

## FINANCIAL LITERACY AND SUSTAINABILITY OF MICRO AND SMALL ENTERPRISES: A STUDY

**Moirangthem Manorama Chanu**

PhD. Research Scholar, Dept. of Commerce, Assam University, Silchar

ORCID ID: 0000-0002-0971-5817

**Dr. Soma Roy Dey Choudhury**

Assistant Professor, Dept. of Commerce, Assam University, Silchar

### Abstract

Various literature extensively acknowledges the pivotal role played by micro, small and medium enterprises (MSMEs) and their profound contributions to the economy. The study investigated the impact of the financial literacy of managers/owners of micro and small enterprises on the enterprises' sustainability. 239 enterprise owners participated in this study. Variables were measured by a five-point Likert scale and were analysed descriptively. Furthermore, with the help of Smart PLS 4, structural equation modelling was utilised. The study shows a significant impact of financial literacy on entrepreneurs' sustainability. The study recommends that region-specific financial literacy programs for the enterprises will go a long way in enhancing the financial literacy level which will help to a great extent in the long-term sustainability of the Micro and Small enterprises.

Keywords: Financial Literacy, Enterprises' Sustainability, Micro and Small Enterprises.

### Introduction

The long-term efficacy in business execution of micro and small enterprises rests upon their embrace of a mindset rooted in a sustainability-oriented approach. The acquisition of financial knowledge by MSME actors is a strategic endeavour that holds the key to unlocking a company's improved operating funds, coming out in the realm of innovation, adept management of employees, and cultivating satisfied customers (Hudson et al.2001). When business entrepreneurs acquire an in-depth understanding of financial literacy, they inevitably demonstrate an elevated capacity to efficiently manage their business finances, thereby facilitating prudent access to financial resources. By virtue of the relevance of the role that the micro, small and medium enterprises play, it is imperative that the capacities of these enterprises be improved. Enhancing the capacity to effectively manage finances and facilitating greater financial accessibility for micro and small enterprises represents a significant avenue for bolstering their overall resilience and grit. Not to mention that small as well as micro-enterprises often face obstacles when trying to scale up and grow. The hindrances faced by micro and small enterprises are multifaceted and persistently unresolved. These challenges encompass a range of conventional issues, including human resource capacity, ownership, financing, marketing, and other pertinent aspects of business management.

Consequently, micro-enterprises encounter significant difficulties in competing with their larger counterparts in the corporate landscape.

The primary objective of this research is to serve as a platform for the advancement of knowledge in the realm of understanding financial literacy. By delving into this subject matter, we aim to augment the current corpus of knowledge and foster further understanding in these areas. Moreover, this research study serves as a valuable contribution to the development of policies concerning the significance of financial literacy among micro and small enterprises (MSEs), with the ultimate goal of enhancing business sustainability.

## **Review of Literature**

### **Financial Literacy**

As stated by Remund (2010), financial literacy refers to possessing knowledge pertaining to concepts regarding finances and having the necessary skills, confidence and ability to handle personal finances for future financial needs. The cultivation of financial literacy catalyzes enhancing the calibre of decision-making and the art of financial responsibility, thereby paving the way for the attainment of the greater good within society. Within the scope of this study, the definition given by OECD (2013) is incorporated. It recognises the exigency of having the right financial knowledge coupled with the right financial behaviour and attitude that translates into an individual's initiative and conviction to incorporate the right financial knowledge and behaviour in decision-making when confronted with different financial circumstances.

### **Enterprise's Sustainability**

The concept of Enterprise sustainability refers to the state or condition in which businesses have established methods and strategies to effectively maintain, safeguard, and enhance their available resources. This encompasses various aspects such as environmental, social, and economic considerations, aiming to ensure the long-term viability and resilience of the business. By implementing sustainable practices, businesses can mitigate risks, optimize resource utilization, and foster positive impacts on both the immediate and broader ecosystems in which they operate. According to expert analysis, it is observed that micro and small-sized enterprises possessing a strong understanding of financial literacy exhibit a higher propensity for making sound financial decisions, while also demonstrating a reduced likelihood of encountering management errors when compared to their counterparts who lack financial literacy. This finding underscores the significance of financial literacy as a critical factor in influencing the overall financial performance and operational efficiency of micro and small enterprises (MSEs).

**Objectives:** The study seeks to achieve the following

1. To understand the association of Financial Literacy across demographic factors
2. To analyse the impact of Financial Literacy on Entrepreneurs' Sustainability

**Research Hypotheses:** The following research hypotheses were framed

- H1: A significant association exists between Gender and financial literacy level.
- H2: A significant association exists between Age and financial literacy level.
- H3: A significant association exists between Education and financial literacy level.
- H4: A significant association exists between Marital status and financial literacy level.

H5: There is a significant impact of financial literacy on Entrepreneurs' Sustainability.

### Research Methods

The target population of the study are the micro and small enterprises in the Imphal East and Imphal West districts of Manipur, as per the report given in the Annual Administrative Report, 2019-2020, Directorate of Trade, Commerce and Industries, Manipur. This exploratory study adopted 239 samples collected based on convenience sampling determined by using Yamane's (1967) simplified formula for determining sample sizes. The study employs both primary as well as secondary data. The proposed model was tested with descriptive statistics and structural equation modelling (SEM) using Smart PLS 4. The two-stage reflective-reflective SEM model consisting of lower order and higher order construct was adopted. The second-order construct of underlying indicators of financial knowledge, behaviour and attitude were used as indicators of financial literacy to study its relationship with Entrepreneur's resilience

### Data Analysis and Interpretation

#### Demographic Profile of the Respondents

The demographic information of the respondents  $n=239$  as depicted in the table consists of gender, age, education and marital status of the respondents. The majority of the respondents' i.e. (53%) are male and belong to the age group of 35-44 years (46.9%). Respondents are mostly graduates (46.9%) and mostly fall in the married category (60.7%).

**Table 1: Demography profile of the respondents**

Characteristics	Description	Frequency	Percentage
Gender	Male	127	53%
	Female	112	47%
Age Group	Below 35 years	79	33.1%
	35- 44 years	<b>112</b>	<b>46.9%</b>
	45- 54 years	47	19.7%
	55 and above	1	.4%
Education	Undergraduate	1	.4%
	Graduate	<b>110</b>	<b>46%</b>
	Post Graduate	70	29.3%
	Others	58	24.3%
Marital Status	Married	<b>145</b>	<b>60.7%</b>
	Unmarried	46	19.2%
	Divorced	32	13.4%
	Widow	16	6.7%
Financial Literacy level	High	94	39.3%
	Low	<b>145</b>	<b>60.7%</b>

Source: Primary data

As per the objective, the study employed Chi-square and Cramer's V test in order to measure the association between the demographic factors of the respondents and their financial literacy level and the strength of the relationship. The table below represents the results.

**Table 2: Association of financial literacy across demographic variables**

DEMOGRAPHIC VARIABLES	Chi-Square Asymp. Sig. (2-sided)	Cramer's V	Remarks
Gender	0.008	.173	H1: $P < 0.05$ There is a moderate but significant association between respondents' gender and financial literacy.
Age	0.872	.054	H2: $P > 0.05$ Age does not affect entrepreneurs' financial literacy, and the relationship is weak.
Education	0.000	.274	H3: $P < 0.05$ The respondents' degree of education and financial literacy are significantly associated, with a strong relationship between the two.
Marital status	.265	.129	H4: $P > 0.05$ . There exists no association between the marital status of the respondents and their financial literacy level.

Source: Author's calculation

Measurement Model of the First Order Construct:

To verify the accuracy of the study's constructs we first check the measurement model with the help of the factor loadings, VIF, Cronbach's Alpha, and Average variance extracted (AVE) Factor loadings are simply an understanding of the factor-variable correlation. It reflects the degree to which each item correlates as per the correlation matrix with the given principal component. The items in factor loadings of the latent variables fall well above the minimum recommended value of 0.50 (Hair et al, 2016). Also, multicollinearity was not an issue for the present study since the VIF values of all the items are below 5 (Hair et al.,2016). In order to test the reliability of the constructs we check Cronbach's Alpha and composite reliability (Table 1) which is all greater than .70 implying that the constructs are reliable.

**Table3: Reliability Analysis**

	Cronbach's alpha	Composite reliability
Entrepreneurs' Sustainability (ES)	0.934	0.945
Financial Knowledge (FK)	0.935	0.944
Financial Behaviour (FB)	0.930	0.942
Financial Attitude (FA)	0.923	0.946

Source: Author's Calculation

Further, we establish construct validity with the help of convergent validity and discriminant validity through the Average variance extracted (AVE) and Fornell and Larcker criterion. The

convergent validity is established based on the results of the AVE statistics which depict that all constructs have an AVE value greater than .50 (Fornell and Larcker, 1981).

**Table 4: Convergent Validity**

	AVE
Entrepreneurs' Sustainability (ES)	.656
Financial Knowledge (FK)	.587
Financial Behaviour (FB)	.673
Financial Attitude (FA)	.813

Source: Author's Calculation

The discriminant validity established in the study is shown based on the Fornell and Larcker criterion (Table 3)

**Table 5: Discriminant Validity (Fornell and Larcker)**

	Entrepreneurs' Sustainability (ES)	Financial Attitude (FA)	Financial Behaviour (FB)	Financial Knowledge (FK)
Entrepreneurs' Sustainability (ES)	<b>0.810</b>			
Financial Attitude (FA)	0.332	<b>0.902</b>		
Financial Behaviour (FB)	0.397	0.701	<b>0.821</b>	
Financial Knowledge (FK)	0.378	0.381	0.368	<b>0.766</b>

Source: Author's Calculation

Higher Order Construct of Financial literacy: Reliability and validity

In our analysis, we also delve into evaluating the reliability and validity of the higher-order construct. Furthermore, we checked for discriminant validity as well. The results show that reliability and validity was established (Table 6 & 7)

**Table 6: Reliability and Convergent Validity (Higher order Construct)**

	Cronbach's alpha	Composite reliability	AVE
Financial Literacy	.742	.854	.663

Source: Author's Calculation

**Table 7: Fornell and Larcker (Higher Order Construct)**

	Entrepreneurs' Sustainability(ES)	Financial Literacy
Entrepreneurs' Sustainability(ES)	0.81	
Financial Literacy	0.458	0.814

Source: Author's Calculation

### Structural Model

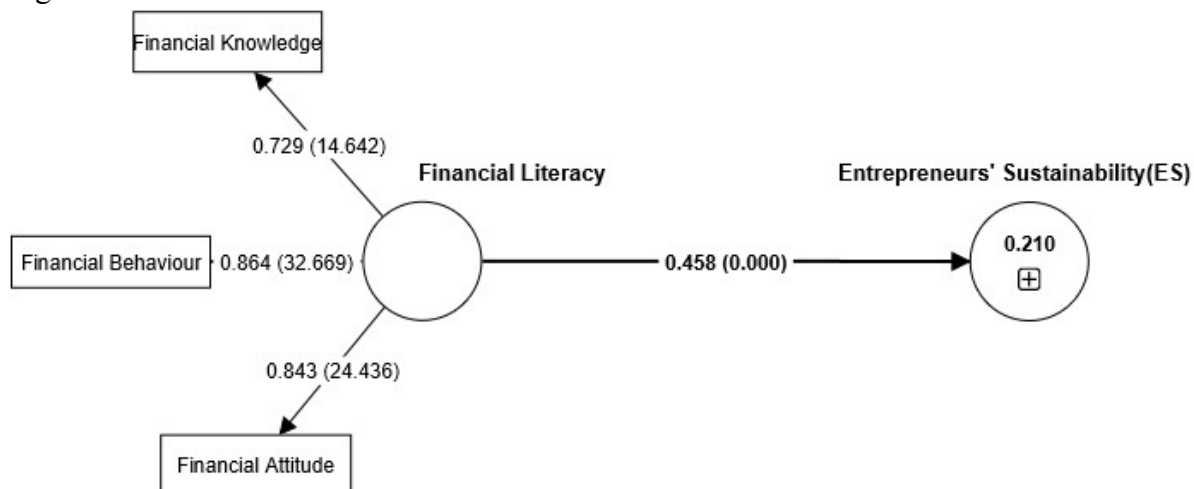
To understand the hypothesized relationship of the impact of financial literacy on an entrepreneur's Sustainability, we now assess the structural model (table 8). Our H5 evaluates whether financial literacy (FL) has a significant impact on the Entrepreneurs' Sustainability. The results present that FL has a significant impact on ES ( $\beta = 0.458$ ,  $t = 7.750$ ,  $p < 0.000$ ). Hence, our H5 is supported.

**Table 8: Structural Model**

	Original sample (O)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Financial Literacy -> Entrepreneurs' Sustainability(ES)	0.458	0.059	7.75	0.000

Source: Author's Calculation

**Figure 1: Structural Model**



Source: Author's Diagram

### Key Findings and Recommendations:

#### Key Findings

- The demography being studied shows that the majority of micro and small enterprises in the study area are owned by males. The findings of the study reveal that a substantial majority of the participants fall between the age bracket of 35 to 44 years. A considerable number of business owners hold at least a bachelor's degree and are married.
- The study assessed participants' level of financial literacy and revealed that the respondents lack knowledge on financial knowledge, such as compounding, the time value of money, benefits of investing in different assets, buying company stocks, concepts like risk-return trade-off, disposable income, KYC, etc., which have an impact on the outcome of their financial decisions.
- The study found that 60.7% of the small and micro-entrepreneurs of the Imphal East and Imphal West districts of Manipur exhibit a low level of financial literacy, signifying a lack

of adequate knowledge and a favourable disposition when it comes to managing their finances. That is to say, it is clear that they lack the necessary financial literacy in addition to the right attitude and behaviour. Also it is worth mentioning that, financial literacy level tends to have a strong association with the gender and the education level of the entrepreneurs.

- Furthermore, the study found that financial literacy influences the sustainability of micro and small enterprises, as such inculcating proper financial education and enhancing the financial capability of the entrepreneurs will go a long way in ensuring the sustainability of the MSEs.

#### Recommendation and Conclusion

- The report stresses the need to increase financial literacy among small businesses across the country and in the state of Manipur. In addition, the success of different financial literacy programs can be greatly increased by creating a program tailored to a certain region or location.
- The research findings suggest that it would be advisable for small and micro business owners to collaborate and combine their ideas and resources to determine the most effective investment strategy. By implementing this approach, individuals or organizations can effectively minimize the negative consequences of unexpected changes in the economic environment.
- The research would also suggest that various investment agencies and other financial institutes offer financial courses that are simplified to aid enterprises in managing funds more effectively.

Lastly, the collective endeavours of regulatory authorities, non-governmental organizations, and community groups ought to be meticulously orchestrated to empower small and micro-entrepreneurs. This empowerment entails equipping them with the necessary skills to exercise discernment, enabling them to identify financial products and services that cater to their specific requirements. Moreover, it involves fostering their capacity to make sound decisions regarding the utilization and administration of their finances, thereby shielding them from falling prey to unscrupulous sales tactics.

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