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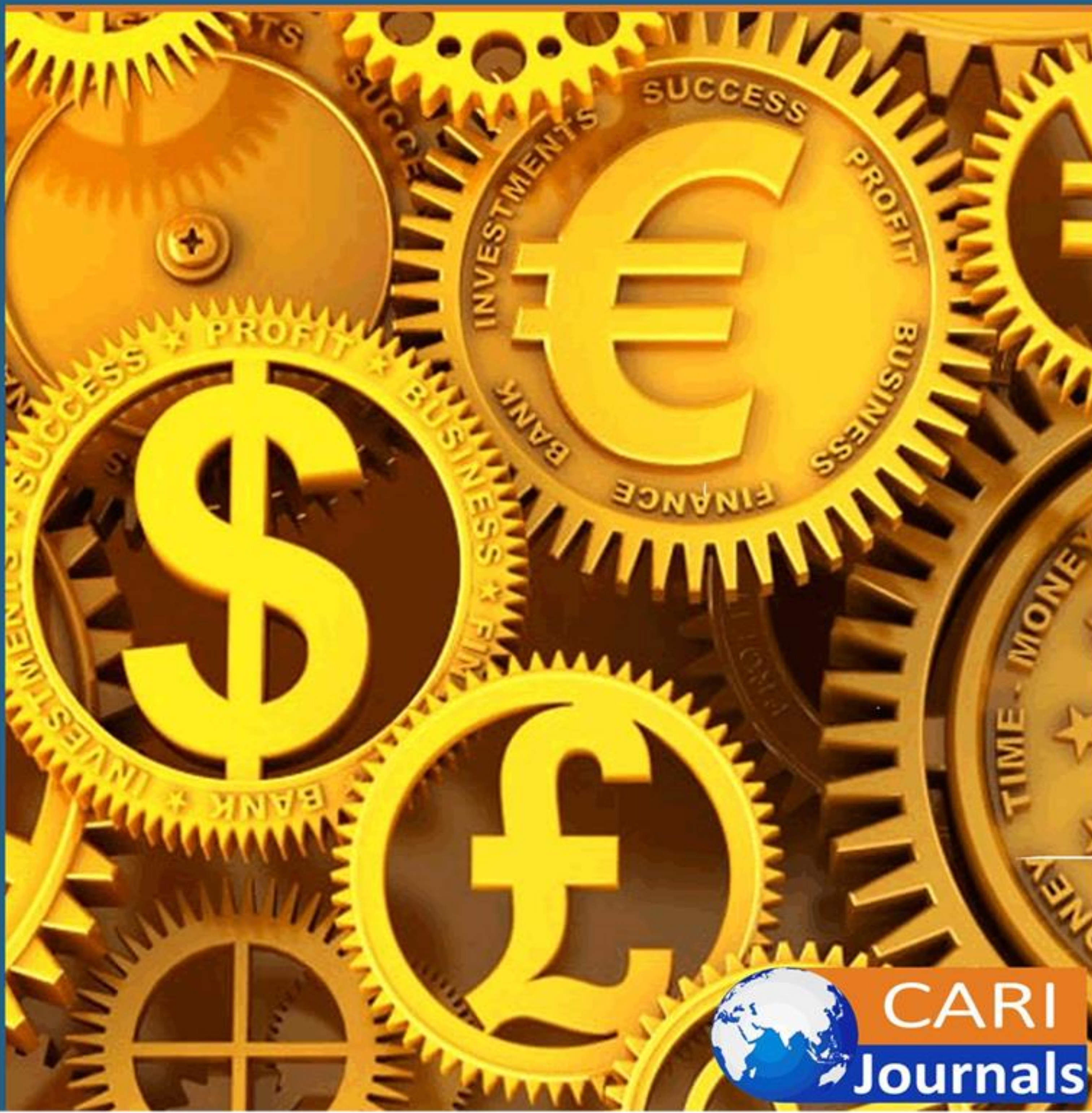

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The Effects of Financial Literacy on the Financial Performance of Micro Businesses in Mezam Division

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Abstract

Purpose: Over the years, the greatest desire of most people had been that of achieving high financial performance but the access to that requires the knowledge of financial literacy. This article had as aim to investigate the influence of financial literacy on the financial performance of micro businesses in Mezam. Our objective was achieved by breaking down financial literacy into three variables (debt management literacy, budgeting skills, and book keeping).

Methodology: Data collected through questionnaires were analyzed using the Ordinary Least Squares as estimation technique.

Findings: After regression, the results of the article revealed that all the three variables considered under financial literacy have positive and significant effect on the financial performance of micro businesses.

Unique Contribution to Theory, Policy and Practice: Therefore, to succeed in business and increase their financial performance, owners of micro business should make an effort to be train on how to manage their debt effectively, how to keep records and how to plan a budget.

Keywords: *Financial Literacy, Financial Performance, Micro Business in Mezam*

1. INTRODUCTION

Micro Businesses (MB) are the main driving forces of economic growth in any country. They play an important role in the economic by contributing to job creation and reduction of unemployment. Micro Businesses are critical agents of economic transformation, but in Cameroon, they face serious challenges that hinder them from attaining economies of scale. They lack training to manage the business resources effectively. Financial literacy therefore is regarded as one of the strategies used to provide knowledge and skills needed to improve their financial performance.

Trough knowledge, financial literacy improve the financial well-being of businesses in general. It helps micro business owners to make financial decision and give way to more effective use of financial products and services. Mutegi et al (2015) affirms that financial literacy facilitates the decision-making processes such as payment of bills on time, proper debt management that improves the credit worthiness of potential borrowers to support livelihoods, economic growth, sound financial systems, and poverty reduction.

The success of small businesses would have huge implications for the growth and socio-economic wellbeing of a country in terms of employment, wealth creation, and the development of innovation. However small businesses continue to struggle during their lifetime and as a result, many small businesses perform miserably and fail to grow. The extensive lack of financial literacy casts serious doubts on the ability of individuals to make responsible decisions (Massimo & Ornella, 2012). With the growing technological of the financial sector, knowledge on financial area is vital for people to be able to understand even the most basic of monetary transactions. Therefore, our objective in this article was to examine the effect of financial literacy on the financial performance of micro businesses operating in Mezam Division.

2. CONCEPTUAL LITERATURE

2.1. Financial Literacy

Financial literacy is the ability to understand, to evaluate, and communicate information about money and financial services. It is also viewed as a set of knowledge that help an individual to make reasonable and effective decisions such as when to save, when to spend, managing a budget, choosing the right financial products and willingness to address other events. Financial literacy gives way to better understanding of how to manage money. The higher the financial literacy, the higher the benefit for people because it helps them in making better financial decisions and gives them more control over their money.

Determinants of financial Literacy

Debt management plan

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 (Bankrate.com, 2017). A debt management plan is thus an agreement to pay back money you owe, based on what you can afford.

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Budgeting and planning

Budgeting 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 (Heinle, Ross, & Saouma, 2014). In another words, Budgeting is a contributing factor to the success of a business's operations.

Book keeping

Book keeping also known as Record keeping is an important accounting process that involves recording of all business transactions for sustaining and expanding a business. These include 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 & Muturi, 2016).

2.2 Financial Performance

The financial performance of a business is the ability of the business to generate earnings for a certain period at a rate of sales, assets and capital stock (Margaretha & Supartika, 2016). Knowing that factors that determine the performance is key to helping managers in developing effective strategies that will lead to the profitability of their firm. In this paper, financial Performance is captured by Growth in Sales and Number of Customers

Determinants of Financial Performance.

Growth in Sales

An increase in sales that occurs from different periods, such as month-to-month, quarter-to-quarter, or year-over-year is known as sales growth. Growth in sales thus measures the increase or decrease in revenue generated by the micro business over a specific period. It reflects the ability of the business to sell its products or services and generate income. According to Öhman, D. Yazdanfar(2018) the higher the sales growth, the higher the financial performance.

Increase of Customers

Customer rely strongly on the financial performance because, it is the main target of any business entity and without customers, there is not sales, revenue and profit. The number of customers indicates the micro business ability to attract and retain customers and build a customer base.

In general, growth in sales and the number of customers are both valuable variables in assessing the financial performance of micro businesses. Growth in sales emphasizes revenue generation, market competitiveness, and profitability, while the number of customers focuses on market penetration, revenue stability, and customer base development. Analyzing both variables together provides a more comprehensive understanding of the micro business financial performance.

3. METHODOLOGY

3.1 Source and technique of data analysis

Too effectively carry out this article, Primary data were collected with likert scale Questionnaire to permit easy access to relevant responses. Ordinary Least Squares (OLS) was used as estimation technique to analyze our data.

3.2 Model Specification

The model specification was constructed using the material gathered from the literature to establish the link between financial literacy and financial performance faced by Micro businesses in the Mezam. The model linked two variables: independent variable and dependent variable. The independent variable was financial literacy which was measured by three Sub-variables (Debt Management Skills, Budgeting Skills, Bookkeeping Skills and the dependent variable was financial performance of micro businesses in Mezam.

$$\mathbf{FP=\beta o+\beta_1 DMS+\beta_2 BS+\beta_3 BKS + \beta_4 LE+ E.}$$

Whereby **FP** = the dependent variable (Financial Performance of micro businesses)

DMS= Debt Management Skills **BS** = Budgeting Skills,

BK = Book Keeping Skills **LE=** Level of education (control variable)

E = error term.

4. RESULTS

4.1 Questionnaires analysis

Table 4.1: Number of Questionnaire

		Frequency	Percent	Cumulative Percent
Valid	Returned Questionnaire	190	95%	95%
	Unreturned Questionnaire	10	5%	**100%**
	Total	**200**	**100%**	

Source: Author (2024)

To collect our data, 200 questionnaires were issued to owners of micro business in Mezam and 190 questionnaires were returned given a percentage of 95%.

4.2 Presentation of Inferential statistics

4.2.1 Test of Reliability (Cronbach Alpha)

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Table 4.2: Cronbach Alpha

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha
DMS	14.3144	2.831	0.394	0.431	**0.764**
BS	14.5152	3.886	0.042	0.164	**0.751**
BKS	14.3561	2.387	0.458	0.039	**0.768**
LE	13.4563	2.456	0.567	0.345	**0.701**
FP	13.841	2.725	0.565	0.389	**0.737**

Source: Author (2024)

The Cronbach values from table 4.2 are above the bench mark of 0.6 proposed by Hair et al. (2016) this indicate good internal consistency among our variables.

4.2.2 Variance Inflation Factor Test

Table 4.3 VIF Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Debt Management Skills	.992	1.008
	Budgeting Skills	.989	1.011
	Bookkeeping Skills	.966	1.035
	Level of Education	.851	1.175

Source: Author (2024)

This test helps us to measure the level of correlation among our independent variables in the regression analysis. In general term, VIF between 1 and 5 means variables are moderately correlated. According to results obtained in table 4.3, multicolinearity is not a problem among our variable because all the individual VIF fall between 1 and 5. With this results, our analyses validate the findings of this article.

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4.2. 3 Regression Results

Table 4.4: Model Summary[b]

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.710[a]	0.754	0.704	0.37304	1.238

a. Predictors: (Constant), LE, DM, BS, BK

b. Dependent Variable: Financial Performance

The adjusted R^2 shows the degree of variation in financial performance that can be explained by variation in financial literacy. Inferring from the adjusted R^2, 70.4% of variations in financial performance is accounted for or explained by variations in financial literacy (Debt management Skills, Budgeting skills, book keeping Skills and a control variable).

Table 4.5 Analysis of Variance

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	19.625	4	3.925	70.089	.000[b]
	Residual	10.304	185	0.056		
	Total	29.929	189			

This test was done to test the significance of our model. From the results presented in Table 4.5, we observe that our model is globally significant since the F-statistic i.e. F (4; 189) = 70.089 has a p-value of 0.00 which is less than 0.05. Given the fact that the probability corresponding to the F value is 0.0000, we can conclude with confidence that financial literacy has a significant effect on financial performance in micro businesses in Mezam division.

Table 4.6 the effect of financial literacy on financial performance of micro businesses

Coefficients[a]

	Unstandardized Coefficients			Standardized Coefficients		
Model	**B**		**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	3.677	0.809		1.708	0.070
	Debt Management Skills	0.160	0.154	0.077	1.039	0.001
	Budgeting Skills	0.141	0.081	0.092	1.741	0.001
	Bookkeeping Skills	0.106	0.077	0.092	1.376	0.000
	Level of Education	0.155	0.082	0.154	1.890	0.004

a. Dependent Variable: Financial Performance

Source: Author (2024)

Interpretation of findings

The coefficient of debt management skills is positive (0.160) which implies that financial literacy through debt management skills improves the financial performance of micro businesses in Mezam. In other words, an increase in debt management skills index by one point will increase the financial performance of micro businesses in Mezam by 0.160 point everything being equal. The results of this article concurred with Lusardi and Mitchell (2015) who studied the impact of literacy levels on entrepreneur's performance. They revealed that persons of limited financial literacy are more prone to exploitations when it comes to debt management skills because they are not able to administer their resources competitively.

The study found out that there was positive (0.041) and statistically significant effect between budgeting skills and financial performance of micro businesses in Mezam. To be more precise, an increment of the budgeting skills index by one point will generate about 0.041 point increase in the financial performance index of micro businesses in Mezam. The outcome is significant at a level of 1%. Therefore, we can conclude that there is a positive and a significant effect of budgeting skills on the financial performance of micro businesses in Mezam.

Further results reveal that, financial literacy through book keeping Skills improves the financial performance of micro businesses in Mezam. An increment of the book keeping Skills by one point will generate about 0.106-point increase in the financial performance index of micro businesses in Mezam. This result showed the pertinence of book keeping Skills in business because Quality accounting information will always be of help on financial administration and create room for a better funding. Wise (2013) found that increase in financial literacy leads to production of financial reports often and the individuals who have tendency of preparation of financial reports are able to repay their debts timely and this lowers the default levels.

In addition, Level of education which was a control variable has a positive effect on financial performance. That is a unit increase in level of education will increase financial performance by 0.044 and significant at a level of 4%. Conclusively, level of education significantly enhance financial performance of micro businesses in Mezam.

5. CONCLUSION

The objective of this article was to bring out the relationship that exist between financial literacy and financial performance of micro business in Mezam division. To achieve our objective, financial literacy was break down into debt management literacy, budgeting skills, book keeping. We make use of primary data and Ordinary Least Squares (OLS) as estimation technique to have our results. After regression, the findings of the article showed that all the three variables considered in the article have positive and significant effect on the financial performance of small businesses. The study therefore conclude that the performance of micro businesses is highly dependent on the book keeping literacy level as higher level of literacy would enable micro businesses to maintain proper records and books of accounts which could clearly show the performance of the business and consequently assist in decision making.

6. RECOMMENDATION

From our funding's, financial literacy plays and important role on the financial performance of micro business. To reduce the bankruptcy rates of many micro business, we therefore recommend that whosoever want to carry out a business, should first receive training on how to manage the credit, how to keep records and how to plan a budget.

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