

Review Article

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The Impact of Education level on MSE'S Financial Performance: A South African Perspective

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ABSTRACT

An analysis of existing finance literature indicates that demographic factors such as education level are possibly among the main determinants of SME owner-managers' financial literacy which may affect business financial performance. Therefore, an analysis of the level of education of the owner-manager would most likely give an indication of whether increasing education level results in the increase of financial performance of SMEs. Findings of the study reveals that there is a positive relationship between education level of owner-managers and their financial literacy, and ultimately the financial performance of their SMEs.

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Introduction

The competitive nature of the current business environment places great emphasis on financial performance as a crucial objective for any small to medium-sized enterprises (SMEs) [1]. Financial performance is the extent to which predetermined financial objectives were achieved [2]. Thus, when SMEs fail, emphasis is often placed on the financial knowledge of owner-managers and in turn the financial performance [3]. Usama and Yusoff argue that there may be a connection between the financial knowledge of owner-managers and the financial performance of SMEs [2].

A well-financially managed SME requires informed business decisions to be made by owner-managers based on the information available [4]. This requires owner-managers to be financially literate, in order to understand and interpret financial conditions that affect their own businesses [2, 5]. Financial literacy of SME owner-managers are important resources for the financial decision making of SMEs, which not only impact the day-to-day management of SMEs but the future financial performance of SMEs [3, 6]. Hence, poor financial literacy could make owner-managers to be incapable of taking advantage of the various financing options available for the business, which may in turn stifle the long-term financial sustainability of these SMEs [7, 8]. Therefore, without proper initiatives geared towards the provision of financial education, poor financial literacy levels will persist and may continue to hinder the financial performance of SMEs [9].

Problem Investigated

Financial literacy can be a useful mechanism for successfully navigating through financial decisions that may potentially lead

to improved financial performance [10]. While financial literacy is seen as important it does not receive the necessary attention from government and other regulatory authorities [11]. This is highlighted by the lack of, and failure of government-funded education programs and initiatives aimed at improving financial literacy of owner-managers of SMEs [11]. Therefore, if this problem is not addressed, it may not only impact SMEs financial performance but may also dampen South African economic growth with potentially far-reaching consequences [3, 12]. Therefore, the question guiding this study is: *How does the level of education of owner-managers of SMEs effect their level of financial literacy, and ultimately the financial performance of their businesses?.*

Research Objectives

The primary objective of this study was to analyse the impact of education level on MSEs financial performance. Therefore, it is important to identify whether there is a correlation between education level of owner-managers and their financial literacy as well as the degree of correlation that may potentially exist between owner-managers' financial literacy and financial performance of their businesses.

Literature Review

Since this study is focusing on the education level of the owner-managers of SMEs linking it to their financial literacy, the following sub-sections elaborate on these concepts.

Education level

Knowledge is regarded as one of the basic constituents of financial literacy, which led to studies speculating about and investigating the role that education may play in financial literacy [13, 14]. According to Lotto, these investigations has since confirmed education as one of the more important factors influencing individuals' financial literacy [15]. Being educated has long since

been thought of as a necessary requirement to be considered financially literate [16]. The belief was that educated individuals possess larger pools of knowledge from which to draw when making financial decisions [17]. This led to further studies about how educated individuals' financial decision making compared to those considered uneducated or less educated [18]. Ooko, found that individuals with higher levels of education were more likely to implement stricter budget controls and maintain records of their spending [19]. These individuals did not only show a propensity to draft and implement personal budgets, improved rates of saving, and less reliance on debt, they were also more motivated to adhere to it, over the long term [20, 21].

On the contrary, individuals with lower levels of education were found to exhibit financially risky behaviour and were more prone to excessive usage of debt and impulsive spending, and also more prone to satisfy their current desires [22, 23]. Consequently, the National Financial Educators Council further found that less than half of uneducated individuals observed, had learnt from their past experiences, thus, they were likely to continue with their risky behaviour and possibly resulting in them being stuck in an on-going cycle of poor financial decisions [24].

Previous studies were not specifically focusing on the education level of owner-managers, rather on general education. As such, being educated does not automatically qualify an individual as being financially literate, since those regarded as educated may still lack the capacity to make informed financial decisions [25]. It is for this reason that a study is required to investigate whether well-educated owner-managers are most likely to possess the appropriate expertise needed to achieve sustained success and improve SMEs' financial performance. Hence the following hypothesis is posed: H1: There is a significant relationship between *Education Level and Financial Literacy*.

Financial Literacy

Studies focusing on financial literacy have identified financial knowledge, financial skills and financial behaviour as the three main components comprising financial literacy [17, 25, 26]. The OECD highlighted these components as the primary indicators that are referenced when assessing individuals' financial literacy levels [27]. Financial knowledge and skill are linked, and are the foundational requirement that individuals must possess to be considered financially literate [17, 28]. They are typically gained through experience and formal educational interventions and they guide individuals in making informed financial decisions. SME owner-managers utilise their financial knowledge and skills when managing their businesses, hence converting their knowledge and skills into sound financial behaviours [29,30].

Sieki, Wagoki and Kalio performed an investigation comparing the performance of Kenyan businesses, prior to and after, their owner-managers underwent financial literacy training, and found a link between education and financial literacy [31]. Treptow as well as Campo and Barnes, found that financially literate owner-managers have a propensity to utilise their businesses' financial resources and available financial information more astutely (i.e., their financial behaviour), thus enabling them to improve profitability [32, 33]. Mutiso and Muigai as well as Usama and Yusoff performed further investigation on the relationship between financial literacy and business performance, and their rationale was that financially literate owner-managers tend to possess transferable financial expertise and financial skills that could better equip them to manage their SMEs' finances [2, 34]. Therefore,

there should be a relationship between financial literacy and financial performance of SMEs. Hence the following hypothesis was put forward: H2: There is a significant relationship between *Financial Literacy and SMEs' Financial Performance*.

Hypothetical Model

Since SME owners are, in most cases, the sole or chief decisionmaker, Ogarcă, contends that the financial performance of their businesses is largely dependent on the financial literacy of their owners [35]. Hence in the hypothesised model the independent variable is the education level, the intervening variable is financial literacy, and the dependent variable is SME's financial performance. The model postulates that if owner-manager's education level increases, then his/her financial literacy increases. In addition, if owner-manager's financial literacy increases, then his/her business' performance increases.

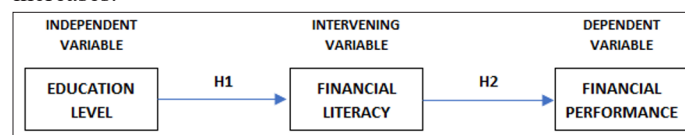


Figure1: Proposed Hypothetical Model

Research Methodology

The following sub sections discuss the study's research design, participants, measuring instrument and the statistical analysis conducted.

Research Design

In this study, a quantitative approach was necessary to ensure that objectivity of the study is maintained and that its findings are not influenced by the personal biases of researchers [36]. When conducting a quantitative study, researchers must first formulate a hypothesis before they can set about collecting data and finding solutions to their specific research problems [37]. Once a hypothesis is formulated, Creswell contends that researchers then have a clearer path towards successfully completing their studies [38]. This is the reason this study has formulated a proposed hypothesised model showing the anticipated relationships to be empirically tested.

Since the data has been collected through quantitative approach, causal comparative research was used to investigate how the independent variables are influenced by the dependent variable. In other words, the study analysed the research problem by studying the variables to determine a causative relationship after the fact [39]. The aim of causal comparative research was to determine the cause-and-effect relationship that may exist between two or more variables of a study [40].

For the current study, primary data was acquired by means of an empirical investigation that was carried out amongst the owner managers of SMEs in the Nelson Mandela Bay area. The target population was determined using the following criteria, namely, owner-managers of:

- SMEs that have been in continuous operation for at least two years.
- SMEs that employ at least five, but fewer than 30 full-time employees.
- SMEs whos' owner-managers are actively involved in the daily running and managing of the business.
- SME that are located and operating within the Nelson Mandela Bay.

Research Participants and Measuring Instrument

Due to the large size of the population and limited resources, a representative sample was chosen from this population, where probability sampling was used with the assumption that the characteristics of the chosen sample will be similar to that of the target population from which it was drawn. Furthermore, judgemental sampling approach was used as the respondents being selected depends on them meeting the inclusion criteria as previously stipulated [41].

Hair, Black, Babin and Anderson opined those studies investigating less than seven constructs, require a sample size of at least 300 respondents [42]. However, considering the onset of the Covid-19 pandemic, the resultant lockdown restrictions during 2021 when the data was collected, and the possible reluctance of owner-managers to participate in the study during this period, a smaller sample size had to be considered. Prior to commencing with the study, informal physical one-on-one discussions with SME owner-managers operating in the area of interest, revealed around 200 SMEs expressing a willingness to participate. Based on Hair et al., researchers would generally not conduct multivariate analysis using a sample of fewer than 50 observations, and preferably the sample size should be 100 or more, therefore the sample size of 200 SMEs operating in the Nelson Mandela Bay area was considered sufficient [43]. Although the viability of an online questionnaire was explored, the pilot study revealed that respondents were less interested to participate or even to respond to surveys administered via electronic mediums. Therefore, physical in-person collection of data was the only option available. During data collection all the Covid-19 protocols were observed.

The measuring instrument was in the form of a self-constructed questionnaire that was designed using information from the literature. A demographic data (Table 2) was used to measure education level of the owner-managers of the SMEs. The questionnaire used a 5-point Likert ranking scale, with responses ranging from 1, indicating a strong disagreement to 5, indicating a strong agreement. To measure Financial literacy, the intervening variable of this study, a 30-item scale was developed. Most of these items were adapted from various extant studies that focused either on financial literacy, or financial performance or both. To measure SMEs Financial performance, which is the dependent variable of this study, a 15-item scale was developed.

Statistical Analysis

In this study Microsoft Excel was used to organise and record the raw data that was then analysed using the applications STATISTICA (version 14.0) and SPSS 23. The data analysis process commenced by determining the validity and reliability of the measuring instrument that was developed. This information was then subjected to inferential statistics techniques, to measure the extent to which increases in one variable would lead to an increase or decrease in another variable [44]. The one-way analysis of variance (ANOVA) was performed to establish whether there are significant differences between the means of education level and financial literacy. Descriptive statistics in the form of means, variance and standard deviation were computed for the financial literacy and financial performance. The regression analysis was used to establish the relationship between financial literacy and the SMEs financial performance.

Empirical Results

As mentioned before a total of 200 self-administered questionnaires were handed out to eligible SME owner-managers in person. Of

those handed out 119 questionnaires were returned, however only 103 were usable for statistical analysis. This was due to 16 of the questionnaires returned having missing data and hence regarded as unsuitable for further statistical analysis. Hair, Babin, Black, Anderson and Tatham suggest that the mean-substitution method can be employed in such instances [45]. However, it was not suitable in this instance as respondents failed to provide crucial information for which the mean could not be determined. Thus, resulting in an effective response rate of 52% being achieved as illustrated by Table 1.

Table 1: Response rate

	Number of Respondents
Number of questionnaires distributed	200
Total number of questionnaires returned	119
Usable questionnaires returned	103
Response rate	60%
Effective response rate	52%

Level of Education

Education level is the independent variable. It was computed to show levels of education from pre-matric up to post-graduate level as shown in Table 2.

Table 2: Educational Qualification Distribution

Highest level of education	Frequency (N)	Percentage (%)
< Matric (Grade 12)	20	19.4
Matric (Grade 12)	31	30.1
Post Matric Certificate/Diploma	25	24.3
Bachelor's Degree	20	19.4
Post-graduate qualifications	7	6.8
Total	103	100

From the Table 2, the highest percentage (30.10%) of the respondents indicated that their highest qualification attained was a matric certificate. This was followed by respondents who held a post matric certificate or diploma (24.30%). Respondents with an education less than a matric and those holding a bachelor's degree, both comprised 19.40% of the total respondents, respectively. It was only 6.80% of the total respondent with a postgraduate qualification.

The Analysis of Variance (ANOVA)

The one-way ANOVAs was performed to establish whether there are significant differences between the means of *Education* level and *Financial literacy*.

Table 3: Test of Homogeneity of Education Level

Test of Homogeneity of Variances					
Variable		Levene Statistic	df1	df2	Sig.(p)
Financial literacy	Based on Mean	3.727	4	98	0.007

The analysis commenced with the test for Homogeneity of Variance, as highlighted in Table 3, from which a significant difference ($p = 0.007$) was reported. To assess the overall differences between the variables in this case, the Welch Robust test of Equality of Means was used.

Table 4: Welch Robust Test - Education Level

Welch Robust Tests of Equality of Means				
Variable	Statistica	df1	df2	Sig.(p)
Financial literacy	3.945	4	36.399	0.009

Looking at Table 4, there is a statistically significant overall difference ($p = 0.009$) between the mean scores for *Financial literacy* and the *Education level* groupings. Given the presence of significant differences between these variables, the Games-Howell test multiple comparisons table (see Table 5 below) was used to identify where these differences lie. By considering the results of this analysis together with the descriptive statistics in Table 6, the following observations were made. With regards to the

mean score of *financial literacy*, respondents who held a matric-level qualification, differed significantly from those who held a bachelor's degree ($p = 0.035$) and those who held post-graduate degrees ($p = 0.025$).

As such, those respondents' holding a matric-level qualification ($\bar{x} = 3.8963$), reported mean scores that were significantly lower than those with a bachelor's degree ($\bar{x} = 4.3789$) and those who held post-graduate qualifications ($\bar{x} = 4.4418$). Given these observations, it can be concluded that there is a statistically significant relationship between respondents' level of education and their financial literacy level. Therefore, SME owner-managers holding a matric certificate would be regarded as less financially literate than those holding a bachelor's degree or higher. This means that, the more educated an SME owner-manager is, the greater the likelihood of them being financially literate.

Table 5: Games-Howell test for Education Level

Games-Howell test (Multiple Comparisons)					
Variable	(I) Education level	(J)	Mean difference (I-J)	Std. Error	Sig. (P)
		Education level			
Financial literacy	< matric	Matric	-0.01132	0.23324	1
		Post matric Certificate/Diploma	-0.23395	0.24389	0.871
		Bachelor's Degree	-0.49393	0.23783	0.256
		Post-graduate degrees	-0.5568	0.23787	0.166
	Matric	< Matric	0.01132	0.23324	1
		Post Matric Certificate/Diploma	-0.22263	0.17024	0.688
		Bachelor's Degree	-0.48261*	0.16144	0.035
		Post-graduate degrees	-0.54548*	0.1615	0.025
	Post Matric Certificate/Diploma	< Matric	0.23395	0.24389	0.871
		Matric	0.22263	0.17024	0.688
		Bachelor's Degree	-0.25998	0.17647	0.585
		Post-graduate degrees	-0.32285	0.17653	0.384
	Bachelor's Degree	< Matric	0.49393	0.23783	0.256
		Matric	0.48261*	0.16144	0.035
		Post Matric Certificate/Diploma	0.25998	0.17647	0.585
		Post-graduate degrees	-0.06287	0.16805	0.995
	Post-graduate Degrees	< Matric	0.5568	0.23787	0.166
		Matric	0.54548*	0.1615	0.025
		Post Matric Certificate/Diploma	0.32285	0.17653	0.384
		Bachelor's Degree	0.06287	0.16805	0.995

(bold * = $p < 0.05$)

From the above analysis, the hypothesis (H^1) which theorises that there is a significant relationship between *Education Level* and *Financial Literacy*, cannot be rejected and thus should be accepted.

Descriptive Statistics

Descriptive statistics were computed for the financial literacy and financial performance. The response categories were categorised as follows: responses from $1 \leq x < 2.333$ were categorised as disagree; $2.333 \leq x < 3.667$ were categorised as neutral; and $3.667 \leq x \leq 5.000$ were categorised as agree. Table 9.6 summarises the descriptive statistics of the variables under consideration.

Table 6: Descriptive Statistics

Factor	Mean	Std. Dev.	Disagree %	Neutral %	Agree %
Intervening variable					
Financial Literacy	4.079	0.686	1.9	20.4	77.7
Dependent variable					
SMEs financial performance	3.549	0.777	4.9	52	43.1

From Table 6, *Financial literacy* returned the highest mean score of 4.079 but also the lowest standard deviation (0.686). Most respondents largely agreed (77.70%) that they were knowledgeable regarding the financial aspects of small business management and possessed the capability to effectively manage their businesses' finances. Also, 43.10% of the respondents agreed that their businesses are financially sustainable and had experienced growth in profits over the last two or more years. For this variable a mean of 3.549 and a standard deviation of 0.777 was returned.

Linear Regression

The linear regression analysis in Table 7 presents the influence of *Financial literacy* on the *SMEs financial performance*.

Table 7: Influence of the Intervening Variable on the Dependent Variable

Dependent variable: SMEs financial performance			R-Square = 0.428
Intervening variable	Beta	t-value	Sig. (p)
Financial literacy	0.741	8.69	0.000***

(*** = $p < 0.001$)

The results of the regression analysis show that 42.80% of the variance in *SMEs financial performance* can be explained by *Financial literacy*. From this table it can be seen that a statistically significant ($p < 0.001$) positive relationship exists between *Financial literacy* and *SMEs financial performance*. This means that, with a beta of 0.741, SME owner-managers' financial literacy was a significant predictor of their SMEs' financial performance. As this relationship is positive, if *Financial literacy* increases by 1 unit, while keeping everything else constant, *SMEs financial performance* will increase by 0.741 units, therefore the hypothesis (H^2), which states that there is a significant relationship between *Financial Literacy* and *SMEs Financial Performance*, cannot be rejected, therefore the hypothesis should thus be accepted.

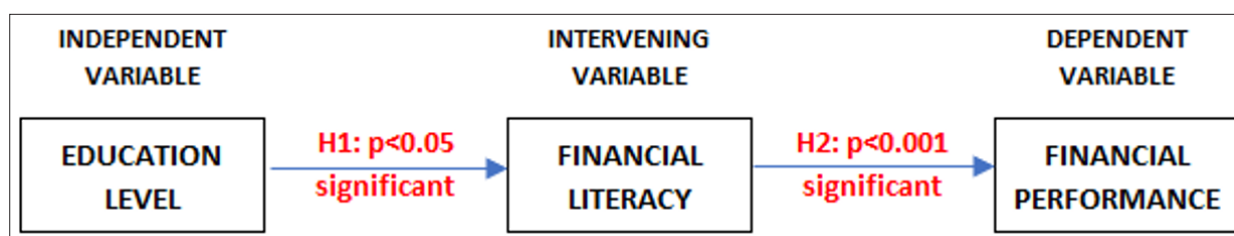


Figure 2: Summary of Statistically Significant Relationships

Discussion of the Main Findings

In the subsequent subsections the main findings of the study are presented.

Education Level and Financial Literacy

This study found a statistically significant relationship between *Education level* and *Financial literacy*. The ANOVA that was performed indicated that respondents with higher levels of education returned higher mean scores than those respondents with less education. These findings specifically revealed that respondents holding a post-graduate degree were more likely to be considered financially literate, relative to those respondents with a matric level education. Hence, given the findings of the inferential statistics, it can be concluded that the more educated an SME owner manager is, the greater the likelihood of them articulating behaviours akin to those regarded as financially literate.

Financial Literacy and SMEs Financial Performance

This study's empirical results revealed that there is a statistically significant relationship between the intervening variable *Financial literacy* and the dependent variable *SMEs financial performance*. To test this relationship a linear regression was performed. The results of this analysis indicated that a statistically significant and strong positive relationship was present between these variables. This implies that, an owner-manager's level of financial literacy has a direct influence on the financial performance of their business. Therefore, SMEs with financially literate owner-managers are expected to attain higher levels of performance, relative to those managed by owner-managers who are not considered financially literate. From these findings it may be inferred that, as SME owner-managers' financial literacy level increases, the financial performance of their businesses is also likely to increase.

Managerial Implications

SMEs managed by better educated owner-managers have a higher prevalence of stricter budgetary controls and a comprehensive record of their spending. Such behaviour is as a result of these owner-managers are having higher levels of financial awareness, and thus recognising the importance of proactive measures when managing their finances. Higher level of education is a concept that is widely reported as a dominant feature of financial literacy, therefore in order to survive and thrive in such a complex business system where SMEs are taking a centre stage for innovation, it has become necessary to recognise higher level of education as a new business management tool that could be used to improve financial performance.

In summary, it can be inferred that SMEs under management of owner-managers with higher levels of education may be better managed than those SMEs under the management of owner-managers holding lower levels of education. In addition, a mix of financial knowledge, financial skill and financial behaviour described in this research provide a systematic combination of financial literacy components that can be used by owner managers of SMEs to improve their business financial performance.

Conclusion

The competitive nature of SMEs is continuously changing due to technological advancements in the current business environment. The ability of people to understand the importance of education, financial knowledge and skills in order to compete in this ever changing business environment has previously been underestimated, therefore the methodology applied in this study provided an objective and clear perspective of a logical approach to examining these important aspects of the business atmosphere.

It was anticipated that the empirical findings of this study would be holistic and incorporating many variables. However, the findings indicated three variables used in this investigation made it possible to analyse the relationship between education levels, financial literacy and financial performance.

From an economic perspective, this study highlights that the long term profitability of SME's requires owner-managers to be financially educated and literate to better equip them to manage their businesses' finances. It could therefore be concluded that the higher the education level of owner-manager, the higher the likelihood of better business financial performance.

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