



The Impact Of Financial Literacy On The Success And Performance Of Small And Medium Enterprises: Evidence From New Soweto Market

Billy Kanchela , Guide Name - Arockia Anisha

Department Of Mba

Abstract- The general objective of this research was to investigate the impact of financial literacy on the performance and success of Small and Medium enterprises. The study aimed to investigate the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market, to investigate the impact of financial behavior on the performance and success of Small and Medium enterprises at New Soweto market and to investigate the impact of financial attitude on the performance and success of Small and Medium enterprises at New Soweto market. Descriptive research method was employed for the research; the researcher collected primary data through questionnaires to a sample size of 98 respondents to answer research questions. This research design helped in observing the effects of financial knowledge, financial behavior and financial attitude on the performance of small and medium enterprises at Soweto market. The study involved samples drawn from SMEs at Soweto. Non Probability sampling was used to purposely and conveniently select respondents to collect data. In order to analyze the impact of financial literacy on the performance of SMEs the researcher employed descriptive and inferential statistics techniques. The findings were analyzed by employing correlation, linear regression analysis of variance, cross tabulations and frequency distribution.

Keyword: This study focuses on key concepts such as financial literacy, financial knowledge, financial behavior, and financial attitude, and their impact on the performance and success of Small and Medium Enterprises (SMEs). It highlights the use of a descriptive research design, primary data collection through questionnaires, and non-probability sampling techniques. Data analysis methods include descriptive and inferential statistics, correlation, linear regression, ANOVA, cross-tabulation, and frequency distribution, all applied to understand SME performance at New Soweto Market.

I. Chapter One

General Introduction

Introduction

Financial literacy has become a major talking point on the business scene globally due to its role in financial decision making. In 2008 for instance, the United States government set up a President's Advisory Council on Financial Literacy tasked to improve financial education at all levels of the economy. Developing economies have also not been left behind; several countries in Asia and Africa have set up programs that are aimed at improving and increasing financial literacy. Financial literacy incorporates the knowledge and skill required by individuals to function effectively in the money economy, and make informed judgments in respect to their own and their family circumstances. The need for financial literacy among entrepreneurs and business owners has henceforth become an issue of interest in both developed and developing economies (Malv, 2019).



Though it might not yield perfect results, it enables individuals to be able to respond effectively to ever changing personal, social and economic circumstances. Financial literacy is believed to be a major determinant of the firm's success or failure. It is for this reason that many countries have taken deliberate steps to enhance financial literacy by creating task forces to study and evaluate the level of the financial literacy of their citizens and to find ways of improving it. Profitability of the firm is greatly dependent on the financial knowledge of the business owners on decision-making processes such as payment of bills on time, proper debt management that improve the credit worthiness of potential borrowers, economic growth, sound financial systems, and poverty reduction. The key to building great wealth is having great knowledge to act on and great wisdom to know which course of action is the best, (RichDad.com 2012).

Education is a powerful driver of development and one of the strongest instruments for improving business profitability. The World Bank has placed education at the forefront of its poverty-fighting mission, and is one of the largest external funders of education in the developing world (World Bank Millennium Development Goals) (World Bank Policy Research Working Paper, 2019).

Financial literacy is one of the factors that enhances the growth and profitability of many successful firms. The key factor in financial success is the financial education programs that teach the knowledge, skills and attitude required to adopt good management practices for earnings, spending, saving, borrowing and investing. Those entrepreneurs with stocks of human capital, in terms of education and (or) vocational training, are better placed to adapt their enterprises to constantly changing business environments (King and McGrath, 2002).

Policy makers in both developed and developing countries are increasingly recognizing the importance of financial literacy and investing resources in financial education programs. Comprehensive National Initiative Program funded by The World Bank and other donors have sprung up around the world (World Bank, 2020). Profitability of an entity is what every business venture would like to experience. If individuals are illiterate concerning their personal finances, their financial management of new ventures will also be lacking and will lead to reduced new venture creation and possible failures of SMEs. SMEs require essential information when making financial decisions; seeking for finances in terms of where, when and how to source for finances, savings, working capital management, record keeping for effective management of their business entities (Best, 2020).

According to Greenspan (2002), Financial Literacy helps to provide entrepreneurs with financial knowledge necessary to make household budget, initiate savings plans and acquire financial knowledge and skills to meet their financial goals. Previous studies, indicate that financial literacy is still an obstacle to business profitability. Lack of financial knowledge leads to low self-confidence and self-reliance by entrepreneurs to engage in business. Chege (2013) found out that women entrepreneurs with low-level of education lack leadership capacity due to lack of financial knowledge. Also, from the report of (Equity Bank Group, 2013), It was found out that there was a steady increase in the default rate in the loan repayment by SMEs, this was attributed to lack of financial literacy by the borrowers of the funds.



1.1 Background

Small and Medium Enterprises (SMEs) form more than 99% of all enterprises in the world (Capital Markets Authority, 2010). Small and Micro Enterprises (SMEs) allow the rural poor, including some of the most marginalized and vulnerable people such as rural women and youth to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in rural areas. The same strata may also be reached through SME support to small-scale local entrepreneurs, whose business expansion can create new jobs for the rural poor (Equity group Foundation, 2019).

Therefore the global economy is heavily dependent on the success of the SME sector. The significance of Zambia's micro and small enterprises (SME) activity in developing Zambia's economy has continued to grow since the sector was first brought to the limelight by the International Labour Organization (ILO) (2019). ILO provided the basis for the study of MSE in Zambia under the informal sector. It is now widely recognized that the promotion of the SME sector is a viable and dynamic strategy for achieving national goals, including employment creation, poverty alleviation and the balanced development between sectors and sub-sectors (ILO, 2019).

SMEs in Zambia employ 50 percent of the working class, similar to countries like Indonesia, Tanzania and Kenya. Over 90 percent of SMEs operate in the informal sector and this makes it difficult for the government to support the sub sector efficiently. So, SMEs contribution to the country's development is not very clear. Because, majority of SMEs operate in the informal sector, attracting-funding from micro finance institutions (MFIs) is a challenge and this makes (SME) sector weak. (Equity group Foundation, 2019).

The economic pillar of Zambia's Vision 2030 identifies SME development as a key strategy to boosting the country to a middle income economy by the year 2030 through equity and poverty elimination to reduce the number of people living in absolute poverty to the tiniest proportion of the total population. Other development involved includes the United States Agency for International Development, International Fund for Agricultural development (IFAD), Germany Technical Institution (GTZ), commercial banks, and Microfinance institutions (Wanjohi, 2019).

In order to overcome some of the constraints associated with financial management in the SME sector, the government and other relevant stakeholders have designed programmes and policies that are market driven and market non-distorting to support SMEs. Government has, for example, created stable macroeconomic conditions, liberalized the economy, and encouraged the growth of micro-financing business (IFAD, 2021).

In response to the financial challenges affecting micro and small enterprises, the Equity group foundation (EGF) financial literacy program was born. Equity Group Foundation was founded in 2009 with its main purpose being to develop and grow initiatives with



significant social impact by harnessing Equity Group's banking capabilities and capacities and through effective partnerships. EGF's overall goal was to transform the socio-economic status of 50 million people in Africa over the next five years. One of these initiatives by the EGF is to provide financial education and entrepreneurship training to low income people groups across the country (Equity group Foundation, 2019).

Financial literacy provides knowledge and understanding of financial concepts and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts and to improve the financial well-being of SMEs (Hogarth, 2020). Micro, Small and Medium enterprises form the backbone of global economy as they form 99% of all the enterprises in the world (Capital Markets Authority, 2010). In Zambia, SMEs usually have a workforce of less than 10 employees and that 52% of all SMEs business activities are based in rural areas. Within the MSME sector, manufacturing activities account for 41% while trading account for 49% and Services accounted for only 10%. The sector, however, is characterized by a number of challenges related to access to financial resources which translate to impediments in enterprise growth. Despite the role played by the sector, it been characterized by a number of challenges (Equity group Foundation, 2019).

Wanjohi (2019) cites lack of adequate business skills as a major challenge in the development and growth of Micro and small enterprises in Zambia which is mainly attributed to low levels of education. The CMA (2010) has also identified that SMEs in Zambia suffer from constraints that lower their resilience to risk and prevent them from growing and attaining economies of scale. Challenges associated with access to financial resources are constrained by both internal and external factors.

Internally, most SMEs lack creditworthiness and management capacity, so they have trouble securing funds for their business activities such as procuring raw materials and products, and investing in plant and equipment. From the external perspective, SMEs are regarded as insecure and costly businesses to deal with because they lack required collateral and have the capacity to absorb only small amount of funds from financial institutions. So they are rationed out in their access to credit because of high intermediation costs, including the cost of monitoring and enforcement of loan contracts (Equity group Foundation, 2019).

A number of initiatives have also been advanced by the government, NGOs, and the private sector aiming at increasing access to affordable credit, and financial management to enable SMEs efficiently manage finances in their businesses. However, it is not clear whether these initiatives on financial literacy education have translated to better management of finances among SMEs, improved enterprise performance and improved access to loan capital (Hogarth, 2020).

1.2 Statement of the Research Problem

Countries that have developed and those that are continuing to develop would give a testimony of the importance of Small and Medium Enterprise (SMEs) in attaining their level of development (Tshuma and Jari, 2013). In Zambia and in many other developing countries in the world, SMEs are perceived to be economic drivers as they reliably



create employment providing opportunities for low-income poor people, thereby increasing financial inclusion. The SME sector is estimated to account for 97 percent of all businesses in Zambia. Although 9 out of 10 are said to operate in the informal sector. Inevitably both formal and informal SMEs in Zambia contribute to the GDP by creating opportunities for future growth and an innovative diversified economy. SMEs are acknowledged having huge potential for employment generation and wealth creation in any economy besides other immeasurable virtues. SMEs in Zambia employ 50 percent of the working class (Marvi, 2020). Mbangu (2020) established that there are about 1.02 million informal SMEs in Zambia, along with about 30,000 formal SMEs. The growing recognition of the importance of Small and Medium enterprises (SME's) in developing countries is not by choice but out of necessity in order to add value to the economies by creating jobs, enhancing income, strengthening purchasing power among others. The government of Zambia has recognized the importance of SME's in employment generation and poverty eradication in the country. This led to the development and promotion of policies that are there to support the growth of the sector like the Vision 2030 and Chapter 425 of the Small Enterprises Development Act that further revived policy efforts targeted at growth of SME's through skills development and access to financial services. According to the World Bank (2014), when SMEs are equipped with necessary knowledge and skills on financial management through financial literacy training, they make sound financial decisions in terms of cash flow management, savings, debts management, sourcing of finances and record keeping which then leads increased profits to the entities. Therefore, this research proposal will investigate the impact of financial literacy on the performance and and success of Small and Medium enterprises at Lusaka's New Soweto market.

1.3 Objectives of the Study

1.3.1 Overall Objective

The general objective of the study was to investigate the impact of financial literacy on the performance and success of Small and Medium enterprises

1.3.2 Specific Objectives

The following will be the specific objectives of the study:

- To investigate the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market.
- To investigate the impact of financial behavior on the performance and success of Small and Medium enterprises at New Soweto market
- To investigate the impact of financial attitude on the performance and success of Small and Medium enterprises at New Soweto market.

1.4 Research Questions

The study was guided by the following research questions:

- What is the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market?



- How does financial behavior impact on the performance and success of Small and Medium enterprises at New Soweto market?
- What is the impact of financial attitude on the performance and success of Small and Medium enterprises at New Soweto market?

1.5 Hypothesis

Hypothesis 1

- H0 – There is no significant relationship between financial knowledge and growth of small and medium enterprise
- H1 - There is a significant relationship between financial knowledge and growth of small and medium enterprise
- Hypothesis 2

- H0 – There is no significant relationship between financial behavior and growth of small and medium enterprise
- H1 - There is a significant relationship between financial behavior and growth of small and medium enterprise

1.6 Significance of the Study

This study was important to the existing source of knowledge and hence was of interest of both researchers and academicians who sought to explore or investigate the importance of financial literacy among other factors on the profitability and success of SME at Lusaka's New Soweto market.

It is an objective of every government to promote innovations of all kinds in a country and SMEs being of economic benefits cannot be ignored. In addition to the perceived economic benefits, SME development has long been viewed by policymakers to increase incomes of the poor. The results of this research were provident information on possible ways the government can tackle the issue of financial illiteracy among business owners and possible ways of promoting financial education among the entrepreneurs and small business owners which will in turn promote the profitability and success of the SME's. Also, it helped the government and financial regulators on incorporating these SME's in their policies on areas like having access to credits and other financial benefits which will eventually provide greater opportunities for the participants in that industry and the poor.

The study was useful to investors because it highlighted the benefits that were derived by their firms from acquisition of financial literacy. These benefits included proper financial management skills that lead to lucrativeness of their firms. Also, for investors who are assisted by others, it emphasized the importance of financial literacy so they can be able to understand financial reports of the firm, how assets are allocated, what ratio of debt to equity to be used and how to derive further profits. For financial institutions, it helped them asses the credibility of an SME by the financial knowledge of the owners.



1.7 Theoretical and Conceptual Framework

1.7.1 Theoretical Framework

This study was anchored on the following three theories, namely; Social learning theory, financial literacy and behavior theory and the knowledge spill over theory.

1.7.1.1 Social Learning Theory

The social learning theory of Bandura emphasizes the importance of observing and modeling the behaviors, attitudes, and emotional reactions of others. Bandura (1977) states: "Learning would be exceedingly laborious, not to mention hazardous, if people had to rely solely on the effects of their own actions to inform them what to do. Fortunately, most human behavior is learned observationally through modeling, from observing others one forms an idea of how new behaviors are performed, and on later occasions this coded information serves as a guide for action." The component processes underlying observational learning are: Attention, including modeled events and observer characteristics. Retention, including symbolic coding, cognitive organization, symbolic rehearsal, motor rehearsal, motor reproduction, including physical capabilities, self-observation of reproduction, accuracy of feedback; and Motivation, including external, vicarious and self-reinforcement.

Social learning theory has been applied extensively to the understanding of aggression and psychological disorders, particularly in the context of behavior modification (Bandura, 1969). It is also the theoretical foundation for the technique of behaviour modelling which is widely used in training programs. Social learning theory is extensively used in financial literacy programs alike. In financial literacy programs, its components of motor reproduction, motivation, retention and the attention paid by the trainees are of key importance to produce desired results. However, money management characteristics can be said to innate, some studies support the idea that psychological attributes associated with money management can be culturally and experientially acquired (Gorman et al., 1997).

1.7.1.2 Financial Literacy and Behavior theory

Several studies showed that financial literacy is positively related to self-beneficial financial behavior. Hilgert, Hogarth, and Beverly (2003) added financial behaviour and financial literacy questions to the nationwide survey of consumer finances. They formed a financial practices index based upon behaviour in four variables, cash-flow management, credit management, savings, and investment practices. Comparing the results of this index with scores on the financial literacy quiz, they found that those who were more financially literate had higher financial practices index scores, indicating that financial knowledge is related to financial behaviour. Further they found that those with low financial literacy are more likely than others to base their behaviour on financial advice from friends and are less likely to invest in stocks.

1.7.1.3 The Knowledge Spill over Theory

In this theory the creation of new knowledge expands the set of technological opportunity. Entrepreneurial activity does not involve simply the arbitrage of opportunities, but also the exploitation of intra-temporal knowledge spill over not appropriated by incumbent firms. The theory focuses on individual agents with endowments of new economic knowledge as the unit of analysis in a model of economic growth, rather than exogenously assumed firms. Agents with new knowledge endogenously pursue the exploitation of knowledge. This suggests that knowledge spill over come from the stock of knowledge, and there is a strong relationship between such spill over and entrepreneurial activity (Zoltan et al 2008).

1.8 Conceptual framework

A conceptual framework can be described as an analytical tool with several distinctions and contexts. It is used to make conceptual distinctions and organise ideals. Strongly conceptual frameworks capture something real and do this in a way that is easy to remember and apply (Ravitch and Riggan, 2012) as quoted by Gondwe (2017). Conceptual frameworks are mainly valuable as organizing devices in empirical research. One set of scholars has applied the impression of conceptual framework to deductive, empirical research at the micro- or individual study level. Shields and Ranagrajan (2013) argue that likewise, conceptual frameworks are abstract representations, connected to the research project's goal that directs the collection and analysis of data.

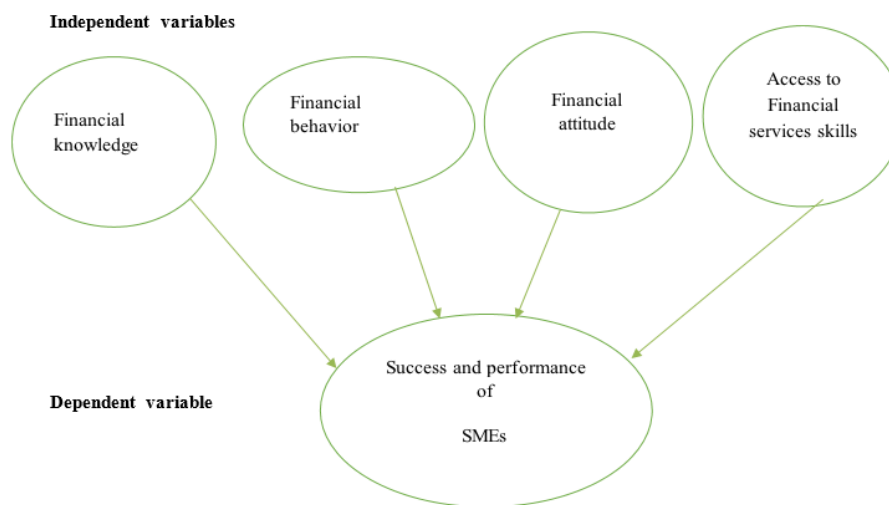


Figure 1 Conceptual Framework

Source: Author, 2026

The figure above shows that access to financial services skills, good Financial attitude, good Financial behaviour and access to Financial knowledge (Independent variables) leads to Success and performance of SMEs.



1.9 Operational Definitions of Concepts

Financial literacy: The ability to understand and use various financial skills, including personal financial management, budgeting, and investing (Webster, 2010).

A small and mid-size enterprise (SME): a business that maintains revenues, assets or a number of employees below a certain threshold (Mwams, 2013).

Gross Domestic Product (GDP): This is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period (Gujara, 2013).

Informal sector: Units engaged in the production of goods or services with primary objective of generating employment and incomes to the persons concerned (OECD, 2009)

1.10 Organization of the Dissertation Chapter One: Introduction to the Study

This chapter presents the introduction which discusses the background; research problem; objectives of the study; limitations of the study; and the method and sources of data. Chapter one also gives the structure of the study. This chapter also presents the theoretical and conceptual framework of the research so as to provide full explanation for the underlying theories and conceptual models that map out the research's thrust.

Chapter Two: Literature Review

Chapter two gives a review of relevant literature associated with the study.

Chapter Three: Research Methodology

Methodology is basically the philosophical framework within which the research is conducted or the foundation upon which the research is based. Thus, this chapter describes research methods, approaches, and designs in detail highlighting those used throughout the study. Justifying the

choice through describing advantages and disadvantages of each approach and design taking into account their practical applicability of the research

Chapter Four: Data Analysis

This chapter presents the data obtained in the study. It will also analyze and interpret the data using methods that will be mentioned in chapter three.

Chapter Five: Conclusion and Recommendations

Finally, chapter five gives a summary, recommendations and conclusions of the study



II. Chapter Two

Literature Review

2.0 Introduction

This chapter presented the review of literatures that are related to the current study. It provided both empirical literature review and the theoretical framework.

2.1 Definition of Small and Medium Scale Enterprise

According to the European Union (EU) (2013), an enterprise is an entity that undertakes an economic activity in any form. This includes, in particular, self-employed persons and family businesses engaged in crafts or other activities, and partnerships or associations regularly engaged in an economic activity. The term SME is used to describe businesses in the private sector. There is no single definition for SMEs because of its diversity of businesses. What exactly SME means is dependent on the number of employees and business' turnover and assets. Small business is regarded as one whose scale of operation is less than the industry average (Quaye, 2014).

A lot of institutions and well-known academicians have defined Small and Medium Scale Enterprises differently and some have been criticized by others. Bolton Committee (1971) was the first institution to try and produce a generally accepted definition for SMEs. They came up with two types of definition from two different points of view namely "economic" and "statistical" definitions. Under the "economic" definition, a firm is classified as small if it meets the following criteria:

- i. It has a relatively small portion of the market share.
- ii. It is managed by owners without any formal management structure.
- iii. It is independent and do not form part of a larger organization

When it comes to the "statistical" definition, the following criteria are used for classification.

- measuring the size of the small firm sector and how much it contributes to GDP, employment, exports and so forth
- comparing the extent to which the small firm sector's economic contribution has changed over time;
- Applying the statistical definition in a cross-country comparison of the small firms' economic contribution.
- The Bolton committee, therefore, classifies small and medium firm base on different characteristics in different sectors.

Some weaknesses were identified with the Bolton Committee's definitions. Firstly, the economic definition classified a small business as managed by its owners or part owners in a personalized way, and no formal management structure is used, is incompatible



with its statistical definition of small manufacturing firms having not more than 200 employees. As small firms expand, owners do not make all principal decisions but delegate authority and responsibility to various team leaders. For instance, it is not probable for a firm with more than hundred employees to be managed in a personalized way, indicating that both definitions 'economic' and 'statistical' are contradictory (Kayanula and Quartey, 2002).

Another shortcoming of the Bolton Committee's economic definition perceives small firms to be operating in a market that the Committee believes is perfectly competitive. However, the idea of a perfectly competitive market may not exist here; a lot of small firms exist to satisfy specific segment and provide a unique service or product in a remote location and do not face any direct competition (Wynarczyk, 1994).

On the contrary, (Wynarczyk, 1993), established the features of the smaller firms rather than the number of employees. They argued that there are three ways of differentiating small firms from large firms. The smaller firm experiences:

- i. uncertainties accompanying being a price taker;
- ii. restricted consumer and product base;
- iii. Instability associated with the greater diversity of objectives as compared to larger firms.

Storey (1994) on the other hand argues that there are three main distinctive characteristics of larger and smaller firms. To begin with, the lack of certainty of the market in which the smaller firm exist and the greater internal constancy of its motives and actions. Second, both small and large firms have a different role in innovation; small firms are able to produce a unique product or service which differs from the systemized product or service provided by large firms. The last area of distinction between the two types of firms is the higher probability of growth and transformation in the smaller firm; smaller firms which become large undergo a number of transformations through the various stages.

The following are some of the criticism of the 'statistical' definition of the committee competition (Wynarczyk, 1994).

- i. The term "small" was not specifically define by any criteria, instead classifications like, number of employees, total value of turnover, ownership and the value of the company assets.
- ii. The second criticism is regarding the upper limits for the number of employees and total turnover. There are three different limits for different sectors and two different upper limits for the size of employees. This complicated the definition and made country comparison a bit difficult.
- iii. When comparing monetary units over a period of time, there is a need to construct index number to cater for price fluctuations. But the changes in currency makes it complicated to compare internationally.
- iv. The definition claims that the small firm industry is homogeneous but some of the firms expands to become medium and even large corporations.



Since there is no institution or person that is able to provide a generally accepted definition for Small and Medium Scale Enterprises (SMEs), several organizations and countries including individuals define SMEs differently. The World Bank from 1976 defined a small firm as that with a total fixed asset value without land of 250000USD. Grindle et al (1987:9-10) classified firms with not more than 25 permanent members and a non-current asset and of value not more than 50000 United States Dollars (USD). The United States Agency for International Development (USAID) refers to small firms as firms with not more than 50 employees and sells more than half of its output (Mead, 1994).

The United Nations International Development Organization (UNIDO) distinguishes the definition or classification of SMEs between developing and developed or industrialized countries.

The United Kingdom (U.K) classifies an enterprise to be small if it satisfies two of the following conditions according to the Companies Act 1985 Section 249.

- Company turnover of less or equal to 2.8 million GBP.
- Total balance sheet value of up to 1.4 million GBP
- Employee size less than 50
- A medium size firm has to satisfy the following conditions:
 - Company turnover of less or equal to 2.8 million GBP.
 - Total balance sheet value of up to 5.6million GBP
- Employee size less than 250. The U.K Department of Trade and Industry for the purpose of statistics, set limits for the various types of industries using the number of total employees that could qualify and distinguish the various sectors.

The European Commission in an attempt to unify the various definitions of SMEs by member States, in 1996 decided to adopt a single definition which will be generally used. In 2009 at the G-20 summit, there was an agreement to increase financing for SMEs and hence the question “what exactly is the definition of SME?” It was this question that prompted two researchers to propose a definition. An SME is a formal business or a company with an annual revenue or turnover (US \$), of between ten to thousand times the average per capita Gross National Income at the level of income of the country in which the enterprise operates (Gibson and Varrt, 2010).

This definition seems perfect due to the use of turnover as a measuring tool. This can also be a good way to measure the contribution of SMEs to the Gross Domestic Product (GDP) of a country According to Khrystyna (2010), after a practical research in over 120 countries, it was difficult to obtain data for the annual turnover of SMEs. Secondly, the informal types of SMEs far outnumber the formal by about eight times. Formal business is the type of business that has regular hours, wages etc. and is regulated and taxed by the government. It is regulated and monitored while the informal is the opposite of the formal

2.2 Small and Medium- sized Entrepreneurs in Zambia



Zambia is a country with a very diverse economy with manufacturing, service, export and other sectors. In addition to the exportation of natural resources, Ghana exports digital technology goods and automotive including industrial minerals. In the year 2015, service was a major driver of the economy constituting about 50.2% of total Gross Domestic Product (GDP) and employed about 28% of the working force in the country. The Industrial and agricultural sector also contributed

28.4% and 19.9% respectively being the second and the third largest contributors (Central Statistics Office, 2015).

The total Gross Domestic Product (GDP) of Ghana in 2014 was 36.61 billion US dollars which was a decrease from the previous year of 47.8 billion US dollars. The GDP of Zambia is projected to improve by 5.9% from the previous year in 2016 (Africa economic outlook, 2016.). This projection is influenced by the new oil exploration due to begin in the second quarter of the year. In spite of all the interesting economic figures from the various statistical bodies, the SME sector which is the backbone of the economy is still lacking financial backing and needs special attention. There have been different definitions given to SMEs from different geographical locations and with different criteria. In spite of all the disagreements in the various definitions, the universal criterion used was the number workers or employees. Practically, there are complications when applying this definition with regards to the upper and lower limits which apply to different official sources.

According to the Zambia Development Agency (ZDA) (2006), small enterprises as those firms which employ less than ten (10) workers and firms with more than ten (10) employees are considered medium and large scale enterprises. According to Steel and Webster (1990), the upper limit of total employees number of that classifies an enterprise as small is thirty (30).

Milango (2013) on the other hand, used three separate sections for a small enterprise in Zambia.

- i. Micro enterprises employ less than six (6) employees.
- ii. Very small firms employ between 6-9 employees

iii. Small enterprises have between 10-29 employees.

2.3.2 Importance of SMEs to Zambia's economy.

The contributions of SMEs to the economy of Zambia cannot be over-emphasized. It is so obvious that every government that comes to power try their best to support this sector. The Small and Medium Enterprise sector is regarded as the engine for the Zambian economy by many scholars.

Almost in all countries, developed and developing as well as those in transition, the significant contributions to the socio-economic made by SMEs have been widely recognized. Their positive effects can be supported numerically in a number of areas including; generation and distribution of income (Beck, Demirgüç-Kunt and Levine, 2005; Kuratko, 2005), absorption of labour and curbing unemployment (Abor and Biekpe, 2007; Daniels, 1999; Glancey, 1998) and alleviation of

poverty (Green, Kirkpatrick and Murinde, 2006; Taussig, 2005; Gebremariam, Gebremedhin and Jackson, 2004; Hallberg, 2000). Moreover, some industries particularly in the sector of services have been predominated by SMEs. Computer



software, marketing, and human resources development are cases in point (OECD, 2000). As a result, SMEs have been the focus of policies and programs that aim to achieve sustainable development goals in advanced and emerging economies as well as developing ones regardless of any differences in the economic systems adopted in those countries. Since the 1970s, SMEs have been widely researched primarily as a job creation tool. Tolentino (1995) attributed the potential economic and social benefits of SMEs to their ability to:

- create jobs at low cost of capital;
- positively contribute to the Gross Domestic Product (GDP);
- create opportunities for employing appropriate technology;
- improve forward and backward links between different sectors; provide support to large-scale enterprises;
- expand a pool of skilled and semi-skilled workers;
- provide an opportunity to expand the entrepreneurial base;
- provide the required flexibility to adapt to market failures;
- enter into market niches which are not profitable for larger enterprises;
- contribute to development policies that are more oriented towards decentralization and rural development; and
- support governments' efforts to alleviate the negative aftermath of structural adjustment programs.

It has been acknowledged that SMEs have enabled large number of people to engage in the economic and social mainstream of society (Korcsmáros, Takacs and Dowers, 2003). By providing job opportunities for millions of people particularly in rural areas SMEs have had the potential to promote economic growth and prosperity as well as reducing the income inequality gap. By so doing, SMEs have become the key to achieve high development levels and increasing the growth rate of many economies worldwide. Many studies conducted in different parts of the world have documented the dual crucial role of SMEs in employment creation and generating of income.

For example, Ayyagari, Beck and Demirgüç-Kunt (2003) conducted a rich detailed study aiming at investigating the relation between SMEs sector and both growth and poverty alleviation by using

a broad cross-country data base. They found that in high-income countries enterprises with less than 250 workers contributed about 70 percent to employment and more than 55 percent to GDP, while in the group of low-income countries, contributions made by such projects was approximately 30 percent in job creation and 15 percent to GDP. With regard to the middle-income countries, however, the figures were 55 percent, 35 percent for employment and GDP respectively. In the United States, in 1995, just over 99 percent of all employers in the private sector was represented by SMEs (OECD, 2000).

In 1997, this figure expanded by 5 percent, while the increase in the number of total employer firms was 2.2 percent. In addition, Audretsch (2000) analysed of the differences between the static role of SMEs and their dynamic role in the American economy during a five-year period of time 1990-1995 in terms of employment taking in consideration the emergence of new firms (births) the exit of others (deaths), and the



rise of labour force in existing firms (expansions) as well as any reductions (contractions). His results showed that of approximately 13 percent increase in the employment rate the share of SMEs was considerably greater than that of large corporations.

He Also found that firms with less than twenty employees provided nearly one-third of the jobs created by new firms. He added that employment resulted from the start-ups of new SMEs over the given period soared by 144.69 percent. A later paper by Edmiston (2007) reported that from 1990 to 2003, small firms (less than 20 employees) accounted for 80 percent of the net new jobs created in the US economy. Medium firms (20 to 499 employees) accounted for 13.2 percent of the net new jobs, while large firms (500 or more employees) accounted only for 7.3 percent. As for their contribution to the creation of wealth in the country, Kuratko (2005) reported 27 that of up to \$440 million saved by SMEs in 1987 above 75 percent of those funds collected in the USA. Likewise, Canadian SMEs have been participating significantly in the local economic progress. According to Ravi (2011) in 2009, more than 99 percent of the existing business establishments in the Canadian economy were SMEs. These firms have employed 64 percent of private sector employees in the country. Canadian SMEs contribution to the GDP had increased from 26 percent in the year 2000 to nearly 30 percent during 2008. Likewise, in the European Union (EU) SMEs have been the main source of employment creation over the last decades. In 2005, there were almost 20 million enterprises active within the European member states the overwhelming majority of these (99.8 percent) were SMEs with less than 250 employees (Schmiemann, 2008).

Spence and Perrini (2009) referred to the fact that of the six million new job opportunities generated between 1998 and 2004 in the EU-27 countries, five million were created by SMEs. In Spain, in the nineties an average of 38.5 percent of the new employment opportunities were created by SMEs (less than 200 employees) compared with only 13 percent existed in large firms (more than 200) (Trouve et al., 2001). Additionally, Trouve et al. (2001) demonstrated that recently established enterprises account on average for a 15 percent higher proportion of total job creation than other enterprises. Another example is that of the German SMEs segment which is the employer of about 72.6 percent of the labour force in Germany (Kadiri, 2012). Since Bolton Report was published in 1971, SMEs have been the target of nationwide development policies in the UK. Consequently, numerous schemes and national programs have been implemented in order to improve the economy performance. It is estimated that there were 3.7 million active businesses in UK, of these, small businesses accounted for over 99 percent and a further 25,000 were of medium size (Chen et al., 2006). The figures indicate that these businesses employ over ten million people, a figure that amounts to over 40 per cent of private sector employment, and they collectively turn over £1,287 billion, accounting for over 40 per cent of the private sector total (Hann, 2012).

In the neighbouring country of Ireland, similarly, 98 percent of all employment opportunities attributed to firms having less than 50 workers (Carey and Flynn, 2005). 28 Emerged mainly as a result of the privatization process as well as restructuring and downsizing of large state-owned enterprises SOEs, SMEs sector in Eastern European countries seems to be smaller and younger than its counterparts in the most advanced economies



in the continent. Nevertheless, it is the most vibrant sector which has been credited to assist these economies to prosper.

Collecting data from 15 countries composing a sample of 97,107 firms, Klapper, Sarria-Allende and Sulla (2014) studied the behaviour of SMEs in the private sector in the region. They found that SMEs were responsible for generating more than 50 percent of gross employment opportunities. They also noted some stark differences between countries in the sample in terms of the number of firms and the participation of these firms in total employment. For example, 71 percent of the total employment in the Estonian economy was attributed to SMEs sector whereas the figure was only 8 percent in Russia.

The explanation given by the authors was that this may be due to either differences in the size of population and the level of development across countries or a bias in the data since the sample confined to the formal sector excluding the informal one which may be larger in some countries.

The salient example that can be cited to emphasize the crucial role and speedy development of SMEs is that of Asia-Pacific economies. Numbering hundreds of thousands and constituting more than 90 percent of all non-agriculture firms SMEs in the region hire a substantial portion of the domestic workforce ranging from 75 percent to more than 90 percent and responsible for 30 percent of direct exports and 10 percent of foreign direct investment (Wattanaputtipaisan, 2013). In Singapore, for instance, SMEs account for more than 90 percent of all enterprises in manufacturing, commercial, and services sectors providing half of the employment opportunities in the country and contributing about a third of the total value-added. In Taiwan, nearly 98 percent of the total enterprises are SMEs with a share equals to 70 percent of the total employment making 48 percent of total exports for the country's economy (Shariff and Peou, 2008). As in (Tambunan, 2007) irrespective of the agricultural sector, Indonesian SMEs dominate about 90 percent of all establishment firms contributing the same percentage to the total employment. In Australia, at the end of June 2011 SMEs comprised 99.7 percent of all trading businesses in the country (Clark et al., 2012). They contributed 57.1 percent to the GDP and 70 percent to private sector employment (Clark et al., 2012). In the same vein, in China and Japan SMEs have had the greatest contribution to the economic prosperity undergoing in both nations.

In China, over the period of time 1978-1996 the Chinese 29 SMEs were the employer of nearly 230 million of the local force labour (Shi and Li, 2006) and contributed up to 58.5 percent of GDP, 50 percent of tax revenues. Chen (2006) gave more detailed figures. He cited that of all registered corporations the percentage presented by SMEs exceeded 99 percent at the end of 2001 when they were the largest employment opportunities provider with 85 percent in the industrial sectors, 90 percent in the retailing industry, and over 65 percent in the construction industry. In Japan, approximately 78 percent of the total jobs provided in the country are generated by SMEs (Korcsmáros, Takacs and Dowers, 2003). Moreover, in Tokyo alone 99.5 percent of all factories have less than 300 employees employing around 74 percent of the capital city's workforce (Kadiri, 2012).



Studies based on the Latin American and the Caribbean context showed similar trend. Henon (2010) reported that SMEs in the region are estimated to be accounted for providing 20 percent to 40 percent, depending on the country, of all jobs and 30 percent to 50 percent of GDP and that more than 90 percent of the firms operating in the manufacturing sector are SMEs. In Ecuador, for

example, firms hiring a number of employees that does not exceed 50 accounted for 99 percent of all firms in the economy and 55 percent of employment (Hallberg, 2000). In Brazil, the largest national economy in the region, the average share of SMEs in the total employment throughout the country is approximately 60 percent ranging from 13 percent in the state of Alagoas to 100 percent in Roraima state (Cravo, Gourlay and Becker, 2012). Another example comes from Trinidad and Tobago where SMEs are responsible for up to 57 percent of the employment opportunities in the country (Peres and Stumpo, 2000).

Due to number of reasons such as, political instability, high levels of corruption, and illiteracy it is not surprising that African economies do not attract foreign investors and multinational corporations. As a result, the role of local SMEs as a catalyst for diversify, strengthen, and modernize the national economies in the continent has increasingly arisen. According to Paiko and Adefila (2012), the number of employees hired by nonagricultural SMEs in Africa is estimated to constitute nearly 61 percent of the domestic workforce. In Nigeria, the second largest economy in Africa, SMEs account approximately for 85 percent of the total firms in the economy (Ayinde and Olawale, 2011) contributing nearly 30 percent to 50 percent to income in rural areas (Okpara and Wynn, 2007). These firms are responsible for make a living for up to 60 percent of farm businesses 30 employees (Lucky and Olusegun, 2012) and roughly 70 percent of employees in the industrial sector (Inyang and Enuoh, 2009).

In addition, in their comparison of the ability of both SMEs and large enterprises in terms of jobs creation in the Nigerian context Sands, Dogon-Daji and Abdullahi (2006) concluded that large firms are lagging behind SMEs which have a relatively better status as employment creators. Elsewhere in the continent, the Ghanaian SMEs account for 70 percent of the total employment opportunities generated in the country (Paiko and Adefila, 2012).

In other parts of Africa, Wolf (2001) provided evidence suggesting that SMEs operating mainly in rural areas absorbing more than 50 percent of all employed labor force in all of the three countries canvassed by his survey namely; Kenya, Tanzania, and South Africa. In another example from the northern part of the continent, SMEs represent a large portion as 90 percent of all enterprises operating in the Egyptian private sector in trade, service, and manufacturing sectors numbering 2.48 million enterprises accomplishing an annual growth rate of 4.6 percent and engaging about 6.43 million people (Elkabbani and Kalhoefer, 2011).

Apart of their advantageous position in terms of employment and re-distribution of income, SMEs also stand ahead of large companies in terms of flexibility and absorption of economic shocks. Characterised by dynamism and flexibility, SMEs have better ability to quickly adapt to any fluctuations in the demand as well as the supply



side. What disadvantages large enterprises in this regard is that their bureaucratic structures so they are incompatible with the degree of flexibility usually needed to undertake risky activities.

In addition, Korcsmáros, Takacs and Dowers (2003) argue that during recessions job losses rate is usually lower in SMEs probably due to, they explain, the greater flexibility in the wages. An example showing the role of SMEs as potential vehicle for recovery from recession comes from China. Over the period from 1998 to 2003, of approximately 19 million employees laid-off from Chinese state-owned enterprises the vast majority were reemployed by SMEs (Chen, 2006). A similar example comes from the USA. Between 1979 and 1995 while the fortune 500 companies experienced job losses up to four million jobs, SMEs were responsible for creating more than 24 million jobs in the economy as the birth rate of these firms soared to nearly 200 percent during that period (Freear, Sohl and Wetzel, 1997).

In the same vein, Rousseau (1999) argues that in the age of the knowledge-based economy characterized by changing consumers' preferences and market conditions, unlike large firms, SMEs flexibility allows them to remain competitive. He states that (Rousseau, 1999, p. 6): "In the new economy, size does not give the same economic advantage to firms as in the past. The increase in competition brought by the reduction of trade barriers and the emergence of new countries require additional flexibility and responsiveness from firms that must compete with more efficient producers in other countries. Large firms may have difficulty adapting to this increasing pressure for change and improvements to products because of the legacy of uncompetitive products, investments and employees.

SMEs, however, appear to have the ability to respond more quickly than large firms to changes in market conditions". In short, since recently as two decades SMEs have been receiving more attention as they have the potential to accelerate the economic growth in addition to their social benefits. As a result, SMEs sector has been a key component of the economies of advanced, emerging, and developing countries occupying most of the national socio-economic agenda and strategies. The interest in the crucial role of this segment in the development process has also attracted researchers in academia. Consequently, numerous studies have been conducting throughout the world in order to stress the importance of this sector for individuals and for the society as a whole. The most highlighting aspects of that role are reducing unemployment, poverty alleviation, and absorption of economic shocks.

First, whilst large companies undergo downsizing and disbanding processes which lead to huge numbers of workers facing redundancy, SMEs create countless number of employment opportunities in all sectors; trade, export, services, and manufacturing. Moreover, SMEs play a pivotal role during recessions as the new employer of redundant employees. Second, existing mainly in remote and rural areas and regions where the majority of the population are poor SMEs have been the main source of income for a large number of people helping them satisfactorily meet their basic needs contributing to achieve the national development plans goals in terms of social cohesion and economic prosperity. Third, due to their simple structure and their close relationships with suppliers and customers SMEs can adapt and respond to any changes in economic and markets conditions in a more flexible and less bureaucratic manner



than large firms. For these reasons, SMEs are believed to be more innovative and lucrative investment.

2.3 Effects of Financial Knowledge on Performance and success of SME's

Financial knowledge is defined as the understanding of key financial terms and concepts needed to function daily (Huston, 2017). It was defined by Potrich (2019) as a particular kind of capital acquired in life through the ability to manage income, expenditure and savings in a safe way. The Organization of Economic Co-Operation and Development (OECD), added that financial knowledge is an important determinant of whether the individual is financially literate, involving questions related to concepts such as simple and compound interest, risk and return and inflation (OECD, 2011). It is an important constituent in the making of financial decisions for individuals and businesses. It is a generally held argument that improved financial knowledge is said to result in more responsible financial behavior and hence effective financial decisions. (Tang, Baker, & Peter, 2015). Empirical evidence has shown that a higher level of knowledge is positively related to individuals engaging in a number of “best practice” financial behaviors, such as possessing an adequate emergency fund, monitoring credit reports, avoiding checking account overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection (Robb, 2014).

A common solution to lack of financial knowledge is the prescription of financial education with the general assumption that improved knowledge will result in more effective financial decision making (Robb & Woodyard, 2011). Policymakers, the financial service industry and educators have promoted numerous initiatives to combat low levels of financial knowledge through promoting financial education programs (Tang & Peter, 2015). Financial education is a process of improving comprehension regarding financial products and associated concepts and risks by individuals in such a way that the individuals can develop the abilities and the confidence necessary to make secure and fundamental decisions to improve their financial wellbeing (OECD, 2013). It is a preventive measure, as it allows the individual to understand financial problems and manage personal finances in a satisfactory way, thereby avoiding indebtedness (Potrich et al., 2016). It is therefore important for MSE managers to develop these abilities that facilitates correct decisions and to manage their businesses' finances successfully.

Raising funds to finance activities of the firm is an important aspect of every business that cannot be ignored. According to (Charan & Kishinchand, 2016), in their working paper, finance for micro, small, and medium-sized enterprises (MSMEs) has been a concern for all stakeholders including entrepreneurs, financial institutions, and government organizations. They highlighted the main sources of finance for MSMEs which includes bank loans, loans from nonbanking institutions, venture capital, microfinance institutions, loans from family, relatives, and friends, equity finance, and own funds. Various researchers in the past have tried to investigate the importance of the sources of finance used to fund business enterprises. In the early 1970s, there was a debate as to whether distinct types of finance give rise to different rates of return for firms.



An empirical study found that externally raised finance was associated with higher return as compared to internally raised finance (Keasey & Paul, 1990). The efficiency of the process of capital formation has always been a topic for debate because different businesses have different finance requirements and sources that work best for them. This calls for financial knowledge regarding the relative importance of different sources of finance that is critically important for the decision makers (Muhammad & Ejaz, 2010).

A challenge faced by SME's that stresses the importance of financial knowledge among others is the dominance of the informal sector. (Charan & Kishinchand, 2016), highlighted that the dominance of the informal sector in addressing the financial requirements of MSMEs is due to the inherent limitations of formal sources of finance which has requirement for collateral or a guarantee, inflexible policies, high rates of lending, complicated procedures, and entrepreneurs' lack of financial knowledge of applicable schemes. The study further concluded that many enterprises in the start-up stage may not be able to provide collateral for a loan and they lack knowledge about available schemes, which may hinder them from choosing the most effective option for financial assistance (Charan & Kishinchand, 2016). It is therefore, important for managers of SME's to have adequate knowledge on what source of finance will be more effective for their business and when to go for external sources.

The knowledge and acknowledgement of the time value of money is extremely important in financial decision making (Eugene & Michael, 2011). They highlighted that most financial decisions such as the purchase of assets or procurement of funds, affect the firm's cash flows in different time periods. For example, purchase of a fixed asset requires immediate cash outlay and in-turn will generate cash flows at future periods. Similarly, if a firm borrows funds from a bank or other sources, it receives cash and commits an obligation to pay interest and repay principal at future periods. Time value of money is therefore, a central concept of finance as it represents the foundation for many fundamental topics such as capital budgeting, bond and stock valuations among others. It recognizes that the value of money is different at different points in time (Martinez, 2013). Martinez, who proposed an integrated method to help identify the time value of money, added that if the timing and risk of cash flows are not monitored, the decisions of the firm may contradict the objective of maximizing owner's welfare. His research emphasizes the importance of managers having the ability to determine the time value of money among other variables that affect their cash inflows and cash outflows. The reasons for the change in the value of money over time is due to factors such as, risk and uncertainties of the future; the purchasing power of money in the future also known as inflation; the preference for current consumption to future consumption by individuals; and investment opportunities where an investor can profitably employ money received today, to give him a higher value in the future (Eugene & Michael, 2011a).

The knowledge of time value of money is therefore important for SME managers to be able to account for transactions such as the matching of assets (receivables) and liabilities (payables) and estimating future returns.



The profitability within and across an enterprise largely depends on the degree of products diversification according to a research by (Nils & Joachim, 2011). They found that the profitability of manufacturing firms with diversified products are more than four times the single-product manufacturing firms. Several other authors have related financial literacy with portfolio diversification and how it affects profitability of an enterprise in terms of asset allocation.

According to Amari and Anis (2015) in Singapore, financially literate investors should have diversified portfolio irrespective of their risk aversion. This further stress the common finance saying “Do not put all your eggs in one basket”. While diversification comes with many extra costs and requires extra skills, profits of a firm are maximized through diversification as it reduces the firms’ vulnerability to market fluctuations (Ejaz, Tariq, & Musleh, 2012). MSE managers should have the required knowledge on diversification strategies such as market diversification, product diversification and even having multiple stream of income through other investment activities to maximize their profits.

The risk and return relationship is important in every financial or non-financial decisions that are made in an organization as it gives an investor or business manager ideas on how much an investment is going to make (returns) and the possibility of losing cash. Return was defined by (Walker, 2011) as the change in worth of an investment which includes capital appreciation plus the cash yield. They defined risk which is also known as uncertainty as the difference between actual the expected returns and actual returns of an investment.

Eugene and Michael (2011) in Denmark defined return as the total gain or loss experienced on an investment over a given period and risk as the variability of returns associated with a given asset. The knowledge of uncertainties or risks associated with an investment is important because it helps to investor or business owner to make certain changes in behavior or activities of the business to prevent uncertainties.

However, it is commonly stated in finance that the more risk you take, the greater your possible returns. The more financially informed managers of MSE’s are, the more rationally they will be able to assess risk and returns in their decision-making processes such that they are able to understand the effects of riskier projects on the firms net income and being able to evaluate and translate data from finance personnel into decisions that are profitable to their business. (Sullivan, 2012).

The knowledge of inflation is important to MSE managers because it affects financial decisions of the business such as taking debts, opening savings account and bargaining over wage (Burke & Manz, 2014). According to Dutta (2008) in Germany, inflation arises when money supply is greater than available goods and services. Dutta argued that some businesses are affected by inflation positively considering businessmen raise prices of products when there is a certain level of inflation and in turn it leads to greater profits.

An empirical evidence by Burke and Manz (2014) in Sweden showed the relationship between financial literacy and inflation. They found that a measure of financial literacy



is associated with heterogeneity in inflation expectations. Small businesses exercise less control over the markets and a rise in inflation and a small increase could affect their capital expenditure and increase their cost of production such that some MSE's may not even survive. It affects their demand and input costs and rates at which credits are made available to them to mention a few. The knowledge of the effects of the risks of unanticipated changes in purchasing power of cashflows cannot be ignored by MSE managers (Andonov, Bardong, & Lehnert, 2010).

Financial knowledge is a very critical aspect of any decision making regardless of the subject matter, as it is argued to result in a more effective decision (Robb, 2014). It impacts key outcomes including borrowing, savings, investment and even future plans in terms of retirement income (Lusardi & Mitchell, 2014). In 2006, Lusardi and Michell proposed that financial literacy is needed to create a measure of financial competence in terms of participation in financial market and ability to manage financial matters. A few researchers have attempted to show the relationship between financial knowledge and growth in terms of profitability and size of businesses.

Mitchell and Zulu (2020) in South Africa have conducted various surveys on financial literacy and have come up with set of questions that are commonly used to measure financial knowledge. They performed an examination on the impacts of financial literacy on economic decision making. From their study, we can conclude that less financial savvy businesses incur high transaction costs and pay higher fee and financial knowledge is an investment in human capital that promotes wealth accumulation. Another research by Clark (2014) in Botswana on investment performance and

financial knowledge using a unique and new set of data found that financially knowledgeable employees have more volatile and diversified portfolios. They recommended that efforts to enhance financial knowledge should be exerted as it help people invest more profitably. Guliman (2015) in South Africa evaluated financial literacy of MSE owners with focus on financial knowledge and skills and found that most owners of these enterprises have low financial knowledge on taxation, time value of money and investing in securities.

In their paper on financial literacy and high cost borrowing, Lungu (2013) in Zambia found that lack of financial concepts affects performance level in a business. Financial knowledge, despite being important in the financial performance of both individuals and businesses is argued by various researchers to be insufficient in contributing to performance. Phiri (2015) researched other variables that could contribute to responsible financial behavior and they concluded that responsible financial behavior is not just attained from financial knowledge but also parental influence and self-discipline otherwise known as psychological characteristics. The result on the study by Mubanga (2010) on how much wealth matters on acquisition of financial knowledge showed that there is a positive but small relationship between wealth and financial knowledge.

2.4 Effects of financial behavior on profitability and success of SME's

Research has shown that financial literacy consistently predicts measures of financial behavior of individuals (Yoong, 2009). Some findings like that of Potrich et al (2016)



in Australia who came up with various models that could be used to measure financial literacy indicated that financial knowledge and financial attitude have positive impacts on financial behavior. Sucuahi (2013) in Bangladesh highlighted that a good financial behavior involves the ability to make financial decisions that increase wealth and prevent uncertainties of businesses and individuals. These activities generate more financial assets, prevent over-indebtedness, finance retirement, and insure against major life contingencies.

Good financial behavior is argued by Grohmann (2015) to be the ability to diversify assets across multiple types of investment as different investment types are affected by its own specific risk profile.

A budget is an important aspect of business planning. It is defined as a master financial document that states the expected contribution from the activities of an organization in terms of expected cash or revenues and expenditures over a certain period of time (Saouma, 2014).

Organizations prepare budgets for the process of planning to allocate resources that are limited human, physical, and financial resources. Budgets often use historical data to be formulated and as the firm grows, the accuracy of its budget becomes almost perfect because of the many historical data to draw from (Jims, 2014).

Although a budget may not be 100 percent accurate, budgeting aid to better management of an enterprise and helps to achieve higher profits and minimize losses. Budgeting is a contributing factor to the success of a business's operations, however, most small business owners focus more on cash flows instead (Sucuahi, 2013). Sucuahi (2013) found that managers of Micro enterprises used budgeting for monitoring performance but they were not able to prepare these budgets on a regular basis. Most scholars argue that financial planning should not be integrated into the equation of financial literacy.

Like David (2010) in Denmark who pointed that financial literacy only involves understanding about investing and financial planning rather than the actual planning process. He added that an alternative view of incorporating planning in the financial literacy equation is by looking at it as a long-term financial management decision making process. Kalekye and Memba (2015) in their research on the role of financial literacy on profitability of women owned business found that although budgeting is very important in increasing profits and minimizing losses of business enterprises, women were not consistent in financial planning.

Debt management is the ability to perform activities of a business within a budget. A plan is usually created to help people manage their debts especially those with too much debt, often referred to as debt management plan. Sucuahi, (2013) in Italy emphasized that debt management skill is a necessary financial literacy measure that gives the ability to obtain capital at a minimum cost. Researches have shown that most Micro and Small entrepreneurs are not financially literate when it comes to the aspect of obtaining finance for their business (Assibey, 2010).



However, the findings of Suchuahi (2013) suggested that micro entrepreneurs are very much aware of the consequences and penalties that comes with poor debt management. One of the challenges of micro and small entrepreneurs encounter in debt management is the inability to perform accurate calculations and lack the level of numeracy skills especially for the elderly, female and less educated population (Plakalovi, 2015). He highlighted in his 2011 publication that the less financially literate are not able to properly estimate their debt burden and they borrow at inflated costs, therefore, they end up with excessive borrowing and many nonperforming loans.

Acquiring debt management skills is henceforth very important for MSE mangers for greater performance.

Saving behaviour is said to be a very significant component of financial literacy, security and reduction of credit reliance. It pays attention to the saving habit of people. Saving was defined by (Sucuahi, 2013) as an economic security and accumulation of wealth for enhanced living standard. It involves putting aside some part of income for use in the future.

It was found by Kalekye and Memba (2015) that most women involve in informal type of saving that accumulated no interest. Also, they highlighted low income earners like to save their surplus money rather than use it for investments purpose. A study on the financial behaviour of rural residents in Latin America's findings show that most people use their surpluses for investment rather than in financial form (Jacqueline, 2012). The argument behind their strategy was that having "nonworking" funds is a poor money management strategy and those rural residents with static savings only keep it for emergencies.

Saving is a necessary skill for micro entrepreneurs that want to advance their business skills. (Bravo, 2012), cited that individuals are said to be financially illiterate if they are unable to save. However, it was argued by Mandell and Klein (2009) that financial literacy does not necessarily mean one is savings-oriented and does not give better financial behaviour.

Record keeping also known as book keeping is an important accounting process that involves recording of all business transactions for sustaining and expanding a business. These includes the process of collecting, organizing, storing and analyzing the financial information of an entity to facilitate its day to day operations and preparations of statements, tax returns and internal reports. Enterprises require records to be used by managers as guides for routine action, decision making, and formulation of policies and maintaining relationships with stakeholders (Lusimbo and Muturi, 2016).

According to (Sucuahi, 2013), it is an important skill for business owners because it provides vital information for decision-making. He added that it is a measure of financial literacy because not all summaries of daily transactions cannot be recorded in the human memory. Sucuahi (2014) research showed that most small business owners use notebooks to record transactions rather than journals and ledgers. Kalekye and Memba (2015) in Botswana found that most small business owners did not summarize records and they keep records in an informal manner. The findings of Muturi (2016)



revealed that most MSE managers are not practicing bookkeeping in their business because of lack of appropriate skills and knowledge of how it is done. Research has shown that most MSE owners recruit unskilled personnel for clerical and accounting management and in turn they are not able to keep reliable accounting records, hence inability to determine profits or loss of the firm (Everlyn, 2016).

In financial literacy and rule of thumb Drexler and Schoar (2014) in Zambia highlighted that lack of financial literacy leads to poor financial decision making especially in regards to retirement savings. Financially literate people do better job planning and saving for retirement through diversifying risk across several ventures. The findings revealed that financial literacy in the US population's micro-entrepreneurs is less and inability to understand basic financial concept has led to inability to make good judgment with regards to retirement saving. There is still the question of consequences of financial illiteracy on retirement planning and how most households arrive close to retirement with little or no wealth. The findings revealed that financial illiteracy has stunted peoples' ability to save and invest for retirement, undermining their well-being in old age. The profitability of micro and small enterprises highly depends on the financial decisions that are made by the owners ranging from financing to working capital management and saving decisions. Given that Micro and small enterprises have significant impact on economic activity of most countries, a low financial skill or poor financial behavior might have an adverse effect in the future of the business (Sucuahi, 2013).

Good financial behavior leads to competitiveness in a globalized economy and financial illiteracy would lead to shut down of the business. It has been argued that a good financial foundation of the business owners is a significant barometer of the success and growth of the enterprises in the competitive environment (Mubanga, 2007). Financial behavior having to involve adequate use of financial resources determines whether the firm will survive or not because it involves decisions that lead to profit maximization, sales maximization, capturing a greater market share and wealth maximization (Abiodun, 2016).

Studies have shown that financial literacy is positively related to financial behaviours such as cash flow management, debt management, savings and investment practices that maximizes benefits for micro and small enterprises (Grumman et al., 2015).

2.5 Effects of Financial Attitude on performance and success of SME's

Financial attitude is one of the factors that have significant impact on financial management practice. It was defined by Eagly and Chaiken (2020) as "psychological tendency that is expressed by valuating a particular entity with some degree of favor or disfavor". That is, it is a psychological predisposition when it comes to agreeing or disagreeing with certain financial management practices.

Latif et al (2011) defined financial attitude as the creation of value in decision making and resource management through application of financial principles. Financial attitude is improved through procurement of adequate information (Abiodun, 2016). Research has shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation to mention a



few. Aboidun (2016) in the US observed that financial attitude of SMEs managers influence their access to finance and expansion of capital among other business activities. He added that successful people are financially literate such that they had long- term savings and investments that are future oriented.

Risk and uncertainty play a role in almost every important economic decision in a business (Dohmen et al., 2011). Understanding individual attitudes towards risk is therefore, intimately linked to the goal of understanding and predicting economic behavior. The financial attitude of business people is related to how they commit resources to projects that are of elevated risk with the expectations of bigger returns. It has been argued that most successful entrepreneurs are risk- takers (Abiodun, 2016).

Thompson and David (2010), classified risk attitudes into four; pragmatists with a belief that the world is uncertain; conservators who take high risks; maximizers who see the world as self- correcting and managers who are moderately risky. Jing (2021) did a study that examined the risk- taking behavior among family business owners. They found that risky decisions made by these businesses have significant impact on consumption of the families and other stakeholders of the business. Also, their findings suggested that family business owners are risk tolerant and age, race, net worth and number of employees affect risk-taking attitudes of managers.

Many researchers have tried to find the factors that determine the willingness or ability of individuals to make risky decisions. Like Dohmen et al., (2011) whose finding suggest that the gender, height and parental background have an economic impact of the willingness to take risk.

Business owners develop plans to reach their objectives usually by separating them into different timeframes such as; short term planning which looks at the present situation of the company and develop strategies for improving them; and long term planning usually to solve problems permanently. Many business casualties are caused by companies being short term oriented, offering excellent short-term earnings growth with little or no growth in the long term value (Shah, 2010).

Financial illiteracy has been a motivation for the creation of financial education programs that aim at increasing financial literacy. This has motivated researchers to estimate the effectiveness of such programs on the financial attitude or behavior of individuals. It is arguable that financial education program has greater effect on long-term financial attitude of individuals rather than short-term. Findings suggest that orientation towards the future promotes financial decision making and performance of individuals and businesses (Elizabeth, 2008). If people prefer to priorities short-tern wants over long-term security, they are unlikely to make emergency savings that will serve for their long-term financial plans and growth (Atkinson & Messy, 2012). MSE managers should therefore, have positive attitude towards future security as well as present wants rather than focusing just on the short-term.

The social environment of individuals and business owners have a profound influence on their level of financial literacy. A study by Lachance (2014) that examined effects of neighborhood characteristics on financial literacy found that social learning is a



mechanism of acquisition of financial knowledge. Researchers argued that the social environment has a profound influence on the financial attitude of a person. For example, reports by Calamato (2010) showed that the family influences individuals' financial decisions including the ability to make financial choices, money management, understanding of financial issues, and planning for the future.

The social environment of a business owner or manager may involve parents and peers. A research was conducted by (Tali, 2016), on financial literacy on children with the aim of examining the role of involvement in saving money (ISM) to better understand children's saving behavior and allow a deeper understanding of financial literacy processes among children. The findings suggested that children with a high level of ISM expressed more positive attitudes toward saving, as well as more positive behavior with regard to savings. These attitudes were influenced by parental and peer attitudes toward saving money and the child's access to money.

The research showed that the attitude of one's parents and peers and access to finance will influence the financial attitude of that individual.

Lachance (2014) conducted a research on financial literacy and neighborhood effects. The results of the research showed that a zip code's education level has a significant impact on financial literacy. Lachance added that social learning is a mechanism of financial knowledge acquisition, with neighborhood education serving as a proxy for the level of financial knowledge of one's social network. The researcher also found other social factors like getting advice from financial professionals, receiving financial education and living in a zip code with greater employment in the financial industry as major influencers of financial attitude of individuals. Therefore, we can say that the financial attitude of MSE owners may differ because of the environment in which they live and the financial background of people around them may influence their decisions. Bucher-Koenen and Lusardi (2011) propose that "those exposed to financially knowledgeable people become more financially knowledgeable themselves."

Preparing staff through training programs for financial literacy is an essential element of any promotional effort (National financial educator's council). Studies have shown the significance of money management skills in promoting their ability to save, invest, stay out of debt and have more money saved for retirement. Like the research by Carlin and Robinson (2010) that explored how financial education changes savings, investment, and consumer behavior and found that people that went through training were somewhat better at making current-cost and current benefit tradeoff decisions as compared to those that did not. The consequences of not having financial literacy training for SME managers might affect their performance and even profits.

Financial attitude such as the risk averseness, time orientation, social environmental factors and training may add value to the profitability of a business. In the case of risk taking, there is a common finance saying that "the higher the risk, the higher the returns", this means a business owner that can take more risk will reap greater returns or profits. Time orientation has been a very important determinant of investment decisions. An investor with long-term orientation tend to invest more on assets that will yield benefits in the long run rather than just profits for the brief period. The social



environment of a business owner also plays a role in the profitability of the business based on how favorable the environment is, and what influence the environment has on the attitude of the business owner or manager. The willingness to learn more on how to

manage finances is also of benefit to business owners because it will allow for the application of learnt financial concepts into practice (Abiodun, 2016).

Financial attitude of business owners is improved through procurement of adequate information (Abiodun, 2016). Research has shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation to mention a few. Abiodun observed that financial attitude of SMEs managers influences their access to finance and expansion of capital among other business activities. He added that successful people are financially literate such that they had long-term savings and investments that are future oriented.

Economists have become interested in studying financial literacy and the effects of financial attitudes. Wagner (2015) highlighted that better financial decisions are made when the decision maker is informed and hence a positive long-term effect in consumption and in profitability for consumers and managers respectively. Financial attitude of business managers plays significant role in determining performance of the business. It is a combination of concepts, information and emotions about learning, which in turn results in readiness to react favorably and leads to more effective decisions that generate profits for business owners (Potrich et al., 2016). Research has shown that financial attitude is linked to ability of business to obtain resources and capabilities, competitive strategic decisions, competitive advantage and performance outcomes (Abiodun, 2016). He added that firms with better financial attitude have more competitive advantage in accessing external funding.

There are a number of factors that influence the decisions of SMEs' operators and managers before deciding the source and amount of finance to finance business investments to invest in business activities. Prasad, Green and Murinde (2015) found that financing policy, capital structure and firm ownership are all strongly linked. Carpenter and Petersen (2022) argue that firms whose financial needs exceed their internal resources may be constrained to pursue potential opportunities for growth. Similarly, UWFT (2005) found that majority of SMEs that accessed adequate funds from microfinance institutions increased their volume of sales and the profit. However, small increase in the volume of sales and business profitability may not be significant without the business managers acquiring the knowledge and skills in financial management.

Small companies frequently suffer from a particular financial problem due to lack of a capital base. Small businesses are usually managed by their owners and available capital is limited to access to equity markets, and in the early stages of their existence owners find it difficult in building up revenue reserves if the owner-managers are to survive. A question concerns how small businesses determine sources of finance in such difficult circumstance (Carpenter and Petersen, 2002).



The varuban (2019) examined small scale industries and its financial problems in Sri Lanka. He underscored that SMEs of small scale industries in Sri Lanka finds it extremely difficult to get outside credit because the cash inflow and savings of the SMEs in the small-scale sector is significantly low (Ganesan, 2000). Hence, bank and non-bank financial institutions do not emphasize much on credit lending for the development of the SMEs in the small-scale sector in Sri Lanka. Due to the key importance of training SMEs entrepreneurs in order to reduce lenders risk, some banks together with SMEs organizations and the government have developed a series of training courses, for example, NatWest, in cooperation with the Federation of Small Business and local education Authorities offered training to entrepreneurs and those who completed the course were eligible to lower interest rates. Improving entrepreneurs' management skills and their financial awareness will make a vast improvement in their access to finance (Reuben Ricupero, 2002).

Pettit and Singer study underscored that financing is the most difficult problems of the SMEs in USA. External finance is more expensive than internal finance (Datta, 2010). Due to lack of access to external finance (private placements and initial public offerings of varying sizes), SMEs rely on bank loans as compared to their larger counterparts (Berger et al., 2001; Bracker et al. (2006).

Ssendaula (2002) lists factors that have discouraged banks from lending to SMEs. Among them are poorly compiled records and accounts; low levels of technical and management skills; out-dated technologies; lack of professionalism and networking; lack of collateral; lack of market outlets due to poor quality and non-standardized products; poor linkages and limited knowledge of business opportunities. MSMEs are viewed all over the world as a major tool for achieving economic growth and employment creation (Coetzee, 2017).

Financially literate enterprise owners understand the main sources of finance and the most efficient source that will enhance business growth and sustainability. Greenspan (2002) adds that financially literate decision makers know when it is most appropriate to borrow and effectively allocate financial resources to meet business obligations.

A study by Lusardi and Mitchell (2011) revealed that financially literate business owners are able to compare and evaluate various loan options, bargain for a better price, reduce information asymmetry on their part by asking informed questions on loan products, financial services, saving plans, investment and insurance options. Another study by Lusardi (2008) also established that low levels of financial literacy affected individual financial decision making and contributed to lack of participation in the stock market and poor borrowing behaviour. Potrich et al. (2015) found that financial literacy positively impacted an individual's assertiveness and efficiency in decisions related to monetary affairs.

A similar research by Rasoaisi and Kalebe (2015) concluded that the level of financial literacy was influenced by the genders of the individual so that male participants were found to be more financially literate than their female counterparts. Chaulagain (2017) investigated the relationship between the level of financial literacy and the behaviour of small borrowers using attitude as a measure of the association between the two. The



results showed that there was a significant relationship between the financial literacy and the behaviour of small borrowers. This study concluded that financial attitude and behaviour of small borrowers can be changed through financial literacy programmes. Loan uptake is a key factor in economic development and business growth or performance (Clarke, et al., 2010). Mach and Wolken (2012) found that businesses that do not have access to loans are more likely to go out of business than those that acquire loans. They concluded that loan uptake can be used as a major predictor of business failure. A study by Karlan & Zinman (2009), found that access to loans can promote business growth and well-being of a small business.

Another study by Essien and Arene (2014), compared informal loans and formal loans to examine the uptake of loans and the performance of small scale agro-based enterprises that had participated in the credit markets. The study found that though the majority of enterprises had obtained informal loans to formal loans, those few that took up formal loans performed better.

Buyinza and Bbaale (2013), in their study, stated that most of the firms in the Eastern African community faced loan constraints with only 37% of the firms taking up loans. However, the findings reveal that loan uptake by a business improves its performance in the long run. Apart from financial literacy, other factors that influence the use of borrowed funds in small businesses include lending policies social and economic factors such as gender, age, income levels, and the marital status of the applicants (Matlay, et al., 2006; Kilele, et al., 2015). Other constraints include collateral requirements and interest rates (Fatoki & Garwe, 2010; Thorsten, 2007; Chena, et al., 2018; Nkundabanyanga, et al., 2014).

The relationship between financial literacy and loan uptake in Businesses Kefela (2010) examined the extent to which consumer financial literacy training can be used to promote the uptake of loans and desirable financial behaviour. The study revealed that financial literacy is important in promoting a positive financial behaviour towards budgeting, saving, and the use of loans. A study by Oluoch and Kalui (2019) found that financial characteristics, lending procedures, and financial literacy and loan repayment policies significantly influenced the uptake of micro-loans by women enterprise groups in Kenya.

Abubakar (2015) looked at the level of financial literacy in Africa based on previous studies to assess how it impacts entrepreneurial behavior through the use of borrowed funds. Using correlational analysis, findings revealed that low uptake of loans is among the constraints limiting entrepreneurship development in Africa. The study also attributed the low uptake of loans to low levels of financial literacy in MSMEs. Similar findings were also established in a study by Komitu and Kidombo (2019) on the determinant of financial loan uptake among women owned self-help group projects in Kenya. These findings were consistent with the conclusion by Hussain, et al. (2018) that financial literacy was key determinant of effective decision making by owners of SMEs.



Everlyn (2016) who conducted a study on micro and small enterprises in Kakamega county of Kenya found that a small percentage of MSE owners in that area attended training on financial literacy due to lack of awareness on training programs.

Various studies have established that financial literacy has positive effects on the financial performance of small business (Adomako & Danso, 2014; Chepngetich, 2016; Bongomin, et al. (2017). Chenea, et al. (2018) investigated the effect of loan uptake on the performance of smallholder farmers in the Kumba Municipality, Cameroon. The findings revealed that collateral security, cost of credit facilities, and knowledge of financial procedures had a significant impact on the performance of smallholder farmers.

Another study by Siekei, et al. (2013) in Zambia that focused on the role of financial literacy on the performance of a small and micro enterprise, also indicated that debt management, saving, budgeting, and record keeping had a significant improvement in revenue performance of small enterprises. This study further revealed that managers that had attended financial literacy

programmes had exhibited improved performance through the uptake of loans and better management of their loan portfolios. Ngek (2010) in Zambia concluded that most SMEs are financially constrained and recommended that business owners must needed to develop their financial literacy skills to bridge the access to the finance gap.

Gondwe (2012) identified low uptake of loans as a major constraint to the development and growth of MSMEs in Zambia. Among the many variables that influence business growth and sustainability and ultimately contribute to economic health is financial literacy (Atkinson and Messy, 2012; Abubakar, 2015; Hussain, et al., 2018). Atkinson and Messy (2012) stress that financial literacy enables business owners to make proper financial decisions and actions.

2.6 Research Gap

The literature presented in this chapter shows that the majority of studies that have been conducted on the importance of financial literacy among SMEs were conducted outside Zambia. Besides, the few studies that have been conducted locally were somewhat vague as they did not specify some of the major benefits of financial literacy in business and the extent to which SMEs were aware of this did not come. Therefore, this study seeks to bridge this gap by conducting a comprehensive study to investigate the impact of financial literacy on the performance and success of Small and Medium enterprises using New Soweto market as a case study.

III. Chapter Three

Research Methodology

3.0 Introduction

This chapter provided the detailed research methodology that was adopted in the study. It addressed the research design, population and sampling design used in the study. The chapter further discussed the data collection methods, research procedures and data analysis methods that will be implemented.



3.1 Research Design

A research design as described by (Kothari, 2004), is the arrangement of conditions for collection and analysis of data in a manner that aims to give bearing and relevance to the research purpose with economy in procedure. It is a plan that provides the overall framework for the collection of data for a study. That is, it is a plan for selecting subjects, research sites, and data collection procedures to answer the research question to provide credible results. (Mafuwane, 2012) define research design as a strategic framework for action that serves as a bridge between research questions and the execution, or implementation of the research strategy. It is a time-based plan that guides selection of sources and types of information all based on the research questions (Cooper & Schindler, 2014).

The suitable research design for a study is one that minimizes bias, maximizes the reliability of data to be collected and in line with the purpose of the study. Different research designs can be conveniently categorized as either research design in case of exploratory research studies with major emphasis on the discovery of ideas and insights; research design in case of descriptive and or diagnostic research studies with main aim of explaining characteristics associated with population or determining the frequency with which something occurs or its association with something else; and research design in case of hypothesis-testing research studies also known as experimental studies and focuses on causal relationships between variables. The research design that will be employed in this study was descriptive survey that is unrestricted which as defined by (Devin, 2015) is an attempt to explore and explain a topic in the dark while creating a fuller picture of the topic.

That is, it seeks to answer questions such as who, what, where and how to any provided topic. This design is selected for the study because it allows for obtaining numerical and structured description of the population and will give clear understanding of financial literacy and how it affects the performance and success of SMEs in New Soweto Market

3.2 Research approach

The research used a mixed method approach which entailed the use of both quantitative and qualitative research methods. This is because the study findings contained both measurable variables and also non-numerical data like quotes from respondents. Also, mixed methods give a voice to study participants and ensure that study findings are grounded in participants' experiences (O'Leary, 2010). Saunders and Lewis (2016) define mixed method as the approach usually associated with the social constructivist paradigm which emphasis the social constructed nature of reality. It is about recording, analyzing and attempting to uncover the deeper meaning and significance of human behaviors and experience, including contradicting beliefs, behaviors and emotions (Lewis, 2016). Researchers are interested in gaining a rich and complex understanding of people's experience and in obtaining the information which can be generalized to other larger groups. Consequently, using both methods will help the researcher in two major ways. Firstly, the researcher was guaranteed of high levels of consistency of

assembled data. Also, the researcher was able to obtain painstaking data on financial literacy and how it affects the performance and success of SMEs in New Soweto Market.

3.3 Study population

The study was carried out at Soweto market in Lusaka province. According to the USAID (2019), every day, over 5,000 traders converge at the New Soweto market in Lusaka, Zambia's largest market.



Figure 2 New Soweto Market

Source: Lusaka Maps, 2026

3.4 Study sample

Johnson (2000) defines target population as a group of people with rich information about the topic under investigation. The target population in this study was the traders at New Soweto market.

3.5 Study sample

Every day, over 5,000 traders converge at the New Soweto market in Lusaka (Zamstats, 2020), the researcher employed the Polit formula to come up with the appropriate sample size for the study:

$$n = \frac{N}{1 + Ne^2}$$

Where n = number of respondents, N = total population and e = error margin/margin of error Given N = 5, 000 and e = 10%



$$n = \frac{5,000}{1+5,000(0.1)^2}$$

$$= \frac{5,000}{1+5,000(0.01)}$$

$$= \frac{5000}{1+50}$$

$$= \frac{5000}{51}$$

$$= 98.039$$

Therefore, the sample consisted of 98 participants

3.6 Sampling Technique

Sampling technique is a statistical method of selecting the sampling unit that would be representative of the population in study. It can be classified into probability and non-probability sampling (Krishnaswami and Satyaprasad, 2019). Probability sampling is further described as a sampling process that utilizes some form of random selection where each unit has an equal chance of being selected in the sample. Non-probability sampling on the other hand is a process where probabilities cannot be assigned to the units objectively (Barreiro and Albandoz, 2019). In this research, a simple random sampling was used to select a sample from the SMEs at New Soweto Market in Lusaka. Simple random sampling will be used in this study because to the best of my research, there is no estimated criterion for grouping or segregating the SME's.

3.7 Data Collection Methods

There are a variety of data collection tools available to researchers depending on the type of data to be collected. The two types of data are primary data which are collected afresh and for the first time, and thus happen to be original in character and the secondary data, on the other hand which are those that have already been collected by someone else and which have already been passed through the statistical process (Kothari, 2004). This research used primary data to answer the research questions through distribution of questionnaires to respondents. The questionnaires were structured with questions that provided the data on the performance of the enterprise and the level of financial literacy. The rationale behind the structure of the questionnaire was to limit the answers to those relevant to the area of study.

3.8 Research Procedures

Pilot testing also known as pretesting is the preliminary application of data collection tools to determine how adequate and relevant it is in providing evidence of a research study (center for evaluation and research, 2011). It is also important as it evaluates the interest of respondents. In this study, pre-testing of the questionnaire was conducted to ensure the validity of the research instrument. The pre-testing will ensure that necessary revisions will be made and modification prior to the actual study.



3.9 Data Analysis Methods

Cooper and Schindler (2014), defined data preparation or analysis as the processes that ensure the accuracy of data and their conversion from raw form into classified forms appropriate for analysis. After data collection, data analysis is carried out by completing the steps of questionnaire checking, editing, coding, transcribing, data cleaning, adjusting the data and selecting a data analysis strategy to gather sense or meaning from the data collected and the final information can be tabulated in the form of graphs and pie charts. The data that was collected in this study was analyzed using quantitative methods of analysis because of the nature of the data. The quantitative data was analyzed using both descriptive and inferential statistics and was presented in both tabular and graphical form. The Statistical Package for Social Sciences (SPSS) software and EXCEL was used to make these analyses.

3.10 Ethical Considerations

During the conduct of this research, much attention was given to the understanding and application of the ethical codes outlined by the American Psychological Association (APA). Thus, the research design and methodology, and the general acceptability of the study in terms of ensuring that the gains of conducting this study, far outweighed the losses of not carrying it out were all taken into consideration. It must be stated emphatically that, during the participants' selection and recruitment, tactful persuasion and diplomacy was employed to get participants participate in the research. No amount of coercion was used on participants to take part in the research. Moreover, no inducement of any kind was used to secure participants for this research. All participants will be SMEs from New Soweto market in Lusaka who willfully and voluntarily decide to take part in the research.

Ethical standards were achieved by first seeking formal permission from the SMEs from New Soweto market to use their business information for an academic research. Information sheets will be provided to each participant, outlining the purpose, aims, risks, extent of anonymity and confidentiality, institutional approval and assented informed consent for the research. The extent of anonymity and confidentiality were explained to participants. This was done by participants being told clearly that the research will not seek any information such as names and telephone numbers, and that research data will not be disclosed to anyone except those involved in the research project. To ensure confidentiality, all interviews were conducted within a confined space containing only the interviewer and the interviewee. Recording of interviews was also be consented to by participants. They were informed about the risk involved in taking part in the research as well as informed explicitly of their freedom to withdraw from the research at any time without penalty



IV. Chapter Four

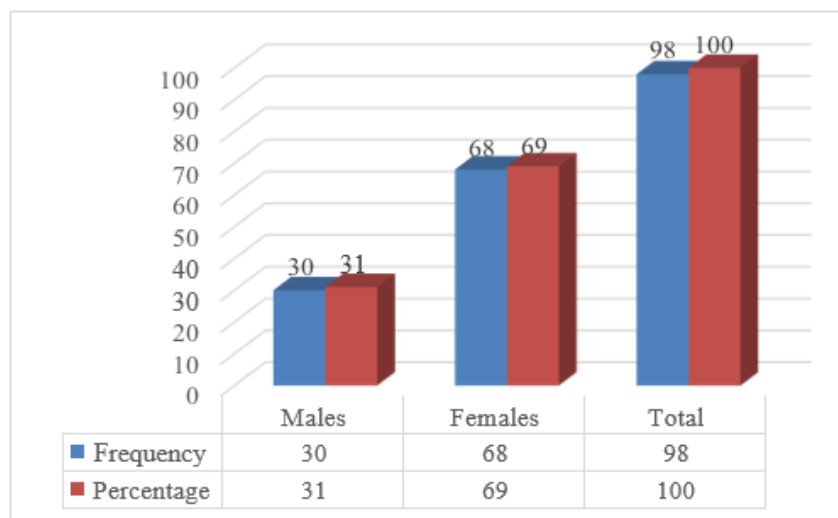
Data Presentation And Interpretation

4.0 Overview

This chapter presents findings obtained from the population used and studied. Data was collected through questionnaires. The goal of data analysis is in the end be able to provide evidence in response to the research questions and their corresponding objectives formulated to assist in analyzing the overall objective of this study. This study aimed to investigate the impact of financial literacy on the performance and success of Small and Medium enterprises. This chapter present and interpret the gathered information based on specific objectives. The finding were then discussed to determine congruence or disagreement with the reviewed literature. The sample for this study was 98 respondents and all the respondents participated.

4.1 Presentation of results on background characteristics of the respondents

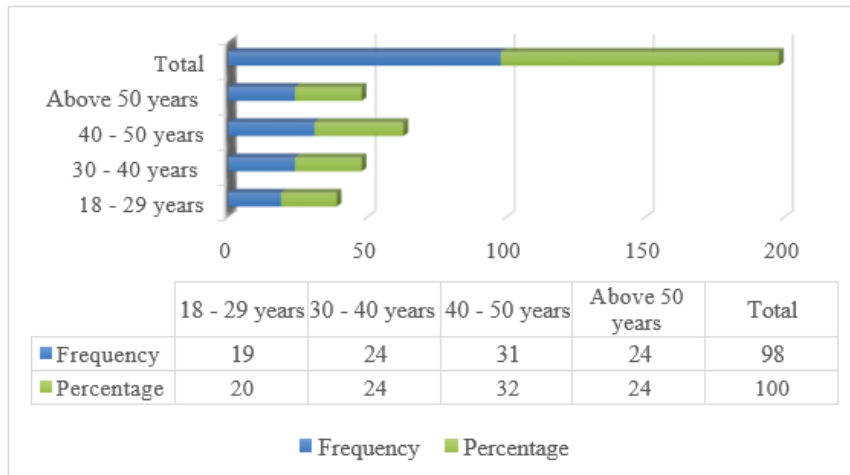
Figure 3 Respondents Gender



Source: Field Research, 2026

The results in figure 3 showed that from the interviewed respondents 68 were females and this was represented by 69% and 30 were males and this was represented by 31%. The results in the figure above implies that majority of the traders at Soweto market Are females compared to males.

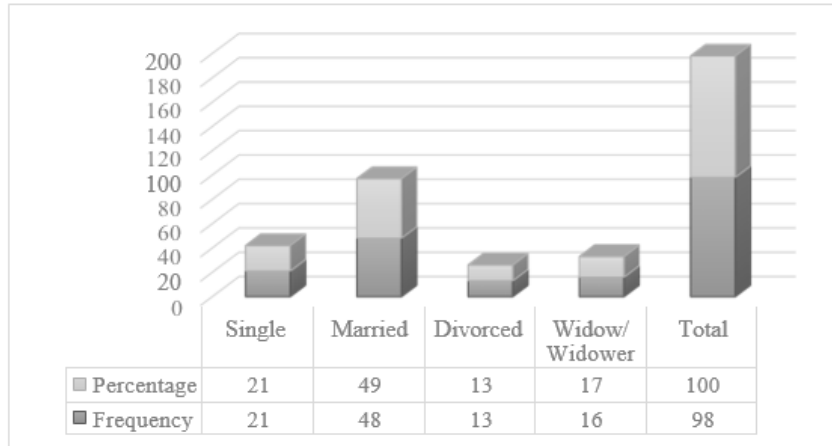
Figure 4 Respondents Age Group



Source: Field Research 2026

The results in figure 4 show the respondents age group, the results showed that 19 of the respondents were aged between 18 and 19 years and this was represented by 20%, 24 of the interviewed respondents were aged between 30 and 40 years and this was represented by 24%, 31 of the other respondents out of the total 98 were aged between 40 and 50 years and this was represented by 32% percent, the other 24 respondents out of the total 98 were above 50 years and they were represented by 24%. This information implies that majority of the traders at Soweto market are aged between 40 and 50 years old.

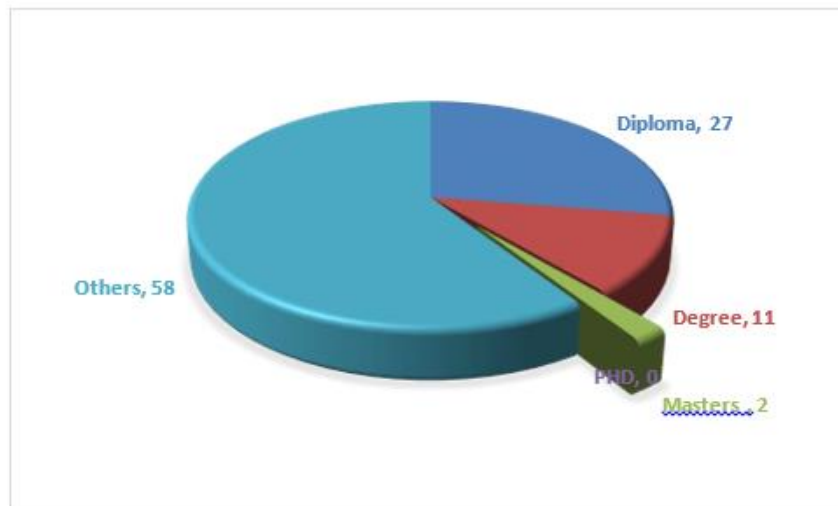
Figure 5 Respondents Marital Status



Source: Field Research 2026

Results in figure 5 shows the respondent’s marital status, the results showed that 21 of the respondents were single and this was represented by 21%, 48 of the respondents were married and this was represented by 49%, 13 of the respondents were divorced and this was represented by 13%, 16 of the respondents were either widows/widowers and this was represented by 17%. The results imply that majority of the traders at Soweto market are married and feed their families through the profits they make from Soweto market.

Figure 6 Respondents Level of Education

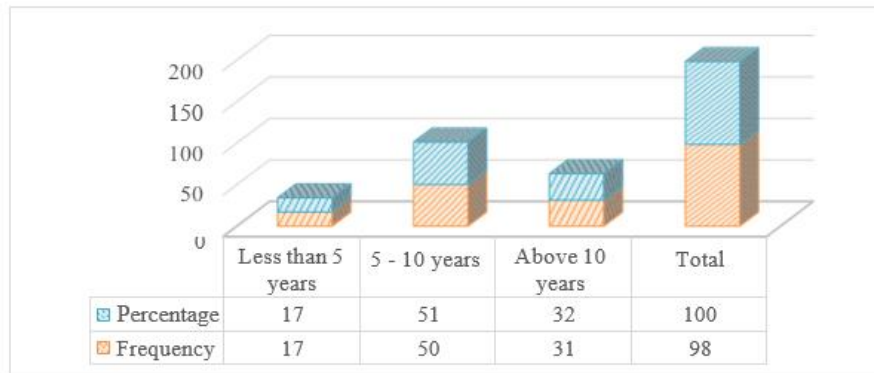


Source: Field Research 2026



The results in figure 6 show the respondents level of education, the results showed that majority of the respondents have unidentified level of education, others said they just have grade 12 certificates while others were still in school. 27 respondents out of the total 98 had diplomas and this was represented by 28%, 11 respondents had degrees and this was represented by 11%, only 2 of the respondents advanced their studies and obtained master's degree and this was represented by 2%.

Figure 7 Respondents Duration at Soweto Market



Source: Field Research 2026

Figure 7 shows the respondent's duration at Soweto market, the results showed that 17 of the respondents have been at Soweto market for not more than 5 years and this was represented by 17%, 50 of the respondents have been at Soweto market between 5 – 10 years and this was represented by 51%. 31 of the respondents have been trading for over 10 years and this was represented by 32%. The results implied that majority of the interviewed respondents have been trading at Soweto market for over 5 years but not more than 10 years.

4.2 Presentation of results based on a thematic area developed from objective one

4.2.1 Financial Knowledge

The researcher sought to investigate the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market. The researcher asked respondents questions regarding finance and gave them a number of options from which they were to provide answers.



Table 1 Source of capital to start a business

Source of Capital	Frequency	Percentage (%)
Loan from the bank	6	6
Loan from micro finance institution	15	15
Loan from locals (kaloba)	8	8
Personal savings	46	47
Government grants	23	24
Total	98	100

Source: Field Research 2026

Findings from the collected data as shown in table 1 indicated that majority (47%) picked personal savings, followed by Government grants at 24%. The next source was loans from financial institutions at 16%, then loans from locals was represented by 8% and lastly it was loan from bank tied at 6%. From the findings it can be seen that most SMEs depend on personal savings as a source of capital, some reasons for this were identified, it was pointed out that it was not easy to access bank loans, and family and friends were not available most of the time. Personal savings was unpopular because the amount of profit earned simply was not enough for distributing profits and retaining for capital use, it would have to be one or the other and most chose the former. Respondents pointed out that private funding has its limitations as it is not easy to raise enough to expand operations. Findings showed that In general there appears to be an inability to secure formal sources of funding.

Table 2 Diversification of money

STATEMENT	Response/Frequency	Percentage (%)
Money should be put into one business or investment, or to put into multiple businesses or investments.	Strongly Agree (98)	100
Total	98	100

Source: Field Research

Results as per table 2 show that show that all respondents were in agreement with the researchers assertion where they chose multiple ventures These findings indicate



respondents understood the importance of diversification as a way to minimize risk and expand operation.

4.3 Presentation of results based on a thematic area developed from objective two

4.3.1 Financial Behaviour

The study intended to determine the effects of financial behavior on the performance of SMEs. To answer this objective the researcher prepared questions in which respondents were to answer in the form of a five point Likert scale where 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, 5= strongly agree. The questions were structured based on behavior with regards to the following; retirement planning, planning and budgeting, record keeping, management of debt, and savings.

Table 3 Budget and Planning

Statement	Response/Frequency	Percentage (%)
I always write what I want to achieve in a term for my business	Disagree (28)	28
My long-term financial goals influence the managing of my expenses	Agree (19)	19
I follow a weekly or monthly plan for expenses	Disagree (27)	28
I prepare budgets to help me monitor my performance	Disagree (24)	25
Total	98	100

Source: Field Research 2026

According to the results of the study when it came to preparation of written financial objectives that the business intends to achieve, long-term financial plans that influence expenses management, adhering to a regular interval plan for expenses and preparing budgets to assist in monitoring performance most of the respondents were unsure on how to go on about it. The implication of this is that the majority of SMEs didn't have in place an effective mechanism for

planning and budgeting and thus there is needs to teach them about all they stand to gain from planning and budgeting.



Table 4 Debt Management

Statement	Response/Frequency	Percentage (%)
Me not knowing management skills have enabled me not access various sources of finance for my business	Disagree (18)	18
I know the effect of inflation and interest rates on the loans I borrow for my business	Strongly Disagree (38)	39
I know the effect of inflation and interest rates on the loans I borrow for my business	Strongly Disagree (42)	43
Total	98	100

Source: Field Research 2026

Results showed that the majority of respondents were not sure about skills in managing debts that would enable them to have access to a variety of sources of finance for their businesses and other issues such as understanding how inflation affects interest rates on loans taken, determining accurately the position of total debt and being able to access finance at the lowest cost possible, this is illustrated in table 4. From the findings it can be seen that there is a need for educating SMEs and management of debt and its benefits

Table 5 Savings

Statement	Response/Frequency	Percentage (%)
I save a portion of my business monthly income	Not Sure (33)	34
I save a portion of my business monthly income	Agree (28)	28
I plan to use my savings for future growth of my business	Not Sure (37)	38
Total	98	100



Source: Field Research 2026

The researcher asked respondents if they retained a portion of business income for saving from time to time, saved to reduce reliance on credits and planned to use savings for future growth of the business. The findings show that most of the respondents were not sure with regards to the matter. This is presented in table 5.

Table 6 Record Keeping

Statement	Response/Freq uency	Percentage (%)
I prepare financial statements for the business (income statement, balance sheet)	Strongly Disagree (30)	31
I can perform financial Analysis on the business financial statements (gross profit margin, net profit margin, current ratio)	Disagree (21)	21
I have adequate knowledge on how to maintain and balance ledger accounts	Disagree (22)	22
My decisions are guided by information from my financial statements	Disagree (25)	26
Total	98	100

Source Field Research

The researcher inquired to respondents about record keeping, findings showed that the majority of respondents did not maintain financial statements for the business and this was represented by 31%; nor did they carry out financial Analysis on the financial statements of the business this was represented by 21%. Respondents were uncertain on whether they had adequate knowledge and ability to maintain and balance ledger accounts and this was represented by 22% and their financial decisions following financial statements reports which was represented by 26%.



Table 7 Retirement Planning

Statement	Response/Frequency	Percentage (%)
My long-term financial decisions are influenced by my retirement plans	Disagree (35)	36%
I am familiar with basic economic concepts that are needed to make sensible saving and investment decisions	Not Sure (30)	31
I have another source of income apart from my business	Agree (17)	17
I plan to continue this business even in the later future	Agree (16)	16
Total	98	100

Source: Field Research 2026

The researcher sought to establish respondents views regarding retirement planning, according to the findings the majority of respondents said that their long-term financial decisions were not influenced by plans for retirement and this was represented by 36%, however respondents were not certain they were familiar with basic economic concepts required in making investment and saving and this was represented by 31%, diversification of sources of income not relying on main business only was represented by 17%, and having long term plans for the business was represented by 16%.

4.3 Presentation of results based on a thematic area developed from objective three

4.3.1 Financial Attitude

This study also had intentions of investigating the impact of financial attitude on the performance and success of Small and Medium enterprises at New Soweto market. In response to this objective the researcher created a set of questions to be answered by respondents. These questions required answers to be given in a form of a five point



Likert scale where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5= strongly agree. The researcher structured questions to follow financial attitude.

Table 8 Financial Attitude

Statement	Response/Frequency	Percentage (%)
It is important to control monthly expenses	Strongly Agree (31)	32
It is important to establish financial targets for the future	Not Sure (26)	27
The way I manage my money today will affect my future	Not Sure (12)	12
Preventing risk ensures security of my business	Not Sure (8)	8
I have participated in training programs for financial skills	Strongly Disagree (21)	21
Total	98	100

Source: Field Research 2026

With regard to financial attitude the researcher was able to establish from respondents' responses that they thought establishing financial targets for the future was very important and this was represented by 32%. respondents were not certain if controlling monthly expenses was important and this was represented by 27% and whether the way respondents managed money today affected their future and this was represented by 12%, respondents did not really understand the risk return theory and this was represented by 8% and participation in training programs for financial literacy was not understood by the respondents was represented by 21%. These are illustrated in table 4.19

V. Chapter Five

Summary, Conclusions And Recommendations

5.0 Introduction

In this chapter a summary of the findings from chapter four is provided, as well as the conclusion of the findings and recommendations of the study based on the findings from research questions.



5.1 Summary of Findings

The general objective of this research was to investigate the impact of financial literacy on the performance and success of Small and Medium enterprises. The study aimed to investigate the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market, to investigate the impact of financial behavior on the performance and success of Small and Medium enterprises at New Soweto market and to investigate the impact of financial attitude on the performance and success of Small and Medium enterprises at New Soweto market.

Descriptive research method was employed for the research; the researcher collected primary data through questionnaires to a sample size of 98 respondents to answer research questions. This research design helped in observing the effects of financial knowledge, financial behavior and financial attitude on the performance of small and medium enterprises at Soweto market. The study involved samples drawn from SMEs at Soweto. Non Probability sampling was used to purposely and conveniently select respondents to collect data.

In order to analyze the impact of financial literacy on the performance of SMEs the researcher employed descriptive and inferential statistics techniques. The findings were analyzed by employing correlation, linear regression analysis of variance, cross tabulations and frequency distribution. The researcher carried out a correlation analysis so as to determine the relationship between the independent variables financial attitude, financial behavior and financial knowledge with the dependent variable performance of SMEs. The Statistical package for the social sciences (IBM SPSS version 20) statistical software and micro-soft excel were used in carrying out these analyses.

5.1.1 Effects of financial knowledge on performance of SMEs at Soweto Market

The results from analysis of findings have shown that most respondents had sufficient knowledge of financial matters as the majority of them were able to answer correctly questions that were intended to test their financial knowledge, these questions were adopted from the financial literacy questionnaire by (OECDINFE, 2011). Although their knowledge is encouraging it is not at the top level as they failed to answer correctly a significant portion of the questionnaire. Research results from a prior study by Robb, (2014) argued that financial knowledge has a positive influence on financial behavior. Those findings seem to contradict findings of this study whereby although most respondents correctly answered the financial knowledge questions, it has not had the desired effect on financial behavior. Respondents' financial behavior and practices lie in the neutral range. The financial knowledge that individuals have is not being put in practice.

Results showed that most respondents (47%) preferred to use private saving to finance their businesses. Such preference follows the assumptions of the pecking order theory. According to the pecking order theory at early stages of operations, internal source of capital are preferred by entrepreneurs, once those are exhausted they move on to external credit and lastly stock market (Densil, 2010). Due to inherent constraints imposed on SMEs in securing funding from formal sources of finance, SMEs turn to informal sources of finance to address their financial requirements (Charan and Kishinchand, 2016). The findings revealed that 24% of the respondents got government



grants 11% would use retained earnings. There were some who went for formal sources where 24% used micro finance loans.

The findings also showed that respondents understood the importance of diversification as a way to minimize risk and expand operation.

5.1.2 Effects of financial behavior on the performance of SMEs at Soweto Market

The second objective of the study was to investigate the impact of financial knowledge on the performance and success of Small and Medium enterprises at New Soweto market, findings showed that despite the good scores that the majority of respondents had on financial knowledge, there are lots of uncertainties when it came to translating that knowledge into practical application as shown by a mean response of neutral (3.0 – 3.9) on majority of questions regarding financial behavior. These findings are at odds with findings from a study conducted by Potrich et al., (2016), whereby they came to the conclusion that there is a positive effect on financial behavior caused by financial attitude and financial knowledge. However findings in this study did not support those prior findings whereby in this study although scores of financial knowledge were high their opinions on financial behavior were neutral.

Findings indicated that most respondents indicated a lack of consistency with regards to certain aspects of financial behavior such as preparation of written financial objectives, preparation of periodic budgets and monitoring business performance through them. This is in congruence with Findings from a study by Sucuahi, (2013) who pointed out that cash flows rather than budgeting was the focus of small business owners. similar to findings of this research it was found that although it has been argued that planning and budgeting minimizes losses and maximizes profits owners of small and medium enterprises are not consistent with them. However these findings were in contradiction with findings by Kalekye and Memba, (2015) who found that SME owners monitor the performance of their firms through budgeting.

When it came to literacy about debt management, results of the study indicated that the majority of respondents who were SMEs owners were unsure. According to the findings SME owners had difficulties accessing several means of finance, did not have sufficient knowledge with regards to the effects of inflation and interest rate. Also respondents had trouble making accurate computations. These results are in line with results from a study by Plakalovi, (2015) as well as findings from a study conducted by Assibey (2010) to examine reasons for SME managers being unable to secure finance for their businesses, findings from these prior literature found that the majority of owners and managers of small and medium enterprises lack basic numerical skills and are unable to do calculations accurately especially females, elders, and lower literacy population. The findings of this study contradicted the findings by Sucuahi, (2013) which found that 57 small and medium entrepreneurs were in full awareness with regard to the aftermath impact of managing debt poorly in dealing with interest rates and inflation.

Tali, (2016) argued that in order for one to understand financial literacy and build positive financial attitude and financial behavior it is important for them to get involved



in money saving practices. According to Behrman et al. (2012) financially illiterate individuals normally show an inability to save. However, a study by Mandell and Klein (2009) opposes these conclusions and argue that being financially literate is not synonymous with saving orientation and doesn't automatically

result to better financial behavior. Results of this study show that for the majority of respondents the level of literacy on savings was moderate as most of them were neutral when it came to saving behavior, respondents did understand that in order to expand operations or to conduct business smoothly it was important to retain a portion of earnings and save the money for these purposes.

The results showed that the majority of respondents did not maintain or keep financial records in the form of financial statements (statement of comprehensive income, statement of financial position) and this was represented by 31% and did not conduct financial performance analysis on the financial statements of the business this was represented by 21%. Financial records were informally kept. These findings are in line with several studies in prior literature (Kalakye and Memba, 2015; Sucuahi, 2013) that noted that notebooks instead of ledgers and journal were used to record transactions by SME managers. Findings of the study also showed the level of respondents' knowledge with regards to maintaining and balancing ledger accounts was little and this was represented by 25% and could use information from financial statements to make decisions.

Individuals with sufficient levels of financial literacy are better at planning and saving for retirement (Leora et al., 2015). This however was not necessarily the case for the majority of respondents in this study who did not agree that their long term financial decisions were made keeping in mind plans for retirement were represented by 36%. A study Drexler et al., (2015), discovered that in the US small entrepreneurs their understanding capacity of 58 basic financial concepts was very poor, this resulted in them being unable to make good retirement plans. Findings of this study are in agreement with those of Drexler et al, as results revealed that the majority of respondents were uncertain if they had knowledge of economic concepts that would be helpful for their plans for retirement in terms of being able to make sensible decisions regarding investments and saving were represented by 31%. Also results show that apart from retained earnings most respondents did not have alternative sources of income and did not have retirement plans.

The future of a business can be negatively affected by a lack of financial skills and/or poor financial behavior (Sucuahi, 2013). In an environment of competition business owners with a good financial foundation are the key to growth and success of the business (Also Lusardi and Mitchell, 2007). There is a positive relationship between financial literacy and elements of financial behavior such as management of cash flow, management of debt, investment and saving practices that maximize benefits for SMEs (Grohmann et al., 2015). Results of this study concur with the above studies as they show that financial behavior has a significant impact on SMEs performance, whereby a variation of one unit in Financial Behavior would result in a variation of the performance of SMEs



5.1.3 Effects of financial attitudes on the performance of SMEs at Soweto Market According to Eagly and Chaiken, (1993) financial attitude refers to the psychological predisposition with regard to being in agreement or disagreement with certain practices relating to financial management. Successful people have high levels of financial literacy and because of that they invest with long term goals (Abiodun, 2016). Taking the above findings from previous studies into consideration it can be concluded in this study that the majority of respondents were successful because they invest with long term goals.

When it came to taking risks the majority of respondents in this study had neutral opinions. These findings are in disagreement with findings from a study by Abiodun, (2016) who stated that successful entrepreneurs had an appetite for risk, something that SME owners in this study did not share. Findings show that respondents didn't think that risk prevention ensures business security. Furthermore, according to the findings respondents believed being future oriented would promote efficient decision making and improve business performance. Elizabeth et al., (2008) argued that it is important to define and set long term financial targets and becoming future oriented. Results of this study however showed that respondents did not grasp that it was important to direct short term decisions towards long term financial objectives. These findings disagrees with the findings of Atkinson and Messy, (2012) who argued that making short term wants a priority at the expense of long term security creates an inability for people to save for contingencies that will serve their financial plans and growth in the long term. Individuals' attitudes with regard to financial training are an important determining factor of financial literacy as it provides an indication of the individual's willingness to go above and beyond to obtain financial knowledge and skills. A study by Carlin and Robinson (2010) discovered that individuals that had received training were to an extent better at making decisions with regard to cost-benefit tradeoff in comparison to those who hadn't received any training. Findings of the study showed that respondents had not received any training programs to obtain financial skills. These findings are in line with findings by Everlyn, (2016) who carried out a research on small and medium enterprises in Kakamega county of Kenya, the findings of that study discovered that because of lack of awareness on training programs only a very small portion of SME owners participated in training on financial literacy.

5.2 Conclusions

5.2.1 Effects of financial knowledge on performance of SMEs at Soweto Market

From the findings the researcher concludes that the majority of SME managers have a certain degree of knowledge with regards to fundamental concepts relating to matters of finance as most respondents were able to provide accurate responses to questions with regards to financial knowledge. However, respondents did not know many different sources of finance, to the majority personal funds were the go to sources and there was reluctance to seeking formal sources of finance such as bank loans. The researcher concluded that financial knowledge doesn't automatically result in improvement in SMEs performance. Financial knowledge requires being converted into practical application so as to obtain profits.



5.2.2 Effects of financial behaviour on performance of SMEs at Soweto Market

From the findings of the study, the researcher concluded that the performance of small and medium enterprises is significantly determined by financial behavior. The findings however show there is poor initiatives of transforming good financial behaviors into practices that would be of benefit to their businesses. Factors such as planning for retirement, saving, management of debts, record and planning and budgeting are scarcely applied in their businesses.

5.2.3 Effects of financial attitudes on performance of SMEs at Soweto Market

From the findings it was revealed that the performance of SMEs is greatly influenced by financial attitudes of SME managers. However, the findings showed that the attitude of SME managers and owners in regard to their financial activities was very poor. This was observed through a lack of enthusiasm to long term goals; being unable to take risks, lack of interest in participating in training programs to improve their financial skills even though they are well aware it is important to direct short term activities towards long term business goals.

5.3 Study Recommendations

5.3.1 Effects of financial knowledge on performance of SMEs at Soweto Market

Taking into consideration the above conclusions, the researcher recommended that there should be efforts from banks, microfinance institutions as well as government agencies in an attempt to improve the literacy levels of entrepreneurs organize financial education programs so as to improve the awareness of SME managers on various matters of finance including but not limited to proving knowledge about the various sources of finance for businesses in their infancy. The outcome of such initiatives would be the expansion and growth of SMEs especially in areas where they had previously struggled. If financial education programs will be initiated not only will it result in improvement in enterprise growth but also the national economy since the contribution of SMEs to the general economy is significant.

5.3.2 Effects of financial behavior on performance of SMEs at Soweto Market

The findings of the study indicated that there is a significant contribution of financial behavior towards SMEs performance. Based upon that revelation the research recommend an increase on all forms of awareness towards planning and Budgeting, managing debts, keeping records saving and making retirement plans. Topics in those areas should be taught in schools and other institutions that provide education with the goal of promoting financial literacy and its practices.

5.3.3 Effects of financial attitudes on performance of SMEs at Soweto Market

The findings of the study showed that there is a positive relationship between financial attitude of SME owners and managers and the performance of small and medium scale enterprises. It is obvious then that there is a need to encourage the right attitude from managers if they are to perform exceptionally. When the attitude is positive it will result in an individual displaying positive behavior, this will lead to improvement, expansion and growth of SMEs.



5.4 Recommendation for further studies

This research investigated financial literacy with a special focus on the elements of financial literacy which were financial attitude, financial behavior and financial knowledge. In the future prospective researchers may focus on testing different variables that were not investigated in this

study. The researcher analyzed findings from data collected from small and medium scale enterprises operating at Soweto Market; the findings provide an accurate description of firms operating in the municipal but it cannot be said with absolute certainty that the views of SME owners at Soweto market are the same for the rest of the country. That being said then there is room to carry out the same study but in a different population so as to see whether the results are the same or they vary.

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