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LEVERAGING FINANCIAL LITERACY AND EDUCATION FOR SME GROWTH IN ZIMBABWE

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Abstract

Small and Medium Enterprises (SME's) have in recent times been cited as engines for growth in emerging economies. Their growth and development has long term implications on economies as they create employment and improve the welfare of low income households. Given the background that most start-up businesses fail within the first five years of operating, this research seeks to investigate the how the level of financial literacy amongst entrepreneurs influences the performance and success of SME's in Zimbabwe. The research employed a descriptive research design as it clearly brings out the aspects of the phenomenon under observation. Data was gathered using questionnaires. A sample of 300 entrepreneurs who operate in the Central Business District of Masvingo city was used. The data collected was analysed and presented using tables and charts. The results show that entrepreneurs who have previously received financial education and practice the teachings operate thriving businesses that are profitable and are likely to operate into the unforeseeable future. The study recommends that the relevant authorities improve the financial capabilities of SME's through conducting workshops and training programmes for SME's.

Financial Literacy SME's Entrepreneurs Zimbabwe

Introduction

Small and Medium Enterprises (SME's) have in recent times been cited as engines for growth in emerging economies. Their growth and development has long term implications on these economies as they create employment and improve the welfare of low income households (Wise,2013). Zimbabwe being a developing nation and one that is experiencing serious economic challenges has found itself relying more on SME's for household welfare in the last two decades. With rising poverty and unemployment levels, the creation and survival of SME's is now a key policy issue for the government because of the SME's ability to reduce poverty amongst households whilst at the same time creating employment.

SME's are defined by their size in terms of the number of people they employ. They are typically owner managed firms or family owned businesses which employ between 5-20 people according to the Reserve Bank of Zimbabwe 2013 Monetary Policy Statement. With many SME's failing to survive up to 5 years from inception, a lot of individuals and households are at risk of financial demise if the survival of SME's is not ensured. It is therefore not only important to encourage entrepreneurship activities amongst low income households but also to ensure their long term survival. In many developing countries SME's are run as a matter of survival and not as a business opportunity (Selamat, AbduRazak and Sanusi, 2011) which makes ensuring their growth and survival important.

Van Geldren et al (2008) defines entrepreneurship as an attitude that reflects individual's motivation and capacity to identify an opportunity and to pursue it in order to produce new value or economic success. Fatoki (2010) reports that without entrepreneurship countries run the risk of economic stagnation as entrepreneurship provides employment opportunities and ensures future socio economic stability. Many authors have highlighted the need for financial literacy and education to ensure SME growth and survival (Fatoki,(2010), Bosma and Harding, (2006)). The OECD defines financial literacy as a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Basu (2005) defines financial literacy as the ability to make informed judgements and to take effective actions regarding the current and future use and management of money. According to Athens (2004) financial literacy is the ability to read, analyse, manage and communicate about personal financial conditions that affect material wellbeing. Carpena et al (2011) report that financial literacy has come to play an increasingly important role in the financial sector across the world because while a lot of innovations and developments have occurred in the field of finance, many people remain ill equipped to make informed financial choices or evaluate complex financial products. They find that financial education leads to improvements in an individual's awareness of financial products and services available to them.

Kotze and Smit (2008) note that in order for one to be successful as an entrepreneur one needs to be fully in charge of their individual finances. Individual financial literacy is key to SME development and survival because they are the business managers. They also note that the lack of

financial management contributes to the low new venture creation in South Africa as most entrepreneurs are intimidated by financial management. This results in the high failure rate of South African SME's.

Financial illiteracy has devastating consequences for both households and SME's. Kotze and Smit (2008) report that financial illiteracy leads to people spending more than their income and where people are over borrowed this leads to financial distress. Financial illiteracy also leads to the low levels of record keeping which results in individuals failing to maintain proper financial records leading to unnecessary spending. They also report that financial illiteracy results in individuals not planning and implementing regular investment programmes that will assist them in the future. The financially illiterate were also found to be prone to making inaccurate financial decisions which may lead to future financial problems.

Fatoki (2010) finds that the low levels of financial literacy can influence the degree to which entrepreneurs access formal sources of finance. Bosma and Harding (2006) concede by reporting that inadequate business acumen and poor financial literacy undermines entrepreneurial activity. This is because entrepreneurs in business are involved in decision making activities concerning resource acquisition, allocation and utilisation. All these activities have financial consequences and in order to be effective entrepreneurs one must be financially literate.

Altman(2012) points that an increase in financial literacy through financial education leads to more informed and effective financial decisions. Many authors have suggested that managerial capital which includes financial literacy is an important driver of firm growth. Wise (2013) found that increases in financial literacy leads to more frequent production of financial statements. The research also found that increase in financial literacy leads to increasing probability of loan repayment. Entrepreneurs with financial literacy were found to be less likely to default on their loans and less likely to close their venture involuntarily. This suggests that financial literacy amongst entrepreneurs leads to improvements in business performance and sales. Similarly Drexter et al (2014) compared the impact of a standard accounting training and simplified basic financial literacy programme on a group of micro entrepreneurs. Their results suggest that training to improve knowledge of finance and financial accounting has a positive effect on the management practices of small businesses. These results are stronger for those who received simple financial literacy education as their businesses showed significant improvements in record keeping, calculation of monthly revenues and were able to separate their business and personal financial records.

Imhonopi et al (2013) looked at ways of increasing the access of women entrepreneurs to finance in Nigeria. They report that in order to increase the access to finance by female entrepreneurs, they need to be equipped with the necessary skills of business. This could be done by increasing the level of enrolment of girls across all levels of education as skilled women are likely to access finance easily than their unskilled counterparts. They recommend that female entrepreneurs be empowered for business by attending management and financial literacy programmes. Hassan and Mugambi (2013) explored the determinants of growth for women owned SME's and found

that in order for these SME's to thrive, financial resources, entrepreneurial skills and networking are the most important ingredients. Trainings are particularly important as they equip women with financial literacy skills which aid in business decision making. This study therefore seeks to investigate the impact of financial literacy on SME's performance in terms of profitability and long term survival ability.

Methodology

The study employed a descriptive research design which enabled the researcher to obtain information from the respondents through questions. This methodology was deemed suitable for the purposes of this research because the population in question was large and the methodology was compactible with the research objectives of investigating the impact of financial literacy and education on the performance SME's. The research population was all the SME's operating in Masvingo urban in Zimbabwe. The research employed a sample of 300 respondents. This sample size was justified by the limited time and financial resources available to the researcher. The research also employed a stratified random sampling method as it enables equal representation of all the business fields engaged by SME's. Within each strata a simple random sampling technique was employed.

For data collection, the research employed self administered questionnaires. The questionnaires were based on the five-point Likert Scale. They also contained closed-ended and open ended questions. The questionnaires were tested prior to flighting to the respondents. This was done in order to test for errors before concrete data collection began. In order to test for validity of the research instrument, the questionnaire was discussed with fellow colleagues who are experienced in research. The research employed the Cronbach's alpha to test for reliability of the research instrument. This was calculated using questionnaires from the pilot study. The average Cronbach's alpha for all constructs was 0.76, higher than the recommended threshold of 0.70. The analysis of responses through descriptive and statistical analyses was done using SPSS.

Results and Discussion

Table 1: Bio Demographic Data

		Gender		Total
		Male	Female	
Please Indicate your current age	18-25	15	15	**30**
	26-35	60	63	**123**
	36-45	20	37	**57**
	46-55	30	17	**47**
	55+	15	28	**43**
Total		**140**	**160**	**300**
Please indicate your highest level of education	Secondary Education	70	79	**149**
	Diploma	46	58	**104**
	Degree	23	23	**46**
	Masters and PHD	1	0	**1**
Total		**140**	**160**	**300**

Source: Raw Data

The demographic distribution of the respondents shows that more women than men are engaging in small scale business activities with 53% of the respondents being female as compared to 47% male respondents. According to the study, the modal age for the entrepreneurs is 26 to 35 years of age, accounting for 41% of the respondents. This is in line with the current socio economic dynamics of Zimbabwe where most young people find themselves unemployed and resort to small business activities in order to survive. In terms of education 50% of the respondents have basic education as their highest qualification.

		Frequency	Percent	Valid Percent	Cumulative Percent
Business Training	Yes	137	45.7	45.7	45.7
	No	163	54.3	54.3	100.0
	Total	300	100.0	100.0	
Type of Business Training	Financial Literacy	1	.3	.3	.3
	Financial Management	16	5.3	5.3	5.7
	Financial Literacy and Financial Management	96	32.0	32.0	40.0
	Marketing and Management.	24	8.0	8.0	48.0
	Not Applicable	163	54.3	54.3	100.0
	Total	300	100.0	100.0	
Period of Time in Business	less than a year	67	22.3	22.3	22.3
	1-3 years	81	27.0	27.0	49.3
	4-6 years	75	25.0	25.0	74.3
	above 6 years	77	25.7	25.7	100.0
	Total	300	100.0	100.0	
Type Of Training that is most essential	Financial Literacy and Financial management	137	45.7	45.7	45.7
	Not Applicable	163	54.3	54.3	100.0
	Total	300	100.0	100.0	
Financial Products in Use	Savings	135	45.0	45.0	45.0
	None	97	32.3	32.3	77.3
	All	68	22.7	22.7	100.0
	Total	300	100.0	100.0	
Maintenance of proper books of accounts	Yes	138	46.0	46.0	46.0
	No	162	54.0	54.0	100.0
	Total	300	100.0	100.0	
Loan Access	Yes	127	42.3	42.3	42.3
	No	173	57.7	57.7	100.0
	Total	300	100.0	100.0	
Loan Repayment Status.	Fully Repaid	18	6.0	6.0	6.0
	Meeting Payments Schedule	92	30.7	30.7	36.7

	Failing To meet repayment schedule	17	5.7	5.7	42.3
	Not Applicable	173	57.7	57.7	100.0

Source: Raw Data

Table 2: Summary Statistics on Business Training and Business Performance.

The summary statistics in table 2 above show that most of the businesses under study have been operational for less than 3 years. This can be attributed to the worsening economic climate in the country which has forced many out of formal employment. The results also show that most small business entrepreneurs in Masvingo have not received formal business training with 54.3% of the respondents indicating the same. This concurs with Selamat et al (2011) who reported that entrepreneurial in poor countries is motivated by the need to survive not to fulfil business dreams. For these entrepreneurs who have received business training, financial literacy and financial management training is most popular and was highlighted as the most essential type of training for most entrepreneurs.

The statistics also reports that savings are the most common type of financial product used by small scale entrepreneurs although 32.3% highlighted that they do not use any financial products. The results also show that 54% of the respondents do not maintain proper books of accounts and 57.7% have not accessed loans from formal financial institutions, indicating the lack of formality in the way most small scale businesses are run.

Table 1: Financial Literacy and Firm Profitability.

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Financial Literacy(1)	-1.989	.288	47.607	1	.043	.237
	Constant	1.579	.246	41.340	1	.000	4.850

a. Variable(s) entered on step 1: Financial Literacy.

The results from the model show that financial literacy increases firm profitability by a factor of 0.237 compared to a person with no business training. Financial literacy significantly explains firm profitability as shown by a p-value of less than 5% given by the model results. These results are in line with the findings of Kotze and Smith (2008) who conclude that low levels of financial literacy result in the high failure rate of South African SME's. Altman (2012) also concludes that financial literacy is an important driver of firm growth.

Table 2: Financial Literacy and Firm Survival Ability.

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Financial Literacy(1)	-.819	.242	11.483	1	.161	.441
	Constant	1.416	.361	15.412	1	.000	4.120

a. Variable(s) entered on step 1: Financial Literacy.

The results show that financial literacy increases a firm's survival abilities by a factor of 0.441 compared to a person with no financial literacy. Financial literacy significantly explains a firm's survival abilities as shown by a p-value of less than 5% in table 2 above. These results are in tandem with the findings of Wise (2013) where financially literate entrepreneurs were found to be less likely to close their ventures involuntarily owing to improved decision making abilities.

Table 3: Financial Literacy and Maintenance of Books of Accounts.

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Financial Literacy(1)	.819	.242	11.483	1	.087	2.269
	Constant	-.223	.186	1.438	1	.230	.800

a. Variable(s) entered on step 1: Financial Literacy.

The results in table 3 above show that financial literacy increases the odds of a person in business maintaining books of accounts by a factor of 2.269 as compared to a person who is not financially literate. Financial literacy is also significant in explaining the chance of maintaining books of accounts as shown by a p-value of less than 5. These findings concur with Drexter et al (2014) who concluded that financial literacy leads to significant improvements in record keeping. Wise (2013) also concludes that financial literacy leads to a more frequent production of financial statements.

CONCLUSIONS

The article sought to study the impact of financial literacy on SME performance in terms of profitability and long term survival ability. It also sought to highlight the type of training that yield the most positive results for SME's. The article concludes that there are huge benefits that accrue to entrepreneurs that emanate from being financially literate and receiving financial education. The financially literate were found to have a deeper understanding of their current financial position and were able to make sound financial plans for the future. In particular the financially literate were found to engage in investing, saving and risk reducing activities which aid in long term financial wellbeing. Due to financial literacy they operate profitable businesses that are likely to continue operating into the unforeseeable future. On the other hand the respondents who lacked financial literacy and education engaged in high risk activities which may lead to financial

demise. The article therefore concludes that financial literacy and education is key for SME growth and survival.

In terms of which training yields the best results for SME's growth and survival the article concludes that financial literacy is the most important training for entrepreneurs. Entrepreneurs who had received prior financial literacy training exhibited higher levels of awareness to their financial position and made sound financial decisions. Even in the absence of higher levels of related tertiary education, these respondents still made sound financial decisions. This shows that financial literacy and not the level of education of the entrepreneur is an important determinant for SME success.

RECOMMENDATIONS

The article recommends that financial literacy training be offered to all entrepreneurs so as to increase their chance at running profitable enterprises that operate into the enforceable future. Financial literacy training is also important because it equips entrepreneurs with increased risk awareness, a key factor to ensuring that a business thrives and survives. Financial literacy also assists entrepreneurs in setting long term financial goal for themselves in terms of savings and investments. The study also recommends that financial literacy training be delivered on an on-going basis as the financial landscape continues to evolve and new innovative financial products are introduced. This equips entrepreneurs with new information that may affect their financial decisions.

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