

Impact of Financial Literacy on Business Performance of Small and Medium Enterprises in Sri Lanka: A Domain-Wise Analysis

K. H. G. U. Sanjula Jayasinghe

Department of Finance, University of Colombo, Sri Lanka.

sanjulaumeshijay@gmail.com

D. D. A. S. Manojee Domingo

Department of Finance, University of Colombo, Sri Lanka

sachithradomingo@gmail.com

Abstract

The study assessed whether sub-domains of financial literacy, financial knowledge, financial behaviour, financial attitude, and financial influence positively and significantly impact on business performance of SMEs in Sri Lanka, tested under H_1 , H_2 , H_3 and H_4 , respectively. Based on the scales used in literature within the Sri Lankan context, primary data has been collected under the Likert scale for each independent and dependent variable, via a structured questionnaire, by distributing an online Google form among 150 SMEs registered under the Chamber of Commerce, within the year 2021. The study followed a quantitative approach and used multiple regression, to assess the hypotheses. While ensuring high levels of reliability and validity, the adjusted R squared significantly indicated that financial behaviour, financial knowledge, financial attitude, and financial influence together can explain 23.7% of the variation in the business performance of SMEs in Sri Lanka. Further, financial knowledge and financial attitude were found as positively

and significantly affect the business performance of SMEs with 0.279 and 0.323 beta units, aligned with Hilgert et al., (2003), Sabri and MacDonald (2010), Bond and Meghir (1994) and Marcolin and Abraham (2006). However, the financial influence was identified as a positively impact on business performance, although insignificant. In contrast, financial behaviour has been negatively affecting the business performance of SMEs, yet remained insignificant, and supports Kuratko and Hodgetts (2001). The findings have thus contributed new knowledge by testing on a sample representing all SMEs in Sri Lanka, regardless of focusing on one particular sector. Hence, the results find significant implications for SMEs and policymakers to aim at establishing focused efforts towards improving financial literacy to attain commendable business performance. Nevertheless, findings could be limited due to special features within the different operating segments of SMEs, which can be leveraged by future researchers along with more longitudinal data to capture overtime developments in financial literacy.

Keywords: *Financial literacy, Financial knowledge, Business performance, Small and medium entrepreneurs, Sri Lanka*

JEL Classification: *G40, G53*