

A Study of Gap Analysis of Financial Literacy & Training Needs

Sudhi Sharma*
Trisha Shukla**

Abstract

Entrepreneurial advancement is the need of the hour, and financial literacy is a mandate for advancing entrepreneurship. Entrepreneurs are frequently involved in making decisions regarding acquisition, allocation and utilization of financial resources to carry on their business. It goes without saying how important are Small businesses for any developing economy, more so for Indian economy, and if the small business owners do not have adequate financial literacy skill, the risk is not just limited to their individual business but the economy as a whole. Therefore, the critical questions that need to be answered are: Do owners of micro, small and medium enterprises possess enough level of financial literacy to take sound decisions or there exists a gap between the required financial literacy attributes and existing? Present paper attempts to explore the answers to these questions and to evaluate the current level of financial literacy of selected sample of entrepreneurs. For the purpose of this study important financial literacy attributes have been recognized and ranked based on their mean values. The current sets of skills of the small business owners were also evaluated and the existing gap was found out. This paper is an exploratory attempt and focuses on the need and effectiveness of organizing training programmes to enhance their financial literacy skills and to have better business outcomes.

Keywords: *Financial literacy; Entrepreneurship; Micro, Small and Medium enterprises, MSME*

Introduction

Entrepreneurship is very crucial for economic development of any nation. Hence, recognition of significant factors affecting entrepreneurial success is an important concern of research among the practitioners and researchers, both in developed and developing economies. It was observed by various researchers around the world in the area of personal financial literacy that the level of financial knowledge and skills among the masses is quite low and it can be remarked that the root cause of their financial problems is their deficiency in financial education, specifically more gravely for lower income groups. They lack basic knowledge of money management, market functions and financial concepts like compound interest, inflation and risk diversification.

The basic understanding of the concept of financial literacy is important for an entrepreneur for running his/her business. Though consumer's financial literacy is also important as it focuses on his ability and confidence in taking personal financial decisions but in context of entrepreneur's it is irreplaceable as it focuses on, understanding financial statements for decision making and additional knowledge such as type and sources of business finance, tax implications etc. Throughout this paper, the terms business owner and entrepreneurs are used interchangeably, to indicate the individual directly involved in taking financial decisions for the business.

*Assistant Professor, Apeejay School of Management

**MCGS, Ajmer

Literature Review

In literature, various researchers have defined the financial literacy of entrepreneurs in different ways. Brown and Others (2006) cited that financial literacy for small business owners must reflect the ability to read and understand fundamental financial statements, in order to make effective informed judgments and to make decisions regarding the efficient use and management of money. As per SEPO (2012), the Philippines' micro, small and medium enterprises (MSMEs) have a very crucial role in building up its economy. It reported that poverty is being reduced through the creation of jobs for the labor force of the country. MSMEs promote economic development in the areas far from urban civilizations. They function as catalysts to large businesses as suppliers and providers of support services. They act as procreation ground for startup entrepreneurs and large corporations. In other words it can be said that a vibrant MSME sector means that the nation's economy is flourishing and developing.

Dahmen & Rodríguez (2014) stated that financial literacy is the ability of any entrepreneur to evaluate and efficiently manage a business by good understanding of the key financial ratios generated through the business financial statements.

According to Vincent, 2014 low degree of financial literacy prevents the performance level of Entrepreneurs from adequately assessing and understanding different financing provision, and for navigating complex loan application

In a report titled "ASEAN Economic Community SME Development: Narrowing Development Gap Measure, by Camposano (2014),"the MSME sector is not without challenges just as any other industry. The report recognized that access and handling of financial aspect of the business is still one of the most important factors that affect the competitiveness of MSMEs. And in spite of the strategies and guidelines that are introduced for the development and improvement of MSMEs, the sector still faces different challenges that keep it from realizing its full potential and growth.

According to 'The working group on Access to Finance for Agribusiness', December 2015 defined SME financial literacy as a combination of skills, knowledge and practice of financial concepts, products, risks and regulatory as well as legal matters to take the most effective financial decisions at every stage of the life-cycle of SME and to make sure further development, growth and profit generation of the business firm. A small business entrepreneur must be able to evaluate the information available to make decisions that have financial implications on the business Fernandes (2015).

Financial literacy education provides an individual with the ability to recognize commercial opportunities as well as knowledge and skills, improving his business performance Aminu, (2016); Kisunza, & Theuri (2014).

As per Xiao (2017) people who cannot read and write are also slow to comprehend during seminars where members are taught on skills like book-keeping, arithmetical skills, project detection skills and communication skills.

The fact remaining that the backbone and foundation of the business is money; without which, business will not only suffer but can become insolvent. Fatoki (2014) stated that proper financial management is vital to the development, survival and prosperity of small enterprises of any type. Further stating that financial literacy is very important in make an all encompassing financial (personal and business) decisions.

The role of MSMEs to national economies cannot be undermined, OECD/INFE Advisory Board and its Technical Committee created a separate Expert Subgroup for Financial Education in

MSMEs in the year 2015. The OECD (2017) stated that financial literacy for entrepreneurs refers to the process by which they

- * Are able to identify the interaction between personal and business finance;
- * Have knowledge as to where to go for help;
- * Are able to develop their understanding of the financial landscape, products and other concepts of significance; and
- * Can through instruction, information and/or objective advice, build up their skills, knowledge and confidence and become more aware of financial risks and financial opportunities;
- * Are able to make informed business plans and are aware of the related choices;
- * Are able to do planning and manage their financial records and risks effectively over the short and long term; and
- * Are able to take other effective actions for the maximization of their potential, and benefit their enterprise as well as the wider economy.

In literature, a large number of researchers put special emphasis on creation, understanding and utilization of financial statements as an important component of entrepreneur's financial literacy.

Statement of the Problem

It is evident that the MSMEs, in Indian context, are a very vital component of the business environment of the country. Therefore, this research aimed to reveal the level of financial literacy of selected micro business owners. In doing so, the researchers strive on finding answers to the following research questions: (1) What is the level of financial knowledge of the micro business owners; (2) Is there a significant relationships between the variables selected to depict financial literacy and performance of the SME. (3) What is the gap between the required financial literacy attributes and available/possessed and suggest training modules to improve financial literacy of the micro business owners.

Research Methodology

The present study used purposive sampling, a non-probability sampling, to choose the sample. The researchers focused on particular characteristics of a population that best suited to answer the identified research questions. The sample for the study sample consisted of 70 respondents chosen for the purpose of measuring level of financial knowledge and skills of the micro business owners. The following were important financial literacy attributes that were identified after extensive literature review and the level of importance of these attributes was evaluated on a scale of 1 to 5, where 1 signified least level and 5 signified highest level.

1. Financial Statements
2. Taxation
3. Financial Ratios
4. Financial Management
5. Mathematical & Computer literacy & Software
6. Risk Analysis Knowledge

7. Knowledge of Macro Variables
8. Forecasting Techniques
9. Statistical Analysis

Further, the financial literacy attributes possessed or acquired by the micro business owners included in the sample was also evaluated on a scale of 1 to 5, where 1 signifies least and 5 signified highest. These are:

1. Accounting Literacy
2. Taxation
3. Ratio Analysis
4. Financial Management Literacy
5. Cash Management
6. Access to loans
7. Budgeting Skills
8. Sources of funds
9. Exchange Rates
10. Mathematical & Computer literacy
11. Using Accounting software
12. Quantification of Risk
13. Mitigation techniques
14. Time Value of Money
15. Inflation
16. Techniques of projecting sales
17. Forecasting Techniques
18. Trend Analysis
19. Correlation
20. Regression
21. Market Related Information
22. Economic Affairs
23. Government Related Schemes

This primary data was analyzed with the help mean, standard deviation and the gap analysis between the required important attributes and actual attributes acquired/possessed by entrepreneurs was determined with the help of t-test.

Objective of the study

1. To study and rank the important attributes of Financial literacy that are desirable
2. To study the current level of skills possessed by the small business owners
3. To determine the Gap existing in financial literacy and suggest ways to mitigate it.

Data Analysis and Discussion

The calculated mean value of the selected attributes was ranked and it was found out that financial forecasting techniques followed by statistical analysis knowledge was considered most important for successful running of the micro business units.

	Needed Attributes Mean	t- Value
Forecasting Techniques	4.768116	32.038770
Statistical Analysis	4.695652	28.500207
Risk Analysis	4.594203	19.728527
Financial Management	4.173913	10.753711
Knowledge of Macro Variables	4.072464	10.323447
Financial Ratios	4.000000	10.099505
Mathematical & Computer literacy & Software Knowledge	3.637681	6.589349
Taxation	2.318841	-4.642995
Financial Statements	1.782609	-12.608811

Source: Compiled by the author

Whereas, the current skill set possessed by micro business owners, were as under:

	Current Skill Set Mean	t-value
Forecasting Techniques	1.188405797	-38.20311534
Statistical Analysis	1.188405797	-38.20311534
Risk Analysis	1.797101449	-13.89591505
Financial Management	2.913043478	-0.471661487
Knowledge of Macro Variables	3.507246377	5.546233768
Financial Ratios	2.797101449	-1.169776826
Mathematical & Computer literacy & Software Knowledge	3.188405797	1.371441236
Taxation	2.898550725	-0.687086902
Financial Statements	2.753623188	-1.498647009

Source: Compiled by the author

Therefore as per the above table, the acquired skills of the entrepreneur in nowhere near the needed financial skills and knowledge to run the business and grow it to its full potential. This can be further seen in the Gap analysis as under:

Financial Literacy Attributes	Needed Attributes Mean	t- Value	Current_Skill Set Mean	t-value	GAP
Forecasting Techniques	4.768116	32.038770	1.1884058	-38.20311534	3.579710
Statistical Analysis	4.695652	28.500207	1.1884058	-38.20311534	3.507246
Risk Analysis	4.594203	19.728527	1.79710145	-13.89591505	2.797101
Financial Management	4.173913	10.753711	2.91304348	-0.471661487	1.260870
Knowledge of Macro Variables	4.072464	10.323447	3.50724638	5.546233768	0.565217
Financial Ratios	4.000000	10.099505	2.79710145	-1.169776826	1.202899
Mathematical & Computer literacy & Software	3.637681	6.589349	3.1884058	1.371441236	0.449275
Taxation	2.318841	-4.642995	2.89855072	-0.687086902	-0.579710

Financial Statements	1.782609	-12.608811	2.75362319	-1.498647009	-0.971014
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Source: Compiled by the author

The above table, may be a good explanation of the struggling situation of entrepreneurship in the Indian economy. In other words the financial literacy aspect of micro business owners is hugely deficient and needs to be addressed to fill the big gap between the desired level of financial literacy and possessed level. The most required attributes of financial forecasting and knowledge of statistical analysis show highest gap, showing that the small business owners lack the required skills of financial forecasting, which is most crucial for making good business decisions as well as adapting the business to any external and internal environmental changes.

Conclusion

It can be concluded that financial literacy has a vital role to play in encouraging sustainable entrepreneurship and reducing the problems faced to access to finance due to lack of knowledge. A well targeted measure of financial literacy will provide updated information about the required level of financial knowledge and skills of entrepreneurs, and help policy makers develop and monitor overall strategies to support MSMEs.

Results of the above analysis provide evidences from which needs and gaps were identified and therefore the requirement to develop appropriate financial planning programs and strategies. This study identifies that there is a need to address deficits on financial knowledge, skills and attributes. To address issues on the various aspects of financial literacy of the micro business owners, the following are suggested: Firstly, to enhance the level of financial knowledge, a structured learning program may be developed which incorporates areas on financial planning and concepts. It is important that financial education is not only presented in paper or through any online program. It should be where the target audience can apply what they have learned not just in running of their business, but also in their personal life. Secondly, integration of financial education to secondary and college education should be done more seriously to make it more holistic. This may help the public acquire desirable financial practices in their primary years which thus may help develop good financial literacy. Thirdly, promoting the conduction of financial literacy seminar, workshops, or courses using the required skill based module by the government agencies free of cost.

It can be summed up that more work is needed to create more financial literate entrepreneurship in the country and initiatives designed to improve levels of financial literacy among this group should be promoted at all costs.

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