performance, Bauchi Metropolis Nigeria.

INTRODUCTION

Entrepreneurs form the backbone of all successful economies globally since they are considered as the vital source of economic growth in the provision of employment opportunities, eradicating poverty and contributing to the development of gross domestic product (GDP) of both developed and developing countries (Hussaina et al., 2017). Nevertheless, financial literacy remains a subject of discussion across developed and developing countries including Nigeria (Karadag, 2017).in business, financial literacy is the degree to which one understands important financial concepts and possesses the capacity and confidence to handle funds of appropriate, brief period decision-making and solid long-term financial forethought (Remund, 2010). Many findings shows that financial literacy lead to a number of positive impact to business such as: (1) equip individuals with financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions ; (2) facilitate the decision making processes such as payment of bills on time, proper debt management which can improve the credit worthiness of potential borrowers to support business performance (Eniola & Entebang, 2016); (3) enables investors to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions (Lusardi, Mitchell, et al., 2014) and (4) ultimately achieve individual financial well-being(Eniola & Entebang, 2016). Thus, financial literacy education provides an individual with the ability to recognize commercial opportunities, knowledge, self-esteem and skills, hence improving his business performance (ACCA, 2014). This paper provides findings the relationship between financial literacy and business performance from a study among entrepreneurs in Bauchi State, Nigeria.

REVIEW OF RELATED LITERATURE

What is 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 failed to capture the entrepreneurial manager and the business persons. Abdullah & Azam, 2015 and Eniola (2016) outlined financing provision and shows that financial service is the section that will include the delivery of financial products to individuals. Financial literacy is listed as one of the critical managerial competencies in entrepreneurial business performance and growth (Eniola, 2016). Scholars mostly agreed that entrepreneurs, irrespective of their age, are systematically involved in decision-making activities regarding procurement of resources, distribution and utilization, such activities virtually have financial consequences and therefore, in order to be effective, entrepreneurs must be financially literate (ACCA, 2014 and Oseifuah, 2010). A summary definition of financial literacy is shown in Table 1.

Table 1: A summary of definition of financial literacy

S/N	Definition	Source
1	Entrepreneur's ability to comprehend and analyse financial information and act	Xiao, (2017)
2	Entrepreneur's ability and financial decision-making aspect	Annamaria Lusardi and Olivia S. Mitchell, (2014
3	Entrepreneur manage and strategize financial knowledge, which significantly affect decision making behaviours, knowledge and attitudes, concerning sound decision making and eventually achieving business performance.	(Huston, 2010 and Eniola, 2016)
4	Financial literacy enables entrepreneur to make effective decisions on utilization of financial products and services	(Wise, 2013).
5	Is the degree to which the entrepreneur is able to make effective decision on the utilisation and management of money long-term financial planning	(Remund, 2010).
6	Is a precise form of knowledge, the capability to relate that knowledge, perceived awareness, better financial behaviour, and smooth financial attitudes	(Fatoki, 2014)
7	Is one of the critical managerial competencies in entrepreneurial business performance and growth	(ACCA, 2014 and Oseifuah, 2010).

Components of Financial Literacy

Though recently, Schuhen and Schürkmann, (2014) convey the most widely accepted definition for financial literacy all over the world consisting of three main pillars as financial knowledge, financial attitudes and financial behaviours (Schuhen, 2014).

Financial Knowledge

Knowledge is about understanding exactly how business performance and business situation are measured by the psychological model to ease, strengthen, or enhance decision making (Lusardi & Mitchell, 2014). In the past few years, scholars have increased their efforts in conducting research related to financial literacy and have also documented the relationship between financial literacy and business performance (Lusardi, 2013,Aminu, 2016,Dinç Aydemir, 2017,Wise, 2013,Rousseau & Venter, 2016, Kamakia, 2017 and Eniola, 2016). Annamaria Lusardi and Olivia S. Mitchell,(2014) proposes that, financial literacy is required to make a measurement of financial capability, i.e., to remain knowledgeable about financial issues. Those financially literate persons were more likely to participate in financial market since they have knowledge on financial matters. Lusardi, (2013) revealed that, there is a link between financial literacy and low-cost borrowers, most high cost borrowers show very low levels of financial literacy, lack knowledge of basic financial concepts, which affect their business performance level. Similarly Abubakar (2015) establishes that, the field of individual actions affects the financial literacy level and individuals that invest in financial awareness have a higher level of financial literacy. Kamal Gupta and Jatinder Kaur, (2014) indicated that entrepreneurs with best financial knowledge keep comprehensive business financial records and have a more competitive advantage in regards to accessing external funding more than their equivalents who do not keep. Likewise, Lusardi, (2014) highlighted that entrepreneurial business owner that has financial knowledge and is able to put this knowledge into practice, may show an improved financial wellbeing. Financial literacy is equally an important determinant of stock market participation, for example, the literature suggests that individuals with more financial knowledge are more likely to engage in a wide range of recommended financial practices (Lusardi, 2013 and Wise, 2013). A major conclusion of most of these studies suggests a strong positive association between financial literacy and business performance. In fact the ability to read, evaluate, manage and discuss several financial conditions which ultimately lead to individuals' financial well-being, that is , it provides individual with ability to identify profitable business prospects, have understanding of how to go about with various financial products and services with self-confidence and skills to act on them.

Financial Behaviour

It is acknowledge that an entrepreneur with best financial behaviour may results in improve business performance and financial wellbeing. Jappelli & Padula, (2013) find similar results for postulates that financial behaviour provide information about the extent to which entrepreneur's takes responsibility for business finances and budgeting. Indeed, Graf, (2012) stated that financial behaviour is one of the critical managerial competencies for entrepreneurial business performance and growth. This was supported by Musie, (2015) whose research study shows that financial behaviour aids the decision-making processes such as prompt bills payment and appropriate saving, debt management, book keeping and business planning which help entrepreneurs to improve their business performance, while at the same time improving economic development, sound financial systems and poverty reduction. In a study of Bucher-Koenen et al., (2014) found that entrepreneurs with low financial literacy are more likely to base their financial advice from friends and are less likely to participate in the stock market. Conversely, good financial behaviour enable entrepreneur to have understanding on overall impacts of 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). According to Eresia-Eke (2013) most entrepreneurs in developing countries fail because they lack good financial behaviour and they are lacking business insight, which undermines entrepreneurial performance. Therefore, proper practice of good financial behaviour helps entrepreneurial business owners in both developed and developing economies to enhance their business performance through proper decision making like business planning, saving and record keeping (Matewos et al., 2016). A good financial behaviour might lead to business enterprise competitiveness in a globalized economy while poor financial behaviour lead to business closedown. Based on previous studies, financial literacy is significantly linked to financial behaviours such as book keeping, savings, cash management, debt management and investment decisions that maximizes benefits for entrepreneurial business owners (ACCA, 2014).

Financial Attitude

Financial attitude is the process of applying financial principles in order to create and uphold value through proper decision making and resource management (Kebede et al., 2017). It is one of the elements that have substantial influence on financial management practice (Lusardi, 2013). Carpena & Zia (2011) argued that, it is the formation of good decision making and management of resources through the use of financial principles and conventions. Thus, it can be considered that, financial attitude is enhanced through obtaining appropriate information (Efe, 2014). Study has revealed that financial literacy can be improved through the realisation of the right financial attitude in terms of risk management and diversification (Jonsson et al., 2017). Equally, attitudes like the risk management and investment diversification may improve the business performance of the entrepreneur. In a study carry out by Fatoki, (2014) on financial literacy among micro enterprise owners in south Africa reveal that majority of the micro enterprise owners do not have insurance policy to cover their business in time of hazard which in turn affect their business performance negatively. Therefore, it is very important determinant of investment decisions (Awais et al., 2016). Moreover, entrepreneurial business owner with diversified investment tend to have lessen business risk in the long run while at the same time increasing his business performance and long-term survival (Chu et al., 2017). On the other hand, the attitude of entrepreneurial business owner also plays a significant role in determining business performance based on risk management strategy (Fisher & Yao, 2017). Therefore, the need learns more on finance management is very critical to entrepreneurial business owners since it enables them to manage enterprise performance effectively. Similarly, Bruhn & Zia, (2011) argued that, it is a financial decisions made when the decision maker is knowledgeable and therefore, positively result in success for both individuals and business enterprise owners respectively.

The Influence of Financial Literacy to Business Performance

The concept of business performance have two strategic results that are frequently referred to in the literature which are either success or failure (Eniola & Entebang, 2015b). In the field of management, business performance can be taken as measures of good or indifferent management(Kim & Patel, 2017). But it might occur due to other reasons such as luck. The effects of a business performance rest on whether the business has attained its objectives or not (Mabhungu & Van Der Poll, 2017). Business performance is a central marvel in business management. It has been projected in the literature (Hitt et al., 2016 and Nzewi et al., 2017). Performance can be considered as the business ability of a business enterprise to come across or surpass its pre-set objectives or goals as agreed upon by its investors over a definite period (Kim, 2017). Though, performance appears to be conceptualized, rationalized and measured in diverse directions, hence making cross comparison difficult. According to Eniola,(2015) performance is generally employed as a measure of a business health over a definite period. This puts performance as one of the key issues for entrepreneurs. The ability to establish business performance is a better approach to explore whether a business enterprise is progressing or not, through the use of indicators which permits easy way to look into the enterprise situation such as the financial and non-financial measurement for instance annual sale turnover rate, growth rate, number of employees, employees competency innovation, competition and resources availability are all critical elements to bringing about strategic development in business performance (Simpson et al., 2012 and Javed and Muhammad, 2011). However a key standard to performance in business environment is the objective setting which means instituting what an individual or business enterprise desires to accomplish over a specified period of time, the objectives must be precise, quantifiable, attainable, accurate and timely planned (Kim and Patel, 2017). Performance incorporates various meanings, comprising growth, survival, profitability, innovation and competition (Eniola, 2016).

Entrepreneurial financial literacy improves utilization of financial forces because literate entrepreneurs are more likely to utilize and access financial services which help to improve the performance of their business (Fatoki, 2014). Low degree of financial literacy can prevent the performance level of Entrepreneurs from adequately assessing and understanding different financing provision, and for navigating complex loan application (Vincent, 2014). Financially literate clients make better financial decisions and maintain a better overall financial well-being. Financial literacy education provides an individual with the ability to recognize commercial opportunities, knowledge, self-esteem and skills hence, improving his business performance (Aminu, 2016; Kisunza, & Theuri, 2014). People who cannot read and write are also slow to comprehend during seminars where members are taught on skills like book-keeping, arithmetical skills, project detection skills and communication skills (Xiao, 2017). Entrepreneurs who are financially literate have a higher chance of been successive in their business more than their illiterate equivalents. Financial literacy has a positive influence on the competence of an entrepreneur thus increasing his forecasts of financial attachment into the social economic mainstream by increasing the possibility of his profits and an increased functioning capability and performance of the business (Adomako & Danso, 2014). The positive outcome of being financially literate is determined by behaviour like planning expenditures and building insurance, conversely, indisputable behaviours, like extreme use of credit, may reduce the financial well-being of the individual is considered as a key element in the personal decision-making process which improves business growth and development (Peng et al., 2015; Potrich et al., 2015).

RESEARCH METHODOLOGY

A Propose Framework for the Study

The Impact of the relationship that exist between financial literacy and performance have been observed by a number of researchers (Okello Candiya Bongomin et al., 2017,Akanno et al., 2017,Lusimbo, 2016,Ripain et al., 2017and Adomako & Danso, 2014). The concept of financial literacy comprised three dimensions knowledge;(Annamaria Lusardi and Olivia S. Mitchell, 2014 and Abdullah, 2015); behaviour(Lusardi & Mitchell, 2013 and Yew, 2017);and attitude(Yew, 2017,Schuchardt et al., 2009,Eresia-Eke & Raath, 2013,and Eniola, 2016).

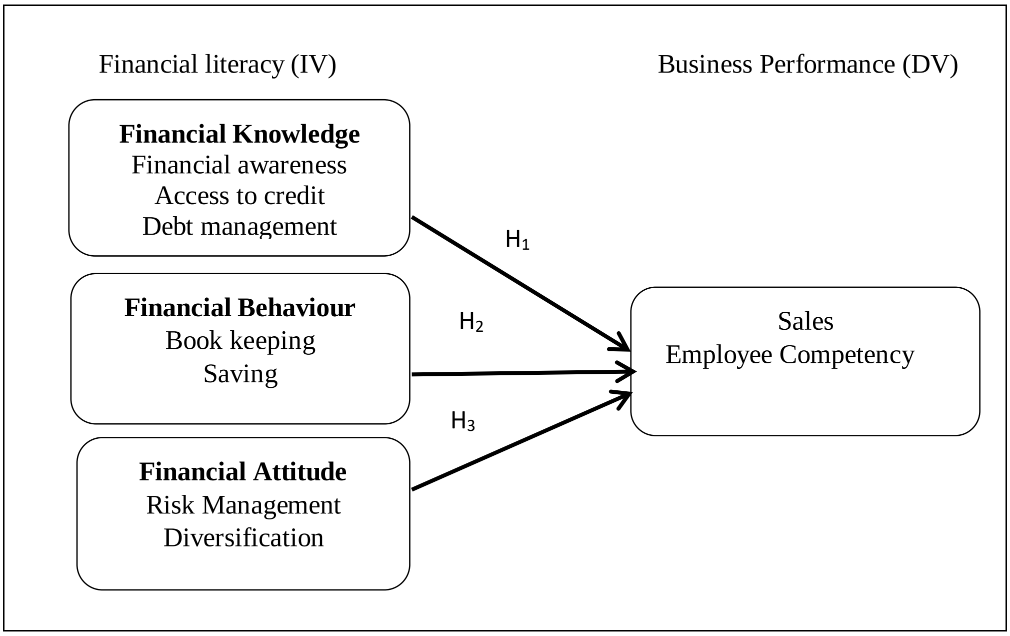

Figure 1. Propose Framework of the study

Hypothesis

Previous studies have demonstrated consistently that a financial literacy has significant relationship with business performance. Entrepreneurial businesses owners required financial literacy in order to enhance their business performance. Thus, it is vital to test whether the financial literacy will be associated with business performance. The following general hypothesis were developed to guide the study on the relationship between the different dimensions of financial literacy and entrepreneurial business performance.

H1 there is significant relationship between dimensions of financial knowledge and business performance

H2 there is significant relationship between dimensions of financial behaviour and business performance

H3 there is significant relationship between dimensions of financial attitude and business performance

Research design, data collection and analysis

The identified target population for collecting data as regards to this study are entrepreneurs from Bauchi state Nigeria. A survey questionnaire was randomly employed and the sample were drawn from Central market, Muda Lawal, Wunti and Sabuwar Kasuwa respectively. This questionnaire requested information concerning financial literacy and business performance. The survey questionnaire was directly administered to the participants with a covering letter informing them about the significance of the study and confirming anonymity of their responses. 500 questionnaires are distributed were 386 useable questionnaires retrieved at the end of the process which was used for the analysis, which account for 77.2% (386/500) net useable response rate. According to Mugenda, O.& Mugenda, (2008) a response rate of 50% is considered adequate, 60% good, 70% and above rated excellent. Based on this argument, the response rate for this study was rated as excellent. Pearson correlation coefficients (r) was used analyse significance of the relationship and hypothesis were formulated to guide the study and were tested at 0.05 and 0.01 level of significance. Financial literacy was measured using 7 items based on five Likert scale ranging from 1= strongly disagree to 5 = strongly agree which is categorised into three components (financial knowledge, financial behaviour, and financial attitude). The measurement was used as predicators for the business performance factors which are sales and employee competency.

RESULTS AND DISCUSSIONS

Table 2 shows the correlation between financial literacy and business performance among entrepreneurs in Bauchi metropolis Nigeria. The findings showed a significant relationship between financial literacy and entrepreneurial business performance as the p-value for all dimensions within the findings are between the ranges of ($\alpha < 0.05$) except one variable fall within the range of ($\alpha > 0.05$). The correlation coefficient of the main result (r) ranges from -1.0 to +1.0. The more r is close to -1 or +1 the closer the relationship between the variables but if the r is closer to 0 means no relationship exist between the variables. Thus, this study is guided by hypothesis in order to draw conclusion about the significance of the results.

The result suggests that government and policy makers should use the effectiveness of financial literacy as a yardstick to determine the business performance of entrepreneurs. This is not surprising as it confirmed previous studies on the relationship between financial literacy and entrepreneurial business performance. This finding is consistent with most previous studies on financial literacy and business performance such as Patrick, (2015). it is equally consistent with (Eniola & Entebang, 2015, Chepngetich, 2016 and Musie, 2015) and (Akanno, 2017).

Table 2. Pearson coefficient result for the relationship between financial literacy dimensions

Correlations										
		S	EC	FA	DM	D	BK	SV	RM	AC
S	Pearson Correlation	1								
	Sig. (2-tailed)									
	N	386								
EC	Pearson Correlation	.326**	1							
	Sig. (2-tailed)	.000								
	N	386	386							
FA	Pearson Correlation	-.386**	-.330**	1						
	Sig. (2-tailed)	.000	.000							
	N	386	386	386						
DM	Pearson Correlation	.245**	.211**	-.158**	1					
	Sig. (2-tailed)	.000	.000	.002						
	N	386	386	386	386					
D	Pearson Correlation	.706**	.267**	-.183**	-.051	1				
	Sig. (2-tailed)	.000	.000	.000	.318					
	N	386	386	386	386	386				
B	Pearson Correlation	.163**	.500**	-.345**	-.071	.142**	1			
	Sig. (2-tailed)	.001	.000	.000	.166	.005				
	N	386	386	386	386	386	386			
SV	Pearson Correlation	.722**	.258**	-.194**	.035	.943**	.147**	1		
	Sig. (2-tailed)	.000	.000	.000	.493	.000	.004			
	N	386	386	386	386	386	386	386		
RM	Pearson Correlation	.485**	.282**	-.168**	.011	.476**	.334**	.445**	1	
	Sig. (2-tailed)	.000	.000	.001	.830	.000	.000	.000		
	N	386	386	386	386	386	386	386	386	
AC	Pearson Correlation	-.025	-.189**	-.086	.284**	-.100	-.222**	-.107*	-.281**	1
	Sig. (2-tailed)	.624	.000	.092	.000	.051	.000	.035	.000	
	N	386	386	386	386	386	386	386	386	386
**. Correlation is significant at the 0.01 level (2-tailed).										
*. Correlation is significant at the 0.05 level (2-tailed).										

Note*: FA= Financial awareness, DM = Debt Management, D = Diversification, BK= Book keeping, SV = Saving, RM = Risk Management, AC= Access to Credit, S = Sales and EC = Employee Competency.*

The result from table 2 of the correlation analysis revealed that. Financial awareness and sales p=.001 while financial awareness and employee competency had p=.001 too. Debt management and sales has a p=.001 while debt management and employee competency also report a p=.001. Diversification and sales had a p=.001 while diversification and employee competency also report a p=.001.Book keeping and sales had p=.001 while book keeping while diversification and employee competency report a p=.001 too. Saving and sales has a p=.001 while saving and employee competency also report a p=.001. Risk management and sales report a p=.001 while risk management and employee competency also report a p=.001. The result indicates that all the above p- value were less than <.05 there by showing a significant relationship between the study variables. Finally, access to credit and sales has a p=.625 while access to credit and employee competency report a p=.001. Here, the result indicates that the correlation between access to credit and sales has a p- value > .05, this indicates that the probability of getting the specific result is greater than > 5% if the null hypothesis is true.

CONCLUSION

The entrepreneurial business are clues to some critical matters and many studies dealt with the subject matter from different perspectives. This Current study discusses one of the important issues: financial literacy is a particular problem of entrepreneurs, business may have a tendency of having very high growth but nevertheless, they are more likely to go out of business or remain stunted due to institutional and financial literacy complications. The impact of the entrepreneurs is recognised in economies globally, irrespective of the economy's developmental stage. Their impact comprises economic growth, employment generation and social progress, which are valued greatly. Entrepreneurship is considered as a vital element and also an effective method for achieving economic development and growth. This review is among one of the few studies that approached this topic. Thus, the lack of studies in this aspect is due to the complex and the enterprising nature of the entrepreneurs together with their diverse nature and purposes, especially in Bauchi metropolis Nigeria.

In conclusion, this review supports the fact that financial literacy is a significant key driver of business performance and therefore should be developed as an inbuilt part of the business activities. Therefore, entrepreneurs should know and manage the educational process of finance management. This review also challenges scholars and entrepreneurs to take a more complex assessment of how and why financial knowledge, financial behaviour and financial attitude affect performance outcomes of entrepreneurial business operating in a less developed market economy.

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