



Financial Literacy and Financial Inclusion as Tools to Enhance Small Scale Businesses' Performance in Southwest, Nigeria

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Research Article

Abstract

Purpose: The study sought to examine the impact of financial literacy and financial inclusion on small businesses' overall performance with special reference to Southwest Nigeria.

Methods: Descriptive survey research sketch was adopted for this study, while the purposive sampling method was employed to choose forty small scale businesses registered with SMEDAN from each state capital of South Western of Nigeria that engaged in petty trading, bakeries, block-making, soup-making, tailoring, and agro-allied, totaling 240 participants as a sample size for the study. Data were collected by using a closed-ended questionnaire designed for the study, while simple percentage, mean, standard deviation, Pearson Product Moment Correlation (PPMC), and Ordinary Least Square (OLS) was used to analyze the data.

Results: The findings disclose that financial literacy and financial inclusion jointly and independently affect small businesses' performance. It revealed a positive and significant relationship between financial literacy and financial inclusion. However, the study depicts that majority of business operators did not have financial knowledge such as working capital management, accounting records system, financial reporting, cashbook maintenance, income statement, daily cash reconciliation, internal control on cash, and cash budget. Also, the study confirmed that the majority of small business entrepreneurs are financially excluded from micro-financing, emergency loans, employ purchase financing, business bank loans, and micro-insurance plan Services.

Implications: The implication of this study is that if the Central Bank of Nigeria partnership with other professional organizations to promote financial literacy and inclusion programs to all business entrepreneurs across the nation, it will motivate more business entrepreneurs in Nigeria to have access to finance.

Keywords: Financial Literacy, Financial Inclusion, Working Capital, Performance, Small Business.

1. Introduction

Recently, financial literacy and inclusion have been the main concern to policymakers, researchers, scholars, financial establishments, and government agencies across the globe (Odetayo, Sajuyigbe & Adeyemi, 2020; Khadijah & Wan 2019; Mashizha, Sibanda & Maumbe 2019). World Bank (2018) estimated that about 1.7 billion people lack a bank account. Among these who are unbanked, an enormous number have been women and poor people in rural areas and frequently those who are excluded from financial institutions face discrimination and belong to inclined or marginalized populations. According to Bongini and Zia (2018) and Odetayo, Sajuyigbe, and Adeyemi (2020), financial literacy and inclusion have been made a priority with the aid of quite a few governments in developed and emerging economies to deal with financial bottleneck, especially amongst the small enterprise operators. It has been argued that financial literacy and financial inclusion are the key factors that impact on the success of small businesses globally (Iriboe, Akinyede & Iriobe, 2017). The low ranges of financial literacy and exclusion of entrepreneurs influence the small businesses' ability to grow and achieve sustainable results. In line with this assertion, Karadag (2015) also affirmed that terrible financial administration and knowledge, and exclusion are the essential elements responsible for SMEs' failure. Njoroge (2013) also argued that financial literacy and inclusion is the key ingredient to personal finance success and the growth of small scale businesses, and it has attracted growing attention in the developed and growing world due to its function in the economic decision (Njoroge, 2013).

Numerous nations, Nigeria inclusive, have embarked on programs and policies to promote a higher rate of financial literacy and inclusion among their citizens. For instance, the Nigerian government launched the National Financial Inclusion Strategy (NFIS) and Financial Literacy Framework (FLF) in 2012 and 2013 respectively to promote financial stability in the country. In line with the development, recently, the Central Bank of Nigeria in collaboration with Enhancing Financial Innovation and Access (EFInA) and the Nigeria Deposit Insurance Corporation (NDIC) has launched various initiatives programs aimed at promoting financial stability. The Central Bank of Nigeria also inaugurated the National Financial Literacy Conference in 2019 for stakeholders SMEs sub-sector throughout the nooks and cranny of the country to improve their financial skills (Osibogun, 2020).

In spite of these efforts to promote economic literacy and inclusion among entrepreneurs, the small scale businesses are still bedeviled for financial exclusion. Numerous studies on financial literacy and inclusion have been conducted in both developed and developing countries but none of the studies have jointly examined the influence of financial literacy and financial inclusion on small businesses' performance in the Southwest of Nigeria. Academically, there is a gap in looking at financial literacy and financial inclusion at the small business level. This research attempts to prolong this literature to small organizations with a South Western Nigeria study.

2. Research objectives

- I. Determine the extent of financial literacy and inclusion jointly and independently influence small scale businesses' performance.
- II. Examine the relationship between financial literacy, financial inclusion, and performance of small-scale businesses.

3. Conceptual Review

3.1 Financial Literacy

The current battle towards the financial illiteracy epidemic is being waged worldwide. In 2002 Japan's Central Council for Financial Services Information posted guidelines for a countrywide monetary literacy strategy. Similarly, the Financial Services Authority of the United Kingdom commenced a countrywide approach for monetary capability in 2003. Today, the importance of financial literacy has been identified by many countries, and efforts continue to enhance monetary training (<https://www.financialeducatorsCouncil.org>). Financial literacy has been seen with the aid of scholars, researchers from an extraordinary perspective. For instance, Pandey and Gupta (2018) considered financial literacy as a mixture of knowledge, competencies, and practice of economic products, concepts, risks, and regulatory and prison things to take the most fabulous finance-related decisions. Klapper, Lusardi, and Panos (2012) also considered financial literacy as a mixture of awareness, knowledge, skill, mindset, and behavior essential to make sound monetary decisions and eventually obtain character economic wellbeing. In the same vein, Lusardi and Mitchell (2013) described financial literacy as the ability of humans to procedure economic data and make knowledgeable selections toward business planning, wealth creation, and debt management. According to Khadijah and Wan (2019), financial literacy refers to the monetary information and skills which enable entrepreneurs to put into effect high-quality monetary administration techniques for their enterprises. In the study of Schuhen and Schürkmann (2014), financial literacy used to be summarized into three major pillars such as financial knowledge, attitudes, and behaviors. In the opinion of Usama and Yusoff (2019), financial literacy is the diploma to which entrepreneurs apprehend necessary monetary principles and processes the capacity and confidence to manage personal price range through appropriate, non-permanent choice-making and sound lengthy vary financial planning.

3.2 Financial Inclusive

The historical backdrop of financial inclusion around the globe shows that progress has been a long and ever-developing excursion to interface each person to fundamental monetary administrations. Starting in the late 1990s and mid-2000's numerous associations started to move from offering exclusively microcredit administrations to likewise offering fundamental access to financial services, for example, investment funds and insurance. As indicated by World Bank (2018), financial inclusion implies that people and organizations approach valuable and reasonable financial products and administrations that address their issues – exchanges, installments, investment funds, credit, and protection – conveyed in a capable and practical

manner. Aduda and Kalunda (2012) characterized financial inclusion as a technique that guarantees the comfort of access, accessibility, partner degreed use of the formal monetary set-up for all individuals from an economy. It is a state wherein all individuals approach fitting, wanted financial products, and administrations so as to deal with their cash adequately.

A community for Financial Inclusive (2015) likewise characterized it as a state in which all who can utilize account approach to a full set-up of value money related administrations, gave at moderate costs, in a helpful, way and with respect for the customers. African Development Bank (2013) conjointly considered financial inclusion to be as "all activities that make financial services available, open, and modest to any or all portions of the populace". Banco Central do Brazil (2010) detailed that financial inclusion is considered as a privilege of all residents to social inclusion, a higher caliber of life, and an apparatus for reinforcing the budgetary ability and capacities of the poor countries. Along these lines, financial inclusion assists to make financial products and services available and reasonable to all people and organizations, paying little heed to their own total assets or organization size. Financial inclusion endeavors to evacuate the hindrances that bar individuals from taking an interest in the budgetary segment and utilizing these services to improve their lives.

3.3 Small Scale Businesses

There is no widespread adequate meaning of small scale businesses, as various countries, schools of thought, researchers, and writers defined it, utilizing various terms, for example, size of the firm, capital utilized, number of employees, market share, and yearly turnover, etc. The Small Business Administration of America (SBAA) characterized small businesses as a business with a yearly turnover of \$3 million or less, with employees under 30. In Britain is a business with a turnover of £2 million or less, with 25 paid workers. The World Bank Bulletin (2015) characterized small businesses as any business with fixed assets in addition to the cost of the venture not surpassing \$5 million. The European Union by and large characterized small businesses as one that has less than 50 workers. In any case, in Australia, an independent venture is characterized by the Fair Work Act, 2009, as one with less than 15 employees. As per Central Bank of Nigeria credit guidelines (2017), small businesses are enterprises with speculation whose capital base doesn't surpass ₦5 million or whose turnover not more than ₦25 million of every a year. While Companies and Allied Matter Acts (2004) characterized a small business as an enterprise with a yearly turnover of not more than ₦2 million or net assets not more than ₦1 million. In a similar vein, the National Council of Industry in 2001, characterized small business as an undertaking with 11-100 laborers and total cost not in excess of fifty million nairas. Small businesses assume a significant job in business creation, asset utilization, income generation, and poverty alleviation. The establishment of small-scale businesses helps the individual to be self-reliance, as well as help the country to achieve its ivory tower.

3.4 Business Performance

The concept of performance has increased expanding consideration in ongoing decades, being unavoidable in practically all circles of the human activities. The estimating business

performance has pulled in the impressive discussion, however to date, there is no accord on measures of performance. For instance, Didier (2002) accepted that the business performance comprises "achieving the objectives that were given to you in the intermingling of big business orientations". Vincent, (2014) likewise characterized business performance as a steady component of outcomes and results, which produces dependable information on the achievement and adequacy of an arranged effort. Yadav (2015) similarly portrayed business performance as a focal wonder in business philosophies and furthermore a multifaceted marvel. Neely (2002) likewise contended that business performance ought to consider measuring the productivity and viability of activities. This evaluation can be communicated both subjectively and quantitatively. Bourguignon (1995) called attention to the that "performance ought to be characterized as the sum of the impacts of work since they furnish the most grounded relationship with the organization's vital targets, the consumer loyalty's and the economic contributions" According to Hartenian and Gudmundson (2000), business performance was estimated through the financial objectives of the organizations, for example, quantifiable profit, sales turnover, and profitability.

4. Theoretical Review

The supporting theory of this investigation is financial literacy theory, on the grounds that earlier examinations have connected financial literacy theory to financial practices, such as working capital management, accounting information system, financial reporting, cashbook maintenance, and income statement, internal control on cash and cash budget, debt and saving behaviors, participation in financial markets. (Rathnasiri, 2015; Sajuyigbe, Adeyemi, & Odebiyi, 2017; Okpara, 2011). Gallery, Newton, and Palm (2011) exhibited that financial literacy is a type of interest in human capital, and numerous observational investigations set up that individuals need to realize considerably more to get educated. As per Lusardi and Oliver (2006), financial literacy theory helps in engaging and instructing financial specialists with the goal that they are learned about finance in a manner that is applicable to their business and empowers them to utilize this information to assess products and make effective decisions. It is broadly expected that more noteworthy financial knowledge would help conquer late challenges in cutting edge credit markets.

The theory advocates that if small business entrepreneurs are very much prepared with the spectrum of financial skills acquired will engage them to be proficient about personal account achievement and the development of small businesses in Nigeria.

5. Review of Empirical Studies

Existing empirical studies linked financial literacy and inclusive with the performance of small scale businesses (Kezar & Yang, 2010; Lusardi & Mitchell, 2011; Njorege, 2013; Fernande, 2015; Mwithiga, 2016). These studies' results showed a strong positive relationship between financial literacy, inclusion, and small scale businesses performance in terms of profitability and working capital management. The works of Lloyd, Felix, and Chalton (2014) concluded that better financial analysis and reporting capabilities improved the manner in which small scale

entrepreneurs describe their financial profile to their creditors during the loan application processes, which improved their chances and improve their performance. Also, the studies carried out by Cherugong (2015); Entebang (2016); and Chepkemoi (2017) established that financial education had a statistical significance influence on small businesses' performance.

Existing exact investigations connected financial literacy and inclusion with the performance of small businesses (Kezar & Yang, 2010; Lusardi & Mitchell, 2011; Njorege, 2013; Fernande, 2015; Mwithiga, 2016). The results of these studies demonstrated a solid positive connection between financial literacy and inclusion and small businesses' performance. Crafted by Lloyd, Felix, and Chalton (2014) inferred that better financial analysis and reporting abilities improved the way where small business visionaries depict their budgetary profile to their creditors during the advance application forms, which improved their chances and improve their presentation. Additionally, the investigations completed by Cherugong (2015); Entebang (2016); and Chepkemoi (2017) built up that financial literacy and inclusion impacted small business performance.

In another examination, Bruhn and Zia (2011) certified that financial literacy and inclusion are financial devices to improve small businesses' performance. An examination completed by Okoli (2011) agreed to the past investigations that financial literacy and financial inclusion are authentic devices for small businesses' performance. Likewise, studies carryout out by Wisdom (2014) and Njoroge (2013) in Kenya, uncovered that there is a solid and positive connection between financial literacy and inclusion and the performance of small businesses. Another examination completed in South Africa by Fatoki (2014) uncovered that there is a positive connection between financial literacy, inclusion, and small businesses' performance. Another investigation led in India by Gupta and Kaur (2014) demonstrated that there is an immediate association between financial literacy and inclusion and the performance of small businesses' performance.

Other examinations explored by Usama and Yusoff (2019), Okanta (2018), Iriobe, Akinyede, and Iriobe (2017), Sajuyigbe, Adeyemi, and Aremu (2017) uncovered that financial literacy and financial inclusion are solid indicators of business performance. Nonetheless, the finding of Eniola and Entebang (2017) is in opposition to past investigations discovered that financial literacy and financial inclusion are insufficient for SME execution. Based on these conflicting empirical results, this current study, therefore, hypothesized that:

H₀₁: Financial literacy and inclusion have no significant influence on small businesses' performance.

H₀₂: There is no significant relationship between financial literacy and financial inclusion.

6. Methodology

The descriptive survey research design was embraced for this investigation, while the purposive examining method was utilized to choose 40 small scale businesses enrolled with SMEDAN from each state capital of South-Western Nigeria (Lagos State, Ogun State, Oyo State, Osun State, Ondo State, and Ekiti State) that occupied with petty trading, bread kitchens, block-making, soup -making, tailoring, and agro-allied, totaling 240 participants as a sample size for

the examination. Data were gathered by means of a closed-ended survey designed for the study, while the reliability and validity of the instruments were determined through a test-retest technique and specialists' check individually. Information examination was led with a simple percent, mean, standard deviation, Pearson Product Moment Correlation (PPMC), and Ordinary Least Square (OLS) strategy for estimation.

7. Data Analysis, Results, and Discussion

Table1: Distribution of respondents on financial literacy

Statement	N	Mini- mum	Maxi- mum	Mean	Std. Deviation	Rank
Enterprise persistently prepares operational budgets on a predetermined basis	240	1.00	5.00	2.7842	1.19254	7 th
The business worried about making ready the financial statements	240	1.00	5.00	2.8283	.95327	5 th
The enterprise carries out cash reconciliation on a daily basis	240	1.00	5.00	3.0167	1.08996	1 st
The commercial enterprise prepares the income statement	240	1.00	5.00	3.0083	1.09312	2 nd
The enterprise prepares the cash drift statement	240	1.00	5.00	2.7942	.85576	8 th
The business has inner controls on cash	240	1.00	5.00	2.6965	.89035	10 th
The commercial enterprise prepares a money price range	240	1.00	5.00	2.7918	.95285	9 th
The commercial enterprise have ease in filing tax returns and cashbook maintenance	240	1.00	5.00	2.8122	1.25394	6 th
The Knowledge of the balancing of the ledger has improved.	240	1.00	5.00	2.9958	1.06050	3 rd
There is a considerable enchantment in our financial reporting	240	1.00	5.00	2.6208	.89699	11 th
There is a sizeable improvement in our working capital administration	240	1.00	5.00	2.98245	1.05991	4 th
There is a good-sized improvement in our accounting facts system	240	1.00	4.00	2.5792	.92907	12 th
Average Mean				2.82565		

Table 1 depicts the extent of financial literacy among small enterprise entrepreneurs in the Southwest of Nigeria. The study reveals that financial literacy among small enterprise entrepreneurs is low with an average mean value of 2.825. This shows that the majority of them did not have financial knowledge such as working capital management, accounting records system, financial reporting, cashbook maintenance, income statement, daily cash reconciliation, internal control on cash, and cash budget. This empirical discovery concurred with the finding of Rathnasiri (2015) who pinpointed out that financial literacy among Sri Lankan SMEs is very low. Similarly, Rathnasiri (2015), Sajuyigbe, Adeyemi, and Odebiyi (2017) determined out that

the majority of small operators did not have financial management capabilities such as bookkeeping, the opening of an account, daily cash money reconciliation, internal control on cash and cash budget. In every other study, Okpara (2011) validated that some of the small enterprise entrepreneurs do not have financial capabilities such as book-keeping, stock management, personnel management, and basic marketing, hence most commercial enterprise proprietors stop up dropping music of their day by day transactions and can't account for their prices and earnings at the end of the month.

Table 2: Distribution of Respondents on Financial Inclusion

Statement	N	Mini- mum	Maxi- mum	Mean	Std. Deviation	Rank
The business internally generated cash sources only	240	1.00	5.00	3.0606	.97167	4 th
The business uses borrowed funds from relatives only	240	1.00	5.00	3.2684	1.07007	1 st
The business has easy access to Commercial bank loans	240	1.00	5.00	2.7100	.91263	9 th
The business has easy access to cooperative societies loans	240	1.00	5.00	3.2381	1.07522	2 nd
The business has easy access to MFB loans	240	1.00	5.00	2.9221	1.19891	6 th
The business has easy access to Daily contribution funds.	240	1.00	5.00	3.2083	1.09312	3 rd
The business has easy access to Hire purchase Financing	240	1.00	5.00	2.7167	.87917	8 th
The business has easy access to Microinsurance Services	240	1.00	5.00	2.7208	.89699	7 th
The business has easy access to Emergency loans	240	1.00	5.00	2.9250	1.17621	5 th
Average Mean				2.97444		

Table 2 depicts the extent of financing inclusion among small enterprise entrepreneurs in the South West of Nigeria. The study reveals that financial literacy among small enterprise entrepreneurs is low with an average mean of 2.97. The result revealed that most small business entrepreneurs used borrowed money from relatives, loans from the cooperative societies, everyday contribution money, and internally generated dollars to finance their business. This indicates that small business entrepreneurs are financially excluded from the micro-financing, emergency loans, employ purchase financing, business bank loans, and micro-insurance plan Services (services). This may be a result of a lack of financial skills. In line with this observation, Odetayo (2016) advocated that small enterprise operators did not have to get the right of entry to finance due to lack of banking culture, lack of possible commercial enterprise plans,

and lack of an array of monetary skills. Also, Nwanyanwu (2011) affirmed that low capacity and low technical skills on micro-financing as principal elements stopping small enterprise operators from accessing finance in Nigeria.

Table 3: Distribution of Respondents on Small Businesses' Performance

Statement	N	Mini- mum	Maxi- mum	Mean	Std. Deviation	Rank
The business's return on investment (ROI) is very high.	240	1.00	5.00	2.9264	1.27816	4 th
The operations of our business are very profitable relative to our major competitors.	240	1.00	5.00	2.7879	.97045	7 th
Sales of our business have been increasing rapidly.	240	1.00	5.00	2.9364	1.27816	3 rd
The strategic position of our Business in the market is very strong.	240	1.00	5.00	2.8009	.85170	5 th
Our market share is very high relative to our major competitors.	240	1.00	5.00	2.8485	1.21530	6 th
We have been able to build a leadership position in our sector.	240	1.00	4.00	2.6792	.92907	8 th
We assess our customer satisfaction	240	1.00	5.00	3.29057	1.0986	1 st
We added value to customers	240	1.00	5.00	3.2818	1.07170	2 nd
Average Mean				2.94392		

The above table 3 scores an average mean of 2.94392 which is below the criterion mean of 3. This shows that respondents (Small business entrepreneurs) agreed that the performance of their businesses is below the standard expectation, despite the added value to their customers and take satisfaction of their customers as a priority.

8. Testing of Hypothesis

H_{01} : Financial literacy and inclusion have no significant influence on small businesses' performance.

Table 4: Influence of financial literacy and financial inclusion on small businesses' performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.813	.196		14.368	.000
Financial literacy	.270	.062	.335	4.378	.000
Financial Inclusion	.256	.063	.309	4.034	.000
F- Statistics			11.356		
R Square			0.291		

Table 4 exhibits that financial literacy and financial inclusion at the same time and drastically have an influence on small businesses' performance. The two constructs mutually make a contribution of 29.1% (R²= 0.291) to the overall performance of small businesses. It was further revealed that financial literacy ($\beta = 0.270$; $t = 4.378$; $P < .005$) and financial inclusion ($\beta = 0.256$; $t = 4.034$; $P < .005$) independently have a significant influence on small businesses' performance. The study is in line with the findings of Usama and Yusoff (2019), Okanta (2018), Iriobe, Akinyede, and Iriobe (2017), Sajuyigbe, Adeyemi, and Aremu (2017), Chepkemoi (2017), Entebang (2016), Cherugong (2015), and Lloyd, Felix, and Chalton (2014) that financial literacy and financial inclusion are predictors of business performance. However, this discovering is opposite to the study of Eniola and Entebang (2017) who found out that financial literacy and inclusion are no longer enough for SME performance. This implies that the two constructs are the driving pressure of small businesses' performance. The null hypothesis is hereby rejected.

H₀₂: There is no significant relationship between Financial Literacy and Financial Inclusion.

Table 5: Relationship between Financial Literacy and Financial Inclusion.

		1	2
1. Financial Literacy	Pearson Correlation	1	.564**
	Sig. (2-tailed)		.000
	N	240	240
2. Financial Inclusion	Pearson Correlation	.564**	1
	Sig. (2-tailed)	.000	
	N	240	240
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 5 indicates that financial literacy ($r = 0.564$; $P < 0.05$) has a significant relationship with financial inclusion. This implies that financial literacy is a major determinant of the financial inclusion of small businesses. The study concurs to the findings of Njorege (2013), Fernande (2015), and Mwithiga (2016) that significant relationships exist between financial literacy and financial inclusion. Therefore, the null hypothesis states that there is no significant relationship between financial literacy and financial inclusion is rejected, while the alternative hypothesis is accepted.

9. Conclusion

The study sought to examine the influence of financial literacy and financial inclusion on small businesses' performance with particular reference to southwest Nigeria. The findings reveal that financial literacy and financial inclusion jointly and independently influence small businesses' performance. It was also revealed a positive and significant relationship between financial literacy and financial inclusion. This implies that an array of financial skills acquired by the small business entrepreneurs is tantamount to financial inclusion.

10. Managerial Implication

The implication of this development is that for Nigeria to achieve vision 2030 of sustainable development goals, the Central Bank of Nigeria in partnership with organizations like Enhancing Financial Innovation and Access (EFInA), the Nigeria Deposit Insurance Corporation (NDIC), and accounting professional bodies should extend the financial education programs to all business entrepreneurs in the all local governments in the country. The policy framework on financial inclusion should be strengthened to encourage more business owners in Nigeria to have access to finance.

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